PING AN
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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 Rule 13.09(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The "2011 Half-Year Report of Shenzhen Development Bank Co., Ltd. ", which is published by Shenzhen Development Bank Co., Ltd., a subsidiary of Ping An Insurance (Group) Company of China, Ltd. on the website of Shenzhen Stock Exchange, is reproduced herein for your reference.

By order of the Board
Yao Jun
Company Secretary

Shenzhen, PRC, August 17, 2011

As at the date of this announcement, the Executive Directors of the Company are Ma Mingzhe, Sun Jianyi, 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, David Fried and Cheung Chi Yan Louis; the Independent Non-executive Directors are Zhang Hongyi, Chen Su, Xia Liping, Tang Yunwei, Lee Ka Sze Carmelo, Chung Yu-Wo Danny and Woo Ka Biu Jackson.

Shenzhen Development Bank Co., Ltd.

2011 Half-Year Report

Contents

Chapter 1 Important Notes

The Bank's Board of Directors along with its directors, the Board of Supervisors (BOS) along with its supervisors, and senior management team guarantee that this Report does not have any false documentation, misleading statements or material omission. They are fully responsible for the authenticity, accuracy and completeness of the Report both on a collective and individual basis.

The seventh session of the eighth Board of Directors of the Bank discussed the full text and abstract of 2011 Half-Year Report. There were 17 directors present at the meeting. The Board of the Bank approved the Report unanimously at the meeting.

Xiao Suining, the Bank's Chairman of the Board of Directors, Richard Jackson, President, Chen Wei, Vice President and Chief Financial Officer, and Wang Lan, head of the Accounting Department, guarantee the authenticity and completeness of the financial report in 2011 Half-Year Report.

Ernst & Young Hua Ming has audited the 2011 half-year financial statements of the Bank, and has produced standard unqualified auditing report.

Chapter 2 Basic Facts of the Company

(I) Legal name in Chinese: 深圳发展银行股份有限公司
("SDB" or "the Bank")
Legal name in English: Shenzhen Development Bank Co., Ltd.

(II) Stock exchange with which the shares of the Bank are listed: Shenzhen Stock Exchange
Abbreviated name of share: SDB A
Stock code: 000001

(III) Legal representative: Xiao Suining

(IV) Secretary of the Board of Directors: Xu Jin
Representative of Securities Affairs: Lv Xuguang
Address: Board Office, Shenzhen Development Bank, Shenzhen Development Bank Building, 5047 East Shennan Road, Shenzhen City, Guangdong Province, China
Tel.: (0755)82080387
Fax: (0755)82080386
Email address: dsh@sdb.com.cn

(V) Registered address: Shenzhen City, Guangdong Province, China
Business address: Shenzhen Development Bank Building, 5047 East Shennan Road, Shenzhen City
Zip code: 518001
Website: http://www.sdb.com.cn
Email address: dsh@sdb.com.cn

(VI) Periodicals selected by the Bank for information disclosure: China Securities Journal, Securities Times, Shanghai Securities Journal and Securities Daily
Website designated by China Securities Regulatory Commission to publish the Half-Year Report: http://www.cninfo.com.cn
Place for keeping Half-Year Report of the Bank: Secretariat of the Board of Directors of the Bank

Chapter 3 Key Financial and Operation Highlights

I. Operating results

(In RMB thousand)

Item	January – June 2011	January – June 2010	January – December 2010	Change from the same period of previous year (%)
Operating income	12,140,590	8,496,111	18,022,278	42.90%
Operating profit before asset impairment loss	6,780,572	4,298,737	9,337,671	57.73%
Asset impairment loss	730,678	493,909	1,488,116	47.94%
Operating profit	6,049,894	3,804,828	7,849,555	59.01%
Pre-tax profit	6,065,846	3,871,747	7,998,021	56.67%
Net profit attributed to shareholders of listed company	4,731,746	3,033,119	6,283,816	56.00%
Net profit attributed to shareholders of listed company after deducting non-recurring gains/losses	4,718,078	2,976,554	6,143,737	58.51%
Per share:				
Basic EPS(in RMB)	1.36	0.98	1.91	38.78%
Diluted EPS(in RMB)	1.36	0.98	1.91	38.78%
Basic EPS after deducting non-recurring gains/losses(in RMB)	1.35	0.96	1.86	40.63%
Cash flow:				
Net cash flows from operating activities	31,573,899	(3,033,438)	21,746,295	1140.86%
Per share net cash flows from operating activities(in RMB)	9.06	(0.98)	6.24	1024.49%

Items and amount of non-recurring gains/losses during the reporting period

(In RMB thousand)

Non-recurring gains/losses item	Amount
Gains/losses on disposal of non-current assets (gain/loss on disposal of fixed assets, repossessed assets and long-term equity investment)	28,176
Gains/losses on contingency (predicted liabilities)	(17,729)
Changes in fair value of investment properties	-
Other non-operating income and expense	7,074
Impact of income tax	(3,853)
Total	13,668

II. Profitability indicators

(Unit: %)

Item	January – June 2011	January – June 2010	January – December 2010	Change from the same period of previous year
Return on total assets	0.56	0.49	0.86	+0.07%
Average return on total assets	0.60	0.50	0.96	+0.10%
Average return on total assets (annualized)	1.20	1.00	0.96	+0.20%
Return on equity (fully diluted)	12.40	9.97	18.75	+2.43%
Return on equity	12.37	9.78	18.31	+2.59%

(fully diluted, deducting non-recurring gains/losses)				
Weighted average return on equity	13.19	13.80	23.22	-0.61%
Average return on net assets (annualized)	24.74	25.81	23.22	-1.07%
Weighted average return on equity (deducting non-recurring gains/losses)	13.15	13.56	22.70	-0.41%
Cost/income ratio	36.30	42.26	40.84	-5.96%
Credit cost	0.17	0.14	0.41	+0.02%
Net interest spread (NIS)	2.50	2.40	2.41	+0.10%
Net interest margin (NIM)	2.63	2.46	2.49	+0.17%

Notes: Credit cost = credit provision / average loan balance (including discounts) of the period
Net interest spread = yield of interest-earning assets－cost rate of interest-bearing liabilities
Net interest margin = net interest income / average balance of interest-earning assets

III. Assets and liabilities

(In RMB thousand)

Item	June 30, 2011	December 31, 2010	December 31, 2009	Change from the end of previous year (%)
1. Total assets	852,057,025	727,610,068	587,811,034	17.10%
Including: financial assets and derivative financial assets at fair value through profit or loss in the current period	1,609,287	371,734	1,232,044	332.91%
Held-to-maturity investments	78,345,059	61,379,837	34,585,440	27.64%
Loans and receivables	631,387,972	550,580,225	454,274,577	14.68%
Available-for-sale financial assets investments	36,983,052	31,534,183	36,998,409	17.28%
Others	103,731,655	83,744,089	60,720,564	23.87%
2. Total liabilities	813,904,630	694,097,192	567,341,425	17.26%
Including: financial liabilities and derivative financial liabilities at fair value through profit or loss in the current period	364,324	311,805	21,540	16.84%
Placement from banks and other institutions	5,335,706	6,200,174	7,570,118	-13.94%
Deposits	632,496,543	562,912,342	454,635,208	12.36%
Others	175,708,057	124,672,871	105,114,559	40.94%
3. Shareholders' equity	38,152,395	33,512,876	20,469,609	13.84%
Net asset per share attributed to shareholders of listed company (in RMB)	10.95	9.62	6.59	13.84%
4. Total deposits	632,496,543	562,912,342	454,635,208	12.36%
Including: Corporate deposits	528,076,455	477,741,629	383,663,003	10.54%
Retail deposits	104,420,088	85,170,713	70,972,205	22.60%
5. Total loans	448,483,826	407,391,135	359,517,413	10.09%

Including: Corporate loans	316,512,169	287,295,541	261,876,410	10.17%
General corporate loans	299,994,592	268,648,981	216,590,882	11.67%
Discounted bills	16,517,577	18,646,560	45,285,528	-11.42%
Retail loans	125,589,071	113,750,877	92,887,523	10.41%
Receivables for credit cards	6,382,586	6,344,717	4,753,480	0.60%
Provision for impairment of loans	(7,492,847)	(6,425,060)	(3,954,868)	16.62%
Net loans and advances	440,990,979	400,966,075	355,562,545	9.98%

IV. Supplementary financial indicators for previous three years as of the end of the reporting period

(Unit: %)

Indicators		**Standard level of the indicators**	**Data of the Bank**					
			June 30, 2011		**December 31, 2010**		**December 31, 2009**	
			Year-end	**Monthly Average**	**Year-end**	**Monthly Average**	**Year-end**	**Monthly Average**
Liquidity ratio	RMB	≥25	54.84	53.53	52.52	46.81	38.59	27.81
	Foreign currency	≥25	60.35	51.45	49.94	54.06	54.02	52.69
	RMB and foreign currency		54.49	52.66	52.35	46.58	39.46	
Loan/deposit ratio (including discounted bills)	RMB and foreign currency		70.97	72.53	72.61	75.67	79.14	62.02
Loan/deposit ratio (excluding discounted bills)	RMB and foreign currency		68.31	69.82	69.23	70.53	69.12	50.91
Non-performing loan (NPL) rate		≤5	0.44	0.48	0.58	0.60	0.68	0.50
Capital adequacy ratio		≥8	10.58	10.36	10.19	9.83	8.88	8.66
Core capital adequacy ratio		≥4	7.01	7.07	7.10	6.69	5.52	5.26
Ratio of loans to the single largest customer to net capital		≤10	4.77	4.90	5.29	5.99	7.84	3.86
Ratio of loans to top 10 clients to net capital			24.27	25.72	26.86	30.49	40.85	23.52
Ratio of accumulated foreign exchange exposure position to net capital		≤20	0.07		0.84		1.11	
Pass loans flow rate			0.18		0.73		1.31	
Special Mention loans flow rate			10.99		39.17		48.99	
Substandard loans flow rate			6.70		23.15		23.39	
Doubtful loans flow rate			10.42		9.23		-	
Cost/income ratio (excluding business tax)			36.30		40.84		41.76	
Provision coverage			379.74		271.50		161.84	

Chapter 4 Management Discussion and Analysis

I. Business scope

The Bank mainly engages in various commercial banking businesses approved by regulators, including RMB deposits, loans, settlement, remittance and cashing business; RMB bill acceptance and discounting; various trust businesses; issuance or trading of RMB securities as approved by regulators; foreign currency deposits and remittance; onshore and offshore loans; issuance and agency issuance of foreign currency securities at home and abroad; trade and non-trade settlement; foreign currency bill acceptance and discounting; foreign currency loans; agency trading of foreign exchange and foreign currency securities, proprietary foreign exchange trading; credit investigation, advisory and attestation services; concurrent insurance agency business; spot gold trading, gold purchase, interbank lending and borrowing of gold, leasing gold to enterprises, gold project financing, and providing retail business of gold investment products to individuals, and other businesses as approved or permitted by regulators.

We are a national joint-stock commercial bank. Currently, our business network mainly covers Pearl River Delta Region, Bohai Rim and Yangtze River Delta while we are also expanding our network in major cities in Central and East China.

II. Analysis of business performance in first half of 2011

(I) Overview

1. Steady growth in the asset and liability scale with continuous optimization of structure

As of the end of the reporting period, the total assets of the Bank amounted to RMB 852.057 billion, a growth of 17.10% compared with the beginning of the year, including total loans (including discount) of RMB 448.484 billion, an increase of 10.09% compared with the beginning of the year. The loans included general corporate loans (excluding discount) of RMB 299.994 billion, increasing by 11.67% compared with last year and accounting for 66.90% of the end-of-period total loans; retail loans of RMB 125.589 billion, which grew by 10.41% compared with the beginning of the year and accounted for 28% of the end-of-period total loans; receivables for credit cards of RMB 6.383 billion, which grew by 0.60% compared with the beginning of the year and accounted for 1.42% of the end-of-period total loans; and discount balance of RMB 16.518 billion, decreasing by 11.42% compared with the beginning of the year and accounting for 3.68% of the end-of-period total loans.

Total liabilities amounted to RMB 813.905 billion, increasing by 17.26% compared with the beginning of the year, including total deposits of RMB 632.497 billion, an increase of 12.36% compared with the beginning of the year. The deposits included corporate deposit balance of RMB 528.077 billion, increasing by 10.54% compared with the beginning of the year and accounting for 83.49% of the end-of-period total deposits; retail deposits of RMB 104.420 billion, increasing by 22.60% compared with the beginning of the year and accounting for 16.51% of the end-of-period total deposits.

In the first half of the year, thanks to proactive structural management by the Bank, the business structure tended to be better. The proportion of Discount to total loans continued to decline while the proportion of Retail loan improved continuously; among Retail loans, the proportion of house mortgage loan dropped while the proportion of high-yields entrepreneur loan grew substantially by 2.04%; deposit structure showed the same trends where the proportion of Retail deposit improved remarkably by 1.88% compared with year beginning.

2. Diversification of income structure with further improvement in profitability

In January to June 2011, the Bank has reinforced the management of its assets and liabilities portfolio and recorded a significant growth in the revenue on total assets. In the first half of the year, the Bank recorded operating income of RMB 12.141 billion, representing a year-on-year increase of 42.90%. The Bank recorded net profit of RMB 4.732 billion, representing a year-on-year increase of 56.00%. Earnings per share were RMB 1.36, representing a year-on-year increase of 38.78%. Annualized Average return on total assets was 1.20%, increasing by 0.20% compared with the same period last year. Net interest spread and net interest margin were improved somewhat to 2.50% and 2.63% respectively.

Among the operating income, the non-interest income has recorded an excellent growth, which amounted to RMB 1.749 billion in the first half of the year, representing a year-on-year increase of 60.86% and its percentage in operating income has increased from 12.79% from the same period last year to 14.40% at present, up by 1.61%, evidencing a gradual optimization of income structure. Of the non-interest income, net fee and commission income achieved sustainable and steady growth and amounted to RMB 1.188 billion, representing a year-on-year increase of 58.40% and its percentage in operating income has increased from 8.83% from the same period last year to 9.79%.

3. Stable asset quality with decrease in both NPL amount and rate, maintained lower NPL rate and higher provision coverage

As of June 30, 2011, the NPL balance of the Bank was RMB 1.973 billion, decreasing by RMB 394 million or 16.65% compared with the beginning of the year; and the NPL rate was 0.44%, down 0.14% compared with the beginning of the year. Both the NPL amount and ratio decreased. The provision coverage was 379.74%, up 108.24% compared with the beginning of the year. The risk resistance ability of the Bank was further enhanced.

In the first half of 2011, the Bank recorded a decline in NPL amount and NPL rate as compared with that in the beginning of the year, while the loan provision coverage further surged. This was primarily due to the fact that the Bank, according to the requirements of the national macro regulatory policies and risk reminder from the regulators, proactively adjusted its credit policy, optimized its credit structure, strictly controlled the risk of new loans, strengthened its recovery and disposal of existing NPL and participated in asset protection and risk elimination in respect of the problematic loans in advance.

4. Capital adequacy ratio meets regulatory standards

During the reporting period, the Bank successfully issued RMB 3.65 billion hybrid bond in inter-bank bond market to contribute RMB 3.65 billion to tier 2 capital. The Bank's capital adequacy ratio and core capital adequacy ratio were 10.58% and 7.01% respectively, meeting regulatory standards as of the end of the reporting period with its own capital accumulation and strengthened capital management.

(II) Analysis of income statement items

1. Composition of and changes in operating income

(In RMB million)

Item	January - June 2011		January - June 2010		YoY increase/ decrease(%)
	Amount	%	Amount	%	
Net interest income	10,392	85.60%	7,409	87.21%	40.26%
Interest income from placement at central bank	611	3.13%	372	3.06%	64.25%
Interest income from transactions with financial institutions	4,168	21.33%	1,235	10.14%	237.49%
Interest income from loans and advances	12,610	64.53%	9,027	74.11%	39.69%
Interest income from securities investment	2,151	11.01%	1,545	12.69%	39.22%
Subtotal of interest income	19,540	100.00%	12,180	100.00%	60.44%
Rediscount interest expense	27	0.30%	5	0.10%	440.00%
Interest expense from transactions with financial institutions	3,448	37.68%	958	20.09%	259.92%
Deposit interest expense	5,344	58.42%	3,532	74.05%	51.30%
Payable bond interest expense	329	3.60%	275	5.77%	19.64%
Subtotal of interest expense	9,148	100.00%	4,770	100.00%	91.78%
Net fee and commission income	1,188	9.79%	750	8.83%	58.40%
Other net operating income	561	4.61%	337	3.97%	66.17%
Total operating income	12,141	100.00%	8,496	100.00%	42.90%

2. Net interest income

In January to June 2011, net interest income of the Bank was RMB 10.392 billion, increasing by 40.26% over the same period last year and accounting for 85.60% of operating income with a decrease of 1.61% compared with 87.21% for the same period last year. The growth in net interest income was mainly credited to the interest-earning asset growth, interest rate hike and structure improvement.

The following table sets out the daily average balance and daily average yield or daily average cost rate of the major asset and liability items of the Bank during the reporting period.

(In RMB million)

Item	**January - June 2011**			**January - June 2010**		
	Daily average balance	**Interest income/expense**	**Average yield/ cost (%)**	**Daily average balance**	**Interest income/expense**	**Average yield/ cost (%)**
Assets						
Customer loans and advances (excluding discount)	412,153	12,110	5.93%	336,001	8,845	5.31%
Bond investment	106,201	1,791	3.40%	92,391	1,257	2.74%
Due from Central Bank	81,809	611	1.50%	55,666	372	1.35%
Bills discount and	179,238	4,678	5.26%	117,415	1,646	2.83%

inter-bank business						
Others	18,881	350	3.74%	5,907	59	2.02%
Total of interest-earning assets	798,283	19,540	4.94%	607,381	12,179	4.04%
Liabilities						
Customer deposits	584,906	5,429	1.87%	473,939	3,540	1.51%
Bonds issued	10,744	329	6.18%	9,466	275	5.86%
Inter-bank business	153,807	3,231	4.23%	99,149	943	1.92%
Others	7,296	159	4.41%	1,988	11	1.15%
Total of interest-bearing liabilities	756,751	9,148	2.44%	584,541	4,770	1.65%
Net interest income		**10,392**			**7,409**	
Deposit-loan spread			**4.06%**			**3.80%**
Net interest spread (NIS)			**2.50%**			**2.40%**
Net interest margin (NIM)			**2.63%**			**2.46%**

On a year-on-year basis, under the influence of interest rate rise policy of the Central Bank, the average interest rate for all assets and liabilities during the period were higher than the same period last year. Meanwhile, under the guidance of portfolio management and pricing strategy, the growth of the yield of interest-earning asset was higher than the growth of cost rate of interest-bearing liability, resulting in a relatively good increase in both net interest spread and net interest margin.

Item	**April - June 2011**			**January - March 2011**		
	Daily average balance	**Interest income/expense**	**Average yield/cost (%)**	**Daily average balance**	**Interest income/expense**	**Average yield/cost (%)**
Assets						
Customer loans and advances (excluding discount)	420,745	6,415	6.12%	403,465	5,695	5.72%
Bond investment	113,202	988	3.50%	99,123	803	3.28%
Due from Central Bank	86,814	328	1.51%	76,749	283	1.50%
Bills discount and inter-bank business	179,594	2,366	5.28%	178,879	2,312	5.24%
Others	22,581	224	3.98%	15,139	126	3.38%
Total of interest-earning assets	822,937	10,321	5.03%	773,355	9,219	4.83%
Liabilities						
Customer deposits	606,886	3,086	2.04%	562,681	2,343	1.69%
Bonds issued	12,001	187	6.26%	9,472	142	6.08%
Inter-bank business	151,793	1,657	4.37%	155,843	1,574	4.10%
Others	9,059	103	4.59%	5,512	56	4.11%
Total of interest-bearing liabilities	779,740	5,033	2.59%	733,508	4,115	2.28%
Net interest income		**5,288**			**5,104**	

Deposit-loan spread			**4.08%**			**4.04%**
Net interest spread (NIS)			**2.44%**			**2.56%**
Net interest margin (NIM)			**2.58%**			**2.68%**

On a month-on-month basis, the average interest rate for all assets and liabilities has still shown an upward trend, but given the decline of interest spread of inter-bank business under the influence of market factors, together with the issuance of RMB 3.65 billion of hybrid bonds by the Bank, which increased interest costs, the net interest spread and net interest margin for the second quarter declined.

Interest income from customer loans and advances

(In RMB million)

Item	**January - June 2011**			**January - June 2010**		
	Daily average balance	**Interest income**	**Average yield(%)**	**Daily average balance**	**Interest income**	**Average yield(%)**
Corporate loans (excluding discount)	286,213	8,475	5.97%	233,435	6,218	5.37%
Retail loans	125,940	3,635	5.82%	102,566	2,627	5.16%
Customer loans and advances (excluding discount)	412,153	12,110	5.93%	336,001	8,845	5.31%

Item	**April - June 2011**			**January - March 2011**		
	Daily average balance	**Interest income**	**Average yield(%)**	**Daily average balance**	**Interest income**	**Average yield(%)**
Corporate loans (excluding discount)	292,070	4,510	6.20%	280,290	3,965	5.74%
Retail loans	128,675	1,906	5.93%	123,175	1,730	5.70%
Customer loans and advances (excluding discount)	420,745	6,415	6.12%	403,465	5,695	5.72%

Customer deposit interest expense

(In RMB million)

Item	**January - June 2011**			**January - June 2010**		
	Daily average balance	**Interest expense**	**Average cost rate(%)**	**Daily average balance**	**Interest expense**	**Average cost rate(%)**
Corporate deposits	491,521	4,544	1.86%	401,146	2,971	1.49%
Including: Demand deposits	153,597	512	0.67%	130,308	372	0.57%
Time deposits	186,301	2,696	2.92%	148,830	1,788	2.42%
Including: Ministry of Finance and	37,859	908	4.83%	34,280	661	3.89%

negotiated deposits						
Corporate margin deposits	151,623	1,336	1.78%	122,007	812	1.34%
Retail deposits	93,384	884	1.91%	72,794	569	1.58%
Including: Demand deposits	29,654	69	0.47%	24,258	43	0.36%
Time deposits	63,730	815	2.58%	48,536	525	2.18%
Total deposits	584,906	5,429	1.87%	473,939	3,540	1.51%

Item	April - June 2011			January - March 2011		
	Daily average balance	Interest expense	Average cost rate(%)	Daily average balance	Interest expense	Average cost rate(%)
Corporate deposits	509,251	2,590	2.04%	473,595	1,953	1.67%
Including: Demand deposits	151,734	269	0.71%	155,482	243	0.63%
Time deposits	193,517	1,505	3.12%	179,004	1,191	2.70%
Including: Ministry of Finance and negotiated deposits	40,917	512	5.02%	34,766	396	4.62%
Corporate margin deposits	164,000	816	2.00%	139,109	519	1.51%
Retail deposits	97,635	495	2.03%	89,086	390	1.77%
Including: Demand deposits	30,027	40	0.53%	29,277	30	0.41%
Time deposits	67,608	455	2.70%	59,810	360	2.44%
Total deposits	606,886	3,085	2.04%	562,681	2,343	1.69%

3. Net fee and commission income

From January to June 2011, the net non-interest income of the Bank was RMB 1.749 billion with an increase of 60.86% over the same period of last year. It included net fee and commission income of RMB 1.188 billion which is an increase of 58.40%. The growth of net fee and commission income was as follows:

(In RMB million)

Item	January-June 2011	January-June 2010	Growth
Settlement fee income	316	230	37.39%
Bank card business fee income	301	338	-10.95%
Consulting and advisory fee income	275	126	118.25%
Agency and entrustment business fee income	155	57	171.93%
Wealth management business fee income	95	21	352.38%
Account management fee income	23	21	9.52%
Others	165	71	132.39%
Subtotal of fee income	**1,330**	**865**	**53.76%**
Bank card fee outlay	88	75	17.33%
Agency business fee outlay	42	26	61.54%
Others	12	14	-14.29%
Subtotal of fee outlay	**142**	**115**	**23.48%**
Net fee and commission income	**1,188**	**750**	**58.40%**

From January to June 2011, all kinds of fee incomes achieved good growth. Among which:

Settlement fee income (including domestic and international portion) recorded a year-on-year growth of 37%, which was primarily because of business size growth and increase in number of customers of the Bank. The development of the financial consultancy business led to the growth in consultancy and advisory fee income by 118%, while the growth in the agency and entrustment business led to 172% growth in fee income. Wealth management business fee income recorded a year-on-year growth of 352%, which was due to the gradual growth in variety and volume of wealth management products.

From January to June 2011, bank card business fee income recorded a year-on-year decline of 11% due to a change in accounting methods used to recognize the Bank's fee income arising from payment by installments with credit cards. For the first half of last year and before, the Bank's fee income arising from payment by installments adopted an accounting method of one-off recognition. As the payment by installments volume grew significantly, the Bank began to adopt a more prudent approach to book such income into different accounting periods since the second half of last year. If the same recognition method was used, the bank card fee income for the first half of this year would record a year-on-year growth of around 10%.

Other fee incomes increased by RMB 94 million compared with that for the same period of the previous year mainly due to an increase in fee income resulted from the growth in trade finance business.

4. Other net operating income

Other net operating income includes investment income, gains/losses as a result of fair value changes, foreign exchange gains/losses and other business income. From January to June 2011, other net operating income of the Bank was RMB 561 million, representing an increase of 66.17% over the same period of last year, primarily due to price difference gains from discounted bills. Influenced by the market, the trading volume and price fluctuation of bills were both greater than those of the same period of the previous year, which resulted in a 104% increase in price difference gains compared with that for the previous year. In addition, gains/losses from foreign exchange increased by 53% compared with that for the previous year due to the growth in agency business.

5. Business and administrative expenses

From January to June 2011, business and administrative expenses of the Bank rose by 22.74% compared with that of the same period of last year to RMB 4.407 billion, primarily due to increase in headcount, growth of business volume and expansion of outlet network as well as continued investment in management process streamlining and IT system upgrading. Cost/income ratio (excluding business tax) was 36.30%, representing a decrease of 5.96% from 42.26% for the same period of previous year. Business and administrative expenses include staff expenses of RMB 2.489 billion, which was an increase of 31.92% over the same period of last year; administrative expense of RMB 1.328 billion, an increase of 12.04% over the same period of last year; and depreciation, amortization and rentals of RMB 590 million, an increase of 13.76% over the same period of last year.

6. Asset impairment loss

(In RMB million)

Item	Provision from January to June 2011	Provision from January to June 2010	Growth
Precious metals	-	-	-
Due from banks and other financial institutions	10	-	-
Placement with banks and other financial institutions	4	-	-
Reverse repurchase agreements	-	-	-
Loan disbursements and advances	715	485	47.42%
Held-to-maturity investments	5	-	-
Long-term equity investments	-3	-	-
Repossessed assets	9	13	-30.77%
Fixed assets	-	-	-
Other assets	-9	-4	-125.00%
Financial guarantee contracts	-	-	-
Total	**731**	**494**	**47.98%**

7. Income tax expense

From January to June 2011, income tax rate of the Bank was 21.99%, up 0.33% over the same period of previous year. According to the *Enterprise Income Tax Law of the People's Republic of China* and the Notification of the State Council on the *Carrying Out of the Transitional Preferential Policies Concerning Enterprise Income Tax*, starting from January 1, 2008, the applicable tax rate for enterprises which originally enjoyed preferential income tax rates will be gradually shifted to the statutory tax rate of 25% over five years after the enforcement of the new tax law. Enterprises in the Shenzhen Special Economic Zone originally enjoyed an enterprise income tax rate of 15%. It was 22% in 2010 and 24% in 2011.

(In RMB million)

Item	January to June 2011	January to June 2010	Growth
Profit before tax	6,066	3,872	56.67%
Income tax expense	1,334	839	59.00%
Actual income tax rate	21.99%	21.66%	+0.33%

8. Profit by periods during the reporting period

(In RMB million)

Item	Q1	Q2	January to June Total

Operating income	5,815	6,326	12,141
Net interest income	5,104	5,288	10,392
Net fee and commission income	482	706	1,188
Other net operating income	229	332	561
Operating expense	2,514	2,846	5,360
Business taxes and surcharges	446	507	953
Business and administrative expense	2,068	2,339	4,407
Operating profit before asset impairment loss	3,301	3,480	6,781
Asset impairment loss	241	490	731
Operating profit	3,060	2,990	6,050
Net non-operating income and expense	9	7	16
Profit before tax	3,069	2,997	6,066
Income tax	667	667	1,334
Net profit	2,402	2,330	4,732

9. Operating income and operating profit of the Bank by region during the reporting period

January to June 2011

(In RMB million)

Region	Operating income	Operating expense	Operating profit before asset impairment loss	Percentage of operating profit before asset impairment loss by region
South and central China	5,749	2,764	2,985	44.02%
East China	3,734	1,426	2,308	34.04%
North and northeast China	1,785	894	891	13.14%
Southwest China	873	276	597	8.80%
Sub-total	12,141	5,360	6,781	100.00%

January to June 2010

(In RMB million)

Region	Operating income	Operating expense	Operating profit before asset impairment loss	Percentage of operating profit before asset impairment loss by region
South and central China	4,010	2,212	1,797	41.80%
East China	2,560	1,067	1,494	34.75%
North and northeast China	1,361	706	655	15.24%
Southwest China	565	212	353	8.21%
Sub-total	8,496	4,197	4,299	100.00%

The south and central China region includes headquarter organizations. As the bond and treasury trading businesses are concentrated at the headquarters, the percentage of the profit before provision of south and central China region is higher than that of other regions.

(III) Analysis of balance sheet items

1. Asset composition and changes

(In RMB million)

Item	June 30, 2011		December 31, 2010		Increase or decrease for the end of the period compared with the end of last year
	Amount	%	Amount	%	
Loans and advances	448,484	52.64%	407,391	55.99%	10.09%
Provision for impairment of loans	(7,493)	-0.88%	(6,425)	-0.88%	16.62%
Net loans and advances	440,991	51.76%	400,966	55.11%	9.98%
Investment and other financial assets	138,347	16.24%	112,192	15.42%	23.31%
Cash and due from the central bank	95,492	11.21%	76,587	10.53%	24.68%
Due from banks and other financial institutions	19,053	2.24%	8,524	1.17%	123.52%
Lendings to banks and other financial institutions and reverse repurchase agreements	119,011	13.97%	106,739	14.67%	11.50%
Account receivables	28,320	3.32%	13,727	1.89%	106.31%
Interest receivables	3,011	0.35%	2,121	0.29%	41.96%
Fixed assets	2,359	0.28%	2,470	0.34%	-4.49%
Intangible assets	186	0.02%	192	0.03%	-3.13%
Properties for investment	540	0.06%	540	0.07%	-
Deferred income tax assets	2,071	0.24%	1,955	0.27%	5.93%
Other assets	2,676	0.31%	1,597	0.21%	67.63%
Total assets	**852,057**	**100.00%**	**727,610**	**100.00%**	**17.10%**

(1) Loans and advances

Loan structure by product

(In RMB million)

Item	June 30, 2011		December 31, 2010	
	Amount	%	Amount	%
Corporate loans (excluding credit cards)	**316,512**	**70.57%**	**287,296**	**70.52%**
Including: General loans	299,994	66.89%	268,649	65.94%
Discounts	16,518	3.68%	18,647	4.58%
Retail loans (excluding credit cards)	**125,589**	**28.00%**	**113,751**	**27.92%**
Including: Housing mortgage loans	66,021	14.72%	64,877	15.92%
Entrepreneur loans	29,656	6.61%	18,626	4.57%
Auto loans	11,523	2.57%	10,667	2.62%
Others	18,389	4.10%	19,581	4.81%
Account receivables of credit cards	**6,383**	**1.43%**	**6,344**	**1.56%**

Total loans	**448,484**	**100.00%**	**407,391**	**100.00%**

Loans by region

(In RMB million)

Region	June 30, 2011		December 31, 2010	
	Amount	%	Amount	%
South and central China	144,885	32.30%	127,304	31.25%
East China	160,012	35.68%	149,628	36.73%
North and northeast China	109,190	24.35%	97,821	24.01%
Southeast China	34,397	7.67%	32,639	8.01%
Total	**448,484**	100.00%	**407,391**	**100.00%**

For the first half of 2011, new loans made by the Bank are mainly from south and central China and north and northeast China, which increase by RMB 17.581 billion and RMB 11.369 billion respectively compared with that of the beginning of the year and accounted for 42.78% and 27.67% of new loans of the year respectively.

Loans by industry

(In RMB million)

Industry	June 30, 2011		December 31, 2010	
	Amount	%	Amount	%
Agriculture, husbandry and fishery	821	0.18%	829	0.20%
Mining (heavy industry)	3,507	0.78%	4,206	1.03%
Manufacturing (light industry)	99,410	22.17%	83,681	20.54%
Energy	11,987	2.67%	12,574	3.09%
Transportation, postal and telecommunications	19,635	4.38%	20,288	4.98%
Commerce	72,670	16.20%	55,196	13.55%
Real estate	25,028	5.58%	22,527	5.53%
Social service, technology, culture and health care	43,486	9.70%	48,328	11.86%
Construction	20,161	4.50%	18,277	4.49%
Others (mainly retail loans)	135,261	30.16%	122,838	30.15%
Discounts	16,518	3.68%	18,647	4.58%
Total loans and advances	448,484	100.00%	407,391	100.00%

As of June 30, 2011, loans of the Bank mainly concentrated on other industries (mainly retail loans), manufacturing and commerce and he loan balances were RMB 135.261 billion, RMB 99.410 billion and RMB 72.670 billion respectively which accounted for 30.16%, 22.17% and 16.20% of all loans of the Bank.

For the first half of 2011, new loans of the Bank mainly concentrated on commerce, manufacturing and other industries (mainly retail loans). The new loans increase by RMB 17.474 billion, RMB 15.729 billion and RMB 12.423 billion respectively compared with those of the beginning of the year and accounted for 42.52%, 38.28% and 30.23% of all new loans of the Bank respectively. Discounts declined by RMB 2.129 billion, which was due to the adjustment of asset structure by the Bank.

Loans by guarantee type

(In RMB million)

Item	Amount	%
Credit loans	75,880	16.92%
Guarantee loans	91,882	20.49%
Mortgage loans	206,094	45.95%
Pledge loans	58,110	12.96%
Discounts	16,518	3.68%
Total	448,484	100.00%

Loan balance of top 10 borrowers and percentage in total loans

As of the end of the reporting period, the balance of the top 10 borrowers of the Bank was RMB 13.764 billion, accounting for 3.07% of the loan balance as of the end of the period. Specifically, these customers are: Zhuhai Zhenrong Company, Wuhan Urban Construction Investment & Development (Group) Co., Ltd., Transport Department of Shanxi Province, CITIC South China (Group) Co., Ltd., Shougang Group, Beijing Gonglian Highway Connect Line Co., Ltd, Beijing Municipal Bureau of Land and Resources Chaoyang Center, Shanxi Coal Transportation and Sales Group Co., Ltd., Changzhou Top Spring Landmark Real Estate Co., Ltd. and Shenzhen Municipal Fiscal and Finance Service Center.

(2) Investment and other financial assets

Asset mix

(In RMB million)

Type	June 30, 2011		December 31, 2010	
	Amount	%	Amount	%
Trading financial assets	1,158	0.84%	-	-
Derivative financial assets	452	0.33%	372	0.33%
Available-for-sale financial assets	36,983	26.73%	31,534	28.11%
Held-to-maturity investment	78,345	56.63%	61,380	54.71%
Receivables investment	21,002	15.18%	18,502	16.49%
Long-term equity investment	407	0.29%	404	0.36%
Investment and other financial assets	**138,347**	**100.00%**	**112,192**	**100.00%**

Information on holding of bonds

At the end of the reporting period, the face value of the treasury bonds and financial bonds (including Central Bank bills, policy bank bonds, various ordinary financial bonds, and subordinated financial debts, and excluding corporate debts) held by the Bank was RMB 107.3 billion. Bonds with substantial amount are stated as below:

(In RMB million)

Type	Face value (in RMB million)	Nominal annual interest rate (%)	Maturity date	Impairment provision
11 financial bonds	23,030	3.31~5.79	2012/7/5~2021/6/14	-
10 financial bonds	21,440	2.61~4.66	2011/11/9~2020/11/4	-
09 financial bonds	11,220	1.95~5.22	2011/9/23~2019/9/23	-
08 financial bonds	11,000	2.04~4.95	2011/7/15~2018/12/16	-
Central Bank notes	9,028	0~3.8	2011/7/1~2014/5/13	-
10 treasury bonds	5,131	1.87~4.6	2011/7/15~2040/6/21	-
07 financial bonds	4,725	2.52~6.37	2012/2/2~2017/10/25	-
11 treasury bonds	3,360	0~6	2011/7/18~2041/6/23	-
06 treasury bonds	3,267	2.51~3.81	2011/9/30~2016/3/27	-
09 treasury bonds	2,708	1.67~4	2012/3/25~2019/7/23	-

Information on holding of derivative financial instruments

Table of derivatives investment

Risk analysis on derivatives position-holding during the reporting period and explanations on controlling measures (including but not limited to market risk, liquidity risk, credit risk, operational risk and legal risk)	1. Market risk. Market risk of derivatives refers to the risk of loss on on-balance-sheet and off-balance-sheet business due to change of market prices (interest rate, exchange rate, stock price and commodity price). Market risk control in the Bank is exercised via risk limit management from various perspectives such as exposure, risk level, and profit/loss. 2. Liquidity risk. Liquidity risk of derivatives refers to the risk that a bank has the solvency but cannot obtain sufficient fund in a timely manner or cannot obtain sufficient fund in time with reasonable cost to deal with asset growth or pay off due debts. For derivatives delivered in full amount, the Bank adopted the measure of integrated position closing to ensure sufficient fund for settlement while delivering; for derivatives delivered in net amount, there was no major impact as the cash flow would have minor impact on current assets of the Bank. 3. Operational risk. Operational risk is the risk resulting from defective internal procedures, people, systems, or external events, including the risks caused by people, processes, systems and external factors. The Bank strictly observed the *China Banking Regulatory Commission (CBRC) Guidance on Operational Risk Management of Commercial Banks*, staffed full-time traders, adopted professional front-middle-back office integrated monitoring system, set complete business operational process and authorization management system and improved internal monitoring and auditing mechanism, to avoid operational risk to the utmost. 4. Legal risk. Legal risk refers to the possibility of risk exposure caused by business activity incompliant with legal rules or external legal events. The Bank attached a lot of importance to legal documentation related to derivative transactions, and signed legal agreements including ISDA, CSA, MAFMII with other banks to avoid legal disputes and regulate dispute resolving methods. Pursuant to regulatory requirements and transaction management requirements, the Bank also drafted out customer transaction agreement referring to the above inter-bank legal agreements, thus largely avoiding potential legal disputes. 5. Force majeure risk. Force majeure refers to unforeseeable, unavoidable or insurmountable objective circumstances, including but not limited to fire,

	earthquake, flood or other natural disasters, war, military act, strike, pandemic, failure of electricity, telephone service or IT system, financial crisis, halt of related market transaction, or change of national legal rules or policy that prevents the derivative trading to be implemented normally. The Bank has concluded agreements with all the individual, institutional and inter-bank customers and set out terms and conditions about force majeure risk to exempt from obligations upon contract breaching in case of force majeure.
Changes of market price or product fair value of invested derivatives during the reporting period. The methods adopted in determining the fair value of derivatives as well as the assumptions and parameters should be disclosed together with the analysis result	The Bank did not see big fair value change of invested derivatives during the reporting period. The Bank engaged the evaluation technique to determine the value of derivative financial instruments. The evaluation technique included reference to the price used by all voluntary stakeholders familiar with relevant circumstances in latest market trading, and reference to the current fair values and discounted cash flow. Technique of other financial instruments of essentially the same nature. Evaluation techniques may use market parameters as much as feasible. However, the management team had to evaluate in light of credit risk, market fluctuation rate and correlation of the Bank and the trading counterparties when market parameters were not available.
Explanation on whether there were material changes in accounting policies or accounting settlement principles related to derivatives during the reporting period compared with that of last reporting period	The Bank set out accounting policies and accounting settlement principles for derivatives in line with the *Accounting Standards for Business Enterprises*. There was no major change in the relevant policy.
Specific comments from independent directors, sponsors or financial advisors on derivative investments and risk control	Independent directors of the Bank believed that the Bank's derivative trading business was a commercial banking business approved by regulators. The Bank has established a relatively complete risk management system, which is effective for risk control on derivative trading.

Table of position of derivatives investment at the end of the reporting period

(In RMB million)

Contract type	Beginning-of-period contract amount (Nominal)	End-of-period contract amount (Nominal)	Gains/losses on changes in fair value in the reporting period	Percentage of end-of-period contract amount (nominal) in end-of-period net assets (%)
Foreign exchange forward contract	47,535	115,817	30	303.56%
Interest rate swap contract	2,300	3,800	-3	9.96%
Stock option contract	-	-	-	-
Equity swap contract	-	-	-	-
Total	49,835	119,617	27	313.53%

(3) Other assets

Repossessed assets

(In RMB million)

Item	Amount
Land, properties and buildings	639
Others	21
Sub-total	660
Balance of provision for impairment of	(259)

repossessed assets	
Net value of repossessed assets	401

Changes of interest receivables and bad debt provisions in the reporting period

(In RMB million)

Interest receivables	Amount
Beginning-of-period balance	2,121
Increment in the reporting period	15,560
Recovery in the reporting period	14,670
End-of-period balance	3,011

(In RMB million)

Type	Amount	Bad debt provision
Interest receivables	3,011	

At the end of the reporting period, interest receivables increased by 41.96% or RMB 890 million compared with the end of last year. Interest receivables arising from interest-earning assets such as loans would offset interest income of the period and be put off balance sheet if the interest is overdue for 90 days, and no provision would be accrued for it.

2. **Liability structure and the changes**

(In RMB million)

Item	June 30, 2011		December 31, 2010		Increase or decrease for the end of the period compared with the end of last year
	Amount	%	Amount	%	
Deposit taking	632,497	77.71%	562,912	81.10%	12.36%
Due to banks and other financial institutions	120,791	14.84%	82,370	11.87%	46.64%
Borrowings from banks and other financial institutions	5,336	0.66%	6,200	0.89%	-13.94%
Derivative financial liabilities	364	0.04%	312	0.04%	16.67%
Repurchase agreements	14,989	1.84%	17,589	2.53%	-14.78%
Employee compensation payables	1,857	0.23%	1,879	0.27%	-1.17%

Tax payables	1,385	0.17%	1,125	0.16%	23.11%
Interest payables	4,642	0.57%	3,920	0.56%	18.42%
Bond payables	13,125	1.61%	9,469	1.36%	38.61%
Deferred income tax liabilities	115	0.01%	103	0.01%	11.65%
Other liabilities	18,804	2.32%	8,218	1.18%	128.81%
Total liabilities	813,905	100.00%	694,097	100.00%	17.26%

Deposits by product

(In RMB million)

Item	June 30, 2011	December 31, 2010	December 31, 2009	Increase or decrease for the end of the period compared with the end of last
Corporate deposits	528,077	477,741	383,663	10.54%
Retail deposits	104,420	85,171	70,972	22.60%
Total deposits	632,497	562,912	454,635	12.36%

Deposits by region

(In RMB million)

Region	June 30, 2011		December 31, 2010	
	Amount	%	Amount	%
South and central China	230,639	36.46%	197,959	35.17%
East China	200,736	31.74%	190,693	33.88%
North and northeast China	159,193	25.17%	140,208	24.91%
Southeast China	41,929	6.63%	34,052	6.05%
Total	632,497	100.00%	562,912	100.00%

3. Changes of shareholders' equity

(In RMB million)

Item	Beginning-of-period balance	Increase in the year	Decrease in the year	End-of-period balance
Share capital	3,485	-	-	3,485
Capital reserve	13,397	-	93	13,304
Surplus reserve	1,912	-	-	1,912
General reserve	5,978	-	-	5,978
Undistributed profit	8,741	4,732	-	13,473
Including: Dividend proposed for distribution	-	-	-	-

Total shareholders' equity	33,513	4,732	93	38,152

4. Holding of foreign currency financial assets

Foreign currency financial assets held by the Bank are mainly loans, receivables and investments. There are two sorts of foreign currency investments held by the Bank: brokerage investment and proprietary investment. One part of brokerage investment is to close the position of wealth management products, the structure of which completely matches with wealth management products of the Bank, hedging against market risk entirely; and the other part of brokerage investment is foreign currency exchange, which features simple product structure and adequate liquidity, with most trading counterparties being big domestic banks. Proprietary investment mainly includes bond investment and inter-bank borrowing and lending. Bonds invested are largely foreign currency bonds issued by the Ministry of Finance of China or domestic policy banks, or bonds issued by large overseas banks backed in full amount by foreign governments. Investment product of this kind features simple structure, consistent price and stable market value. Counterparties of inter-bank borrowing and lending are mainly Chinese banks, thus fund security is guaranteed. Most overseas trading counterparties are major international investment/commercial banks, parent companies of which are mostly rated AA by Standard & Poor's. No material changes of their ratings were discovered despite overseas financial market volatility.

The Bank is always precautious towards overseas securities investment, which does not make up for a big portion of total investments, and thus impact of its market risk on profit is limited.

According to regulatory rules, banks should hold certain amount of foreign currency capital to conduct such businesses as foreign debt guarantee. In accordance with this requirement, the Bank purchased USD 150 million foreign currency capital in 2009, which was subject to exchange rate risk.

At the end of the reporting period, foreign currency financial assets and financial liabilities held by the Bank were as follows:

(In RMB million)

Item	Beginning-of-period balance	Profit/loss from changes in fair value during the period	Accumulated fair value changes recognized in equity	Impairment provision during the period	End-of-period balance
Financial assets:					
Cash and due from the Central Bank	1,186				1,456
Due from other banks	7,962				7,797
Account receivables	5,373				8,371
Loans and advances	11,438			3	14,918
Available-for-sale financial assets	233		6		163
Held-to-maturity investments	934				851
Long-term equity investments	1				1
Other assets	104				141
Total	**27,231**		**6**	**3**	**33,698**
Financial liabilities:					

Due to and borrowings from banks and other financial institutions	4,297				3,104
Deposits taking	22,136				26,728
Account payables	926				3,265
Other liabilities	66				197
Total	**27,425**				**33,294**

5. End-of-year balance of off-balance sheet items that may have significant impact on the Bank's financial position and operating results at the end of the reporting period

(In RMB million)

Item	Amount
Issuance of bills of acceptance	284,956
Issuance of letters of credit	3,624
Issuance of letters of guarantee	5,902
Unused credit line of credit card	11,989
Lease commitment	2,442
Capital expenditure commitment	41

(IV) Analysis of asset quality

For the first half of 2011, the economy of China performed well in general but still faced considerable uncertainties. The banking industry also faced various challenges to maintain sound development and in particular, the credit risks in small and medium enterprises, local government financing platform, real estate and industries with high pollution, high energy consumption and over-capacity deserved serious attention. With regard to this, the Bank responded proactively. In accordance with the requirements of the “Best Bank Strategy”, it further improved the credit risks management system of the Bank, raised the standard of credit risks management and ensured a steady, healthy and sustainable development of the credit business, thereby achieving a steady and rather fast growth of the credit business and effectively controlling incremental NPL balance and NPL rate. As a result, both NPL balance and NPL rate continued to decrease and provision coverage ratio was further enhanced. As of June 30, 2011, the balance of NPL of the Bank was RMB 1.973 billion, representing a decrease of RMB 394 million as compared with the year beginning, NPL rate was 0.44%, down 0.14% from last year, and provision coverage ratio was 379.74%.

Meanwhile, the Bank achieved good recovery results in first half of the year. It recovered non-performing assets of RMB 1.170 billion in aggregate, including credit assets (loans) of RMB 1.039 billion and non-credit assets of RMB 15 million. Out of the recovered principal amount of loans, loans of RMB 520 million were written off and NPL of RMB 519 million were not written off. 99% was recovered in cash, and the rest was recovered in repossessed assets.

1. 5-tier loan classification

(In RMB million)

5-tier classification	June 30, 2011		December 31, 2010		Increase or decrease for the end of the period compared with the end of last year	
	Balance	%	Balance	%	Change in balance	Change in %
Pass	445,455	99.32%	403,686	99.09%	10.35%	+0.23%
Special attention	1,056	0.24%	1,339	0.33%	-21.14%	-0.09%
NPL	1,973	0.44%	2,367	0.58%	-16.65%	-0.14%
Including: Substandard	914	0.20%	1,309	0.32%	-30.18%	-0.12%
Doubtf ul	584	0.13%	620	0.15%	-5.81%	-0.02%
Loss	475	0.11%	438	0.11%	8.45%	-
Total loans	448,484	100.00%	407,391	100.00%	10.09%	-
Provision for impairment of loans	(7,493)		(6,425)		16.62%	
Provision coverage ratio	379.74%		271.50%			+108.24%

For the first half of 2011, both NPL balance and NPL rate of the Bank decreased compared with the beginning of the year and loan provision coverage ratio further improved, mainly due to the Bank's proactive adjustment of its credit policy, optimization of its credit structure, strict control of the risk of new loans, strengthening its recovery and disposal of existing NPL and participation in asset protection and risk elimination in respect of the problematic loans in advance, according to the requirements of the national macro regulatory policies and risk reminder from the regulators.

2. Restructured loans and overdue loans

(In RMB million)

Item	Beginning-of-period balance	End-of-period balance	%
Restructured loans	954	778	0.17%
Overdue loans	424	339	0.08%
Non-accrual loans	2,011	1,936	0.43%

Note: Overdue loans refer to uncollected loans with principal overdue being within 90 days (inclusive). Non-accrual loans refer to uncollected loans with principal or interest overdue more than 90 days.

(1) As of June 30, 2011, the restructured loan balance of the Bank was RMB 778 million, representing a decrease of RMB 176 million or 18.45% compared with the beginning of the year, primarily due to further improvement of disposal efficiency of non-performing assets by the Bank through reinforcing management of restructured loans and strengthening collection and disposal of restructured loans in respect of non-performing assets.

(2) As of June 30, 2011, overdue loan balance of the Bank was RMB 339 million, representing a decrease of RMB 85 million compared with the beginning of the year, primarily because of the decrease in the overdue of credit card overdraft loans. In 2011, the Bank adjusted its collection policy for overdue customers in its credit card risk control strategy and further strengthened collection effort on overdue customers.

(3) As of June 30, 2011, the non-accrual loans balance of the Bank was RMB 1.936 billion,

representing a decrease of RMB 75 million or 3.73% compared with the beginning of the year, primarily due to a decrease in corporate non-accrual loans. The Bank strengthened the management of loan repayment deadline, as well as tracking and monitoring of the status of the repayment of loans due and asset quality and adopted measures to urge the customers to make repayment on schedule.

3. Loan quality by industry

(In RMB million)

Industry	June 30, 2011		December 31, 2010		Change	
	Balance	NPL rate	Balance	NPL rate	Change of balance	Change of NPL rate
Agriculture, husbandry and fishery	821	0.00%	829	0.00%	-8	-
Mining (heavy industry)	3,507	0.04%	4,206	0.33%	-699	-0.29%
Manufacturing (light industry)	99,410	0.59%	83,681	0.80%	15,729	-0.21%
Energy	11,987	0.00%	12,574	0.00%	-587	-
Transportation, postal and telecommunications	19,635	0.04%	20,288	0.00%	-653	+0.04%
Commerce	72,670	1.03%	55,196	1.57%	17,474	-0.54%
Real estate	25,028	1.06%	22,527	1.83%	2,501	-0.77%
Social service, technology, culture and health care	43,486	0.13%	48,328	0.19%	-4,842	-0.06%
Construction	20,161	0.11%	18,277	0.08%	1,884	+0.03%
Others (mainly retail loans)	135,261	0.21%	122,838	0.23%	12,423	-0.02%
Discounts	16,518	0.00%	18,647	0.00%	-2,129	-
Total loans and advances	448,484	0.44%	407,391	0.58%	41,093	-0.14%

As of June 30, 2011, NPL of the Bank mainly concentrated on real estate and commercial sector and NPL ratios of other industries were lower than 1%.

4. Loan quality by region

(In RMB million)

	June 30, 2011		December 31, 2010	
	Balance	NPL ratio	Balance	NPL ratio
South and central China	144,885	0.59%	127,304	0.91%
East China	160,012	0.34%	149,627	0.43%
North and northeast China	109,190	0.44%	97,821	0.50%
Southwest China	34,397	0.26%	32,639	0.27%
Total	**448,484**	**0.44%**	407,391	**0.58%**

In terms of loan quality by region, as of June 30, 2011, NPL of the Bank mainly concentrated in south and central China. The NPL ratios in other regions were all lower than bank average.

5. Loan quality by product

(In RMB million)

Item	June 30, 2011		December 30, 2010		NPL ratio change
	Balance	NPL ratio	Balance	NPL ratio	
Corporate loans (excluding credit cards)	**316,512**	**0.53%**	**287,296**	**0.73%**	**-0.20%**

Including: General loans	299,994	0.56%	268,649	0.78%	-0.22%
Discounts	16,518	0.00%	18,647	0.00%	0.00%
Retail loans (excluding credit cards)	**125,589**	**0.16%**	**113,751**	**0.18%**	**-0.02%**
Including: Housing mortgage loans	66,021	0.15%	64,877	0.16%	-0.01%
Entrepreneur loans	29,656	0.16%	18,626	0.26%	-0.10%
Auto loans	11,523	0.16%	10,667	0.13%	0.03%
Others	18,389	0.20%	19,581	0.17%	0.03%
Account receivables of credit cards	**6,383**	**1.27%**	**6,344**	**1.21%**	**0.06%**
Total loans	**448,484**	**0.44%**	**407,391**	**0.58%**	**-0.14%**

6. Government financing platform loans

The Bank pays great attention to regulators' requirements on clearing up and standardizing government financing platform loans and strictly implemented the requirements. Through opening-up package and one-by-one review of government financing platform loans in the whole year of 2010 and the special clearing up and standardizing work in 2011, the Bank conducted a thorough investigation and risk assessment on all the government financing platform loans of the Bank. The Bank preliminarily established a complete name list management system for government financing platform loans, and implemented categorized management based on the system. As of June 2011, the Bank gradually realized effective control over government financing platform loans based on existing work plan, strictly controlled new loans and laid a solid foundation for preventing and mitigating the risks of government financing platform loans. For the first half of the year, the Bank's loans to government financing platform (including those categorized as corporate loans after rectification) were in moderate amount and loan balance decreased by 17.49% compared with that of the beginning of the year. The loans were mainly lent to urban investment and construction companies and government financing platforms under the category of communication and transportation in the regions of Yangtze River Delta and Bohai Rim. Quality of the assets is normal without any NPL.

7. Provision for impairment of loans accrual and write-offs during the reporting period

On the basis of a number of factors including the borrowers' repayment ability, principal and interest repayment status, values of collateral and pledges, the guarantors' actual capacity and loan management status of the Bank, the Bank made appropriate provision for impairment of loans charged to the income statement individually or collectively according to the 5-tier classification. the risk level, recoverability and the estimated present value of future cash flows.

(In RMB million)

Item	Amount
Year-beginning balance	6,425
Add: Accrual for the current year (including non-credit impairment provision)	731
Less: Interest offset of impaired loans	37
Less: Non-credit impairment provision	16
Net accruals in the current year	678
Add: Recovery of written-off loans in the current year	520

Add: Other changes	(4)
Less: Written-off in the year	126
Year-end balance	7,493

The fully provisioned NPL satisfying write-off conditions will be submitted to the Board of Directors for approval before being written-off. The written-off loans will be transferred to off-balance sheet and left for the Assets Protection Department for follow-up collection and disposal. For recovered loans which had been written-off, litigation fee which should have been assumed by the borrower but paid by the Bank will be deducted first and the remainder will be used to first offset the loan principal and then the overdue interest. The part attributed to loan principal will be used to increase the impairment provision for loans of the Bank.

(V) Capital management

In the first half of 2011, the Bank still faced the difficulty of capital constraints. By strengthening management over assets and liabilities portfolio, the Bank raised its profitability while putting capital expenditure under control and maximized the return on risk assets. Meanwhile, the Bank successfully issued RMB 3.65 billion of hybrid bonds in the inter-bank market, thereby effectively supplementing its capital. As of June 30, 2011, the Bank's core capital adequacy ratio and capital adequacy ratio were 7.01% and 10.58% respectively.

1. Change of capital in the past three years

(In RMB million)

Item	June 30, 2011	December 31, 2010	December 31, 2009	Increase or decrease for the end of the period compared with the end of last year
Net capital	56,716	47,272	31,905	19.98%
Including: Net core capital	37,538	32,919	19,854	14.03%
Supplementary capital	19,489	14,662	12,372	32.92%
Total risk-weighted assets	535,848	463,691	359,508	15.56%
Capital adequacy ratio	10.58%	10.19%	8.88%	+0.39%
Core capital adequacy ratio	7.01%	7.10%	5.52%	-0.09%

2. Table of capital mix and capital adequacy ratio calculation

(In RMB million)

Item	June 30, 2011	December 31, 2010	December 31, 2009
Core capital adequacy ratio	**7.01%**	**7.10%**	**5.52%**
Capital adequacy ratio	**10.58%**	**10.19%**	**8.88%**
Composition of capital base			
Core capital	37,850	33,228	20,175
Share capital	3,485	3,485	3,105
Capital reserve	13,239	13,341	6,956
Surplus reserve	1,912	1,912	1,284
General risk reserve	5,978	5,978	4,676
Retained earnings	13,236	8,512	4,154
Amount deducted from core capital	312	309	321
Net core capital	37,538	32,919	19,854
Supplementary capital	19,489	14,662	12,372

General loan loss provisions	6,168	5,016	2,723
Revaluation reserve	46	177	187
Long-term subordinated debts	7,983	7,979	7,973
Hybrid capital bonds	5,292	1,490	1,490
Total capital	57,339	47,890	32,548
Less: Goodwill	-	-	-
Unconsolidated equity investment	375	369	362
Others	248	250	280
Net capital	56,716	47,272	31,905
Total risk-weighted assets	535,848	463,691	359,508
On-balance sheet weighted risk assets	422,231	368,289	290,468
Off-balance sheet weighted risk assets	113,617	95,402	69,040

Note:

1. Capital reserve and retained earnings in the above table have deducted unrealized gains caused by change of the fair value of the assets of the Bank in accordance with the CBRC computation method for capital adequacy ratio.
2. Revaluation reserve included reserves for available-for-sale financial assets and investment properties.

(VI) Business review

1. Corporate banking business

As of the end of June 2011, corporate deposit balance of the Bank increased by 10.54%; general corporate loan balance increased by 11.67%; net income from corporate fee-based business increased by 86% on a year-on-year basis; credit balance of trade finance amounted to RMB 216.9 billion, representing an increase of 23.6% compared with the beginning of the year. International off-shore business developed rapidly and the number of customers grew steadily.

The "Online Supply Chain Financing Project" further exhibited its platform advantages and successfully established linkages with business platforms of several core customers. Functions of its products continued to be improved and upgraded. The Bank has successively completed the development, launch and promotion for a series of featured product functions.

During the reporting period, in the *2010 Competition of Financial Service Providers Most Trusted by Chinese Foreign Trade Companies* co-sponsored by *Trade Finance* magazine and Sinotf.com, the Bank was honoured to receive the *2010 Most Innovative Bank for International Business*.

Development of trade finance business in the first half of 2011:

(In RMB million)

(RMB million, %)	June 30, 2011	%	December 31, 2010	%	Change
Domestic trade finance	199,770	92.1%	162,716	92.7%	22.8%
Including: East region	53,801	24.8%	41,194	23.5%	30.6%
South region	69,662	32.1%	63,081	35.9%	10.4%

West region	17,044	7.9%	12,941	7.4%	31.7%
North region	59,263	27.3%	45,500	25.9%	30.2%
International trade finance (including off-shore)	17,113	7.9%	12,781	7.3%	33.9%
Including: Export trade finance	1,899	0.9%	1,776	1.0%	6.9%
Import trade finance	15,214	7.0%	11,005	6.3%	38.2%
Total trade finance balance	216,883	100.00%	175,497	100.0%	23.6%

The trade finance business grew steadily in the first half of this year. As of the end of June, the number of trade finance customers of the Bank was 8,860 which indicated an increase of 1,248 or 16.4% compared with that of the beginning of the year. Trade finance balance was RMB 216.9 billion which was an increase of RMB 41.4 billion or 23.6% compared with that of the beginning of the year. NPL ratio was 0.19% which was a decrease of 0.1% compared with that of the beginning of the year. NPL ratio was still maintained at a relatively low level.

Domestic trade finance remained as the major source of business growth. For the first half of this year, the balance reached RMB 199.8 billion which was an increase of RMB 37.1 billion or 22.8% compared with that of the beginning of the year and an increase of 47.95% year-on-year. In terms of structure, there was rather rapid growth of international and off-shore trade finance, which recorded a growth of 33.9% in the first half of this year and a balance of RMB 17.1 billion. In terms of region, east, west and north regions were leading with accelerated growth rate of over 30%.

2. Retail banking business

As of June 30, 2011, balance of retail deposits of the Bank increased by 22.60%, balance of retail loans achieved a growth rate of 10.41% and net income from the retail fee-based business recorded a year-on-year increase of 70.5%.

(1) Reaped significant results from substantial expansion of the liability business, and market share in retail deposits was further increased

Since the beginning of the year, the Bank insisted on using deposits as the basis of performance appraisal and stepped up its efforts in cross-line joint marketing within the Bank. The Bank set up teams by channels and stepped up its efforts in batch customer acquisition and maintenance for third-party custody and payroll business. The Bank increasingly made use of the sales of wealth management products to enhance deposit growth and realized net increase in deposits. The Bank also explored new deposits through auto loan and personal loan channels. The Bank implemented a “gold card” strategy to significantly raise the contribution of mid-end customers to deposit growth. Several measures to segment and deeply explore sources of deposit business achieved good results. As of June 30, the balance of retail deposits of the Bank was RMB 104.4 billion, representing a growth of 22.60% compared with that of the beginning of this year. Average daily retail deposits was RMB 93.384 billion, representing an increase of 20.3% compared with that of the beginning of this year.

(2) Put more emphasis on issuance of medium to short-term banking wealth management products, strengthened advantages in terms of precious metals products and saw an evident increase in the sales volume of retail wealth management products

For the first half of 2011, the banking wealth management products of the Bank were mainly medium to short-term products with steady return and lower risk. The Bank enhanced its effort on product innovation to better keep up with market demand. Sales volume of the products increased significantly compared with the same period of the previous year. Promotion of personal precious metals trading was enhanced through marketing and value-added consultancy services. Customer base continued to grow while the advantageous market position was further strengthened. Agency business for funds grew steadily, stock-oriented fund grew rapidly and the growth in fees was rather significant. Insurance and security agency business developed steadily. Incremental premium scale and the number of new customers signing third-party custody contracts were basically flat with those for the same period of last year. By integration of channel resources, scale of custody and fee-based business income grew rapidly while the market share was raised steadily, which resulted in a significant increase in income from retail fee-based business.

(3) Adjusted retail loan structure, increased percentages of entrepreneur loans and unsecured loans and return on loans gradually increased.

In order to deal with the fluctuation in real estate market and tighter liquidity, the Bank increased the proportion of high-yield business portfolios such as personal entrepreneur loan and unsecured consumption loan in new retail loan disbursement in 2011. The average interest rate of new loans was over 20% higher than the benchmark interest rate and net return on loans increased substantially. Among which, the increase in personal entrepreneur loans was significant, with incremental amount accounting for 88.8% of the overall growth of all retail loans of the Bank and disbursement accounting for 51.8% of total disbursement of personal loans.

(4) Implemented gold card strategy, strengthened tiering of valuable customers and channel-based management, which resulted in rapid increase in number of valuable retail customers

By implementing special marketing project for gold card, the marketing of gold card was embedded into the sales process of wealth management products, third-party custody, payroll, personal loan and online banking products. Optimization of marketing and maintenance process for existing customers helped significantly upgrade mid-end customers and boost deposit growth and reduced deposits outflow rate. It also increased the contribution of mid-end customers to deposit growth and rapidly expanded mid-end value customer base.

(5) Continued to consolidate the results of the "Leapfrog" project, promoted "basic laws" for salesperson across designated pilots and allocated various resources according to different channels

By making good use of the available sales tools, strengthening systematic on-the-job training and continuous improvement of qualifications certification, the "Leapfrog" model was extended and the productivity of sales team of outlets was further enhanced. The Bank piloted and promoted "basic laws" for salesperson in four branches in Shenzhen, Beijing, Guangzhou and Hangzhou and established an integrated, objective and transparent performance appraisal and incentive standard based on sales productivity, in order to raise per capita productivity and promote a performance culture. The Bank made full use of internal and external channels, consolidated personal loan sales teams, established sales teams for third-party custody and payroll customers by channels, allocated various resources to match with different sales channels and continued to increase the ability to acquire new retail banking customers.

(6) Retail banking received several awards

During the reporting period, in the selection campaign for banking industry in China organized by authoritative market research institutions and the media, the "Wealth Accumulation Premier Scheme" was honored "*Competitive Product for 2010*" award while SDB Public-wide Debit Card" was awarded the "*Most Innovative Bank Card for 2010*" .

(7) Table of personal loans

(In RMB million)

	June 30, 2011	%	December 31, 2010	%
I. Personal loans excluding credit cards				
South region	37,652	29.98%	32,918	28.94%
East region	52,273	41.62%	47,990	42.19%
North region	26,182	20.85%	24,584	21.61%
West region	9,481	7.55%	8,257	7.26%
Headquarters	1	0.00%	2	0.00%
Total balance of personal loans excluding credit cards	125,589	100.00%	113,751	100.00%
Including: Total NPL	202	0.16%	202	0.18%
II. Mortgage loans in personal loans				
Balance of mortgage loans	69,588	55.41%	68,002	59.78%
Including: Housing mortgage loans	66,021	52.57%	64,877	57.03%
Mortgage NPL	108	0.16%	118	0.17%
Including: Housing mortgage NPL	99	0.15%	106	0.16%

The proportion of housing mortgage loans decreased by 4.46% compared with that of the beginning of this year, mainly due to influence from macro regulatory policies on real estate and the direction of retail loan business development strategy of the Bank, which slowed down the growth of mortgage business.

3. Treasury Inter-bank Business

In the first half of 2011, domestic economy continued to maintain steady growth. Nonetheless, amidst international instability such as the European debt crisis, the U.S. debt ceiling and political turmoil in certain countries, the recovery of global economy is still full of uncertainties. In the first half of the year, to suppress national inflation and inflow of speculative funds, the Central Bank raised the base interest rate for deposits and loans twice and the required reserve rate six times, and continued to hedge market liquidity via open market operation. As a result, sources of capital in the market consistently tightened while the costs of capital continued to surge and fluctuated in a wide range. With timely adjustment of the structure of interbank assets and liabilities, the Bank’s liability costs were effectively contained, and efforts were placed on increasing the level of interest spread to ensure the safety of liquidity while maintaining sound profitability.

- ◆ Profit for treasury interbank business continued to grow, and the scale of assets and liabilities remained steady.

- ◆ Establishment of interbank channel moved forward steadily with a continuous growth in the number of partner banks in respect of partner brokers for third party custody as well as third party custody agency, precious metal agency and wealth management business agency, which provided a new channel for expanding the sources for low-cost capital and sources for income of fee-based business.

- ◆ Rapid development for precious metal business, with a year-on-year growth of trading volume of over 2,000%, of which, the trading volume of silver business ranked the third, and thus realizing a breakthrough development.

- ◆ Research and development and design of wealth management products, resulting in a significant growth in terms of issuance volume and balance of wealth management products as compared with the same period last year, hence continuously raising its market share and influence.

- ◆ For foreign exchange business, the business volume of forward settlement and sales of foreign exchange on behalf of customers recorded a year-on-year growth of 260%, and market-making business volume of settlement and sales of foreign exchange recorded a year-on-year growth of 307%.

4. Credit card business

Credit card business continued to maintain a stable and rapid growth in the first half of 2011, with steady improvement of the quality of customers and further enhancement of profitability. As of end of June 2011, the number of newly issued card for the year totaled 530,000, growing by 4.3% as compared with the same period of the previous year; the number of effective credit cards reached 4.49 million, growing by 14.5% as compared with the same period of the previous year; total transaction amount for credit cards reached RMB 16.4 billion, growing by 6.4% as compared with the previous period; credit balance reached RMB 6.38 billion, growing by 0.60% as compared with the previous period. In respect of product development, on the foundation of creating the competitive edges of differentiated development as well as the utilization of the massive customer group of Ping An Group (referred to as “PAG” hereinafter), SDB-PA Life co-branded credit card was developed and designed. As of the end of June, a total of 170,000 cards have been issued. The core value positioning of being environment-friendly and fashionable is extended in the marketing concept, and through initiating activities such as green alliance with the theme of “LOVE Green, we are the new generation of environmental protection”, calling more organizations and individuals to jointly support environmental protection and charitable activities, and jointly create green environment-friendly industry with various partner merchants. .

5. Financial service to micro enterprises

As micro finance is one of the focuses of the Bank’s Best Bank Strategy, the Head Office has set up “Micro Finance BU” in March this year. In the first half of 2011, the Bank’s micro finance business developed in a stable manner with loan balance for small and micro enterprises reaching RMB 34 billion, representing an increase of 58% from the beginning of the year, and the NPL ratio was less than 1.2‰.

Going forward, with the establishment of advanced organization structure, scientific risk management model and standard operating processes and by fully leverage PAG’s integrated finance platform, the Bank will take three to five years to gradually formulate a sustainable business model for micro finance via effective integration of internal and external resources, utilization of law of large numbers and implementation of price/ risk mechanism, thereby becoming the best micro finance service provider in China as well as the major profit source for the Bank.

6. Profit and loss of wealth management business, agency business and custody business

Wealth management business. In the first half of the year, the number of bank wealth management products issued maintained the leading position among industry peers. The sales volume of retail wealth management products increased by 367% as compared with the same period last year; trading volume of personal precious metal increased by over 2,000% as compared with the same period last year, representing an increase in income of 1,871% from the same period last year.

Agency business. The scale of fund and insurance agency business has expanded steadily with an increasing percentage in retail fee-based business. In particular, the sales volume of non-monetary fund for the first half of the year has increased by 43% from the same period last year, fee income increased by 40%, and the new insurance premium increased by 15% from the same period last year.

Custody business. As of the end of June 2011, the Bank had established stable business partnership with 70 financial and corporate customers, recording a rapid surge in the scale of custody and fee-based business income as well as a steady increase in market share. From January to June, the Bank realized a total of custody fee income of RMB 24.97 million, up 203% as compared with the same period last year; net value of custody in the end of the reporting period reached RMB 68.1 billion, up RMB 30.3 billion from the end of the previous year, representing a growth of as high as 80%.

(VII) Risk Management

1. Credit risk

Credit risk refers to the risks where borrowers or trading counterparties cannot perform their obligations in accordance with agreements reached in advance. Credit risk of the Bank mainly arises from loans and off-balance sheet credit business.

The Bank establishes an independent vertical credit risk management system. The Chief Credit Risk Officer at the Head Office is responsible for the credit risk management of the Bank, appoints credit officers to various branches to take care of the credit risk management of branches. The credit officers directly report to the Chief Credit Risk Officer who is responsible for evaluating the performance of the credit officers. The Bank has formulated a complete set of credit management processes and internal control mechanisms, so as to carry out whole process management of credit business.

In the first half of 2011, in view of the complicated international and domestic economic and financial situation, the Bank adopted a series of measures to strengthen credit risk management.

First, enhanced and adjusted credit policies. According to the macroeconomic situation and changes in macro-economic control policies, as well as the requirements of regulatory authorities, the Bank formulated the credit policies for 2011, and formulated credit policy guidelines for 15 major industries in accordance with the industry distribution of corporate credit business of the Bank. The Bank continued to emphasize the development of supply chain finance business, small and medium enterprise (“SME”) and retail credit business, and continued to promote the “Green Credit” culture. It actively supported lending to enterprises’ energy saving and emission reduction projects as well as the development of low-carbon economic projects, while strictly controlled lending to "high energy consumption, high pollution and excessive capacity industries", so as to continuously optimize and adjust credit structure.

Second, strictly execute credit operating regulations. Through full implementation of the *Three*

Methods and One Guideline, the Bank launched special inspections and implemented the "Red/Yellow/Blue Card" system. It launched projects such as departments' internal control system and C-Sox, strengthened inspection on credit staff of various levels in execution of operating regulations, so as to ensure that the credit systems and processes are strictly carried out and performed.

Third, strengthened credit risk monitoring and early warning as well as the recovery and disposal of NPL. In the first half of the year, the Bank further enhanced credit risk monitoring and early warning management system, in order to get the early warning signals in time and take effective measures to control credit risk. Risk of problematic loans was promptly resolved through early intervention by asset recovery staff in the headquarters and branches. Recovery efficiency was enhanced by actively monitoring, classifying and managing of non-performing assets, as well as formulating recovery strategy account by account.

Fourth, strengthened risk prevention in key areas. Since this year, the Bank further enhanced the specialized clean-up of local government financing platform loans. The "name list policy" management system was established for the purpose of classification management of local government financing platform loans. With regard to real estate loans, the Bank continued to seriously and fully implement differentiated housing credit policies, strictly carried out regulatory requirements on real estate loans and strengthened risk management of real estate loans. The Bank maintained its customer credit concentration bottomline and strengthened unified credit management of PAG customers, so as to effectively prevent credit concentration risks.

Fifth, fully inspected large-sum credit risks. In the first half of the year, the Bank carried out bankwide credit business risk inspection, focusing on credit risks of local government financing platforms, real estate development enterprises, high energy consumption, high pollution and resource-type industries, or industries with excessive capacities. For credit customers with potential risks, risk control measures will be formulated for each account, to prevent large-sum credit risks.

2. Market risk

The principal market risk faced by the Bank comes from positions of interest rate and exchange rate products. The target of market risk management of the Bank is to avoid uncontrollable loss of revenue or equity resulted from market risk, and to offset the impact of intrinsic volatility of financial instruments on the Bank. The Asset and Liability Management Committee of the Bank is responsible for formulating policies of market risk management and determining market risk management objectives and market risk positions. The Committee is also responsible for dynamically controlling business volume and structure as well as interest rate and liquidity. Asset and Liability Management Committee has dedicated department to take care of daily market risk monitoring, including determining a reasonable level of market risk exposure, monitoring daily operation of treasury business and giving advice on how to adjust maturity structure and interest rate structure of assets and liabilities.

Bank account interest rate risks include repricing risk, benchmark interest rate curve risk, basis risk and option-related risks. The Bank regularly monitors interest rate sensitivity gap, analyzes characteristics of asset/liability re-pricing, and uses asset/liability management system to conduct scenario analysis for the monitoring and management of interest rate risk. The Bank proactively manages interest rate risk primarily by adjusting asset/liability pricing structure. The Bank regularly convenes Asset and Liability Management Committee meetings to adjust the pricing mechanisms and tenure structure of assets and liabilities in a timely and appropriate manner, and manages interest rate risk by predicting future macroeconomic trends and analyzing benchmark interest rate policies of Peoples' Bank of China.

Exchange rate risk mainly includes risk of losses due to negative exchange rate changes from foreign exchange exposure caused by currency structure imbalance between foreign currency assets and liabilities as well as foreign exchange exposure caused by foreign exchange derivatives trading. Exchange rate risk of the Bank primarily comes from non-RMB-denominated loans, advances, investment and deposits held by the Bank. The Bank sets position limit for each currency, monitors scale of currency position daily and uses hedging strategy to control the position within due limit.

3. Liquidity risks

Liquidity risk refers to the risk that a commercial bank has the solvency but cannot obtain sufficient fund in a timely manner or cannot obtain sufficient fund in time with reasonable cost to deal with asset growth or pay off due debts.

The Bank pays great attention to liquidity risk management and use various supervisions approaches to build and improve liquidity risk management system, effectively identify, measure, monitor and control liquidity risks and keep sufficient liquidity to satisfy various fund demands and deal with adverse market situations.

To effectively monitor and control liquidity risks, the Bank pays great attention to diversity of fund source and fund application, and has been keeping a relatively high proportion of current assets. The bank monitors fund source and application, loan and deposit size, and quick ratio on a daily basis. Meanwhile, the Bank combines the forecast results with stress test to estimate future liquidity risk level, and proposes corresponding solutions in light of specific circumstances while applying multiple liquidity risk management indicators.

The Board of Directors and the management of the Bank attach great importance to liquidity risk management. At of the end of June 2011, the liquidity in the Bank was abundant and all important liquidity indicators reached or exceeded regulatory requirements. The Bank witnessed steady growth in various deposits and loans, and continued to keep certain proportion of assets with good liquidity. According to the Bank's one-month fundraising capability indicator – quick ratio, the Bank has been maintaining a proper quick fund exposure. According to the monthly stress test on quick fund proportion, the liquidity of the Bank is adequate to offset the possible loss of large amount of deposits resulting from potential liquidity crisis.

4. Operational risks

In the first half of 2011, the Bank firmly focused on the objective of "no material settlement accidents and zero operation case" to improve the Bank's capability and effectiveness of operational risk management in full scale by adopting requirements from CBRC such as *Guidelines on the Operational Risk Management of Commercial Banks*, and taking measures such as strengthening internal control, enhancing the awareness and capability of risk prevention among bank staff, implementing strict accountability policy, etc. Details are shown below:

(1). The Bank constructed operational risk management structure bankwide, strengthened three defense lines of "before the event, during the event, and after the event", and fully implemented the operational risk management.

(2). Through flow banking construction, the Bank achieved the implementation of system and risk control in process. Currently, The Bank realized centralized of key risk control measures such as the centralization of post-event supervision to the Headquarters and the manual operation of online banking, which significantly enhanced the ability to control operational risks bankwide.

(3). The Bank established the internal control management system of Departmental Control Function Checklist (DCFC) for operation line. Through setting up regular inspection list for key risk control points, the execution of internal control measures was strengthened.

(4). The Bank further strengthened remote KRI (key risk indicators) monitoring, established KRI escalation standards bankwide, and periodically reported monitoring results. The Bank developed an automatic reconciliation platform for internal operations items to strengthen operational risk control.

(5). The Bank established operations watch list reporting mechanism. For corporate accounts with false account-opening information, false capital verification certificate, or which are suspected of involving in credit card fraud, etc., they will be included in bankwide operations watch list. At the same time, according to the risk level, it adopted risk control measures such as prohibited access, conditional access and paying close attention.

(6). The Bank also established daily KRI monitoring, material issue reporting, verification, reconciliation, DCFC monthly report and other policies to reveal, eliminate, mitigate, and control operational risks in a timely manner.

(7). The Bank continuously carried out the "harmonious communication" campaign for employees holding key positions, so as to understand employees and to prevent moral risks.

(8). The Bank implemented the regulator's requirements of carrying out the "13 rules" for prevent operational risks and requirements in *CBRC Guidance on Operational Risk Management of Commercial Banks*, and carried out various inspections on operation risks, including special inspection on corporate settlement accounts, inspection on payment and settlement accounts of the People's Bank of China, special inspection on RMB bank settlement accounts, rolling inspection on deposit, inspection in "Year of internal control and case prevention" campaign. At the same time, the Bank carried out rolling inspections in key risk areas, including separation of incompatible positions, rotation and compulsory leave for key positions and supervisors at basic level, etc..

5. Other risks

Other risks faced by the Bank include compliance risk and legal risk.

The Bank set up complete compliance risk management system at Headquarters and branch level to take charge of functions like compliance risk management, anti-money laundering, internal control evaluation, case prevention, compliance culture construction and compliance training and education. The Compliance Department regularly reported their work to Audit Committee of the Board of Directors, Board of Supervisors and senior management.

In the first half of 2011, the Bank continued to perfect pragmatic and efficient compliance management structure, effectively implement various compliance risk management activities, including tracking ande implementation of external policies and regulations, compliance review, policy planning management, identification and control of compliance risks of new products and new business, "Woodpecker" compliance risk identification project, "Pigeon" compliance concern escalation campaign, related party transaction management and anti-money laundering. The Bank also implemented risk inspection measures such as rolling inspection in key business areas to strengthen case prevention bankwide, sorted out and established DCFC system and the "Red/Yellow/Blue Card" penalty system, carried out internal control, compliance and operational risk management projects such as C-SOX, risk heat map. The Bank organized compliance publicity, education and training at various levels in a continuous and orderly manner, and carried out a wide range of case prevention publicity and compliance culture building activities. All of these delivered positive results. The compliance management of the Bank effectively controlled compliance risks, and the practice and the achievements of compliance management continued to gain favorable comments from regulators.

In respect of legal risk control, the Bank focused on legal review in business, standardized the formats as well as terms and conditions of the contracts, provided timely and effective legal support in terms of policy formulation, new product R&D and material projects, and provided comprehensive and systemic legal services for various businesses. Meanwhile, the Bank engaged a well-known legal firm in China as its external counsel for professional opinions about material legal affairs. The Bank continued to improve bank-wide management structure for legal affairs, and the headquarters enhanced the guidance to and management on branches' legal affairs, which effectively put the legal risks of various businesses under control.

(VIII) Institution expansion and employee management

1. Institution expansion

In the first half of 2011, the Bank cancelled 11 outlets in Shenzhen area which had originally already terminated their business, and set up 1 new outlet in respectively Shanghai, Guangzhou and Wuhan. As of the end of June 2011, the Bank had 296 outlets in total.

Below is a list of the Bank's branches/institutions (excluding headquarters, sequenced by asset size) at the end of the reporting period:

Name of branch	Address	Number of outlets	Asset scale (in RMB million)	Staff number (including staff on contractual and dispatched basis)
Shanghai Branch	No. 1351, South Pudong Road, Pudong, Shanghai	30	112,288	1,313
Shenzhen Branch	No.7008, Shennan Road, Futian District, Shenzhen	76	110,394	2,129
Beijing Branch	No. 158 Fuxingmennei Street, Beijing	24	106,378	1,087
Guangzhou Branch	No. 66, Huacheng Avenue, Zhujiang New Town, Tianhe District, Guangzhou	23	77,373	1,063
Hangzhou Branch	No. 36, Qingchun Road, Hangzhou	14	45,816	780
Nanjing Branch	No. 128, Shanxi Road, Gulou District, Nanjing	13	35,381	656
Jinan Branch	No. 138, Lishan Road, Jinan	8	26,926	357
Tianjin Branch	No. 347, Nanjing Road, Nankai District, Tianjin	14	26,646	579

Ningbo Branch	No. 128, North Jiangdong Road, Jiangdong District, Ningbo	9	25,652	555
Foshan Branch	5th Area, Foshan Media Center, Yuhe Road, Dongping New City, Foshan	10	25,194	535
Wenzhou Branch	Guoxin Building, East Renmin Road, Wenzhou	6	21,978	413
Chengdu Branch	No. 206, Shuncheng Street, Chengdu	9	20,817	431
Dalian Branch	No. 130, Youhao Road, Zhongshan District, Dalian	9	20,605	423
Qingdao Branch	No. 6, World Trade Centre Tower A Podium, Central Hong Kong Road, Qingdao	8	19,974	397
Chongqing Branch	No. 1, Xuetianwan Main Street, Yuzhong District, Chongqing	11	16,921	380
Headquarter Outlet	No. 5047, Shenzhen Development Bank Building, East Shennan Road, Luohu District, Shenzhen	1	16,600	175
Kunming Branch	No. 450,Hua'erdun Building, Qingnian Road, Kunming	9	11,328	310
Haikou Branch	No. 22, Jinlong Road, Haikou	6	10,804	244
Yiwu Branch	No. 223, Binwang Road, Yiwu	4	9,888	146
Zhuhai Branch	No. 288, Hongshan Road, Xiangzhou District, Zhuhai	7	9,629	244
Wuhan Branch	No. 54, Zhongbei Road, Wuchang District, Wuhan	2	8,803	183
Wuxi Branch	No. 20, Hejia Building, Beida Street, Wuxi	1	3,247	92
Special Asset Management Center	No.1054, Hubei Baofeng Building, South Baoan Road, Luohu District, Shenzhen	1	292	60
SME Finance Department	No. 5047, Shenzhen Development Bank Building, East Shennan Road, Luohu District, Shenzhen	1	Its assets are included in assets of branches	6
Total		296	762,935	12,558

Note: The number of outlets in the table is the numbers of outlets with business licenses approved by regulatory authorities.

2. Employees of the Bank

As of June 30, 2011, the Bank had 12,525 employees on contractual basis. In addition, the Bank had 4,158 dispatched employees and employees with employment agreement.

(IX) Others

1. Fair value

For financial instruments subject to existence in an active market, the Bank preferably adopts the price of active market to determine the fair value. For financial instruments in an inactive market, the Bank adopts valuation techniques to determine the fair value. The valuation technique includes reference to the price used by all voluntary parties familiar with relevant circumstances in latest market trading, and reference to the current fair value of other financial instruments with the same nature and discounted cash flow technique. Market parameters are used in evaluation techniques as much as feasible. However, the management has to evaluate in light of credit risk, market fluctuation rate and correlation of itself and the trading counterparties when market parameters are not available. The change of those relevant assumptions would influence the fair value of financial instruments. At present, the Bank has no such financial instrument.

The items estimated with fair value model and methods:

(1) For financial assets/financial liabilities financial asset at fair value through profit or loss of the period (including derivative financial assets/derivative financial liabilities), their fair value are calculated by referring to the referable market prices. If referable market prices are not available, fair value is estimated on the basis of discounted cash flows or by referring to the transaction counterparties' quotation. The fair value of these items is equal to their book value.

(2) The fair value of the held-to-maturity investments is determined with reference to the referable market value. If referable market prices are not available, fair value is estimated on the basis of discounted cash flows. The cost of receivable bond asset is its fair value.

(3) The fair value of other financial assets and financial liabilities maturing within 12 months is assumed to be approximately equal to their book value due to their short term.

(4) The fair value of the fixed rate loans is estimated by referring to the market interest rates when the loans are loaned at the interest rate applicable to similar loans. Changes in credit quality of loans within the portfolio are not taken into account in determining gross fair value as the impact of credit risk is recognized separately as loan loss provision and deducted from both the book value and the fair value.

(5) Interest rates on customer deposits might either be floating or fixed depending on the types of products. The fair value of demand deposits and savings deposits without maturity date is the amount payable on demand to customers at the assumed date of settlement. The fair value of deposits with fixed terms is determined per discounted cash flow and the discount rate adopted is the current deposit interest rate corresponding to the remaining term of those deposits.

(6) Investment property is evaluated on a yearly basis at least by an independent appraiser with certified qualification and analysis report is issued on a quarterly basis.

2. Items measured at fair value

(In RMB million)

Item	Beginning of period balance	End of period balance	Profit/loss from changes in fair values of the period	Accumulated fair value change booked in equity	Impairment provision of the period
1.Assets					
Financial asset at fair value through profit or loss	-	1,158	-5	-	-
Derivative financial assets	372	452	80	-	-
Available-for-sale financial assets	31,534	36,983	-	(313)	-
Investment property	540	540	-	88	-
Total assets	32,446	39,132	75	(225)	-
2.Financial liabilities					
Derivative financial	312	364	52	-	-

liabilities					
Total liabilities	312	364	52	-	-

3. Analysis of items with over 30% change in comparative financial statements

Item	Change	Cause for change
Due from banks and other financial institutions	123.53%	Inter-bank business structure adjustment
Receivables	106.30%	Increase of agency payment scale
Interest receivable	41.94%	Increase in interest receivable due to increase of bond scale and interest rate rise
Other assets	67.63%	Increase in fund in transit at the end of period clearing
Due to PBOC	-31.88%	Decrease of rediscount financing scale
Due to other banks and financial institutions	46.64%	Inter-bank business structure adjustment
Payables	144.46%	Increase of agency payment scale
Bonds payable	38.60%	Issuance of RMB 3.65 billion hybrid bonds
Predicted liabilities	573.06%	Small base number
Other liabilities	453.57%	Increase in fund in transit at the end of period clearing
Undistributed profits	54.13%	Profit of the year
Interest income	60.44%	Increase in scale and interest rate
Interest expense	91.77%	Increase in scale and interest rate
Fee and commission income	53.76%	Increase in settlement fees, agency fees, wealth management fees, etc.
Return on investment	104.47%	Increase in gains from price difference in bills transfer
Profit from change in fair value of financial instruments	61.03%	Decrease in loss from fair value changes of derivative financial instruments
Profit from fair value changes of investment property	-100.00%	Decrease in profit from fair value changes
Exchange profit/loss	53.45%	Increase in foreign exchange brokerage business volume
Business tax and surcharge	57.05%	Increase in taxable business revenue
Asset impairment loss	47.94%	Growth in loans scale, and increase in country risk provision in accordance with new policies.
Non-operating revenue	-47.93%	Decrease in gains from disposal of repossessed assets, small base number
Non-operating expense	174.95%	Small base number
Expense of income tax	59.00%	Increase of income on tax payables and increase of effective tax rate

In the table, comparative figures for asset/liability items are that of December 31, 2010, while comparative figures for profit items are that of the same period of the previous year.

III. Problems encountered during the operation in the first half of 2011 and the prospects for the second half of the year

(1) Major problems encountered during the operation in the first half of 2011 and their solution

In the first half of the year, the Central Bank has increased the benchmark interest rate twice and the required reserve ratio for 6 times, which resulted in rise of market interest rate and the gradual increase in the cost for bank deposits and the corresponding rise in the yield of wealth management products. The Bank upheld the foundation of expanding deposits, and managed to increase low-cost deposits through the reinforcing basic business expansion and reduce high-cost margin deposits so as to improve its deposit structure. At the same time, investment management and the pricing capability on assets and liabilities were enhanced and the yield of wealth management products in the market was closely followed to address the fluctuation of the external environment.

Meanwhile, along with the increase in efforts on macro control, the pace of adjustment in the industry has accelerated. Given the background of tight money, the profits of some enterprises were decreased under the influence of the change in economic environment and A very few enterprises even suspended or closed down, which resulted in frequent occurrence of sudden events of credit business. This brought difficulties to asset protection work. In addition, “difficult implementation” of financial cases raised great concern of the society, and the relevant department has taken certain measures and gradually issued a number of regulations and policies. However, the specific implementation requires certain time, and could not be thoroughly tackled in short term, hence imposing certain impact on the Bank’s collection of non-performing assets.

(II) Prospects for the second half of the year

1. The Bank will enhance portfolio management, with focus on the innovation of fee-based business and pricing management, so as to further control capital consumption and raise return on asset;

2. The Bank will implement “Best Bank Strategy”, and gradually raise market share by leveraging the cross-selling and integrated financial platform;

3. Corporate business: the Bank will continue to strengthen the mutual penetration between the four major strategic objectives, namely customer tiering, trade finance, cash management and sales management to achieve the transformation of trade finance business to the supply chain finance integrated service, while continuously optimize the development of the “Online Supply Chain Financial Spot Goods Financing Model” system to enhance the core competitiveness of the Bank’s trade finance.

4. Retail business: the Bank will input more resources for the rapid expansion of the deposit scale and the continuous optimization of deposit structure so as to improve retail deposit market; enrich wealth management product line, optimize service process, enhance marketing and promotion and improve brand image; utilize key products and innovative model for new breakthrough in agency products and business; maintain the Bank’s leading position in terms of custody of commercial banks’ wealth management product , treat it as the major product for rapidly increasing custody scale and obtain more custody licenses to further improve the entire custody product line.

   The Bank will keep pushing gold card marketing project, launch marketing activities for online banking, promote key cross-selling projects such as the joint marketing of credit card and gold card, improvement in credit card holding rate for value customers, etc., and continuously push and enhance customer management to increase retail value customers.

   The Bank will insist on the strategy of inputting more retail loan resources to high-yield loans, fully support and improve the percentage of entrepreneur loan, moderately carry out mortgage business for quality customer, stop new mortgage business to real estate which is bought for investment purpose and explore business model for unsecured consumer loan.

Through adjusting the business structure of retail loan, the yield for retail loan business will be generally enhanced.

5. Establishment of channels. Leveraging on the integrated financial platform of Ping An Group, the Bank will expand core value customer group, improve the market share of card number and transaction volume; strengthen the risk prevention and management capability, and enhance asset quality; keep digging the growth potential of value-added business revenue, and further expand the profitability of business.

6. In respect of risk management, the Bank will adhere to the concept of stable operation, continue to properly prevent credit risks in three scopes, namely local government financing platforms, real estate and industries with overcapacity, so as to ensure that the asset quality will be maintained at a good level.

Chapter 5 Changes in Share Capital and Shareholding of Main Shareholders

I. Changes in shares

(Unit: Shares)

Share Type	Before Change		Change (+,-)				After Change	
	Quantity	%	Restricted shares released from restriction	Change in lock-up shares held by senior management	Equity transfer and NPO	Sub-total	Quantity	%
I. Restricted shares	379,655,251	10.89		-161		-161	379,655,090	10.89
1)Held by the state								
2)Held by state legal entities								
3)Held by other domestic bodies	379,655,251	10.89		-161		-161	379,655,090	10.89
Including: held by domestic non-state legal entities	379,636,476	10.89				0	379,636,476	10.89
Held by domestic natural person	18,775	Approximately 0.00		-161		-161	18,614	Approximately 0.00
4) Held by foreign institutions								
Including: Held by foreign legal entities								
Held by foreign natural person								
II. Unrestricted shares	3,105,358,511	89.11		161		161	3,105,358,672	89.11
1) Ordinary RMB shares	3,105,358,511	89.11		161		161	3,105,358,672	89.11
2) Foreign shares listed domestically								
3) Foreign shares listed overseas								
4) Others								
III. Total	3,485,013,762	100				0	3,485,013,762	100

Note: During the reporting period, as the lock-up shares of Supervisor reduced by 161 shares and thus the restricted share number was decreased by 161 shares.

II. Number of shareholders, shareholding of top ten shareholders and top ten shareholders with restriction conditions

(Unit: Shares)

Total number of shareholders	285,442					
Shareholding of top 10 shareholders						
Name of shareholder	**Nature of shareholder**	**Shareholding (%)**	**Total shares held**	**Increase/decrease during the reporting period**	**Restricted shares held**	**Shares collateralized or frozen**

Ping An Insurance (Group) Company of China, Ltd. - the Group –Proprietary fund	Others	14.96	521,470,862	-	-	-
Ping An Life Insurance Company of China, Ltd.- Proprietary fund	Others	10.89	379,580,000	-	379,580,000	-
Ping An Life Insurance Company of China, Ltd.-Tradition- Ordinary insurance products	Others	4.04	140,963,528	-	-	-
Shenzhen Zhongdian Investment Co., Ltd.	Others	2.51	87,302,302	-	-	-
China Life Insurance Co., Ltd-Dividend-Individual Dividend-005L-FH002 Shenzhen	Others	1.82	63,504,416	-	-	-
Haitong Securities Co., Ltd	Others	1.37	47,886,357	1,419,464	-	-
National Social Security Fund –110 portfolio	Others	1.16	40,326,132	-	-	-
BOC-E-fund Shenzhen 100 Trading Open-end Securities Investment Fund	Others	0.95	33,012,362	-1,331,808	-	-
China Life Insurance Co., Ltd -Tradition-Ordinary insurance products-005L-CT001 Shenzhen	Others	0.90	31,499,998	-	-	-
ABC-Fullgoal Tianrui Selected Hybrid Open-end Securities Investment Fund	Others	0.88	30,591,494	2,000,000	-	-

Shareholding of top 10 shareholders without restriction conditions		
Name of shareholder	**Unrestricted shares held**	**Nature of shares**
Ping An Insurance (Group) Company of China, Ltd.- the Group -Proprietary fund	521,470,862	Ordinary RMB shares
Ping An Life Insurance Company of China, Ltd.-Tradition- Ordinary insurance products	140,963,528	Ordinary RMB shares
Shenzhen Zhongdian Investment Co., Ltd.	87,302,302	Ordinary RMB shares
China Life Insurance Co., Ltd. - Dividend-Individual Dividend- 005L-FH002 Shenzhen	63,504,416	Ordinary RMB shares
Haitong Securities Co., Ltd	47,886,357	Ordinary RMB shares
National Social Security Fund –110 portfolio	40,326,132	Ordinary RMB shares
BOC-E-fund Shenzhen 100 Trading Open-end Securities Investment Fund	33,012,362	Ordinary RMB shares
China Life Insurance Co., Ltd - Tradition-Ordinary insurance products-005L-CT001 Shenzhen	31,499,998	Ordinary RMB shares
CAB-Fullgoal Tianrui Selected Hybrid Open-end Securities Investment Fund	30,591,494	Ordinary RMB shares
National Social Security Fund –604 portfolio	27,911,924	Ordinary RMB shares

Explanation on the related relation and concerted action between the above shareholders	1. Ping An Life Insurance Company of China, Ltd. is PAG's controlling subsidiary and its person acting in concert. "Ping An Insurance (Group) Company of China, Ltd- the Group – Proprietary fund" has related relation with "Ping An Life Insurance Company of China, Ltd. - Tradition -Ordinary insurance products". 2. "China Life Insurance Co., Ltd-Dividend-Individual Dividend-005L-FH002 Shenzhen" and "China Life Insurance Co., Ltd -Tradition-Ordinary insurance products-005L-CT001 Shenzhen" are insurance products of China Life Insurance Co., Ltd. 3. The Bank is not aware of the relationship between any of the other shareholders or aware of whether they are persons acting in concert or not.

III. Change of the largest shareholder of the Bank during the reporting period

During the reporting period, the largest shareholder of the Bank did not change.

Chapter 6 Directors, Supervisors and Senior Management

I. Changes in the shares held in the Bank by directors, supervisors and senior management of the Bank during the reporting period

(Unit: Shares)

Name	Title	Shares held at beginning of the period	Increase	Decrease	Shares held at end of the period	Reason for the change
Hu Yuefei	Director, VP	1,484	0	0	1,484	-
Wang Lan	Employee Supervisor	215	0	0	215	-
Wang Yi	Employee Supervisor	24,560	0	0	24560	-

II. Engagement and dismissal of directors, supervisors and senior management of the Bank during the reporting period

(I) Engagement and dismissal of directors

On May 25, 2011, Mr. Ma Lin, Mr. Chen Yingming and Mr. Liu Xueqiao were elected as independent directors of the 8th Board of Directors of the Bank at 2010 annual general meeting.

Mr. Ma Lin and Mr. Chen Yingming's qualifications for independent director were approved by CBRC-SZ on July 5, 2011, while the qualification of Mr. Liu Xueqiao as independent director is under approval by CBRC-SZ.

(II) Engagement and dismissal of supervisors

There was no engagement or dismissal of supervisors during the reporting period.

(III) Engagement and dismissal of senior management

There was no engagement or dismissal of senior management during the reporting period.

Chapter 7 Report of the Board of Directors

I. Corporate Governance

In the reporting period, the Bank committed itself to further improve corporate governance mechanism and corporate governance structure in accordance with relevant laws and regulations such as Company Law, Securities Law, Commercial Bank Law, as well as regulatory requirements of CBRC and the China Securities Regulatory Commission (CSRC). The board of directors, board of supervisors and senior management seriously performed their duties to safeguard the interests of the Bank and all shareholders. In the reporting period, the Bank was fully independent from the major shareholder in terms of staff, assets and finance, and there was no appropriation of company fund for non-business purposes by the major shareholder or its related parties, or embezzlement of company fund through unfair related party transaction in the reporting period. The Bank seriously managed information disclosure and investor relationship to make sure the investors may obtain relevant information truly, accurately, completely, and timely.

During the reporting period, 3 new independent directors were added after election by the annual general meeting. Currently, the eighth Board of Directors of the Bank has a total of 18 directors, of which 8 are independent directors.

During the reporting period, the Bank made adjustments to the establishment and composition of the special committees of the Board of Directors, and Audit and Related Party Transaction Control Committee was divided into Audit Committee and Related Party Transaction Control Committee.

II. There was no implementation of any profit distribution plan, plan about converting reserve into equity, or new share issuance plan formulated in the previous years but carried out in the reporting period

III. The Bank has no plan for profit distribution or converting reserve into equity for the first half of 2011.

IV. Investments

(I) Use of raised funds

During the reporting period, there was no use of raised funds by the Bank.

(II) Changes in investment projects of raised funds

During the reporting period, there was no change in investment projects of raised funds of the Bank.

(III) Actual progress and return of major non-share-offering investment projects

During the reporting period, the Bank had no major non-share-offering investment projects.

V. Explanations on the progress of the implementation of *C-SOX Project*

During the reporting period, in accordance with the *C-SOX Implementation Plan* formulated in the first quarter, the Bank facilitated the launch of various internal control evaluation works in an orderly manner. As of the end of June, the Bank successfully completed the inventory of risks and the preparation, verification and confirmation of risk control documents for the headquarter and three branches under the scope of the project, as well as testing works regarding the effectiveness of the implementation of internal control. The overall progress was in line with the requirements of the plan.

In order to efficiently facilitate good quality internal control evaluation works, the Bank established regular weekly project meeting mechanism, work mechanism for departments' person-in-charge, weekly work progress tracking and reporting mechanism, as well as regular communication mechanism for the working groups for the integration of two banks, etc., so as to ensure the quality of internal control evaluation works and effectively facilitate the work progress. At the same time, through distinguishing between management, contact persons of departments, project execution staff and staff at the branch level, training were organized at each level, so as to ensure that the methodology and standards of internal control evaluation works were properly implemented, to facilitate the integration of internal control into the business and flow, and to further improve risk management and control standards across the bank.

VI. Completeness, rationality and effectiveness of internal control system and implementation of internal control policies

(I) Board statement on the completeness, rationality and effectiveness of internal control system and the implementation status

By observing relevant requirements of *Commerical Bank Law of PRC*, *Guidance on Internal Control of Commercial Banks*, *Basic Norms of Enterprises' Internal Control* and *Guidance on Internal Control of Listed Companies of SZSE*, based on risk prevention and cautious operation, the Bank gradually established and improved a series of risk prevention policies, procedures and methods, and formulated full, cautious, effective and independent internal control systems. For the first half of 2011, the management team of the Bank effectively operated under the guidance of the Board of Directors and its special committees, continued to endeavor to the construction of a coordination system for addressing the prevention and control of compliance risk, operational risk and related risks, in order to continuously improve internal control and strengthen the foundation of case-prevention. The internal control system covers each business procedure and operational step as well as the control and management of current managing departments, branches and sub-branches. Generally speaking, the Bank's internal control system is complete, reasonable, effective and sound, with the various internal control policies being strictly and effectively implemented, and there was no material internal control defect.

(II) BOS comments on self-appraisal of internal control

During the reporting period, the Bank adhered to the basic principles of internal control in accordance with relevant provisions of CBRC, CSRC and SZSE, set up complete and rational internal control policies based on the Bank's actual status, and implemented well the policies in business activities, which were generally consistent with relevant requirements of relevant regulators. The board statement on internal control forthe first half of 2011 accurately and completely reflects the current status of internal control.

VII. Social responsibility report

During the reporting period, the Bank actively commenced various activities in respect of social responsibility, while continuously optimized the management of social responsibility. Upon the approval of the board of directors, the bank formulated *Management Method on External Donation*, which clearly defined and standardized the principles for external donations by the Bank, authorization of approval and management flow, etc. and continued to strengthen the approval and supervision functions of head office in the area of social responsibility, while organized and coordinated all functions, departments and branches in the performance of corporate social responsibility.

1. Pursuant to the requirements of relevant laws and regulations such as *Company Law*, *Securities Law* and *Commercial Bank Law* as well as the regulatory requirements of People's Bank of China, CSRC and CBRC, the Bank strived to improve its corporate governance mechanism and optimize corporate governance structure, safeguarding the interests of shareholders while realizing growth in shareholders' value.

2. With the objectives of creating the "Best Bank in China", various process reengineering projects were implemented. The *Optimization and Innovation of Process and Services* campaign was launched to optimize customer service quality and internal control system, focusing on raising the level of customer services.

3. On the basis of online supply chain finance system, business model was enriched, with great efforts put on the promotion of cash management system and enrichment of comprehensive service functions to create an innovative financial service platform. Micro Finance business center is established to solve credit difficulties for small and medium enterprises as well as individual industrial and commercial customers to supports the development of small and micro businesses.

4. Care for staff. Implemented professional job title system with the supplement of necessary management job titles to broaden the development path for staff's career; provided training and development opportunities for staff to assist them in raising overall quality, professional skills and performance; cared about staff's physical and psychological health via organizing various activities such as badminton competition, fun athletes' meeting, psychological counseling and seminar and "Family Month".

5. Implemented Equator principles and low-carbon principles, and advocated green credit culture. Efforts were placed on enhancing the support to key energy saving and pollutant reduction engineering and projects to incorporate environment assessment mechanism into management flow for credit business, while strict control was imposed on the lending to "high energy consumption, high pollution and excessive capacity industries". As at the end of June 2011, loan to "high energy consumption, high pollution and excessive capacity industries" accounted for 9.4% of all loans of the bank, representing a decrease of 0.19% from the beginning of the year. In the first half of 2011, the growth rate of such loans was lower than the average growth rate of 2.15% of all kinds of loans bankwide.

6. Energy conservation, pollutant reduction and environmental protection. “Energy saving office and environmental friendly life” activities were continued to promote green operation initiatives in respect of saving water, electricity and paper via optimizing video conference system and telephone conference system to lower energy and resources consumption in full efforts; actively participated in environment protection campaign such as “Earth Hour”.

7. Active commencement of charitable campaigns. The Bank’s special asset management centre donated all reward of RMB 400,000 granted in the 3th Financial Innovation Award of Shenzhen for the equipment of electronic lesson preparation room for teachers of Mao County Qiyi Ethnic Secondary School, the affected area of Wenchuan Earthquake to modify teaching measures as well as the construction of water room and acquisition of boiling facilities to address the issue of drinking water and hot bath for over 3,000 teachers and students; Shanghai branch donated RMB 250,000 to assist in the construction of elderly activity centre in Xiaodong Village of Jianshe Town, Chongming County, Shanghai; Hangzhou branch raised RMB 200,000 for helping those in poverty and in need, and the money was used in the construction of “Fuli Village” in Baijiang Town, Tonglu County, Zhejiang as well as the construction of infrastructure; Head office also commenced the preliminary preparation for 4 electronic classroom facilities for 4 primary schools in Yushu, Qinghai, the earthquake affected area.

Chapter 8 Significant Events

I. Material lawsuits and arbitrations

Within the reporting period, there were no lawsuits or arbitrations that had material impact on the operation of the Bank. As of June 30, 2011, the Bank, as defendant, was involved in 58 outstanding lawsuits with a total amount of RMB 193 million.

II. The Bank's shareholding in other listed companies, financial institutions and to-be-listed companies in the reporting period

(I) Shareholding in other listed companies

(In RMB thousand)

Code	Name	Initial investment	Portion of shareholding in the Bank at the end of the period	End-of-period book value	Gains/Losses in reporting period	Change of owner's equity in reporting period	Accounting entry	Origination
000150	Yihua Real Estate	5,895	1.36%	24,086	0	1,414	Available-for-sale financial assets	Repossessed equity
600094	ST Huayuan	4,248	0.23%	4,235	0	-38	Available-for-sale financial assets	Repossessed equity
000034	ST Shenxin Taifeng	5,553	0.18%	4,502	0	-360	Available-for-sale financial assets	Repossessed equity
000030	ST Shengrun	2,916	1.24%	3,853	0	937	Available-for-sale financial assets	Repossessed equity
	Visa Inc.	-	0.01%	1,208	2	180	Available-for-sale financial assets	Legacy investment
Total		18,612		37,884	2	2,133		

(II) Shareholding in other unlisted financial institutions and to-be-listed companies

(In RMB thousand)

Name of invested company	Investment amount	Impairment provision	Net end-of-period value
China Unionpay Co. Ltd.	50,000	-	50,000
SWIFT	684		684
Total	50,684	-	50,684

III. Merger and acquisition, asset restructuring during the reporting period

(I) Basic information of the deal

On September 30, 2010, the 1st extraordinary general meeting of the Bank in 2010 reviewed and approved the *Proposal of Shenzhen Development Bank Co., Ltd. on Asset Purchase by Issuing Shares*, pursuant to which PAG planned to use its 7,825,181,106 shares of Ping An Bank (representing approximately 90.75% of the total share capital of Ping An Bank) and RMB 2.6900523 billion in cash (equivalent to the valuation of approximately 9.25% of the shares of Ping An Bank) to subscribe 1,638,336,654 shares issued by the Bank through NPO ("this Material Asset Restructuring").

On June 28, 2011, the Bank received the *Official Reply Regarding the Approval of Shenzhen Development Bank Co., Ltd. to Issue Shares to Ping An Insurance (Group) Company of China, Ltd. for the Purchase of Assets* (CSRC Permit (2011) No. 1022) from the CSRC, approving the Bank to issue 1,638,336,654 shares to PAG for the purchase of 7,825,181,106 shares it held in PAB, and to raise from PAG RMB 2.6900523 billion. The official reply is valid within 12 months from the date of approval.

(In RMB billion)

Transaction counterparty or ultimate controlling party	**Asset being acquired or purchased**	**Purchase date (status of implementation and completion)**	**Deal price**	**Net profit contributed to the Bank from the purchase date to the end of the reporting period**	**Whether it is related party transaction**	**Pricing principle**	**Whether the asset rights involved have all been transferred**	**Whether all the creditors' rights and debts involved have been transferred**	**Related party relationship with transaction counterparty**
PAG	90.75% shares of Ping An Bank and RMB 2.6900523 billion in cash	July 8, 2011: transfer of Ping An Bank shares; July 18, 2011: receipt of raised funds; July 20, 2011: registration of NPO shares	29.0804756	-	Yes	June 30, 2010 being taken as the valuation benchmark day; subject to the valuation results of independent valuation agency	Yes	Yes	PAG and its related party hold approximately 29.99% of the shares in the Bank, and is the Bank's largest shareholder

(II) Progress of the matter and its impact on the operating results and financial conditions since the publication of asset restructuring report

On June 30, 2011, the Bank disclosed *Report on Issuance of Shares for Acquisition of Assets and Related Party Transaction of Shenzhen Development Bank Co., Ltd.*. On July 8, 2011, the share transfer procedures for 7,825,181,106 shares of Ping An Bank held by Ping An Group (accounting for approximately 90.75% of the total share capital of Ping An Bank) was completed in Shenzhen Equity Exchange, with the shareholder being changed to SDB. On July 18, 2011, PAG transferred cash of RMB 2,690,052,300 to the Bank's bank account opened in the Bank of China. On July 20, 2011, China Securities Depositary and Clearing Corporation Limited Shenzhen Branch issued *Confirmation on Register of Securities* to register those 1,638,336,654 RMB ordinary shares issued in this

NPO by the Bank in the name of PAG. On July 27, 2011, Ernst & Young Hua Ming issued the Ernst & Young Hua Ming [2011] Zhuan Zi No. 60803861_H01 specific audit report on *Description Regarding the Realization of Profit and Loss of Ping An Bank Co., Ltd in the Transition Period of Restructuring* to confirm that Ping An Bank did not incur any losses in the transition period. As such, the asset consideration for acquisition did not incur any losses in the transition period, and PAG did not need to make compensation for the Bank. Upon the completion of this Material Asset Restructuring, the Bank's total capital stock increased to 5,123,350,416 shares, while PAG and its subsidiary Ping An Life Insurance Company of China, Ltd. held 52.38% of the Bank's shares in aggregate, making it the controlling shareholder of the Bank and Ping An Bank becoming a subsidiary company of the Bank. This Material Asset Restructuring does not have any impact on the operating results and financial conditions of the Bank during the reporting period.

For other specific matters concerning this Material Asset Restructuring, please refer to the relevant announcements published by the Bank and relevant information disclosure party on China Securities Journal, Securities Times, Shanghai Securities News, Securities Daily and the cninfo website (www.cninfo.com.cn) on September 2, 2010, September 15, 2010, October 8, 2010, June 29, 2011, June 30, 2011, July 29, 2011 and August 4, 2011.

IV. Important related party transactions

(I) Material Asset Restructuring

Pursuant to the conditional Share Subscription Agreement entered between the Bank and Ping An Bank dated September 1, 2010 and Supplementary Agreement to Share Subscription Agreement dated September 14, 2010, PAG would subscribe 1,638,336,654 NPO shares issued by the Bank with 7,825,181,106 shares of Ping An Bank (representing approximately 90.75% of Ping An Bank's total share capital, hereunder "Underlying Assets") held by Ping An Group and RMB 2.6900523 billion in cash (equivalent to the evaluation of approximately 9.25% of Ping An Bank shares) (the "Deal").

Prior to the Deal, PAG and its related parties held approximately 29.99% of shares of the Bank, and thus the acquisition of assets via the issuance of shares to Ping An Group by the Bank constitutes a related party transaction.

On June 28, 2011, the Bank received *Official Reply Regarding the Approval of Shenzhen Development Bank Co., Ltd. to Issue Shares to Ping An Insurance (Group) Company of China, Ltd. for the Purchase of Assets* (CSRC Permit (2011) No. 1022) from CSRC, which approved the Bank to issue 1,638,336,654 shares to PAG to acquire relevant assets and raise RMB 2,690,052,300 from PAG. On July 8, 2011, the share transfer procedure for Underlying Assets was completed in Shenzhen Equity Exchange, and the shareholder was changed to the Bank. On July 18, 2011, Ping An Group transferred cash of RMB 2,690,052,300 to the Bank's bank account opened in the Bank of China. The above capital payment has been verified by Ernst & Young Hua Ming, who has issued *Capital Verification Report* (Ernst & Young Hua Ming (2011) Yan Zi No. 60438538_H01). On July 20, 2011, the Bank completed the registration procedure for the issuance of 1,638,336,654 RMB ordinary shares issued through NPO, and received the *Confirmation on Register of Securities* issued by the China Securities Depositary and Clearing

Corporation Limited Shenzhen Branch.

Subsequent to the Deal, the Bank's total capital stock increased to 5,123,350,416 shares, while PAG and its related parties hold 2,683,659,341 shares of the Bank in aggregate, accounting for 52.38% of the total shares of the Bank after the Deal.

(II) Besides the above transactions, other transactions between the Bank and China Ping An and its subsidiaries are as follows:

(In RMB thousand)

End-of-period balance	June 30, 2011	December 31, 2010
Investment in receivables	100,000	100,000
Placement at banks and other financial institutions	82,634	85,975
Deposits taking	5,670,615	3,752,314
Bonds payable	129,497	129,431
Factoring credit line	-	300,000
Inter-bank credit line	-	1,000,000

Transactions of the period	January – June 2011	January – June 2010
Bond interest income of account receivables	2,080	2,083
Fee income on agency	8,167	4,120
Fee income on custody	544	328
Interest outlay from placement at banks and other financial institutions	74	949
Interest outlay from deposit taking	91,417	90，811
Interest outlay from bonds payable	3,505	3,537
Outlay from insurance premium	1,360	99

(III) As of June 30, 2011, the Bank has authorized a total credit facility of RMB 1.4 billion (December 31, 2010: RMB 2.15 billion) for entities relating to the key management personnel of the Bank and the associate companies, which includes an outstanding loan balance amounting to RMB 139 million (December 31, 2010: RMB 319 million) and an off-balance sheet outstanding facility amounting to RMB 240 million (December 31, 2010: RMB 209 million).

All the transactions above were carried out in accordance with general commercial provisions, market prices and normal business procedures, and had undertaken approval procedures.

V. There were no custody, contracting, leasing and entrusting others for management of cash assets in the reporting period.

VI. Fund utilization by related parties

During the reporting period, there were no funds used by the controlling shareholder of the Bank, its subsidiaries and other related parties.

VII. Explanations and independent opinions of independent directors concerning fund appropriation by related parties of the Company and external guarantee offered by the Bank

There was no fund appropriation of the Company by controlling shareholder and other related parties in the reporting period or in prior periods which extended to the reporting period.

Guarantee business conducted by the Bank is a regular banking business approved by the People's Bank of China and CBRC. The Bank attaches importance to risk management of this business. By following relevant operational process and examination and approval procedures, risks in external guarantee business can be effectively controlled. In the reporting period, other than the financial guarantee business within the operation scope approved by the People's Bank of China and CBRC, the Bank has no other discloseable material guarantees.

VIII. Performance of commitment of the Company, shareholders and actual controllers during the reporting period

Commitments	Promisor	Contents	Performance
Commitments in Share Reform	-	-	-
Commitments made in Acquisition Report or Equity Change report	Ping An Insurance (Group) Company of China, Ltd., Ping An Life	PAG and Ping An Life committed in *SDB's Long Form Equity Change Report* published on June 16, 2009 to: Take legal and feasible measures to integrate SDB and Ping An Bank in the manner of, including but not limited to, merger within 3 years after the completion of this deal by strictly following relevant rules, laws and regulatory requirements, so as to avoid substantial peer competition. PAG committed in *SDB's Acquisition Report* published on June 30, 2011: As to the Company's shares owned by the Offeror and its affiliated institutions as of the day when all the Company's shares subscribed by the Offerors through the deal are registered, PAG and its affiliated institutions will not transfer any of them within thirty-six months after the newly-subscribed shares are registered under the Offeror, and after the lock-up period, the shares will be dealt with in accordance with relevant regulations of CSRC and Shenzhen Stock Exchange. However, under the permission of applicable laws, transfer among PAG's affiliated institutions will not be restricted.	Performance is being carried out now
Commitments made upon this Material Asset Restructuring	Ping An Insurance (Group) Company of China, Ltd., the Bank	I. PAG made the following commitments when planning to subscribe for 1,638,336,654 NPO shares of SDB (this Material Asset Restructuring) with its holding of 90.75% of Ping An Bank's shares and RMB 2.6900523 billion cash: 1. PAG will act strictly in compliance with relevant rules and regulatory requirements to quickly launch the integration of Ping An Bank and SDB, implement necessary internal decision-making procedures and filing to regulatory authorities for their review and approval in order to complete the integration of two banks within one year. Due to uncertainties of regulatory approval, the specific time of the completion of the integration depends on factors such as the approval progress of regulatory authorities. PAG will actively communicate with relevant regulatory authorities to seek their approval and complete the integration as soon as possible. 2. PAG and its affiliated institutions shall not transfer all the	The commitment on vesting of ownership of gains/losses during the transitional period was performed on July 20, 2011. Other performance is being carried out now

		shares owned by PAG and its affiliated institutions within 36 months from the date of the completion of this NPO. However, under the permission of applicable laws, the transfer among PAG's affiliated institutions (i.e. any party that has direct or indirect control over PAG, is directly or indirectly controlled by PAG and is jointly controlled by other parties together with PAG) will not be restricted. After the expiration of the said duration, PAG can dispose such newly issued shares in accordance with relevant regulations of CSRC and Shenzhen Stock Exchange. 3. In accordance with *Profit Forecast Compensation Agreement* signed between PAG and the Bank on September 14, 2010, PAG shall, within 3 years after this deal of asset purchase by share issue ("the compensation period"), prepare Ping An Bank's pro forma net profit data ("realized profit") within 4 months after each accounting year pursuant to PRC Accounting Standards for Business Enterprises and procure the accounting firm engaged by PAG to present special auditing opinions ("the special auditing opinions") with regard to such realized profit as well as the difference between such realized profit and the corresponding forecast amount ("the difference amount"). According to such special auditing opinions, if the actual profit amount achieved in any year within the compensation period is lower than the corresponding profit forecast, PAG shall pay 90.75% of the difference between the said actual profit and the corresponding forecast amount ("the compensation amount") to the Bank in terms of cash. PAG shall, within 20 business days after submission of the special auditing opinions for the current year, pay such amount in full to the Bank's designated account. 4. As to the two properties without ownership certification by Ping An Bank, PAG issued the PAG Commitment Letter on Providing Compensation for Potential Dispute about Ownership of Ping An Bank's Properties. According to the commitment letter, PAG committed that if there is any dispute about the ownership of the above properties of Ping An Bank in the future, PAG will try its best to coordinate all parties, strive to settle disputes and avoid any adverse impact to normal operations of the bank. If the dispute of the property ownership causes additional cost to the above said subordinate institutions or have their income declined, PAG promises to compensate the Bank by cash for the loss of profit derived as a result of handling the dispute of property ownership by PAG. On the basis of the above commitment letter, PAG makes the "Commitment letter of Ping An Insurance (Group) Company of China, Ltd. regarding the solutions to the properties with ownership defects of Ping An Bank Co., Ltd.", which undertakes that: within three years after the completion of this transaction, if the Bank cannot process real estate certificate for the two properties and cannot properly dispose of those properties, then PAG will purchase at a fair and reasonable price, or designate a third party to purchase, those properties within three months upon the expiry of the three year period. 5. Regarding gains/losses of the subscription of consideration assets during the transitional period (from the day following the evaluation day until the shares are transferred to the Company), gains derived from the subscription of consideration assets are enjoyed by SDB while losses are borne by PAG.	

		6. After this Material Asset Restructuring and during the period when PAG acts as the controlling shareholder of SDB, in respect of similar businesses or business opportunities as SDB that are intended to be engaged by or substantially obtained by PAG and other companies controlled by PAG in the future, and that the assets and businesses formed by those businesses or business opportunities may cause potential peer competition with SDB, PAG and other companies controlled by PAG will not engage in businesses that are the same or similar to SDB, so as not to involve in direct or indirect competition in relation to SDB's business operations. 7. After this Material Asset Restructuring, with regard to the related party transactions between PAG and other companies controlled by PAG and SDB, PAG will carry out the transactions with SDB under the principles of openness, fairness and justice of market transactions and in accordance with fair and reasonable market price, as well as implement decision-making procedures based on requirements of relevant laws, regulations and regulatory documents so as to fulfill its obligation of information disclosure according to the laws. PAG guarantees that PAG and other companies controlled by PAG would not acquire any illegal interests or make SDB assume any improper obligations through the transactions with SDB. 8. After this Material Asset Restructuring and during the period when PAG acts as SDB's controlling shareholder, SDB's independence will be maintained so as to make sure SDB is independent to PAG and other companies controlled by PAG in terms of personnel, asset, finance, institution and business. II. Regarding the said two properties without ownership certificate of Ping An Bank, the Company promises that after the completion of the deal: 1. The Company will proactively communicate with property ownership administrative authorities and relevant parties and try its best to get ownership certificate of the above two properties; 2. If there is substantial obstruction in obtaining the property ownership certificate, the Company will dispose the above two properties through methods including but not limited to selling them within three years after the completion of the deal; 3. If the Company fails to dispose the properties in the way mentioned in (2) within three years after the completion of the deal due to any reason, the Company will sell the properties to PAG or a designated third party at a fair and reasonable price within three months after expiration of the time limit of three years; and 4. If there is any dispute about ownership before the properties are disposed, the Company will ask PAG to compensate the Company according to the PAG Commitment Letter on Providing Compensation for Potential Dispute about Ownership of Ping An Bank's Properties issued by PAG.	
Commitments made upon share issuance	Ping An Life	Ping An Life made commitments not to transfer the 379,580,000 new shares acquired from SDB in NPO within 36 months from the completion of this subscription of shares (September 17, 2010), however, under the permission of the laws and approval	Performance is being carried out now

		of relevant regulatory authorities, the transfer between Ping An Life and its related parties (including the controlling shareholder, actual controller of Ping An Life and different subjects controlled by the same controller of Ping An Life) will not be restricted. If there are any selling deals against the said commitment, the Clearing Company-Shenzhen Branch will be delegated to transfer all the money from selling of the subscribed shares to SDB's listed company account and the money will be owned by all SDB shareholders.	
Other commitments (including retrospective commitments	-	-	-

IX. Bond issuance

According to the *Proposal Regarding the Amendment to the Relevant Terms for the Issuance of Hybrid Bonds of the Company* passed in the 1st extraordinary general meeting of 2008, and after being approved by the People's Bank of China and CBRC, the Bank successfully issued RMB 3.65 billion of hybrid bonds on the inter-bank bond market on April 29, 2011. The fund raised from the bond issuance will be used to reinforce the capital base of the issuer, increase supplementary capital and improve capital adequacy ratio as per applicable laws and regulatory approval.

X. Engagement of accounting firms

During the reporting period, the Bank engaged Ernst & Young Hua Ming for the auditing assignment.

In the first half of 2011, the Bank paid RMB 2.57 million to Ernst & Young Hua Ming. In addition, RMB 460,000 agreed procedures fee for the quarterly reporting of the 1st quarter was paid. Travel expenses of the above accounting firm were not reimbursed by the Bank.

Ernst & Young Hua Ming has provided services for the Bank for 4.5 years.

XI. Punishment and correction on the company and its directors, supervisors, senior executives, shareholders and actual controllers during the reporting period

During the reporting period, the Bank and its directors, supervisors, senior executives, shareholders and actual controllers were not examined or penalized by the CSRC, nor publicly denounced by the Shenzhen Stock Exchange.

XII. Reception of investigation, communication and interview within the reporting period

In the reporting period, the Bank conducts communication with institutions for many times in the manner of performance press conference, analyst meeting, and investor investigation in respect of performance, financial status, and other issues. The Bank also accepts inquiry by phone from individual investors. The contents mainly include:

company fundamentals, periodic report, interim announcements with illustration, and other business and management information and material events that could be disclosed legally. According to the requirement of SSE Guidelines on Fair Information Disclosure of Listed Company, the Bank and relevant information disclosure obligors strictly observe the principle of fair information disclosure, and there is no situation in violation of it.

Date	Location	Mode	Target Audience	Major Content and Information Disclosed
January 5, 2011	Shenzhen	Investor meeting	Sinolink Securities	Company Operations and Strategies
January 6, 2011	Shenzhen	Investor meeting	Everbright Securities	Company Operations and Strategies
January 13, 2011	Shenzhen	Investor meeting	Moody’s	Company Operations and Strategies
January 14, 2011	Shenzhen	Investor meeting	Guosen Securities	Company Operations and Strategies
January 20, 2011	Shenzhen	Investor meeting	Galaxy Securities	Company Operations and Strategies
January 26, 2011	Shenzhen	Investor meeting	Standard and Poor’s	Company Operations and Strategies
February 25, 2011	Shenzhen	2010 Annual Report Release	Analysts and Investors	2010 Company Performance
February 26, 2011	Shanghai	Investor Conference	Analysts and Investors	2010 Company Performance
February 26, 2011	Shenzhen	Investor Conference	Analysts and Investors	Company Operations and Strategies
February 27, 2011	Beijing	Investor Conference	China AMC Fund, Gaohua Securities	Company Operations and Strategies
March 9, 2011	Shenzhen	Investor meeting	Central Assets	Company Operations and Strategies
March 16, 2011	Shenzhen	Investor meeting	BOCI Securities	Company Operations and Strategies
March 18, 2011	Shenzhen	Investor meeting	Citi Financial Group	Company Operations and Strategies
March 21, 2011	Shenzhen	Investor meeting	China Securities Co., Ltd.	Company Operations and Strategies
April 12, 2011	Shenzhen	Investor meeting	Morgan Stanley	Company Operations and Strategies
April 27, 2011	Shenzhen	2011 1Q Report Release	Analysts and Investors	2011 1Q Company Performance
May 3, 2011	Shenzhen	Investor meeting	Hongkong and Shanghai Banking Corporation	Company Operations and Strategies
May 5, 2011	Shenzhen	Investor meeting	KBW	Company Operations and Strategies
May 5, 2011	Shenzhen	Investor meeting	Daiwa Securities	Company Operations and Strategies
May 6, 2011	Shenzhen	Investor meeting	Sinolink Securities	Company Operations and Strategies
May 11, 2011	Shenzhen	Investor meeting	Industrial Securities	Company Operations and Strategies
May 11, 2011	Shenzhen	Investor meeting	Guosen Securities	Company Operations and Strategies
May 12, 2011	Shenzhen	Investor meeting	Credit Suisse Securities	Company Operations and Strategies
May 18, 2011	Shenzhen	Investor meeting	China Merchants	Company Operations and

			Securities, GF Securities	Strategies
May 26, 2011	Shenzhen	Investor meeting	Changjiang Securities, Huangchuang Securities	Company Operations and Strategies
June 1, 2011	Shenzhen	Investor Conference	JP Morgan Chase	Company Operations and Strategies
June 9, 2011	Shenzhen	Investor meeting	Qilu Securities, Hongyuan Securities	Company Operations and Strategies
June 13 and 14, 2011	London	Investor Conference	Hongkong and Shanghai Banking Corporation	Company Operations and Strategies
June 17, 2011	Shanghai	Investor Conference	CICC	Company Operations and Strategies
June 17, 2011	Guiyang	Investor Conference	Guotai Junan Securities	Company Operations and Strategies
June 23, 2011	Shenzhen	Investor meeting	MF Global	Company Operations and Strategies
June 24, 2011	Shenzhen	Investor meeting	Morgan Stanley	Company Operations and Strategies
June 27, 2011	Shenzhen	Investor meeting	Barclays Asia	Company Operations and Strategies
June 30, 2011	Beijing	Investor Conference	Gaohua Securities	Company Operations and Strategies

XIII. Index: Other Important Information for Disclosure

No.	Events	Publication Date
1	Board of Directors Resolution Announcement, Shenzhen Development Bank Co., Ltd.	February 25, 2011
2	BOS Resolution Announcement, Shenzhen Development Bank Co., Ltd.	February 25, 2011
3	2010 Annual Report and Summary, Shenzhen Development Bank Co., Ltd.	February 25, 2011
4	First Quarter Performance Pre-announcement, Shenzhen Development Bank Co., Ltd.	April 14, 2011
5	Board of Directors Resolution Announcement, Shenzhen Development Bank Co., Ltd.	April 27, 2011
6	BOS Resolution Announcement, Shenzhen Development Bank Co., Ltd.	April 27, 2011
7	2011 First Quarter Report, Shenzhen Development Bank Co., Ltd.	April 27, 2011
8	Notice of 2010 Annual General Meeting of Shareholders, Shenzhen Development Bank Co., Ltd.	April 27, 2011
9	Independent Director Nominee Statement, Shenzhen Development Bank Co., Ltd.	April 27, 2011
10	Announcement of Completion of Hybrid Capital Bond Issuance, Shenzhen Development Bank Co., Ltd.	May 4, 2011
11	Trading Suspension Notice due to Examination on Material Asset Restructuring of the Company by CSRC M&A and Restructuring Review Committee, Shenzhen Development Bank Co., Ltd.	May 9, 2011
12	Conditional Approval Notice on Material Asset Restructuring of the Company, by CSRC M&A and Restructuring Review Committee, Shenzhen Development Bank Co., Ltd.	May 13, 2011
13	2010 Annual General Meeting Announcement, Shenzhen Development Bank Co., Ltd.	May 26, 2011
14	Board of Directors Announcement, Shenzhen Development Bank Co., Ltd.	May 26, 2011
15	Board of Directors Announcement, Shenzhen Development Bank Co., Ltd.	June 8, 2011

16	Approval Notice of Examination on Material Asset Restructuring of the Company by the CSRC, Shenzhen Development Bank Co., Ltd.	June 29, 2011
17	Announcement on Share Issuance for Asset Purchase cum Related Party Transactions Report Revision, Shenzhen Development Bank Co., Ltd.	June 30, 2011
18	Report and Summary on Share Issuance for Asset Purchase cum Related Party Transactions, Shenzhen Development Bank Co., Ltd.	June 30, 2011
19	Report and Summary of Acquisition, Shenzhen Development Bank Co., Ltd.	June 30, 2011
20	Proposal on Profit Recognition of Ping An Bank (related assets) within Three Years of Completion of Material Asset Restructuring, Shenzhen Development Bank Co., Ltd.	June 30, 2011

Chapter 9 Financial Statements

I. Financial Statements

Auditors' Report

Ernst & Young Hua Ming（2011）Shenzi No. 60438538_H02

To the shareholders of Shenzhen Development Bank Co., Limited

We have audited the accompanying financial statements of Shenzhen Development Bank Co., Ltd., which comprise the balance sheet as at 30 June 2011, and the income statement, statement of changes in shareholders' equity and cash flow statement for the six-month period then ended and notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements. This responsibility includes (1) preparing the financial statements to ensure it present fairly in accordance with Accounting Standards for Business Enterprises; (2) designing, implementing and maintaining internal controls as determined necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting polices used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Ernst & Young Hua Ming（2011）Shenzi No. 60438538_H02

Opinion

In our opinion, the financial statements of Shenzhen Development Bank Co., Ltd., have been prepared, in all material aspects, in accordance with Accounting Standards for Business Enterprises, and present fairly the financial position of Shenzhen Development Bank Co., Ltd. as of 30 June 2011 and the results of its operations and its cash flows for the six-month period then ended.

Ernst & Young Hua Ming (chop)

Chinese Certified Public Accountant: Zhang Xiaodong
(signature and personal chop)

Beijing, the People’s Republic of China

Chinese Certified Public Accountant: Chang Hua
(signature and personal chop)

17 August 2011

SHENZHEN DEVELOPMENT BANK CO., LTD.
BALANCE SHEET
30 June 2011

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note III	2011-6-30	2010-12-31
ASSETS:			
Cash on hand and due from the Central Bank	1	95,491,599	76,586,858
Precious metals		2	2
Placements of deposits with other financial institutions	2	19,052,801	8,523,729
Funds loaned to other financial institutions	3	8,877,563	8,475,988
Financial assets at fair value through profit or loss	4	1,157,750	-
Derivative financial assets	5	451,537	371,734
Reverse repurchase agreements	6	110,133,052	98,263,433
Accounts receivables	7	28,320,223	13,727,415
Interest receivable	8	3,011,254	2,121,487
Loans and advances	9	440,990,979	400,966,075
Available-for-sale financial assets	10	36,983,052	31,534,183
Held-to-maturity investments	11	78,345,059	61,379,837
Receivables	12	21,002,100	18,502,100
Long term equity investments	13	407,413	404,390
Investment properties	14	539,723	539,805
Fixed assets	15	2,359,317	2,470,051
Intangible assets		185,652	191,580
Deferred tax assets	16	2,071,173	1,954,568
Other assets	17	2,676,776	1,596,833
TOTAL ASSETS		852,057,025	727,610,068

SHENZHEN DEVELOPMENT BANK CO., LTD.
BALANCE SHEET (continued)
30 June 2011

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note III	2011-06-30	2010-12-31
LIABILITIES:			
Due to the Central Bank		1,524,230	2,237,675
Placements of deposits from other financial institutions	19	120,790,604	82,370,060
Funds borrowed from other financial institutions	20	5,335,706	6,200,174
Derivative financial liabilities	5	364,324	311,805
Repurchase agreements	21	14,989,412	17,588,672
Customer deposits	22	632,496,543	562,912,342
Employee benefits payable	23	1,857,283	1,878,603
Tax payable	24	1,385,371	1,125,121
Accounts payables	25	12,518,307	5,120,818
Interest payable	26	4,642,031	3,920,073
Bonds payable	27	13,125,104	9,469,488
Provisions	28	20,508	3,047
Deferred tax liabilities	16	115,310	103,076
Other liabilities	29	4,739,897	856,238
TOTAL LIABILITIES		813,904,630	694,097,192
SHAREHOLDERS' EQUITY:			
Share capital	30	3,485,014	3,485,014
Capital reserve	31	13,304,716	13,396,943
Surplus reserve	32	1,912,339	1,912,339
General reserve	33	5,977,782	5,977,782
Unappropriated profit	34	13,472,544	8,740,798
TOTAL SHAREHOLDERS' EQUITY		38,152,395	33,512,876
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		852,057,025	727,610,068

The financial statements have been signed by:

Legal representative	Xiao Suining	President	Richard Jackson	Chief financial officer	Chen Wei	Accounting manager	Wang Lan

Company chop ____________________

SHENZHEN DEVELOPMENT BANK CO., LTD.
INCOME STATEMENT
For the six months ended 30 June 2011
(Expressed in thousands of Renminbi, unless otherwise stated)

		Note III	Jan-Jun 2011	Jan-Jun 2010
I.	Operating income			
	Interest income	35	19,540,461	12,179,595
	Interest expense	35	(9,148,239)	(4,770,383)
	Net interest income	35	10,392,222	7,409,212
	Fee and commission income	36	1,330,035	864,728
	Fee and commission expense	36	(142,398)	(114,903)
	Net fee and commission income	36	1,187,637	749,825
	Investment income	37	352,460	172,377
	of which: Share of profits of associates		29,000	40,824
	Losses from changes in fair values of financial instruments	38	(7,865)	(20,184)
	Gains from changes in fair values of investment properties		-	12,538
	Net foreign exchange differences	39	151,671	98,840
	Other operating income	40	64,465	73,503
	Total operating income		12,140,590	8,496,111
II.	Operating costs			
	Business tax and surcharge	41	(953,092)	(606,891)
	Business and administrative expenses	42	(4,406,926)	(3,590,483)
	Total operating costs		(5,360,018)	(4,197,374)
III.	Operating profit before impairment losses on assets		6,780,572	4,298,737
	Impairment losses on assets	43	(730,678)	(493,909)
IV.	Operating profit		6,049,894	3,804,828
	Add: Non-operating income		39,257	75,395
	Less: Non-operating expenses		(23,305)	(8,476)
V.	Profit before tax		6,065,846	3,871,747
	Less: Income tax expense	44	(1,334,100)	(838,628)
VI.	Profit for the period		4,731,746	3,033,119
VII.	Earnings per share			
	Basic earnings per share (Renminbi Yuan)	45	1.36	0.98
	Diluted earnings per share (Renminbi Yuan)	45	1.36	0.98
VIII.	Other comprehensive income for the period, net of tax	46	(92,227)	11,112
IX.	Total comprehensive income for the period, net of tax		4,639,519	3,044,231

SHENZHEN DEVELOPMENT BANK CO., LTD.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the six months ended 30 June 2011

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note III	Share capital	Capital reserve	Of which: Cumulative changes in fair value of available-for-sale financial assets	Of which: Revaluation surplus on owner-occupied properties transferred to investment properties	Surplus reserve	General reserve	Unappropriated profit	Total
I. At 1 January 2011		3,485,014	13,396,943	(132,761)	55,532	1,912,339	5,977,782	8,740,798	33,512,876
II. Movements in the period									
(i) Profit for the period		-	-	-	-	-	-	4,731,746	4,731,746
(ii) Other comprehensive income	46	-	(92,227)	(102,329)	10,102	-	-	-	(92,227)
Subtotal of (i) and (ii)		-	(92,227)	(102,329)	10,102	-	-	4,731,746	4,639,519
(iii) Capital injection from shareholders		-	-	-	-	-	-	-	-
(iv) Profit appropriation									
1. Appropriation to surplus reserve	34	-	-	-	-	-	-	-	-
2. Appropriation to general reserve	34	-	-	-	-	-	-	-	-
III. At 30 June 2011		3,485,014	13,304,716	(235,090)	65,634	1,912,339	5,977,782	13,472,544	38,152,395
I. At 1 January 2010		3,105,434	7,017,072	20,499	41,030	1,283,957	4,676,276	4,386,870	20,469,609
II. Movements in the year									
(i) Profit for the year		-	-	-	-	-	-	6,283,816	6,283,816
(ii) Other comprehensive income	46	-	(147,977)	(153,260)	14,502	-	-	-	(147,977)
Subtotal of (i) and (ii)		-	(147,977)	(153,260)	14,502	-	-	6,283,816	6,135,839
(iii) Capital injection from shareholders		379,580	6,527,848	-	-	-	-	-	6,907,428
(iv) Profit appropriation									
1. Appropriation to surplus reserve	34	-	-	-	-	628,382	-	(628,382)	-
2. Appropriation to general reserve	34	-	-	-	-	-	1,301,506	(1,301,506)	-
III. At 31 December 2010		3,485,014	13,396,943	(132,761)	55,532	1,912,339	5,977,782	8,740,798	33,512,876

SHENZHEN DEVELOPMENT BANK CO., LTD.
CASH FLOW STATEMENT
For the six months ended 30 June 2011

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note III	Jan-Jun 2011	Jan-Jun 2010
I. CASH FLOWS FROM OPERATING ACTIVITIES			
Net increase in amounts due to the Central Bank		-	1,203,900
Net increase in repurchase agreements		-	1,569,103
Net increase in customer deposits and placements of deposits from other financial institutions		108,033,842	25,353,343
Net increase in accounts payable		7,397,489	1,247,715
Net decrease in funds loaned to other financial institutions		4,183	287,284
Cash receipts from interest and fee and commission income		14,272,630	11,462,392
Cash receipts relating to other operating activities	48	1,563,077	1,991,992
Subtotal of cash inflows from operating activities		131,271,221	43,115,729
Net increase in amounts due from the Central Bank and placements of deposits with other financial institutions		15,794,044	4,177,478
Net increase in reverse repurchase agreements		9,719,731	10,216,096
Net increase in accounts receivables		14,592,808	5,087,893
Net increase in loans and advances		40,384,311	14,287,426
Net decrease in amounts due to the Central Bank		739,006	-
Net decrease in funds borrowed from other financial institutions		864,468	2,592,018
Net decrease in repurchase agreements		2,800,582	-
Cash payments for interest and fee and commission expenses		7,850,360	4,273,571
Cash payments for salaries and staff expenses		2,510,804	2,153,787
Cash payments for taxes		2,119,850	1,657,694
Cash payments relating to other operating activities	49	2,321,358	1,703,204
Subtotal of cash outflows from operating activities		99,697,322	46,149,167
Net cash flows generated from operating activities		31,573,899	(3,033,438)
II. CASH FLOWS FROM INVESTING ACTIVITIES			
Cash receipts from investments upon disposal/maturity		44,385,598	89,107,372
Cash receipts from investment income		1,657,190	1,426,558
Cash receipts from disposal of fixed assets		1,536	3,465
Subtotal of cash inflows from investing activities		46,044,324	90,537,395
Cash payments for investments		67,617,881	92,103,381
Cash payments for fixed assets, intangible assets, construction in progress and leasehold improvements		95,378	272,408
Subtotal of cash outflows from investing activities		67,713,259	92,375,789
Net cash flows used in investing activities		(21,668,935)	(1,838,394)

SHENZHEN DEVELOPMENT BANK CO., LTD.
CASH FLOW STATEMENT (continued)
For the six months ended 30 June 2011
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note III	Jan-Jun 2011	Jan-Jun 2010
III. CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from issue of shares		-	6,931,130
Cash receipts from bond issue		3,650,000	-
Subtotal of cash inflows from financing activities		3,650,000	6,931,130
Cash payments for dividend distribution and bond interest		465,075	459,700
Subtotal of cash outflows from financing activities		465,075	459,700
Net cash flows generated from financing activities		3,184,925	6,471,430
IV. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		-	-
V. NET INCREASE IN CASH AND CASH EQUIVALENTS		13,089,889	1,599,598
Add: Cash and cash equivalents at beginning of the period		68,147,808	54,703,483
VI. CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	47	81,237,697	56,303,081

(Expressed in thousands of Renminbi, unless otherwise stated)

SUPPLEMENTARY INFORMATION

		Note III	Jan-Jun 2011	Jan-Jun 2010
1.	Adjustment of profit for the period to cash flows generated from operating activities:			
	Profit for the period		4,731,746	3,033,119
	Impairment losses on assets		730,678	493,909
	Interests related to unwinding of discounts of provisions for impaired financial assets		(37,043)	(32,876)
	Depreciation of fixed assets		177,752	151,043
	Amortisation of intangible assets		31,196	24,203
	Amortisation of long term deferred expenses		63,294	54,765
	Losses/(gains) on disposal of fixed assets		838	(131)
	Losses from changes in fair values of financial instruments		7,865	20,184
	Losses/(gains) from changes in fair values on foreign exchange derivative financial instruments		(30,359)	11,048
	Gains from changes in fair values of investment properties		-	(12,538)
	Interest on investment securities and investment income		(2,125,371)	(1,605,561)
	Increase in deferred tax assets		(80,807)	(185,309)
	Increase / (decrease) in deferred tax liabilities		8,161	(9)
	Interest paid on bonds		329,456	275,196
	Increase in operating receivables		(85,514,145)	(32,642,349)
	Increase in operating payables		113,262,909	27,381,856
	Increase in provisions		17,729	12
	Net cash flows generated from operating activities		31,573,899	(3,033,438)
2.	Net increase in cash and cash equivalents:			
	Cash at end of the period	47	1,189,116	792,996
	Less: Cash at beginning of the period		836,549	779,169
	Add: Cash equivalents at end of the period	47	80,048,581	55,510,085
	Less: Cash equivalents at beginning of the period		67,311,259	53,924,314
	Net increase in cash and cash equivalents		13,089,889	1,599,598

I. GENERAL INFORMATION

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 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 and retail banking activities in Mainland China.

The registered office of the Company is located at No. 5047, Shennan Road East, Luohu District, Shenzhen, Guangdong Province, PRC. Headquartered in Shenzhen, the Company operates its business in Mainland China.

The financial statements were approved and authorised for issue by the board of directors on 17 August 2011.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Basis of preparation

The financial statements have been prepared in accordance with the "Accounting Standards for Business Enterprises — Basic Standard" and 38 specific standards, Implementation Guidance, Interpretations and other relevant regulations (hereafter collectively referred to as "ASBEs"), issued by the Ministry of Finance, PRC (hereafter referred to as the "MOF") in February 2006.

The financial statements of the Company are prepared on a going concern basis.

2. Statement of compliance

The financial statements have been prepared in accordance with ASBEs and present fairly the financial position of the Company as at 30 June 2011 and the results of its operation and its cash flows for the six-month period ended 30 June 2011.

3. Accounting year

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

4. Functional currency

The Company's functional and presentation currency is Renminbi ("RMB"). Unless otherwise stated, the values are rounded to the nearest thousand of Renminbi.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

5. 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.

6. 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".

7. 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".

8. 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.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

8. Reverse repurchase and repurchase agreements (continued)

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.

9. 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.

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.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial assets (continued)

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 period, 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.

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.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial assets (continued)

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 owner’s equity, 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”.

10. 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.

Financial assets carried at amortised cost
If there is objective evidence that an impairment loss on financial assets carried at amortised cost 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.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)
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 the income statement. However, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

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

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.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. 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.

12. 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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Recognition and derecognition of financial instruments (continued)

Transfer of financial assets (continued)

(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.

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 recognized 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.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

13. 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.

14. 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.

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.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

14. Long term equity investments (continued)

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 II.20.

15. 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".

(Expressed in thousands of Renminbi, unless otherwise stated)

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

15. Investment properties (continued)

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.

16. Fixed assets and accumulated depreciation

(i) Recognition of fixed assets

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 is derecognised. Otherwise, subsequent expenditures are recognised in the income statement in the period in which they are incurred.

(ii) Measurement and depreciation of fixed assets

Fixed assets are initially measured at cost. 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 expenditure of bringing the asset to working condition for its intended use, such as delivery and handling costs, installation costs and professional fees.

Depreciation is calculated 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	30 years	1%	3.3%
Transportation vehicles	6 years	3%	16.2%
Computers	3 or 5 years	1%	33.0% or 19.8%
Electronic appliances	5 or 10 years	1%	19.8% or 9.9%
Automatic teller machines	5 years	1%	19.8%
Owner-occupied property improvements	5 or 10 years	-	20.0% or 10.0%

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

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

17. Construction in progress

Construction in progress represents costs incurred in the construction of fixed assets. These costs include various construction costs which are necessary and other related expense during the period of construction. Construction in progress is not depreciated.

Construction in progress is reclassified to the appropriate category of fixed assets, intangible assets or long term deferred expenses when completed and ready for use.

18. 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.

An intangible 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. 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.

19. 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.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. 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.

21. 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”.

22. 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.

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.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. Recognition of income and expense (continued)

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.

23. 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 periods are measured at the amount expected to be recovered from or paid to the tax authorities.

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, as well as on temporary difference arising from the tax bases and carrying amount that have not recognised as an asset or liability on the balance sheet but can be determined as tax calculation basis.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

23. Income tax (continued)

Deferred tax (continued)
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 associates, 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 associates, 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 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 requirement 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. At the balance sheet date, deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow part or full of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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

Retirement plan
Certain employees of the Company in Mainland China can enjoy retirement benefits plan 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.

25. 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.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

26. 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 or joint control from the same party.

27. Fiduciary activities

Where the Company acts in a fiduciary capacity such as nominee, trustee or agent, assets arising there on 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.

28. 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.

29. 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.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. 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.

31. 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.

32. 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.

33. 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.

34. Debts restructuring

Debts restructuring represents the consensus made by the creditor in accordance with agreement with the debtor or based on court order, when the debtor is in financial difficulty conditions.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

34. Debts restructuring (continued)

As a creditor
The difference between the carrying amounts of the debts and the cash receipts is recognized in the profit or loss for the period if cash is received from discharging the debts. The difference between the carrying amounts of the debts and the fair value of the non-monetary assets is recognised in the profit or loss for the period if non-monetary assets are received from discharging the debts. The difference between the carrying amounts of the debts and the fair value of the interests in share capital is recognised in the profit and loss for the period if capital is exchanged in discharging the debts. The difference between the carrying amounts of the debts and the fair value of the debts after restructuring based on agreed terms and conditions is recognised in the profit or loss for the period if terms and conditions are amended. If all of the above are applied, the disposals should be based on the sequential order of the cash received, the fair value of the non-monetary assets received, the fair value of the interests in share capital received less the carrying amounts of the debts, and finally settlement of debts based on terms and conditions agreed.

If provision has been made to the debts under restructuring, the difference results from the above is offset against the provision with net change recognised in the profit and loss for the period.

35. 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.

(a) Designation of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and a fixed maturity are classified as held-to-maturity investments when the 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.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

35. Significant accounting judgements and estimates (continued)

(b) 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.

(c) 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.

(d) 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.

(e) 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Taxes

Major taxes and related tax rates applicable to the Company 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% to 7%
Corporate Income Tax	Amount of taxable income	24%, 25%

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS

1. Cash on hand and due from the Central Bank

	2011-6-30	2010-12-31
Cash on hand	1,189,116	836,549
Statutory reserve with the Central Bank - RMB	79,992,531	61,766,745
Statutory reserve with the Central Bank - foreign currency	425,061	809,165
Unrestricted balance with the Central Bank	12,629,529	12,798,567
Other deposits with the Central Bank - fiscal deposits	1,255,362	375,832
Total	95,491,599	76,586,858

Based on the related RMB and foreign currency deposits, the Company places respective statutory reserves with the Central Bank in accordance with the requirements from the People's Bank of China. These reserve deposits are not available for use in the Company's daily operations.

Fiscal deposits represent the amounts received from government-related bodies that are required to be deposited with the Central Bank according to the relevant regulations.

2. Placements of deposits with other financial institutions

Analysed by location and counterparty

	2011-6-30	2010-12-31
Domestic banks	16,639,774	7,119,595
Other domestic financial institutions	53,961	45,280
Overseas banks	2,399,852	1,389,549
Subtotal	19,093,587	8,554,424
Less: Impairment provision (Note III.18)	(40,786)	(30,695)
Total	19,052,801	8,523,729

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

2. Placements of deposits with other financial institutions (continued)

As at 30 June 2011, included in this total amount of placements of deposits with other financial institutions was an amount of RMB31,520 thousand (31 December 2010: RMB31,520 thousand) impaired assets.

3. Funds loaned to other financial institutions

Analysed by location and counterparty

	2011-6-30	2010-12-31
Domestic banks	1,643,890	1,580,636
Other domestic financial institutions	2,877,468	2,782,626
Overseas banks	4,384,517	4,142,056
Subtotal	8,905,875	8,505,318
Less: Impairment provision (Note III.18)	(28,312)	(29,330)
Total	8,877,563	8,475,988

As at 30 June 2011, included in this total amount of loans funded to other financial institutions was an amount of RMB27,468 thousand (31 December 2010: RMB32,626 thousand) impaired assets.

4. Financial assets at fair value through profit or loss

	2011-6-30	2010-12-31
Bonds held for trading	1,157,750	-
Bond investments analysed by issuer:		
Governments and the Central Bank	204,820	-
Policy banks	852,740	-
Corporations	100,190	-
Total	1,157,750	-

5. Derivative financial instruments

A derivative is a financial instrument, the value of which is derived from the value of another "underlying" financial instrument, an index or some other variables. Typically, an "underlying" financial instrument is a share, commodity or bond price, an index value or an exchange or interest rate. The Company uses derivative financial instruments such as forward contracts and swaps.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Company but does not reflect the risk.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Derivative financial instruments (continued)

At each balance sheet date, the Company has positions in the following types of derivatives:

	Notional amounts with remaining lives of					Fair value	
2011-6-30	Up to 3 months	3 months to 1 year	1 to 5 Years	5 Years above	Total	Assets	Liabilities
Foreign exchange derivative instruments:							
Forward foreign exchange contracts	71,200,723	44,217,531	398,495	-	115,816,749	424,712	(341,450)
Interest rate derivative instruments:							
Interest rate swap contracts	-	1,100,000	2,550,000	150,000	3,800,000	26,825	(22,874)
Total	71,200,723	45,317,531	2,948,495	150,000	119,616,749	451,537	(364,324)

	Notional amounts with remaining lives of				Fair value	
2010-12-31	Up to 3 months	3 months to 1 year	1 to 5 years	Total	Assets	Liabilities
Foreign exchange derivative instruments:						
Forward foreign exchange contracts	23,821,327	23,318,315	395,376	47,535,018	343,972	(291,069)
Interest rate derivative instruments:						
Interest rate swap contracts	-	100,000	2,200,000	2,300,000	27,762	(20,736)
Total	23,821,327	23,418,315	2,595,376	49,835,018	371,734	(311,805)

As at 30 June 2011 and 31 December 2010, no derivatives were designated as hedging instruments.

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

6. Reverse repurchase agreements

(a) Analysed by counterparty

	2011-6-30	2010-12-31
Banks	109,389,440	97,525,239
Non-bank financial institutions	778,612	773,194
Subtotal	110,168,052	98,298,433
Less: Impairment provision (Note III.18)	(35,000)	(35,000)
Total	110,133,052	98,263,433

As at 30 June 2011, included in this total amount of reverse repurchase agreements was an amount of RMB50 million (31 December 2010: RMB50 million) impaired assets.

(b) Analysed by collateral

	2011-6-30	2010-12-31
Securities	692,000	250,000
Bills	108,845,440	97,525,239
Receivables under finance leases	630,612	523,194
Subtotal	110,168,052	98,298,433
Less: Impairment provision (Note III.18)	(35,000)	(35,000)
Total	110,133,052	98,263,433

(c) Fair value of collateral

Under certain reverse repurchase agreements, the Company has held collateral that is permitted to be sold or re-pledged in the absence of default by the owners of the collateral. At the balance sheet date, the fair values of the collateral held on such terms are as follows:

	2011-6-30		2010-12-31	
	Amount of reverse repurchase agreements	Fair value of Collateral	Amount of reverse repurchase agreements	Fair value of Collateral
Bills	81,498,783	81,498,783	59,788,125	59,788,125

As at 30 June 2011, included in the above fair value of collateral were bills of RMB7,103,358 thousand (31 December 2010: RMB9,830,370 thousand) that had been re-pledged and the Company had an obligation to return such collateral.

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

7. Accounts receivables

	2011-6-30	2010-12-31
Receivables with respect to making payments on behalf of customers (Note)	15,313,907	7,388,795
Receivables under factoring	4,685,368	3,960,733
Receivables with respect to making payments on behalf of other banks	8,307,688	1,874,992
Receivables under discounted bills	13,260	502,895
Total	28,320,223	13,727,415

Note: The above receivables are related to the provision of trade finance services for customers by making payments on their behalf via the offshore business unit of the Company or other overseas banks in accordance with the terms of agreements signed with the customers. In connection with this, the payments made by other overseas banks are correspondingly recorded in "Accounts payables".

8. Interest receivable

Jan-Jun 2011	Balance at beginning of the period	Increase during the period	Collection during the period	Balance at end of the period
Interest receivable on bond investments and wealth management products	1,230,980	2,544,548	(1,978,169)	1,797,359
Interest receivable on loans and amounts due from other financial institutions	890,507	13,015,568	(12,692,180)	1,213,895
Total	2,121,487	15,560,116	(14,670,349)	3,011,254

2010	Balance at beginning of the year	Increase during the year	Collection during the year	Balance at end of the year
Interest receivable on bond investments and wealth management products	915,769	3,769,768	(3,454,557)	1,230,980
Interest receivable on loans and amounts due from other financial institutions	709,931	19,484,018	(19,303,442)	890,507
Total	1,625,700	23,253,786	(22,757,999)	2,121,487

As at 30 June 2011, included in the interest receivable was an amount of RMB15,866 thousand (31 December 2010: RMB12,334 thousand) that is past due. Such interest receivables are related to interest income on loans and are aged within 90 days.

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

9. Loans and advances

9.1 Analysed by corporation and individual

	2011-6-30	2010-12-31
Loans and advances to corporations:		
Loans	299,999,855	268,653,156
Discounted bills	16,517,577	18,646,560
Subtotal	316,517,432	287,299,716
Loans and advances to individuals:		
Credit cards	6,377,323	6,340,541
Property mortgages	112,080,087	102,372,046
Others	13,508,984	11,378,832
Subtotal	131,966,394	120,091,419
Total loans and advances	448,483,826	407,391,135
Less: Loan impairment provision (Note III.9.6)	(7,492,847)	(6,425,060)
Loans and advances, net	440,990,979	400,966,075

As at 30 June 2011, there were RMB772,409 thousand discounted bills (31 December 2010: RMB1,305,932 thousand) that had been pledged for amounts due to the Central Bank.

As at 30 June 2011, there were no loans (31 December 2010: RMB2,572,000 thousand) that had been pledged for repurchase agreements.

In addition, as at 30 June 2011, the Company transferred out (without recourse) discounted bills amounting to RMB107.4 billion (31 December 2010: RMB86 billion) that had not yet matured at the period/year end.

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

9. Loans and advances (continued)

9.2 Analysed by industry

	2011-6-30	2010-12-31
Agriculture, husbandry and fisheries	820,793	829,002
Extraction (Heavy industry)	3,506,955	4,206,075
Manufacturing (Light industry)	99,409,809	83,680,778
Energy	11,987,457	12,574,110
Transportation, storage and communication	19,635,188	20,287,842
Commercial	72,669,928	55,195,669
Real estate	25,027,906	22,527,322
Service, technology, culture and sanitary industries	43,485,833	48,328,221
Construction	20,161,053	18,277,064
Discounted bills	16,517,577	18,646,560
Loans and advances to individuals	131,966,394	120,091,419
Others	3,294,933	2,747,073
Total loans and advances	448,483,826	407,391,135
Less: Loan impairment provision (Note III.9.6)	(7,492,847)	(6,425,060)
Loans and advances, net	440,990,979	400,966,075

9.3 Analysed by type of collateral held or other credit enhancement

	2011-6-30	2010-12-31
Unsecured	75,880,112	73,941,051
Guaranteed	91,881,931	84,903,049
Secured by collateral	264,204,206	229,900,475
Of which: secured by mortgages	206,093,803	185,885,620
secured by monetary assets	58,110,403	44,014,855
Subtotal	431,966,249	388,744,575
Discounted bills	16,517,577	18,646,560
Total loans and advances	448,483,826	407,391,135
Less: Loan impairment provision (Note III.9.6)	(7,492,847)	(6,425,060)
Loans and advances, net	440,990,979	400,966,075

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

9. Loans and advances (continued)

9.4 Aging analysis of past due loans

	2011-6-30				
	Overdue by 1 to 90 days, inclusive	Overdue by 90 days to 1 year, inclusive	Overdue by 1 to 3 years, inclusive	Overdue by more than 3 years	Total
Unsecured	211,121	101,727	148,032	-	460,880
Guaranteed	11,866	23,400	255,468	6,378	297,112
Secured by collateral	2,788,239	345,057	659,210	347,900	4,140,406
Of which:					
secured by mortgages	2,771,245	299,427	478,486	263,222	3,812,380
secured by monetary assets	16,994	45,630	180,724	84,678	328,026
Total	3,011,226	470,184	1,062,710	354,278	4,898,398

	2010-12-31				
	Overdue by 1 to 90 days, inclusive	Overdue by 90 days to 1 year, inclusive	Overdue by 1 to 3 years, inclusive	Overdue by more than 3 years	Total
Unsecured	314,087	108,749	222,741	-	645,577
Guaranteed	27,293	21,014	164,275	29,976	242,558
Secured by collateral	1,905,022	503,554	629,462	290,808	3,328,846
Of which:					
secured by mortgages	1,709,025	405,765	345,595	290,808	2,751,193
secured by monetary assets	195,997	97,789	283,867	-	577,653
Total	2,246,402	633,317	1,016,478	320,784	4,216,981

Overdue loans refer to the loans with either principal or interest being overdue by one day or more.

9.5 Analysed by geographical region

	2011-6-30	2010-12-31
Southern and Central China	141,589,606	124,556,533
Eastern China	160,011,599	149,627,501
Northern and North-eastern China	109,190,281	97,820,853
South-western China	34,397,407	32,639,175
Offshore businesses	3,294,933	2,747,073
Total loans and advances	448,483,826	407,391,135
Less：Loan impairment provision (Note III.9.6)	(7,492,847)	(6,425,060)
Loans and advances, net	440,990,979	400,966,075

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

9. Loans and advances (continued)

9.6 Movements in impairment provision for loans and advances

	Jan-Jun 2011			2010		
	Individual	Collective	Total	Individual	Collective	Total
Balance at beginning of the period/year	1,126,471	5,298,589	6,425,060	994,935	2,959,933	3,954,868
Charge/(reversal) for the period/year	(422,412)	1,137,453	715,041	(928,082)	2,402,545	1,474,463
Amounts written off	(2,494)	(123,306)	(125,800)	(12,111)	(201,088)	(213,199)
Reversal for the period/year:						
Recovery of loans written off previously	428,568	91,199	519,767	1,147,353	137,199	1,284,552
Interest accrued on impaired loans and advances	(37,043)	-	(37,043)	(68,905)	-	(68,905)
Other changes for the period/year	(4,178)	-	(4,178)	(6,719)	-	(6,719)
Balance at end of the period/year (Note III.18)	1,088,912	6,403,935	7,492,847	1,126,471	5,298,589	6,425,060

10. Available-for-sale financial assets

	2011-6-30	2010-12-31
Bond investments analysed by issuer:		
Governments and the Central Bank	6,295,758	7,767,220
Policy banks	28,448,112	22,526,040
Other banks and non-bank financial institutions	904,633	677,160
Corporations	1,296,665	530,928
Total bond investments	36,945,168	31,501,348
Equity investments	37,884	32,835
Total	36,983,052	31,534,183

As at 30 June 2011, included in the available-for-sale financial assets were restricted tradable shares of RMB6,085 thousand (31 December 2010: RMB2,715 thousand).

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

11. Held-to-maturity investments

	2011-6-30	2010-12-31
Bond investments analysed by issuer:		
Governments and the Central Bank	21,145,407	22,010,366
Policy banks	46,547,983	28,613,269
Other banks and non-bank financial institutions	2,387,203	2,739,149
Corporations	8,269,401	8,017,053
Subtotal	78,349,994	61,379,837
Less：Impairment provision (Note III.18)	(4,935)	-
Total	78,345,059	61,379,837

As at 30 June 2011, there were no bond investments that had been pledged for agreements of time deposits from the PBOC (31 December 2010: RMB598,218 thousand). As at 30 June 2011, included in the bond investments was RMB8,777,245 thousand (31 December 2010: RMB6,177,996 thousand) that had been pledged for repurchase agreements.

12. Receivables

	2011-6-30	2010-12-31
Subordinated bonds issued by financial institutions	500,000	500,000
Principal guaranteed wealth management products issued by banks	20,502,100	18,002,100
Total	21,002,100	18,502,100

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

13. Long term equity investments

	Jan-Jun 2011								
Name of investee	Cost of investment	Balance at beginning of the period	Movements	Balance at end of the period	Percentage of equity held by the Company (%)	Percentage of voting right held by the Company (%)	Provision transferred out during the period	Impairment provision at end of the period (Note III.18)	Net balance at end of the period
Cost method：									
China UnionPay Co., Ltd.	50,000	50,000	-	50,000	1.71%	1.71%	-	-	50,000
Gintian Industry (Group) Co., Ltd.	9,662	9,662	-	9,662	2.03%	2.03%	-	(9,662)	-
Hainan Pearl River Holdings Co., Ltd.	9,650	9,650	-	9,650	0.27%	0.27%	-	(9,650)	-
Hainan Wuzhou Travel Co., Ltd.	5,220	5,220	-	5,220	3.70%	3.70%	-	(5,220)	-
Meizhou Polyester (Group) Co.	1,100	1,100	-	1,100	0.41%	0.41%	-	(1,100)	-
Shenzhen Zoto Investment Co.,Ltd.	2,500	2,500	-	2,500	4.10%	4.10%	-	-	2,500
Guangdong Sanxing Enterprises (Group) Co., Ltd.	500	500	-	500	0.05%	0.05%	-	(500)	-
Hainan Baiyunshan Co., Ltd.	1,000	1,000	-	1,000	0.91%	0.91%	-	(1,000)	-
Hainan Saige Co., Ltd.	1,000	1,000	-	1,000	0.56%	0.56%	-	(1,000)	-
Hainan Zhonghailian Real Estate Co., Ltd.	1,000	1,000	-	1,000	0.74%	0.74%	-	(1,000)	-
Shenzhen Jiafeng Textile Industrial Co., Ltd	16,725	16,725	-	16,725	13.82%	13.82%	-	(16,725)	-
SWIFT	684	684	-	684	0.03%	0.00%	-	-	684
Yong An Property Insurance Co., Ltd.	67,000	67,000	-	67,000	4.03%	4.03%	-	(67,000)	-
Wuhan Steel Electricity Co., Ltd.	32,175	32,175	-	32,175	3.37%	3.37%	-	-	32,175
Subtotal	198,216	198,216	-	198,216			-	(112,857)	85,359
Equity method：									
Associates									
Chengdu Gongtou Assets Management Co., Ltd.	259,836	313,054	29,000	342,054	33.20%	33.20%	-	(20,000)	322,054
Shandong Xinkaiyuan Real Estate Co., Ltd.	30,607	29,038	(29,038)	-	-	-	3,061	-	-
Subtotal	290,443	342,092	(38)	342,054			3,061	(20,000)	322,054
Total	488,659	540,308	(38)	540,270			3,061	(132,857)	407,413

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

13. Long term equity investments (continued)

	2010								
Name of investee	Cost of investment	Balance at beginning of the year	Movements	Balance at end of the year	Percentage of equity held by the Company (%)	Percentage of voting right held by the Company (%)	Provision charged for the year	Impairment provision at end of the year (Note III.18)	Net balance at end of the year
Cost method：									
China UnionPay Co., Ltd.	50,000	50,000	-	50,000	1.71%	1.71%	-	-	50,000
Gintian Industry (Group) Co., Ltd.	9,662	9,662	-	9,662	2.03%	2.03%	-	(9,662)	-
Hainan Pearl River Holdings Co., Ltd.	9,650	9,650	-	9,650	0.27%	0.27%	-	(9,650)	-
Hainan Wuzhou Travel Co., Ltd.	5,220	5,220	-	5,220	3.70%	3.70%	-	(5,220)	-
Meizhou Polyester (Group) Co.	1,100	1,100	-	1,100	0.41%	0.41%	-	(1,100)	-
Shenzhen Zoto Investment Co.,Ltd.	2,500	2,500	-	2,500	4.10%	4.10%	-	-	2,500
Guangdong Sanxing Enterprises (Group) Co., Ltd.	500	500	-	500	0.05%	0.05%	-	(500)	-
Hainan Baiyunshan Co., Ltd.	1,000	1,000	-	1,000	0.91%	0.91%	-	(1,000)	-
Hainan Saige Co., Ltd.	1,000	1,000	-	1,000	0.56%	0.56%	-	(1,000)	-
Hainan Zhonghailian Real Estate Co., Ltd.	1,000	1,000	-	1,000	0.74%	0.74%	-	(1,000)	-
Shenzhen Jiafeng Textile Industrial Co., Ltd	16,725	16,725	-	16,725	13.82%	13.82%	-	(16,725)	-
SWIFT	684	684	-	684	0.03%	0.00%	-	-	684
Yong An Property Insurance Co., Ltd.	67,000	67,000	-	67,000	4.03%	4.03%	-	(67,000)	-
Wuhan Steel Electricity Co., Ltd.	32,175	32,175	-	32,175	3.37%	3.37%	-	-	32,175
Chengdu Unionfriend Network Co. Ltd.	20,000	20,000	(20,000)	-	-	-	-	-	-
Subtotal	218,216	218,216	(20,000)	198,216			-	(112,857)	85,359
Equity method：									
Associates									
Chengdu Gongtou Assets Management Co., Ltd.	259,836	279,800	33,254	313,054	33.20%	33.20%	-	(20,000)	293,054
Shandong Xinkaiyuan Real Estate Co., Ltd.	30,607	30,607	(1,569)	29,038	15.42%	15.42%	-	(3,061)	25,977
Subtotal	290,443	310,407	31,685	342,092			-	(23,061)	319,031
Total	508,659	528,623	11,685	540,308			-	(135,918)	404,390

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

13. Long term equity investments (continued)

The movement in impairment provision for long term equity investments is as follows:

Jan-Jun 2011	Balance at beginning of the period	Charge for the period	Amounts transferred out during the period	Balance at end of the period
Chengdu Gongtou Assets Management Co., Ltd.	20,000	-	-	20,000
Yong An Property Insurance Co., Ltd.	67,000	-	-	67,000
Others	48,918	-	(3,061)	45,857
Total	135,918	-	(3,061)	132,857

2010	Balance at beginning of the year	Charge for the year	Amounts transferred out during the period	Balance at end of the year
Chengdu Gongtou Assets Management Co., Ltd.	20,000	-	-	20,000
Yong An Property Insurance Co., Ltd.	67,000	-	-	67,000
Others	48,918	-	-	48,918
Total	135,918	-	-	135,918

The movements in the associates during the period are as follows：

			Movements in equity			Impairment provision		
Jan-Jun 2011	Cost of investment	Balance at beginning of the period	Share of profit for the period	Movement in other comprehensive income	Amounts transferred out	Amounts transferred out	Accumulated balance	Balance at end of the period
				(Note III.46)				
Chengdu Gongtou Assets Managemen Co., Ltd.（Note 1）	259,836	293,054	29,000	-	-	-	(20,000)	322,054
Shandong Xinkaiyuan Real Estate Co., Ltd.（Note 2）	30,607	25,977	-	-	(29,038)	3,061	-	-
Total	290,443	319,031	29,000	-	(29,038)	3,061	(20,000)	322,054

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

13. Long term equity investments (continued)

2010	Cost of investment	Balance at beginning of the year	Movements in equity: Share of profit for the year	Movements in equity: Movement in other comprehensive income (Note III.46)	Movements in equity: Cash dividend received	Impairment provision: Charge for the year	Impairment provision: Accumulated balance	Balance at end of the year
Chengdu Gongtou Assets Managemen Co., Ltd.（Note 1）	259,836	259,800	62,393	(9,219)	(19,920)	-	(20,000)	293,054
Shandong Xinkaiyuan Real Estate Co., Ltd.（Note 2）	30,607	27,546	(1,569)	-	-	-	(3,061)	25,977
Total	290,443	287,346	60,824	(9,219)	(19,920)	-	(23,061)	319,031

Note 1: On 30 January 2008, the Company obtained 33.2% of the shareholding of Chengdu Gongtou Assets Management Co., Ltd. as repossessed assets.

Note 2: On 18 August 2008, the Company obtained 15.42% of the shareholding of Shandong Xinkaiyuan Real Estate Co., Ltd. as repossessed assets. The Company has appointed a representative at the board of the investee and had significant influence over the investee. In May 2011, the Company obtained a property from Shandong Xinkaiyuan Real Estate Co., Ltd as repossessed assets in exchange of the 15.42% shareholding.

The key financial information of the associates is as follows:

	Place of registration	Nature of business	Registered capital
Chengdu Gongtou Assets Management Co., Ltd.	Chengdu	Asset management	518,700

	2011-6-30: Total assets	2011-6-30: Total liabilities	Jan-Jun 2011: Operating income	Jan-Jun 2011: Net profit(Note)
Chengdu Gongtou Assets Management Co., Ltd.	1,736,345	737,600	47,730	125,238

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

13. Long term equity investments (continued)

	2010-12-31		Jan-Dec 2010	
	Total assets	Total liabilities	Operating income	Net profit(Note)
Chengdu Gongtou Assets Management Co., Ltd.	1,385,767	467,642	114,434	115,053

Note: The amount represents the net profit attributable to the parent company on the face of the consolidated income statement of the associate.

14. Investment properties

	2011-6-30	2010-12-31
Balance at beginning of the period/year	539,805	523,846
Fair value changes recognised in profit or loss	-	37,071
Transfer out during the period/year, net	(82)	(21,112)
Balance at end of the period/year	539,723	539,805

The Company's investment properties are mainly properties and buildings, which are rented to third parties under operating leases. The investment properties are situated in locations where there are active property markets and the fair value of the investment properties can be reliably determinable on a continuing basis. Accordingly, management decided to adopt the fair value model for subsequent measurement of the investment properties, which are valued by independent professionally qualified valuers on, at least, an annual basis.

As at 30 June 2011, included in the investment properties was an amount of RMB49,477 thousand (31 December 2010: RMB29,937 thousand) that did not have the corresponding registration certificates of property rights.

The gross rental income earned from the investment properties during the period amounted to RMB20,466 thousand (Jan-Jun 2010: RMB20,548 thousand). The total direct operating expense (including repairs and maintenance expenses) for the investment properties, with or without rental income generated during the period, was RMB972 thousand (Jan-Jun 2010: RMB1,142 thousand).

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

15. Fixed assets

	Balance at beginning of the period	Additions	Transfer from construction in progress	Subtraction	Balance at end of the period
Jan-Jun 2011					
At cost:					
Properties and buildings	2,166,031	25,071	-	(42,170)	2,148,932
Transportation vehicles	83,552	4,392	-	(4,411)	83,533
Computers	653,743	26,346	-	(23,602)	656,487
Electronic appliances	915,444	12,870	4,873	(8,478)	924,709
Owner-occupied property improvements	521,624	31,417	3,687	(752)	555,976
Total	4,340,394	100,096	8,560	(79,413)	4,369,637

Accumulated depreciation：	Balance at beginning of the period	Additions	Accrual	Subtraction	Balance at end of the period
Properties and Buildings	549,957	-	27,008	(2,000)	574,965
Transportation vehicles	47,030	-	4,627	(4,287)	47,370
Computers	445,492	-	50,742	(23,034)	473,200
Electronic appliances	503,584	-	61,661	(8,000)	557,245
Owner-occupied property improvements	317,991	-	33,714	(454)	351,251
Total	1,864,054	-	177,752	(37,775)	2,004,031
Less: Impairment provision (Note III.18)	(6,289)				(6,289)
Net book value	2,470,051				2,359,317

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

15. Fixed assets (continued)

	Balance at beginning of the year	Additions	Transfer from construction in progress	Subtraction	Balance at end of the year
2010					
At cost:					
Properties and buildings	1,552,298	50,007	591,512	(27,786)	2,166,031
Transportation vehicles	84,150	13,291	-	(13,889)	83,552
Computers	578,218	108,023	2,748	(35,246)	653,743
Electronic appliances	770,752	132,092	47,270	(34,670)	915,444
Owner-occupied property improvements	370,896	25,030	132,078	(6,380)	521,624
Total	3,356,314	328,443	773,608	(117,971)	4,340,394

Accumulated depreciation:	Balance at beginning of the year	Additions	Accrual	Subtraction	Balance at end of the year
Properties and Buildings	494,463	-	66,093	(10,599)	549,957
Transportation vehicles	51,403	-	8,618	(12,991)	47,030
Computers	380,626	-	99,056	(34,190)	445,492
Electronic appliances	423,909	-	111,998	(32,323)	503,584
Owner-occupied property improvements	285,163	-	36,446	(3,618)	317,991
Total	1,635,564	-	322,211	(93,721)	1,864,054
Less: Impairment provision (Note III.18)	(6,289)				(6,289)
Net book value	1,714,461				2,470,051

As at 30 June 2011, the original cost and net book value of properties and buildings amounting to RMB308,265 thousand (31 December 2010: RMB330,810 thousand) and RMB259,069 thousand (31 December 2010: RMB281,104 thousand) respectively, are in use by the Company without having the registration certificates of property rights.

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

16. Deferred tax assets/liabilities

Jan-Jun 2011

Deferred tax assets	Balance at beginning of the period	Recognised in profit or loss	Recognised in other comprehensive income	Balance at end of the period
		(Note III.44)	(Note III.46)	
Impairment provision	1,517,492	57,847	-	1,575,339
Salaries and bonuses	352,216	(613)	-	351,603
Changes in fair values of available-for-sale financial assets	42,565	-	35,798	78,363
Others	42,295	23,573	-	65,868
Subtotal	1,954,568	80,807	35,798	2,071,173
Deferred tax liabilities				
Changes in fair values of financial instruments at fair value through profit or loss and derivative financial instruments	(15,425)	(6,083)	-	(21,508)
Changes in fair values of investment properties and revaluation surplus on owner-occupied properties transferred to investment properties	(87,651)	(2,078)	(4,073)	(93,802)
Subtotal	(103,076)	(8,161)	(4,073)	(115,310)
Net amount	1,851,492	72,646	31,725	1,955,863

2010

Deferred tax assets	Balance at beginning of the year	Recognised in profit or loss	Recognised in other comprehensive income	Balance at end of the year
		(Note III.44)	(Note III.46)	
Impairment provision	1,492,006	25,486	-	1,517,492
Salaries and bonuses	67,522	284,694	-	352,216
Changes in fair values of available-for-sale financial assets	-	-	42,565	42,565
Others	23,406	18,889	-	42,295
Subtotal	1,582,934	329,069	42,565	1,954,568
Deferred tax liabilities				
Changes in fair values of financial instruments at fair value through profit or loss and derivative financial instruments	(18,680)	3,255	-	(15,425)
Changes in fair values of available-for-sale financial assets	(6,106)	-	6,106	-
Changes in fair values of investment properties and revaluation surplus on owner-occupied properties transferred to investment properties	(69,739)	(12,328)	(5,584)	(87,651)
Subtotal	(94,525)	(9,073)	522	(103,076)
Net amount	1,488,409	319,996	43,087	1,851,492

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

17. Other assets

(a) Analyzed by nature

	2011-6-30	2010-12-31
Prepayments (Note III.17b)	134,058	137,907
Prepaid legal expenses (Note III.17c)	63,851	64,045
Repossessed assets (Note III.17d)	660,046	630,116
Construction in progress (Note III.17e)	192,449	194,586
Receivable of sale proceeds of bonds	1,080,000	-
Receivable of bills due from other banks	15,083	3,796
Receivable of deferred consumption payments	334,212	336,457
Long term deferred expenses (Note III.17f)	443,205	489,385
Others (Note III.17g)	164,641	158,120
Total other assets	3,087,545	2,014,412
Less: Impairment provision:		
Prepaid legal expenses (Note III.17c)	(54,593)	(56,080)
Repossessed assets (Note III.17d)	(259,473)	(258,185)
Others (Note III.17g)	(96,703)	(103,314)
Total impairment provision	(410,769)	(417,579)
Other assets, net	2,676,776	1,596,833

(b) Aging analysis of prepayments

	2011-6-30		2010-12-31	
	Amount	Percentage	Amount	Percentage
Less than 1 year	83,386	62.20%	88,661	64.29%
1 to 2 years	9,194	6.86%	11,657	8.45%
2 to 3 years	15,335	11.44%	14,672	10.64%
Over 3 years	26,143	19.50%	22,917	16.62%
Total	134,058	100.00%	137,907	100.00%

As at 30 June 2011 and 31 December 2010, the Company has not made any provision for prepayments.

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

17. Other assets (continued)

(c) Prepaid legal expenses

	2011-6-30				2010-12-31			
	Carrying amount		Impairment provision		Carrying amount		Impairment provision	
	Amount	Percentage	Amount	Coverage	Amount	Percentage	Amount	Coverage
Individual assessment	59,559	93.28%	(51,699)	86.80%	59,237	92.49%	(52,343)	88.36%
Collective assessment:								
Aging less than 1 year	1,990	3.12%	(635)	31.91%	2,269	3.55%	(1,256)	55.35%
Aging between 1 and 2 years	911	1.43%	(868)	95.28%	1,271	1.98%	(1,213)	95.44%
Aging between 2 and 3 years	707	1.10%	(707)	100.00%	438	0.68%	(438)	100.00%
Aging over 3 years	684	1.07%	(684)	100.00%	830	1.30%	(830)	100.00%
Subtotal	4,292	6.72%	(2,894)	67.43%	4,808	7.51%	(3,737)	77.72%
Total	63,851	100.00%	(54,593)	85.50%	64,045	100.00%	(56,080)	87.56%

(d) Repossessed assets

	2011-6-30	2010-12-31
Land, properties and buildings	638,746	590,375
Others	21,300	39,741
Total	660,046	630,116
Less: Provision for decline in value (Note III.18)	(259,473)	(258,185)
Repossessed assets, net	400,573	371,931

During the period, the Company took possession of collateral held as security with a carrying amount of RMB126,293 thousand (2010: RMB120,858 thousand). The collateral mainly comprises buildings. During the period, the Company disposed of repossessed assets with their gross carrying value amounting to RMB96,363 thousand (2010: RMB518,866 thousand). The Company plans to dispose of the repossessed assets through auctions, bidding or transfers in the future.

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

17. Other assets (continued)

(e) Construction in progress

	2011-6-30	2010-12-31
Balance at beginning of the period/year	194,586	673,587
Additions during the period/year	17,520	437,470
Transfer to fixed assets	(8,560)	(773,608)
Transfer to intangible assets	(198)	(19,292)
Transfer to long-term deferred expenses	(10,899)	(123,571)
Balance at end of the period/year	192,449	194,586

Movements in key projects of construction in progress during the period/year are as follows:

Jan-Jun 2011

Project name	Budget amount	Balance at beginning of the period	Additions	Transfer out to fixed assets	Balance at end of the period	Percentage of budget incurred	Progress of project
Bank premises of Jinan Branch	210,000	175,330	4,047	-	179,377	85%	99%

2010

Project name	Budget amount	Balance at beginning of the year	Additions	Transfer out to fixed assets	Balance at end of the year	Percentage of budget incurred	Progress of project
Bank premises of Jinan Branch	210,000	-	175,330	-	175,330	83%	75%
Property development project for Information Technology Building of SDB	217,095	176,788	32,676	(209,464)	-	96%	100%
Bank premises of Tianjin Branch	268,548	197,504	48,587	(246,091)	-	92%	100%
Bank premises of Nanjing Branch (Hetai Building)	253,444	233,798	11,016	(244,814)	-	97%	100%

Note: All proceeds for construction in progress are self-funded.

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

17. Other assets (continued)

(f) Long term deferred expenses

	2011-6-30	2010-12-31
Balance at beginning of the period/year	489,385	429,279
Additions during the period/year	18,496	183,091
Amortisation during the period/year	(63,294)	(117,783)
Others	(1,382)	(5,202)
Balance at end of the period/year	443,205	489,385

(g) Others

	2011-6-30				2010-12-31			
	Carrying amount		Impairment provision		Carrying amount		Impairment provision	
	Amount	Percentage	Amount	Coverage	Amount	Percentage	Amount	Coverage
Individual assessment	102,280	62.12%	(87,556)	85.60%	117,179	74.11%	(95,144)	81.20%
Collective assessment:								
Aging less than 1 year	46,900	28.49%	(1,556)	3.32%	26,098	16.51%	(1,091)	4.18%
Aging between 1 and 2 years	1,035	0.63%	(708)	68.41%	6,031	3.81%	(208)	3.45%
Aging between 2 and 3 years	6,030	3.66%	(114)	1.89%	510	0.32%	(472)	92.55%
Aging over 3 years	8,396	5.10%	(6,769)	80.62%	8,302	5.25%	(6,399)	77.08%
Subtotal	62,361	37.88%	(9,147)	14.67%	40,941	25.89%	(8,170)	19.96%
Total	164,641	100.00%	(96,703)	58.74%	158,120	100.00%	(103,314)	65.34%

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

18. Impairment losses on assets

Jan-Jun 2011	Note III	Balance at beginning of the period	Charge/ (reversal) for the period	Amounts written off	Recovery of assets written off previously	Amounts released upon disposal of assets	Interest accrued on impaired loans and advances	Other movements	Balance at end of the period
			(Note III.43)						
Impairment provision for placements of deposits with other financial institutions	2	30,695	10,091	-	-	-	-	-	40,786
Impairment provision for funds loaned to other financial institutions	3	29,330	4,076	(4,773)	-	-	-	(321)	28,312
Impairment provision for reverse repurchase agreements	6	35,000	-	-	-	-	-	-	35,000
Impairment provision for loans and advances	9.6	6,425,060	715,041	(125,800)	519,767	-	(37,043)	(4,178)	7,492,847
Impairment provision for held-to-maturity investments	11	-	4,935	-	-	-	-	-	4,935
Impairment provision for long term equity investments	13	135,918	(3,061)	-	-	-	-	-	132,857
Provision for decline in value of repossessed assets	17d	258,185	8,590	-	-	(7,302)	-	-	259,473
Impairment provision for fixed assets	15	6,289	-	-	-	-	-	-	6,289
Impairment provision for other assets	17c&g	159,394	(8,994)	-	1,285	-	-	(389)	151,296
Total		7,079,871	730,678	(130,573)	521,052	(7,302)	(37,043)	(4,888)	8,151,795

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

18. Impairment losses on assets (continued)

2010	Note III	Balance at beginning of the year	Charge/ (reversal) for the year (Note III.43)	Amounts written off	Recovery of assets written off previously	Amounts released upon disposal of assets	Interest accrued on impaired loans and advances	Other movements	Balance at end of the year
Provision for decline in value of precious metals		78	59	-	-	(137)	-	-	-
Impairment provision for placements of deposits with other financial institutions	2	40,695	-	(10,000)	-	-	-	-	30,695
Impairment provision for funds loaned to other financial institutions	3	29,979	(41)	-	-	-	-	(608)	29,330
Impairment provision for reverse repurchase agreements	6	35,000	-	-	-	-	-	-	35,000
Impairment provision for loans and advances	9.6	3,954,868	1,474,463	(213,199)	1,284,552	-	(68,905)	(6,719)	6,425,060
Impairment provision for long term equity investments	13	135,918	-	-	-	-	-	-	135,918
Provision for decline in value of repossessed assets	17d	360,961	15,426	-	-	(118,202)	-	-	258,185
Impairment provision for fixed assets	15	6,289	-	-	-	-	-	-	6,289
Impairment provision for other assets	17c&g	154,408	(1,791)	(117)	5,243	-	-	1,651	159,394
Total		4,718,196	1,488,116	(223,316)	1,289,795	(118,339)	(68,905)	(5,676)	7,079,871

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

19. Placements of deposits from other financial institutions

	2011-6-30	2010-12-31
Domestic banks	77,042,606	59,298,912
Domestic non-bank financial institutions	43,747,323	23,071,148
Overseas banks	675	-
Total	120,790,604	82,370,060

20. Funds borrowed from other financial institutions

	2011-6-30	2010-12-31
Domestic banks	5,335,706	6,200,174

21. Repurchase agreements

	2011-6-30	2010-12-31
(a) Analysed by collateral		
Securities	8,587,300	6,144,600
Bills	6,402,112	8,944,072
Loans	-	2,500,000
Total	14,989,412	17,588,672
(b) Analysed by counterparty		
Banks	12,161,112	16,854,072
Non-bank financial institutions	2,828,300	734,600
Total	14,989,412	17,588,672

22. Customer deposits

	2011-6-30	2010-12-31
Current deposits:		
Corporate customers	143,287,427	142,599,994
Personal customers	40,834,441	33,028,210
Subtotal	184,121,868	175,628,204
Fixed deposits:		
Corporate customers	191,937,471	177,004,192
Personal customers	61,868,773	47,816,086
Subtotal	253,806,244	224,820,278
Guarantee deposits	175,376,810	143,372,603
Fiscal deposits	14,794,501	16,399,646
Time deposits from PBOC	-	470,000
Inward and outward remittances	4,397,120	2,221,611
Total	632,496,543	562,912,342

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

23. Employee benefits payable

Jan-Jun 2011	Balance at beginning of the period	Increase during the period	Payment made during the period	Balance at end of the period
Salaries, bonuses, allowances and subsidies	1,547,270	1,990,285	(2,026,511)	1,511,044
including: Deferred bonus accrual (Note)	68,817	50,361	(20,389)	98,789
Social insurance, supplementary pension contributions and staff welfare	327,028	348,806	(339,279)	336,555
Housing funds	-	97,585	(97,585)	-
Labour union and training expenses	4,305	45,750	(40,371)	9,684
Others	-	7,058	(7,058)	-
Total	1,878,603	2,489,484	(2,510,804)	1,857,283

2010	Balance at beginning of the year	Increase during the year	Payment made during the year	Balance at end of the year
Salaries, bonuses, allowances and subsidies	1,419,343	3,070,266	(2,942,339)	1,547,270
including: Deferred bonus accrual (Note)	159,602	8,625	(99,410)	68,817
Social insurance, supplementary pension contributions and staff welfare	262,385	590,526	(525,883)	327,028
Housing funds	-	162,078	(162,078)	-
Labour union and training expenses	-	96,193	(91,888)	4,305
Others	-	25,446	(25,446)	-
Total	1,681,728	3,944,509	(3,747,634)	1,878,603

Note : The amount of deferred bonus is determined based on the indicators of profitability, the share price and the capital adequacy ratio of the Company as well as the share prices of certain other domestic listed banks; and will be settled in cash in accordance with the terms of the arrangement.

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

24. Tax payable

	2011-6-30	2010-12-31
Corporate income tax	798,835	656,410
Business tax and surcharges	547,875	432,825
Others	38,661	35,886
Total	1,385,371	1,125,121

25. Accounts payables

	2011-6-30	2010-12-31
Payables with respect to making payments on behalf of customers	11,908,301	4,532,860
Payables under factoring	596,746	85,064
Payables under discounted bills	13,260	502,894
Total	12,518,307	5,120,818

26. Interest payable

Jan-Jun 2011	Balance at beginning of the period	Increase during the period	Payment made during the period	Balance at end of the period
Interest payable for deposits from customers and financial institutions	3,566,797	8,557,827	(7,694,634)	4,429,990
Interest payable for bonds	353,276	323,840	(465,075)	212,041
Total	3,920,073	8,881,667	(8,159,709)	4,642,031

2010	Balance at beginning of the year	Increase during the year	Payment made during the year	Balance at end of the year
Interest payable for deposits from customers and financial institutions	2,329,195	9,566,189	(8,328,587)	3,566,797
Interest payable for bonds	352,967	549,171	(548,862)	353,276
Total	2,682,162	10,115,360	(8,877,449)	3,920,073

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

27. Bonds payable

	2011-6-30	2010-12-31
Subordinated bonds (Note 1)	7,983,475	7,978,650
Hybrid capital debt instrument (Note 2)	5,141,629	1,490,838
Total	13,125,104	9,469,488

During at 30 June 2011 and 31 December 2010, the Company did not have any defaults of principal, interest or other breaches with respect to the subordinated bonds and the hybrid capital debt instrument.

Note 1: As approved by the PBOC and CBRC, the Company issued three sets of subordinated bonds with a total amount of RMB8 billion in the inter-bank bond market on 21 March 2008 and 28 October 2008. These subordinated bonds comprise two sets of fixed-rate bonds with nominal values of RMB6 billion and RMB1.5 billion respectively; and one set of floating-rate bonds with a nominal value of RMB0.5 billion. The term of the bonds is of 10 years with a call option at the end of the fifth year. The coupon rates for the first five years are 6.10% and 5.30% for the two sets of fixed-rate bonds; and 3-month SHIBOR+1.40% for the floating-rate bonds. If the Company does not exercise the call option at the end of the fifth year, both the fixed and floating coupon rates will increase by 3%.

Note 2: As approved by the PBOC and CBRC, the Company issued a fixed-rate hybrid capital debt instrument amounting to RMB1.5 billion in the inter-bank market on 26 May 2009. The debt instrument has 15 years to maturity. The Company has the option to redeem the debt instrument at face value on 26 May 2019. The coupon rate for the first ten years is 5.70%. If the Company does not exercise this option, the coupon rate will increase by 3% thereafter.

On 29 April 2011, as approved by the PBOC and CBRC, the Company issued another fixed-rate hybrid capital debt instrument amounting to RMB3.65 billion in the inter-bank market. The debt instrument has 15 years to maturity with an annual interest rate of 7.5%. The Company has the option to redeem the debt instrument at face value on 29 April 2021.

28. Provisions

	2011-6-30	2010-12-31
Balance at beginning of the period/year	3,047	3,358
Charge for the period/year	17,729	1,469
Amounts paid or released	(268)	(1,780)
Balance at end of the period/year	20,508	3,047

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

29. Other liabilities

	2011-6-30	2010-12-31
Amounts pending for settlement and clearing	462,174	77,157
Financial guarantee contracts	80,098	69,007
Amounts payable for bond redemption as intermediaries	47,012	36,139
Accrued expenses	170,002	98,230
Amounts payable for acquisition of bonds	2,997,322	-
Inactive deposit account balances	29,366	34,573
Dividends payable (Note)	11,260	11,260
Advanced receipts of rentals and proceeds from disposal of repossessed assets	113,155	11,713
Others	829,508	518,159
Total	4,739,897	856,238

Note: As at 30 June 2011, the above-mentioned balance of dividends payable has been outstanding for more than one year as the related shareholders have not collected the dividends.

30. Share capital

As at 30 June 2011, the number of the Company's ordinary shares issued and fully paid was 3,485,014 thousand, with a price of RMB1 Yuan each. The nature and the structure of the share capital are as follows:

		2010-12-31	Percentage	Movement in the period	2011-6-30	Percentage
I.	Restricted tradable shares:					
	Domestic non-state-owned corporation shares	379,636	10.89%	-	379,636	10.89%
	Domestic individual shares	19	0.00%	-	19	0.00%
	Total restricted tradable shares	379,655	10.89%	-	379,655	10.89%
II.	Unrestricted tradable shares:					
	RMB ordinary shares	3,105,359	89.11%	-	3,105,359	89.11%
III.	Total shares	3,485,014	100.00%	-	3,485,014	100.00%

(Expressed in thousands of Renminbi, unless otherwise stated)

31. Capital reserve

	2011-6-30	2010-12-31
Share premium	13,501,118	13,501,118
Cumulative changes in fair value of available-for-sale financial assets	(235,090)	(132,761)
Revaluation surplus on owner-occupied properties transferred to investment properties	65,634	55,532
Share of the changes in owners' equity of an associate	(26,946)	(26,946)
Total	13,304,716	13,396,943

32. Surplus reserve

In accordance with the Company Law, the Company is required to appropriate 10% of its profit after tax to its statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital. The Company may also appropriate its profit after tax to the discretionary surplus reserve upon approval of the shareholders in general meetings.

As at 30 June 2011 and 31 December 2010, the amount of the surplus reserve represented the statutory surplus reserve.

33. General reserve

Pursuant to the relevant regulations issued by the MOF, the Company is required to maintain a general reserve within equity, through the appropriation of net profit, which should not be less than 1% of the period end balance of its risk assets.

34. Unappropriated profit

Pursuant to a board resolution on 24 February 2011, based on the audited profit for the year as reported in the statutory financial statements for the year ended 31 December 2010, the Company appropriated RMB628,382 thousand to the statutory surplus reserve based on 10% of the net profit and RMB1,301,506 thousand to the general reserve for the year of 2010. The above proposed appropriations were approved at the shareholders' meeting of the Company on 25 May 2011.

Pursuant to a board resolution on 11 March 2010, based on the audited profit for the year as reported in the statutory financial statements for the year ended 31 December 2009, the Company appropriated RMB503,072 thousand to the statutory surplus reserve based on 10% of the net profit and RMB1,092,980 thousand to the general reserve for the year of 2009. The above proposed appropriations were approved at the shareholders' meeting of the Company held on 17 June 2010.

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

35. Net interest income

	Jan-Jun 2011	Jan-Jun 2010
Interest income:		
Due from the Central Bank	610,507	372,350
Due from financial institutions		
Rediscounted bills and reverse repurchase agreements collateralized by bills	3,631,838	1,064,734
Others	464,304	162,920
Loans and advances		
Corporate loans and advances	8,474,867	6,217,041
Individual loans and advances	3,635,560	2,627,560
Discounted bills	221,436	130,851
Interest income on investment securities (excluding financial assets at fair value through profit or loss)	2,116,978	1,538,466
Others	350,458	59,085
Subtotal	19,505,948	12,173,007
Interest income on financial assets at fair value through profit or loss	34,513	6,588
Total	19,540,461	12,179,595
Including: Interest income accrued on impaired financial assets	37,043	32,876
Interest expense:		
Due to the Central Bank	26,644	4,613
Due to financial institutions		
Redisounted bills and repurchase agreements collateralised by bills	201,323	109,908
Others	3,002,810	837,003
Customer deposits	5,428,699	3,532,345
Bonds payable	329,456	275,196
Others	159,307	11,138
Subtotal	9,148,239	4,770,383
Total	9,148,239	4,770,383
Net interest income	10,392,222	7,409,212

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

36. Net fee and commission income

	Jan-Jun 2011	Jan-Jun 2010
Fee and commission income:		
Settlement fee income	315,566	229,832
Wealth management products related fee income	95,474	21,223
Agency business fee income	154,704	57,531
Bank card fee income	301,186	338,036
Advisory and consulting fee income	274,661	125,934
Account management fee income	22,892	21,175
Others	165,552	70,997
Subtotal	1,330,035	864,728
Fee and commission expenses:		
Agency business fee expenses	42,022	25,771
Bank card fee	87,761	75,273
Others	12,615	13,859
Subtotal	142,398	114,903
Net fee and commission income	1,187,637	749,825

37. Investment income

	Jan-Jun 2011	Jan-Jun 2010
Net gain/(loss) on disposal of bond investments held for trading	(6,528)	7,622
Net gain/(loss) on disposal of available-for-sale bond investments	(22,224)	15,153
Net gain on disposal of available-for-sale equity investments	-	15,680
Net gain on disposal of held-to-maturity bond investments (Note)	46	-
Net gain/(loss) on disposal of long term equity investments	1,569	(7,252)
Share of profits of associates under equity method of accounting	29,000	40,824
Dividend income	2	2,690
Net realized gain on derivative financial instruments (excluding foreign exchange derivative financial instruments)	4,399	6,354
Gain on disposal of bills	344,208	88,705
Net gain on disposal of debt instruments being underwritten	1,988	2,601
Total	352,460	172,377

Note: All the held-to-maturity bonds sold during the current period were within three months of maturity dates.

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

38. Gains or (losses) from changes in fair values of financial instruments

	Jan-Jun 2011	Jan-Jun 2010
Financial instruments held for trading	(4,790)	2,565
Derivative financial instruments (excluding foreign exchange derivative financial instruments)	(3,075)	(22,749)
Total	(7,865)	(20,184)

39. Net foreign exchange difference

	Jan-Jun 2011	Jan-Jun 2010
Gain/(loss) from changes in fair values on foreign exchange derivative financial instruments	30,359	(11,048)
Others	121,312	109,888
Total	151,671	98,840

40. Other operating income

	Jan-Jun 2011	Jan-Jun 2010
Rental income	35,826	32,243
Others	28,639	41,260
Total	64,465	73,503

41. Business tax and surcharge

	Jan-Jun 2011	Jan-Jun 2010
Business tax	847,414	549,654
City maintenance and construction tax	59,319	31,914
Education surcharge	37,572	20,944
Others	8,787	4,379
Total	953,092	606,891

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

42. Business and administrative expenses

	Jan-Jun 2011	Jan-Jun 2010
Staff expenses:		
Salaries, bonuses, allowances and subsidies	1,990,285	1,471,425
Social insurance, supplementary pension contributions and staff welfare	348,806	292,139
Housing funds	97,585	75,559
Labor union and training expenses	45,750	42,846
Others	7,058	5,092
Subtotal	2,489,484	1,887,061
General and administrative expenses:		
Computer system maintenance fees	112,963	81,608
Telecommunication and postage expenses	53,160	49,372
Water and electricity expenses	29,499	29,234
Publication and stationery expenses	118,098	101,698
Travel expenses	27,647	37,571
Marketing and public relation expenses	528,950	311,548
Transportation expenses	73,808	66,861
Legal expenses	21,322	47,057
Professional fees	166,299	182,167
Sundry tax expenses	20,262	20,886
CBRC supervisory fee	23,697	45,081
Others	152,669	212,521
Subtotal	1,328,374	1,185,604
Depreciation, amortization and rental expenses:		
Depreciation of fixed assets	177,752	151,043
Amortisation of leasehold improvements	58,060	48,571
Amortisation of intangible assets	31,196	24,203
Rental expenses	322,060	294,001
Subtotal	589,068	517,818
Total	4,406,926	3,590,483

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

43. Impairment losses on assets

	Jan-Jun 2011	Jan-Jun 2010
Charge/(reversal) of impairment losses on:		
Precious metals	-	66
Placements of deposits with other financial institutions	10,091	-
Funds loaned to other financial institutions	4,076	-
Loans and advances	715,041	484,838
Held-to-maturity investments	4,935	-
Long term equity investments	(3,061)	-
Repossessed assets	8,590	13,143
Other assets	(8,994)	(4,138)
Total	730,678	493,909

44. Income tax expense

	Jan-Jun 2011	Jan-Jun 2010
Current tax:		
Charge for the period	1,493,336	818,987
Adjustments in respect of current income tax for prior years (Note 1)	(86,590)	204,959
Subtotal	1,406,746	1,023,946
Deferred income tax (Note III.16) (Note 1)	(72,646)	(185,318)
Total	1,334,100	838,628

Note 1: During Jan-Jun 2010, the adjustments in respect of current income tax for prior years were mainly related to the salary and bonus accrued but remained unpaid in 2009 amounting to RMB245,943 thousand. As such salary and bonus payable balance was deductible from the taxable income when it was settled; deferred tax asset had been recognised by the Company correspondingly for this deductible temporary difference which offsets the effect of the current tax for the period.

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

44. Income tax expense (continued)

The reconciliation of income tax expense applicable to profit before tax at the statutory tax rate to income tax expense at the Company's effective income tax rate is as follows:

	Jan-Jun 2011	Jan-Jun 2010
Profit before tax	6,065,846	3,871,747
Income tax at the statutory rate of 25%	1,516,462	967,937
Effects of 24% tax rate (2010: 22%) applicable to the regions of Shenzhen, Zhuhai and Haikou	(39,577)	(79,482)
Adjustments in respect of current income tax for prior years (Note 2)	(75,198)	8,339
Non-taxable income	(70,548)	(60,778)
Non-deductible expenses and other adjustments	2,961	2,612
Income tax expense	1,334,100	838,628

Note 2: The adjustments in respect of current income tax for prior years have excluded the tax effect of temporary differences.

45. Earnings per share

The Company's basic earnings per share amount is calculated as follows:

	Jan-Jun 2011	Jan-Jun 2010
Net profit attributable to ordinary shareholders of the Company	4,731,746	3,033,119
The weighted average number of ordinary shares outstanding (in thousands)	3,485,014	3,105,434
Basic earnings per share (Renminbi Yuan)	1.36	0.98

The Company had no potentially dilutive ordinary shares in issue during the period.

There have been no transactions involving ordinary shares or potential ordinary shares between the balance sheet date and the date the financial statements are authorized for issue.

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

46. Other comprehensive income

		Jan-Jun 2011	Jan-Jun 2010
(i)	Net loss on available-for-sale financial assets	(171,219)	32,617
	Less：income tax effect	44,375	(8,839)
	Net gain or loss previously recognised in other comprehensive income transferred to profit or loss during the period	33,092	(19,557)
	Less：income tax effect	(8,577)	5,301
	Subtotal	(102,329)	9,522
(ii)	Share of the changes in owners' equity of an associate	-	(9,219)
	Less：income tax effect	-	-
	Subtotal	-	(9,219)
(iii)	Revaluation surplus on owner-occupied properties transferred to investment properties	14,175	15,243
	Less：income tax effect	(4,073)	(4,434)
	Subtotal	10,102	10,809
Total		(92,227)	11,112

The above items are recorded in the capital reserve of the shareholders' equity in accordance with the requirements of the Accounting Standards for Business Enterprises.

47. Cash and cash equivalents

	Jan-Jun 2011	Jan-Jun 2010
Cash on hand	1,189,116	792,996
Cash equivalents:		
Within three months before original maturity date		
- Placements of deposits with other financial institutions	16,962,067	5,301,231
- Funds loaned to other financial institutions	5,784,517	3,479,748
- Reverse repurchase agreements	44,234,245	27,265,035
Unrestricted balance with the Central Bank	12,629,529	10,863,485
Bond investments (with maturity of less than three months when acquired）	438,223	8,600,586
Subtotal	80,048,581	55,510,085
Total	81,237,697	56,303,081

(Expressed in thousands of Renminbi, unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (continued)

48. Cash receipts relating to other operating activities

	Jan-Jun 2011	Jan-Jun 2010
Collections of amounts already written-off	516,221	819,709
Cash receipts from disposal of repossessed assets	116,778	350,998
Derivative financial instruments	-	108,822
Amounts pending for settlement and clearing	385,017	375,449
Others	545,061	337,014
Total	1,563,077	1,991,992

49. Cash payments relating to other operating activities

	Jan-Jun 2011	Jan-Jun 2010
Financial instruments held for trading	1,060,931	263,966
Derivative financial instruments	4,399	-
Administrative expenses such as marketing & public relation expenses and rental expenses, and others	1,256,028	1,439,238
Total	2,321,358	1,703,204

IV. OPERATING SEGMENT INFORMATION

For management purposes, the Company is organised into operating segments based on the internal organisation structure, management requirements and internal reporting. The Company's reportable segments are as follows:

Corporate banking
The corporate banking segment covers the provision of financial products and services to corporations and government agencies. The products and services include corporate loans, deposit-taking activities, trade financing, corporate wealth management services and various types of corporate intermediary services.

Retail banking
The personal banking segment covers the provision of financial products and services to individual customers. The products and services include personal loans, deposit-taking activities, bank card business, personal wealth management services and various types of personal intermediary services.

Interbank business
The interbank business segment covers interbank and money market activities conducted by the branches and Treasury Trading Center of the Company. This segment mainly aims to earn profits through funding activities from the interbank markets.

Other
This category consists of participation in bond investment and partially money market activities conducted by the head office of the Company for the purpose of liquidity management. It also includes centrally management of non-performing assets, equity investments as well as assets, liabilities, income and expenses that are not directly attributable to individual segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resources allocations and performance assessment. Segment assets and liabilities, and segment revenues and profit are calculated according to the accounting policies of the Company. Income taxes are managed on a company basis and are not allocated to operating segments. Interest income is reported net since the majority of the segment's revenues are from interest. Management primarily relies on net interest revenue, not the gross revenue and expense amounts.

Transactions between segments mainly represent transfer of funding to or from individual operating segments. These transactions are conducted on terms determined with reference to the market funding cost for different maturity dates and have been reflected in the performance of each segment. Net interest income and expense arising on internal charges are referred to as "internal net interest income/expense". Such transfer prices between operating segments are internally eliminated when the operating results of individual segments are aggregated. Furthermore, interest income and expense relating to third parties are referred to as "external net interest income/expense" and the aggregated amount of the external net interest income/ expense of the operating segments is the same as the net interest income in the income statement.

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(Expressed in thousands of Renminbi, unless otherwise stated)

IV. OPERATING SEGMENT INFORMATION (continued)

The Company has implemented full internal transfer pricing strategy since the year 2011. The transfer prices among segments are calculated based on the maturity date of each transaction within a single account (contract) instead of the net balances between internal placements and borrowings for the purpose of asset and liability structure enhancement, appropriate product pricing and comprehensive performance assessment.

	Corporate banking	Retail banking	Interbank business	Other	Total
Jan-Jun 2011					
Net interest income	7,954,822	2,027,788	1,446,606	(1,036,994)	10,392,222
Of which: External net interest income	5,131,944	2,747,885	1,635,660	876,733	10,392,222
Internal net interest income/(expense)	2,822,878	(720,097)	(189,054)	(1,913,727)	-
Net non-interest income (Note 1)	993,683	308,675	411,502	34,508	1,748,368
Of which: Share of profits of associates				29,000	29,000
Operating income	8,948,505	2,336,463	1,858,108	(1,002,486)	12,140,590
Operating costs (Note 2)	(2,906,738)	(1,739,818)	(211,747)	(501,715)	(5,360,018)
Of which: Depreciation, amortisation and rental expenses	(299,289)	(272,114)	(17,221)	(444)	(589,068)
Impairment losses on assets	(914,190)	(101,825)	(14,167)	299,504	(730,678)
Net non-operating income	-	(17)	-	15,969	15,952
Segment profit	5,127,577	494,803	1,632,194	(1,188,728)	6,065,846
Income tax expense					(1,334,100)
Profit for the period					4,731,746
2011-6-30					
Total assets	321,139,779	131,942,104	176,224,091	222,751,051	852,057,025
Total liabilities	499,097,224	105,325,826	135,365,086	74,116,494	813,904,630

Note 1: Included net fee and commission income, investment income, gains or losses from changes in fair values of financial instruments, gains or losses from changes in fair values of investment properties, net foreign exchange differences and other operating income.

Note 2: Included business tax and surcharge, and general and administrative expenses.

(Expressed in thousands of Renminbi, unless otherwise stated)

IV. OPERATING SEGMENT INFORMATION (continued)

	Corporate banking	Retail banking	Interbank business	Other	Total
Jan-Jun 2010					
Net interest income	5,282,239	1,388,031	479,042	259,900	7,409,212
Of which: External net interest income	4,204,784	1,952,540	610,575	641,313	7,409,212
Internal net interest income/(expense)	1,077,455	(564,509)	(131,533)	(381,413)	-
Net non-interest income (Note 1)	486,840	325,383	170,815	103,861	1,086,899
Of which: Share of profits of associates	-	-	-	40,824	40,824
Operating income	5,769,079	1,713,414	649,857	363,761	8,496,111
Operating costs (Note 2)	(2,076,738)	(1,465,732)	(137,292)	(517,612)	(4,197,374)
Of which: Depreciation, amortisation and rental expenses	(272,794)	(231,016)	(12,911)	(1,097)	(517,818)
Impairment losses on assets	(821,268)	(325,299)	-	652,658	(493,909)
Net non-operating income	-	-	-	66,919	66,919
Segment profit	2,871,073	(77,617)	512,565	565,726	3,871,747
Income tax expense					(838,628)
Profit for the period					3,033,119
2010-6-30					
Total assets	285,515,350	111,807,622	98,641,419	128,433,788	624,398,179
Total liabilities	378,404,644	79,719,588	69,623,291	66,229,548	593,977,071

Note 1: Included net fee and commission income, investment income, gains or losses from changes in fair values of financial instruments, gains or losses from changes in fair values of investment properties, net foreign exchange differences and other operating income.

Note 2: Included business tax and surcharge, and general and administrative expenses.

(Expressed in thousands of Renminbi, unless otherwise stated)

IV. OPERATING SEGMENT INFORMATION (continued)

Geographical information

The Company's external operating income and non-current assets are mainly attributable to Mainland China based on the locations of the customers and assets respectively for the periods ended 30 June 2011 and 30 June 2010. Non-current assets for this purpose consist of investment properties, fixed assets, construction in progress, repossessed assets and intangible assets.

Information about a major customer

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in the current period or Jan-Jun 2010.

V. COMMITMENTS AND CONTINGENT LIABILITIES

1. Capital commitments

	2011-6-30	2010-12-31
Authorised, but not contracted for	10,785	22,122
Contracted, but not provided for	29,853	21,193
Total	40,638	43,315

2. Operating lease commitments

The Company has entered into commercial leases on certain premises and equipment. At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases were as follows:

	2011-6-30	2010-12-31
Within one year, inclusive	493,810	472,328
One to two years, inclusive	423,844	408,917
Two to three years, inclusive	361,028	356,260
More than three years	1,163,377	1,161,237
Total	2,442,059	2,398,742

(Expressed in thousands of Renminbi, unless otherwise stated)

V. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

3. Credit commitments

	2011-6-30	2010-12-31
Financial guarantee contracts:		
Bank acceptances	284,956,456	246,614,478
Guarantees issued	5,901,992	3,823,915
Letters of credit issued	3,623,861	2,926,267
Subtotal	294,482,309	253,364,660
Unused limit of credit cards and undrawn irrevocable loan commitments	11,989,348	9,863,018
Total	306,471,657	263,227,678
Credit risk weighted amounts of credit commitments	113,617,172	95,401,720

Financial guarantee contracts commit the Company to make payments on behalf of customers upon the failure of the customers to perform the terms of the contracts.

Commitments to extend credit represent contractual commitments to make loans to customers. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

4. Fiduciary transactions

	2011-6-30	2010-12-31
Entrusted deposits	14,010,565	11,144,128
Entrusted loans	14,010,565	11,144,128
Entrusted funding	36,692,608	16,256,304
Entrusted investments	36,692,608	16,256,304

Entrusted deposits represent funds that depositors have instructed the Company to use to make loans to third parties as designated by them. The credit risk remains with the depositors.

Entrusted funding and entrusted investments represent the investment and asset management services provided by the Company to third parties in accordance with the agreed investment plans. The third parties provide funding for the related investments. Income from such investment activities is collected on behalf of and paid to the third parties according to the relevant contractual terms.

V. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

5. Contingent liabilities

5.1 Legal proceedings

As at 30 June 2011, the total claimed amount of the litigation cases of which the Company is the defendant was RMB193 million (31 December 2010: RMB241 million). These litigation cases are under legal proceedings. In the opinion of management, the Company has made adequate allowance for any probable losses based on the prevailing facts and circumstances.

Apart from the above pending litigation cases, the respective liquidators of DeHeng Securities Co., Ltd. and the China Southern Securities Co., Ltd. had requested the Company to repay a total amount of RMB430 million. The Company had opposed all such repayment requests. At the period end, based on the legal opinion from an independent third-party lawyer, the Company had no immediate obligation to repay the monies.

5.2 Redemption and underwriting commitments of voucher-type government bonds and savings bonds (electronic)

As an underwriting agent of the MOF, the Company underwrites PRC voucher-type government bonds and savings bonds (electronic) and sells the bonds to the general public. The Company is obliged to redeem the bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 30 June 2011, the Company has sold voucher-type government bonds and savings bonds (electronic) with accumulated amounts of RMB2,657,432 thousand (31 December 2010: RMB3,146,088 thousand) and RMB458,916 thousand (31 December 2010: RMB183,313 thousand) respectively, to the general public that the Company has the obligation of early redemption.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

As at 30 June 2011 and 31 December 2010, there was no unexpired underwriting commitment of the government bonds.

VI. Capital management

The primary objectives of the Company's capital management are to ensure that the Company complies with regulatory capital requirements, to maximise shareholders' value and to support the continuous growth in business. The Company regularly reviews its capital structure and makes adjustments to it through asset and liability management, so as to maintain the overall balance of the capital structure and maximisation of capital return. The required information of capital adequacy is filed with the CBRC by the Company on a quarterly basis.

(Expressed in thousands of Renminbi, unless otherwise stated)

VI. Capital management (continued)

The CBRC requires banks that are established in Mainland China to maintain the capital adequacy ratio and core capital ratio not below the minimum of 8% and 4%, respectively. The risk-weighted assets are measured according to the nature of individual assets and counterparty, reflecting an estimate of related credit, market and other risks after taking into account of any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with adjustments made to reflect the contingent nature of any potential losses.

The Company calculated and reported the core capital adequacy ratio and capital adequacy ratio in accordance with the “Regulation Governing Capital Adequacy Ratio of Commercial Banks” promulgated by the CBRC and other related regulations.

The core capital includes share capital, capital reserve, surplus reserve, general reserve and unappropriated profit. The supplementary capital includes revaluation surplus, long term subordinated bonds, hybrid capital debt instrument and other supplementary capital.

	2011-6-30	2010-12-31
Net core capital	37,537,975	32,918,920
Supplementary capital	19,490,209	14,662,482
Net capital	56,716,484	47,271,941
Risk-weighted assets and market risk capital adjustment	535,847,709	463,690,570
Core capital adequacy ratio	7.01%	7.10%
Capital adequacy ratio	10.58%	10.19%

VII. RISK DISCLOSURE

1. Credit risk

Credit risk is the risk of loss arising from a borrower’s or counterparty’s inability to meet its obligations. The Company’s credit risk mainly arises from the loans and advances to customers, financial guarantees and loan commitments.

The Company has established a Credit Portfolio Management Committee, which approves and determines the Company’s credit risk management strategies, credit risk preferences as well as its various credit risk management policies and standards. The Company has also formulated guidelines on corporate and retail credit policies across the Company and for specific industries. Furthermore, the Company has implemented a strategic customer categorisation management system, and set up a customer entry and exit mechanism to facilitate the sustainable development of its credit underwriting business.

The Company implements a credit risk officer system, in which the Chief Credit Officer at the Head Office appoints credit officers to various business lines and branches. The credit officers directly report to the Chief Credit Officer, who is responsible for evaluating the performance of the credit officers and establishing an independent and transparent vertical credit risk management system.

VII. RISK DISCLOSURE (continued)

1. Credit risk (continued)

The Company has formulated a complete set of operational procedures for credit approval and management. These procedures are being enforced across the Company. Credit management procedures for its corporate and retail loans comprise the processes of credit origination, credit review, credit approval, disbursement, post-disbursement monitoring and collection. In addition, the Company has formulated the "Policies of Credit Underwriting", which have defined the functions and responsibilities of different credit operational processes, and have enhanced the monitoring of the related compliance for improving the overall effective control of credit risk.

The Company has strengthened its early warning monitoring system for the credit business with measures applicable to the portfolio level and to individual customers, resulting in early detection and effective management of credit risks.

The Company sub-divides credit asset risks into 10 categories based on the five-tier loan classification system promulgated by the CBRC, namely, Pass One, Pass Two, Pass Three, Pass Four, Pass Five, Special Mention One, Special Mention Two, Substandard, Doubtful and Loss. Furthermore, a separate "Write-off" category has been added to the classification system. The Company applies different management policies to the loans in accordance with their respective loan categories.

Risks arising from financial guarantees and loan commitments are similar to those associated with loans and advances. Transactions of financial guarantees and loan commitments are, therefore, subject to the same portfolio management and the same requirements for application and collateral as loans and advances to customers.

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

1. Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

	2011-6-30	2010-12-31
Due from the Central Bank	94,302,483	75,750,309
Placements of deposits with other financial institutions	19,052,801	8,523,729
Funds loaned to other financial institutions	8,877,563	8,475,988
Financial assets at fair value through profit or loss	1,157,750	-
Derivative financial assets	451,537	371,734
Reverse repurchase agreements	110,133,052	98,263,433
Loans and advances	440,990,979	400,966,075
Available-for-sale financial assets (excluding equity investments)	36,945,168	31,501,348
Held-to-maturity investments	78,345,059	61,379,837
Receivables	21,002,100	18,502,100
Other assets	31,755,528	16,250,073
Total	843,014,020	719,984,626
Credit commitments	306,471,657	263,227,678
Maximum exposure to credit risk	1,149,485,677	983,212,304

Risk concentration of the maximum exposure to credit risk

Credit risk is often greater when counterparties are concentrated in a single industry or geographic location or have comparable economic characteristics.

The majority of the loans and financial guarantee contracts of the Company are related to the local customers within Mainland China. However, different areas in Mainland China have their own unique characteristics in terms of economic development. Therefore, each area in Mainland China could present different credit risks.

Please refer to Note III.9 for an analysis of concentration of loans and advances by industry and geographical region.

Collateral and other credit enhancements

The amount and type of collateral required are determined by the Company based on its assessment of the credit risk of the counterparty. The Company has implemented guidelines regarding the acceptability of types of collateral and valuation parameters.

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

1. Credit risk (continued)

Collateral and other credit enhancements (continued)

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, mainly bills, loans or securities
- For commercial lending, mainly charges over real estate properties, inventories, shares or trade receivables
- For retail lending, mainly mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the provision for impairment losses.

Credit quality

The credit quality by class of financial assets (gross amount before deducting any impairment provision) of the Company is analyzed as follows:

2011-6-30	Neither past due nor impaired	Past due but not impaired	Impaired (Note)	Total
Placements of deposits with other financial institutions	19,062,067	-	31,520	19,093,587
Funds loaned to other financial institutions	8,878,407	-	27,468	8,905,875
Reverse repurchase agreements	110,118,052	-	50,000	110,168,052
Accounts receivables	28,320,223	-	-	28,320,223
Loans and advances	443,529,494	2,941,202	2,013,130	448,483,826
Available-for-sale financial assets (excluding equity investments)	36,945,168	-	-	36,945,168
Held-to-maturity investments	78,349,994	-	-	78,349,994
Receivables	21,002,100	-	-	21,002,100
Total	746,205,505	2,941,202	2,122,118	751,268,825

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

1. Credit risk (continued)

Credit quality (continued)

2010-12-31	Neither past due nor impaired	Past due but not impaired	Impaired (Note)	Total
Placements of deposits with other financial institutions	8,522,904	-	31,520	8,554,424
Funds loaned to other financial institutions	8,472,692	-	32,626	8,505,318
Reverse repurchase agreements	98,248,433	-	50,000	98,298,433
Accounts receivables	13,727,415	-	-	13,727,415
Loans and advances	403,000,653	1,989,816	2,400,666	407,391,135
Available-for-sale financial assets (excluding equity investments)	31,501,348	-	-	31,501,348
Held-to-maturity investments	61,379,837	-	-	61,379,837
Receivables	18,502,100	-	-	18,502,100
Total	643,355,382	1,989,816	2,514,812	647,860,010

Note: Impaired corporate loans comprise loans and advances graded at the last three tiers (i.e., "Substandard", "Doubtful" or "Loss") under the five-tier loan classification system maintained by the Company. Impaired personal loans comprise "Pass" or "Special Mention" loans overdue more than 90 days as well as loans graded at the last three tiers. As at 30 June 2011, impaired loans and advances comprise overdue loans of RMB1,957,196 thousand (31 December 2010: RMB2,227,165 thousand) and non-overdue loans of RMB55,934 thousand (31 December 2010： RMB173,501 thousand).

Neither past due nor impaired loans and advances
At the balance sheet date, the aggregate amounts of neither past due nor impaired loans and advances to customers are “Pass” and “Special Mention” loans graded in accordance with the five-tier classification.

	2011-6-30	2010-12-31
Pass	442,729,147	401,879,920
Special Mention	800,347	1,120,733
Total	443,529,494	403,000,653

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

1. Credit risk (continued)

Credit quality (continued)

Past due but not impaired loans and advances
At the balance sheet date, an aging analysis of the past due but not yet impaired loans and advances was as follows:

	2011-6-30					
	Within 1 month	1 to 2 months	2 to 3 months	More than 3 months	Total	Fair value of collateral
Corporate loans and advances	66,981	15,524	72,782	12,962	168,249	272,293
Personal loans	2,354,232	307,364	111,357	-	2,772,953	7,414,929
Total	2,421,213	322,888	184,139	12,962	2,941,202	7,687,222

	2010-12-31					
	Within 1 month	1 to 2 months	2 to 3 months	More than 3 months	Total	Fair value of collateral
Corporate loans and advances	52,299	2,822	-	2,371	57,492	57,213
Personal loans	1,506,187	272,430	153,707	-	1,932,324	5,186,307
Total	1,558,486	275,252	153,707	2,371	1,989,816	5,243,520

Impaired loans and advances
Impaired loans and advances are defined as those loans and advances having objective evidence of impairment as a result of one or more events that occur after initial recognition, resulting in an impact on the estimated future cash flows of loans and advances 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.

The fair value of the collateral that the Company holds relating to corporate loans and advances individually determined to be impaired at 30 June 2011 amounted to RMB554 million (31 December 2010: RMB790 million).

VII. RISK DISCLOSURE (continued)

1. Credit risk (continued)

Credit quality (continued)

Impaired amounts due from other financial institutions

Impaired amounts due from other financial institutions are all determined based on individual assessments. In determining whether an item is impaired, the Company considers the evidence of loss event and the decreases in estimated future cash flows. No collateral was held by the Company as security of the impaired amounts due from other financial institutions.

The carrying amount of loans and advances that would otherwise be past due or impaired and whose terms have been renegotiated is as follows:

	2011-6-30	2010-12-31
Loans and advances to customers	6,803	274,523

2. Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due. The risk is attributable to any mismatch in amounts and terms between the assets and liabilities. To limit the risk, management has arranged diversified funding sources, and monitors loan and deposit balances on a daily basis. The Company also maintains a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flows. Furthermore, the Company performs stress testing regularly to assess and identify the actions that can meet the payment obligations under different critical scenarios.

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

2. Liquidity risk (continued)

As at 30 June 2011, the remaining contractual maturity analysis of the Company's financial assets and financial liabilities (based on contractual undiscounted cash flows) was as follows:

	2011-6-30							
	Overdue/ on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
Non-derivative cash flows:								
Financial assets:								
Cash on hand and due from the Central Bank	13,859,691	-	-	-	-	-	81,672,954	95,532,645
Amounts due from other financial institutions (1)	19,497,243	46,742,118	51,052,383	21,387,435	454,360	-	-	139,133,539
Financial assets at fair value through profit or loss	-	26,766	37,874	88,852	932,199	272,010	-	1,357,701
Accounts receivables	109,991	4,683,511	9,081,469	14,611,362	664,162	-	-	29,150,495
Loans and advances	1,529,141	30,902,363	65,651,667	201,331,870	116,981,165	90,644,143	-	507,040,349
Available-for-sale financial assets	500,000	1,920,852	2,459,925	7,303,992	21,636,147	8,566,065	37,884	42,424,865
Held-to-maturity investments	13,220	322,534	553,075	5,286,956	56,708,440	29,429,312	-	92,313,537
Receivables	-	10,714,527	7,219,104	3,144,308	539,800	-	-	21,617,739
Long term equity investments	-	-	-	-	-	-	407,413	407,413
Other financial assets	1,093,978	-	380,074	-	-	30,425	-	1,504,477
Total financial assets	36,603,264	95,312,671	136,435,571	253,154,775	197,916,273	128,941,955	82,118,251	930,482,760
Financial liabilities:								
Due to the Central Bank	553,048	180,893	442,753	351,456	-	-	-	1,528,150
Amounts due to other financial institutions (2)	20,527,760	53,693,053	30,501,981	38,700,859	-	-	-	143,423,653
Accounts payables	108,463	2,364,052	4,670,021	5,638,233	-	-	-	12,780,769
Customer deposits	262,008,428	74,903,349	105,930,579	154,709,262	46,980,641	3,014,137	-	647,546,396
Bonds payable	-	-	8,550	830,400	9,987,650	6,775,250	-	17,601,850
Other financial liabilities	3,741,658	560,000	116,648	1,700,723	154,492	47,732	-	6,321,253
Total financial liabilities	286,939,357	131,701,347	141,670,532	201,930,933	57,122,783	9,837,119	-	829,202,071
Derivative cash flows:								
Derivative financial instruments settled on net basis	-	189	(171)	(6,017)	(6,656)	(964)	-	(13,619)
Derivative financial instruments settled on gross basis								
Of which: Cash inflow	-	39,357,970	32,046,898	44,127,561	395,291	-	-	115,927,720
Cash outflow	-	(39,339,504)	(32,007,127)	(44,102,599)	(395,228)	-	-	(115,844,458)
	-	18,466	39,771	24,962	63	-	-	83,262

(1) Amounts due from other financial institutions included financial assets of placements of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.
(2) Amounts due to other financial institutions included financial liabilities of placements of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

2. Liquidity risk (continued)

As at 31 December 2010, the remaining contractual maturity analysis of the Company's financial assets and financial liabilities (based on contractual undiscounted cash flows) was as follows:

	2010-12-31							
	Overdue/ on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
Non-derivative cash flows:								
Financial assets:								
Cash on hand and due from the Central Bank	13,669,765	-	-	-	-	-	62,951,742	76,621,507
Amounts due from other financial institutions (1)	2,460,604	45,137,621	42,173,381	26,006,333	460,697	-	-	116,238,636
Accounts receivables	-	1,832,879	5,289,139	6,204,869	855,760	-	-	14,182,647
Loans and advances	1,250,566	24,081,437	49,849,968	184,906,620	117,113,673	81,145,643	-	458,347,907
Available-for-sale financial assets	-	277,698	2,140,109	9,112,896	14,872,627	8,546,088	32,835	34,982,253
Held-to-maturity investments	-	78,231	133,539	6,722,682	44,135,997	19,925,885	-	70,996,334
Receivables	-	8,083,004	4,200	10,434,179	560,090	-	-	19,081,473
Long term equity investments	-	-	-	-	-	-	404,390	404,390
Other financial assets	21,941	1,697	363,309	-	-	14,225	-	401,172
Total financial assets	17,402,876	79,492,567	99,953,645	243,387,579	177,998,844	109,631,841	63,388,967	791,256,319
Financial liabilities:								
Due to the Central Bank	-	670,199	69,082	1,508,929	-	-	-	2,248,210
Amounts due to other financial institutions (2)	26,849,134	33,419,149	22,240,091	23,036,584	1,500,000	-	-	107,044,958
Accounts payables	-	450,108	2,202,158	2,537,396	-	-	-	5,189,662
Customer deposits	259,568,208	74,673,416	85,404,544	122,442,503	31,928,407	1,124,645	-	575,141,723
Bonds payable	-	-	372,460	184,740	9,266,532	1,842,000	-	11,665,732
Other financial liabilities	609,918	15	1,373,358	231,014	324,574	47,881	-	2,586,760
Total financial liabilities	287,027,260	109,212,887	111,661,693	149,941,166	43,019,513	3,014,526	-	703,877,045
Derivative cash flows:								
Derivative financial instruments settled on net basis	-	414	(1,785)	18,874	42,250	-	-	59,753
Derivative financial instruments settled on gross basis								
Of which: Cash inflow	-	14,881,678	9,091,324	23,413,622	390,944	-	-	47,777,568
Cash outflow	-	(14,887,674)	(9,086,997)	(23,360,078)	(389,916)	-	-	(47,724,665)
	-	(5,996)	4,327	53,544	1,028	-	-	52,903

(1) Amounts due from other financial institutions included financial assets of placements of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.
(2) Amounts due to other financial institutions included financial liabilities of placements of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

2. Liquidity risk (continued)

Analysis of credit commitments by contractual expiry date:

	Repayable on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
2011-06-30								
Credit commitments	18,312,450	57,987,744	104,598,591	124,256,018	1,316,854	-	-	306,471,657
2010-12-31								
Credit commitments	12,751,042	55,485,097	96,179,808	97,742,016	1,069,715	-	-	263,227,678

Management expects that not all of the commitments will be drawn before expiry of the commitments.

VII. RISK DISCLOSURE (continued)

3. Market risk

Market risk is the risk of loss, in respect of the Company's on or off-balance sheet activities, arising from adverse movements in market rates including foreign exchange rates, interest rate, commodity prices and stock prices. Market risk arises from both the Company's trading and non-trading businesses. The aim of market risk management of the Company is to mitigate undue losses of income and equity, and simultaneously, to reduce the Company's exposure to the volatility inherent in financial instruments. The Company considers the market risk arising from commodity or stock prices in respect of its investment portfolio is immaterial.

The Company's Risk Management Committee and the Asset and Liability Management Committee are responsible for setting up market risk management policies, establishing market risk management objectives and determining market risk limits. The Asset and Liability Management Committee is responsible for controlling the volume, structure, interest rate and liquidity of the Company's business. The Company's Financial Information and Asset and Liability Management Department discharges the daily market risk monitoring function on behalf of the Asset and Liability Management Committee, including the determination of reasonable levels of market risk exposures, monitoring the daily treasury operation and proposing adjustments to the maturity profile of the assets and liabilities and the interest rate structure.

Gap analysis is the key method used by the Company to monitor the market risk of its non-trading business activities. This method measures the impact of interest rate changes on income, with interest-earning assets and interest-bearing liabilities grouped by their respective re-pricing bands for the calculation of the re-pricing gap. By multiplying this position with an assumed interest rate change, an approximate effect on the net interest income resulting from the assumed interest rate change is quantified.

Financial derivative transactions entered into by the Company primarily provide effective economic hedges to other financial instruments held by the Company for the mitigation of interest and exchange rate risks. In the opinion of management, as the market risk of the Company's trading business activities is not material, the Company has not separately disclosed quantitative information about exposure to market risk arising from the trading portfolio.

3.1. Currency risk

The Company's foreign exchange risk exposure mainly comprises exposures from the mismatch of foreign currency assets and liabilities, and off-balance sheet foreign exchange position arisen from derivative transactions. The currency risk of the Company mainly arises from loans and advances, investments and deposits denominated in foreign currencies. The Company 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

3.1. Currency risk (continued)

As at 30 June 2011, the Company's foreign currency assets and liabilities analysed by currency were as follows:

	2011-6-30			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets				
Cash on hand and due from the Central Bank	1,280,143	165,302	10,682	1,456,127
Amounts due from other financial institutions (1)	5,753,912	983,879	1,058,964	7,796,755
Accounts receivables	8,254,952	35,255	81,010	8,371,217
Loans and advances	13,895,519	806,026	216,490	14,918,035
Available-for-sale financial assets	162,132	-	-	162,132
Held-to-maturity investments	850,739	-	-	850,739
Others	137,463	2,514	735	140,712
Total assets	30,334,860	1,992,976	1,367,881	33,695,717
Liabilities				
Amounts due to other financial institutions (2)	2,763,465	340,969	20	3,104,454
Accounts payables	3,184,984	30,976	49,063	3,265,023
Customer deposits	21,901,717	3,305,679	1,520,391	26,727,787
Others	184,640	11,147	1,397	197,184
Total liabilities	28,034,806	3,688,771	1,570,871	33,294,448
Net position of foreign currency (3)	2,300,054	(1,695,795)	(202,990)	401,269
Notional amount of foreign exchange derivative financial instruments	(816,717)	1,697,341	230,861	1,111,485
Total	1,483,337	1,546	27,871	1,512,754
Off-balance sheet credit commitments	7,077,000	191,472	670,078	7,938,550

(1) Amounts due from other financial institutions included financial assets of placements of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

(2) Amounts due to other financial institutions included financial liabilities of placements of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

(3) The net position of foreign currency comprised the related net position of monetary assets and liabilities.

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

3.1. Currency risk (continued)

As at 31 December 2010, the Company's foreign currency assets and liabilities analysed by currency were as follows:

	2010-12-31			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets				
Cash on hand and due from the Central Bank	675,707	500,102	10,683	1,186,492
Amounts due from other financial institutions (1)	5,765,927	713,855	1,481,974	7,961,756
Accounts receivables	5,306,933	19,036	46,653	5,372,622
Loans and advances	10,477,204	776,476	184,194	11,437,874
Available-for-sale financial assets	231,897	-	-	231,897
Held-to-maturity investments	934,292	-	-	934,292
Others	100,036	3,314	619	103,969
Total assets	23,491,996	2,012,783	1,724,123	27,228,902
Liabilities				
Amounts due to other financial institutions (2)	2,829,237	1,467,888	152	4,297,277
Accounts payables	901,513	14,668	9,977	926,158
Customer deposits	17,453,662	3,218,904	1,462,991	22,135,557
Others	57,215	7,101	1,910	66,226
Total liabilities	21,241,627	4,708,561	1,475,030	27,425,218
Net position of foreign currency (3)	2,250,369	(2,695,778)	249,093	(196,316)
Notional amount of foreign exchange derivative financial instruments	(613,538)	2,380,687	(234,176)	1,532,973
Total	1,636,831	(315,091)	14,917	1,336,657
Off-balance sheet credit commitments	5,521,061	118,842	618,970	6,258,873

(1) Amounts due from other financial institutions included financial assets of placements of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

(2) Amounts due to other financial institutions included financial liabilities of placements of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

(3) The net position of foreign currency comprised the related net position of monetary assets and liabilities.

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

3.1. Currency risk (continued)

The table below indicates the sensitivity analysis of exchange rate changes of the currencies to which the Company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement in the exchange rates against the RMB, with all other variables held constant on profit before tax. A negative amount in the table reflects a potential net reduction in profit before tax, while a positive amount reflects a net potential increase. As the Company has no cash flow hedges and has only a minimal amount of available-for-sale equity instruments denominated in foreign currencies, changes in exchange rates do not have any material potential impact on the equity.

2011-6-30

Currency	Change in exchange rate in %	Effect on profit before tax (RMB equivalent)
USD	+/-3%	+/-44,500
HKD	+/-3%	+/-46

2010-12-31

Currency	Change in exchange rate in %	Effect on profit before tax (RMB equivalent)
USD	+/-3%	+/-49,105
HKD	+/-3%	-/+9,453

3.2. Interest rate risk

The Company's interest rate risk mainly arises from the mismatch of contractual maturity or re-pricing dates between interest-earning assets and interest-bearing liabilities. The interest-earning assets and interest-bearing liabilities of the Company are mainly denominated in RMB. The PBOC sets a cap and a floor on interest rates on deposits and loans, respectively.

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

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

3.2. Interest rate risk (continued)

As at 30 June 2011, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Company's balance sheet were analysed as follows:

	2011-6-30					
	Within 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	on-interest- bearing	Total
Assets:						
Cash on hand and due from the Central Bank	91,793,121	-	-	-	3,698,478	95,491,599
Precious metals	-	-	-	-	2	2
Amounts due from other financial institutions (1)	117,104,992	20,908,424	50,000	-	-	138,063,416
Financial assets at fair value through profit or loss and derivative financial assets	110,311	178,116	619,792	248,282	452,786	1,609,287
Accounts receivables	17,792,458	10,527,765	-	-	-	28,320,223
Loans and advances	291,257,684	141,218,909	7,459,540	1,054,846	-	440,990,979
Available-for-sale financial assets	21,749,233	11,357,226	2,271,939	1,427,314	177,340	36,983,052
Held-to-maturity investments	15,625,906	12,992,273	36,651,317	13,073,680	1,883	78,345,059
Receivables	17,500,000	3,002,100	500,000	-	-	21,002,100
Long term equity investments	-	-	-	-	407,413	407,413
Fixed assets	-	-	-	-	2,359,317	2,359,317
Others	-	-	-	-	8,484,578	8,484,578
Total assets	572,933,705	200,184,813	47,552,588	15,804,122	15,581,797	852,057,025
Liabilities:						
Amounts due to the Central Bank	1,175,136	349,094	-	-	-	1,524,230
Amounts due to other financial institutions (2)	103,894,071	37,221,651	-	-	-	141,115,722
Derivative financial liabilities	-	-	-	-	364,324	364,324
Accounts payables	7,038,186	5,480,121	-	-	-	12,518,307
Customer deposits	442,000,679	148,077,883	39,417,981	3,000,000	-	632,496,543
Bonds payable	500,464	-	7,483,011	5,141,629	-	13,125,104
Others	-	-	-	-	12,760,400	12,760,400
Total liabilities	554,608,536	191,128,749	46,900,992	8,141,629	13,124,724	813,904,630
Interest rate risk exposure	18,325,169	9,056,064	651,596	7,662,493	Not applicable	Not applicable

(1) Amounts due from other financial institutions included financial assets of placements of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

(2) Amounts due to other financial institutions included financial liabilities of placements of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

3.2. Interest rate risk (continued)

As at 31 December 2010, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Company's balance sheet were analysed as follows:

	2010-12-31					
	Within 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	on-interest- bearing	Total
Assets:						
Cash on hand and due from the Central Bank	74,305,925	-	-	-	2,280,933	76,586,858
Precious metals	-	-	-	-	2	2
Amounts due from other financial institutions (1)	89,854,678	25,358,472	50,000	-	-	115,263,150
Financial assets at fair value through profit or loss and derivative financial assets	-	-	-	-	371,734	371,734
Accounts receivables	9,749,676	3,643,526	334,213	-	-	13,727,415
Loans and advances	239,551,909	150,661,664	9,341,576	1,410,926	-	400,966,075
Available-for-sale financial assets	11,660,106	15,453,440	4,167,420	66,840	186,377	31,534,183
Held-to-maturity investments	2,654,757	13,234,756	34,253,098	11,236,757	469	61,379,837
Receivables	8,000,000	10,002,100	500,000	-	-	18,502,100
Long term equity investments	-	-	-	-	404,390	404,390
Fixed assets	-	-	-	-	2,470,051	2,470,051
Others	-	-	-	-	6,404,273	6,404,273
Total assets	435,777,051	218,353,958	48,646,307	12,714,523	12,118,229	727,610,068
Liabilities:						
Amounts due to the Central Bank	738,560	1,499,115	-	-	-	2,237,675
Amounts due to other financial institutions (2)	83,096,113	23,062,793	-	-	-	106,158,906
Derivative financial liabilities	-	-	-	-	311,805	311,805
Accounts payables	2,669,161	2,451,657	-	-	-	5,120,818
Customer deposits	417,715,410	116,133,644	28,163,288	900,000	-	562,912,342
Bonds payable	499,036	-	7,479,613	1,490,839	-	9,469,488
Others	-	-	-	-	7,886,158	7,886,158
Total liabilities	504,718,280	143,147,209	35,642,901	2,390,839	8,197,963	694,097,192
Interest rate risk exposure	(68,941,229)	75,206,749	13,003,406	10,323,684	Not applicable	Not applicable

(1) Amounts due from other financial institutions included financial assets of placements of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

(2) Amounts due to other financial institutions included financial liabilities of placements of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

3.2. Interest rate risk (continued)

The Company principally uses sensitivity analysis to measure and control interest rate risk. In respect of the financial assets and liabilities at fair value through profit or loss, in the opinion of management, the interest rate risk to the Company arising from this portfolio is not significant. For other financial assets and liabilities, the Company mainly uses gap analysis to measure and control the related interest rate risk.

As at 30 June 2011 and 31 December 2010, the gap analyses of the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) were as follows:

	2011-6-30		2010-12-31	
	Changes in interest rate (basis points)		Changes in interest rate (basis points)	
	-50	+50	-100	+100
Effect on the net interest income increase/(decrease)	(96,336)	96,336	321,210	(321,210)
Effect on equity increase/(decrease)	88,511	(88,511)	148,130	(148,130)

The above gap analyses assume that the interest rate risk profile of the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) remains static.

The sensitivity of the net interest income is the effect of a reasonable possible change in interest rates on the net interest income for one year, in respect of the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) held at the balance sheet date. The sensitivity of equity is calculated by revaluing the period end portfolio of fixed-rate available-for-sale financial assets, based on a reasonable possible change in interest rates. Impact on income tax has not been considered in calculating the above effect on the net interest income and equity.

The above sensitivity analyses are based on the following assumptions: (i) all assets and liabilities that are re-priced/due within three months (inclusive), and between three months and one year (inclusive) are assumed to be re-priced in the mid of the respective bands; and (ii) there are parallel shifts in the yield curve.

Regarding to the above assumptions, the effect on the net interest income and equity as a result of the actual increases or decreases in interest rates may differ from that of the above sensitivity analyses.

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

4. Fair value of financial instruments

The following table summarises the carrying values and the fair values of receivables, held-to-maturity debt securities and bonds payable for which their fair values have not been presented or disclosed above:

	Carrying value	Fair value
2011-6-30		
Receivables	21,002,100	21,002,100
Held-to-maturity debt securities	78,345,059	76,691,876
Bonds payable	13,125,104	13,076,760
2010-12-31：		
Receivables	18,502,100	18,502,100
Held-to-maturity debt securities	61,379,837	60,326,494
Bonds payable	9,469,488	9,514,103

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The following methods and assumptions were used to estimate the fair values:

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain financial assets and liabilities held and issued by the Company, the discounted cash flow method or other valuation methods described below are adopted to determine the fair values of these assets and liabilities:

(1) The receivables are non-transferable. The fair values of these receivables are estimated on the bases of discounted cash flows.

(2) The fair value of held-to-maturity debt securities and bonds payable are determined with reference to the available market values. If quoted market prices are not available, fair values are estimated on the bases of pricing models or discounted cash flows.

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Company's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

Financial instruments, for which their carrying amounts are the reasonable approximation of their fair values because, for example, they are short term in nature or are re-priced to current market rates frequently, are as follows:

Assets	Liabilities
Cash and due from the Central Bank	Due to the Central Bank
Placements of deposits with other financial institutions	Placement of deposits from other financial institutions
Funds loaned to other financial institutions	Funds borrowed from other financial institutions
Reverse repurchase agreements	Repurchase agreements
Loans and advances	Customer deposits
Other financial assets	Other financial liabilities

(Expressed in thousands of Renminbi, unless otherwise stated)

VII. RISK DISCLOSURE (continued)

4. Fair value of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value.

	Quoted market price ("Level 1")	Valuation techniques – market observable inputs ("Level 2")	Valuation techniques – non-market observable inputs ("Level 3")	Total
2011-6-30				
Financial assets:				
Financial assets at fair value through profit or loss	-	1,157,750	-	1,157,750
Derivative financial assets	-	451,537	-	451,537
Available-for-sale financial assets	27,135	36,955,917	-	36,983,052
Total	27,135	38,565,204	-	38,592,339
Financial liabilities:				
Derivative financial liabilities	-	364,324	-	364,324

	Quoted market price ("Level 1")	Valuation techniques – market observable inputs ("Level 2")	Valuation techniques – non-market observable inputs ("Level 3")	Total
2010-12-31				
Financial assets:				
Derivative financial assets	-	371,734	-	371,734
Available-for-sale financial assets	25,847	31,508,336	-	31,534,183
Total	25,847	31,880,070	-	31,905,917
Financial liabilities:				
Derivative financial liabilities	-	311,805	-	311,805

(Expressed in thousands of Renminbi, unless otherwise stated)

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

Details of the Company's major shareholders are as follows:

Name	Place of registration	Percentage of equity interest held	
		2011-6-30	2010-12-31
Ping An Insurance (Group) Company of China, Ltd.	Shenzhen, PRC	14.96%	14.96%
Ping An Life Insurance Company of China, Ltd.	Shenzhen, PRC	15.03%	15.03%

Ping An Insurance (Group) Company of China, Ltd. (the "China Ping An") was incorporated in Shenzhen, the People's Republic of China on 21 March 1988. The business scope of the China Ping An includes investing in financial and insurance enterprises, supervising and managing various domestic and overseas businesses of subsidiaries, and utilising funds.

Major transactions between the Company and China Ping An and its subsidiaries during the period are as follows:

Outstanding balances at the period/year end	2011-6-30	2010-12-31
Receivables	100,000	100,000
Amounts due to other financial institutions	82,634	85,975
Customer deposits	5,670,615	3,752,314
Bonds payable	129,497	129,431
Credit limit of factoring	-	300,000
Interbank credit limit	-	1,000,000

Transactions during the period	Jan-Jun 2011	Jan- Jun 2010
Interest income on receivables	2,080	2,083
Agency business fee income	8,167	4,120
Custodian services fee income	544	328
Interest expenses on amounts due to other financial institutions	74	949
Interest expenses on customer deposits	91,417	90,811
Interest expenses on bonds payable	3,505	3,537
Insurance premium expenses	1,360	99

The above transactions were made according to the normal commercial terms and conditions and were processed under normal business procedures.

(Expressed in thousands of Renminbi, unless otherwise stated)

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Major transactions between the Company and the key management personnel during the period are listed below:

Loans	Jan-Jun 2011	Jan- Jun 2010
Balance at beginning of the period	958	455
Increase during the period	-	-
Decrease during the period	(728)	(44)
Balance at end of the period	230	411
Interest income on loans	4	5

As at 30 June 2011, the annual interest rates of these loan transactions ranged from 1.8%-4.29%.

Deposits	Jan-Jun 2011	Jan- Jun 2010
Balance at beginning of the period	11,728	12,271
Increase during the period	271,118	220,636
Decrease during the period	(276,922)	(202,095)
Balance at end of the period	5,924	30,812
Interest expense on deposits	40	151

These deposit transactions were under normal commercial terms and conditions and were processed under normal business procedures.

Details of the compensation for key management personnel are as follows:

	Jan-Jun 2011	Jan- Jun 2010
Salaries and other short term employee benefits	14,658	28,839
Post-employment benefits	439	270
Termination benefits	-	5,105
Deferred bonus accrual (Note)	3,348	(126)
Total	18,445	34,088

Note: The amount of deferred bonus is determined based on the indicators of profitability, the share price and the capital adequacy ratio of the Company as well as the share prices of certain other domestic listed banks; and will be settled in cash in accordance with the terms of the arrangement.

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

As at 30 June 2011, the Company has authorised a total credit facility of RMB1.40 billion (31 December 2010: RMB2.15 billion) for entities relating to the key management personnel of the Company and the associate companies, which included an outstanding loan balance amounting to RMB0.139 billion (31 December 2010: RMB0.319 billion) and an outstanding facility of the off-balance sheet items amounting to RMB0.240 billion (31 December 2010: RMB0.209 billion).

IX. POST BALANCE SHEET EVENTS

In accordance with the approval "Approval Regarding Issue of Shares to Ping An Insurance (Group) Company Limited for the Acquisition of Assets by Shenzhen Development Bank" (Zhengjianxuke No. [2011]1022) issued by China Securities Regulatory Commission on 29 June 2011, the Company issued a private placement of 1,638,336,654 shares to China Ping An to acquire 7,825,181,106 shares of Ping An Bank Company Limited (hereafter referred to as "Ping An Bank"), (representing approximately 90.75% of total share capital of Ping An Bank) and RMB2,690,052.3 thousand in cash (hereafter referred to as "the Material Asset Restructuring").

On 8 July 2011, China Ping An transferred 7,825,181,106 shares of Ping An Bank (which represented approximately 90.75% of total shares of Ping An Bank) to the Company through registration with the Shenzhen United Property and Share Rights Exchange and the Company has been registered as the holder of the shares. On 18 July 2011, China Ping An remitted RMB2,690,052.30 thousand to the Company's account with Bank of China. On 20 July 2011, the Company has completed the registration of the issuance of 1,638,336,654 ordinary shares to China Ping An and received Confirmation Letter of Securities Registration from the Shenzhen Branch of China Securities Depository and Clearing Co., Ltd. .

After completion of the Material Asset Restructuring, China Ping An and its subsidiary Ping An Life Insurance Company of China, Ltd. totally hold 52.38% shares of the Company and become the controlling shareholder of the Company while Ping An Bank becomes the controlling subsidiary of the Company.

X. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with the current period's presentation.

(Expressed in thousands of Renminbi, unless otherwise stated)

XI. OTHER SIGNIFICANT ITEMS

1. Assets and liabilities carried at fair value

Jan-Jun 2011	Balance at beginning of the period	Gains or (losses) from changes in fair values during the period	Accumulated valuation gain taken into other comprehensive income	Balance at end of the period
Assets:				
Financial assets at fair value through profit or loss	-	(4,790)	-	1,157,750
Derivative financial assets	371,734	79,803	-	451,537
Available-for-sale financial assets	31,534,183	-	(313,452)	36,983,052
Investment properties	539,805	-	87,512	539,723
Total	32,445,722	75,013	(225,940)	39,132,062
Liabilities:				
Derivative financial liabilities	(311,805)	(52,519)	-	(364,324)

2. Foreign currency financial assets and foreign currency financial liabilities

Jan-Jun 2011	Balance at beginning of the period	Gains or (losses) from changes in fair values during the period	Accumulated valuation gain taken into other comprehensive income	Impairment provision charged for the period	Balance at end of the period
(RMB equivalent)					
Foreign currency financial assets:					
Cash on hand and due from the Central Bank	1,186,492	-	-	-	1,456,127
Amounts due from other financial institutions (1)	7,961,756	-	-	-	7,796,755
Accounts receivable	5,372,622	-	-	-	8,371,217
Loans and advances	11,437,874	-		2,698	14,918,035
Available-for-sale financial assets	232,926	-	6,127		163,340
Held-to-maturity investments	934,292	-	-	-	850,739
Long term equity investments	684	-	-	-	684
Other assets	103,969	-	-	(79)	140,712
Total	27,230,615	-	6,127	2,619	33,697,609
Foreign currency financial liabilities:					
Amounts due to other financial institutions (2)	4,297,277	-	-	-	3,104,454
Customer deposits	22,135,557	-	-	-	26,727,787
Accounts payable	926,158	-	-	-	3,265,023
Other liabilities	66,190	-	-	-	197,117
Total	27,425,182	-	-	-	33,294,381

(1) Amounts due from other financial institutions included financial assets of placements of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

(2) Amounts due to other financial institutions included financial liabilities of placements of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

(Expressed in thousands of Renminbi, unless otherwise stated)

Net asset return and earnings per share

Jan-Jun 2011	Profit for the period	Net asset return		Earnings per share (RMB Yuan)	
		Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	4,731,746	12.40%	13.19%	1.36	1.36
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss	4,718,078	12.37%	13.15%	1.35	1.35

Jan-Jun 2010	Profit for the period	Net asset return		Earnings per share (RMB Yuan)	
		Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	3,033,119	9.97%	13.80%	0.98	0.98
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss	2,976,554	9.78%	13.56%	0.96	0.96

Of which, net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss:

	Jan-Jun 2011	Jan- Jun 2010
Net profit attributable to ordinary shareholders of the Company	4,731,746	3,033,119
Add/(deduct):		
Non-recurring profit and loss items:		
Gain on disposal of fixed assets and settled assets	(26,607)	(70,957)
Gain on disposal of long term equity investments	(1,569)	7,252
Provision for litigation	17,729	12
Changes in fair value of investment properties	-	(12,538)
Other non-operating income and expenses	(7,074)	4,026
Income tax effect	3,853	15,640
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss	4,718,078	2,976,554

The above net asset return and earnings per share are calculated in accordance with the rules stipulated in the Regulation on Information Disclosure of Public Companies No. 9 as revised by the China Securities Regulatory Commission on 11 January 2010. The non-recurring profit and loss is calculated in accordance with the rules stipulated in the Interpretation of Information Disclosure of Public Companies No.1 – Non-recurring profit and loss, effective from 1 December 2008.

Fair value changes arising from financial assets and liabilities held for trading and investment income arising from disposals of financial assets and liabilities held for trading and available- for-sale financial assets incurred during the normal course of the business are not disclosed as non-recurring profit and loss items.

Chapter 10 Written Confirmation of Directors and Senior Management on 2011 Half-Year Report

In accordance with the *Securities Law* and *No. 3 Regulation on Contents and Format of Information Disclosure on Publicly Listed Companies – Contents and Format of Half-Year Report* (revised in 2007), we, as directors and senior executives of Shenzhen Development Bank Co., Ltd., provide the following opinions after studying and inspecting the 2011 Half-Year Report of the Bank and its "Abstract":

1. The Bank operates in strict accordance with Accounting Standards for Business Enterprises, Accounting Rules for Enterprises and Accounting Rules for Financial Enterprises, and the Bank's 2011 Half-Year Report and its abstract give a fair view of the financial position and business results of the Bank for the interim period of 2011.

2. Ernst & Young Hua Ming Accounting Firm has audited the financial statements of the Bank for the interim period of 2011 and has issued standard unqualified audit reports.

3. We undertake that the information disclosed in the Bank's 2011 Half-Year Report and its abstract is true, accurate and complete and contains no false record, misrepresentation or material omissions and we are severally and jointly liable for the truthfulness, accuracy and completeness thereof.

Signature of Directors and Executives:

Name	Signature	Name	Signature
Xiao Suining		Lu Mai	
Richard Jackson		Liu Nanyuan	
Wang Liping		Duan Yongkuan	
Yao Bo		Xia Donglin	
David Ku		Chu Yiyun	
So Lan Ip		Ma Lin	
Li Jinghe		Chen Yingming	
Wang Kaiguo		Feng Jie	
Hu Yuefei		Xu Jin	
Chen Wei			

Chapter 11 Reference Documents

1. Financial Statements signed and sealed by the Chairman, President, Vice President and CFO, and Representative from the Accounting Firm.

2. Original audit report with the seal of the accounting firm, signed and sealed by a Certified Public Accountant.

3. All our original documents and original announcements disclosed on *China Securities Journal*, *Securities Times*, *Shanghai Securities News* and *Securities Daily* during the reporting period.

Board of Directors,
Shenzhen Development Bank Co., Ltd.
August 18, 2011