THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Ping An Insurance (Group) Company of China, Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

PING AN
Insurance · Banking · Investment

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

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

(Stock Code: 2318)

MAJOR TRANSACTION
PROPOSED SUBSCRIPTION OF NEW SHARES IN SHENZHEN DEVELOPMENT BANK CO., LTD.
INVOLVING A DISPOSAL OF SHARES IN PING AN BANK CO., LTD.

Financial Adviser to the Company

中国国际金融香港证券有限公司
CHINA INTERNATIONAL CAPITAL HONGKONG SECURITIES LIMITED

A letter from the Board of Ping An Insurance (Group) Company of China, Ltd. (the "**Company**") is set out on pages 1 to 17 of this circular.

A notice convening the EGM to be held at 1:30 p.m. on Monday, 1 November 2010 at Ping An Hall, Ping An School of Financial Services, Guanlan, Shenzhen, Guangdong province, PRC, a form of proxy for use at the EGM and a reply slip have been despatched by the Company on 15 September 2010 and are also published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.pingan.com). Whether or not you intend to attend the EGM, you are requested to complete and return (i) the reply slip in accordance with the instructions printed thereon not later than Tuesday, 12 October 2010 and (ii) the form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM and voting in person if you so wish.

30 September 2010

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In this circular, unless the context otherwise requires, the following expressions have the following meanings respectively:

"A Share(s)"	A Share(s) of RMB1.00 each in the capital of the Company which is/are listed and traded on SSE
"Announcements"	the announcements dated 1 September 2010 and 14 September 2010 issued by the Company in relation to the Share Subscription
"Asset Consideration"	7,825,181,106 PAB Shares, representing approximately 90.75% of the total issued share capital of PAB as at the LPD
"Board"	the board of Directors
"Business Day(s)"	any day (excluding a Saturday, Sunday and other public holidays) on which banks in the PRC is generally open for business
"CBRC"	China Banking Regulatory Commission
"CICCHKS"	China International Capital Hong Kong Securities Limited, a licensed corporation to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to the Company
"CIRC"	China Insurance Regulatory Commission
"Company"	Ping An Insurance (Group) Company of China, Ltd., a joint stock limited company duly incorporated in the PRC with limited liability, the A Shares of which are listed on SSE and the H Shares of which are listed on the Stock Exchange
"Completion Date"	the seventh Business Day after fulfillment (or waiver as appropriate) of the last condition under the Share Subscription Agreement or an earlier date as agreed by both parties, but shall not be earlier than the date the last condition under the Share Subscription Agreement is fulfilled or waived as appropriate
"CSRC"	China Securities Regulatory Commission

"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting of the Company to be convened to approve, inter alia, the Share Subscription
"Enlarged Group"	the Group immediately after completion of the Share Subscription
"Group"	the Company and its subsidiaries
"H Share(s)"	H Share(s) of RMB1.00 each in the capital of the Company which is/are listed and traded on the Stock Exchange
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards
"Independent Third Party"	an independent third party which is independent from the Company and its connected persons (as defined under the Listing Rules)
"Long Stop Date"	except for other date that is agreed in writing by the parties to the Share Subscription Agreement, the date when either party provides the other with acceptable evidence proving that the relevant authorities do not approve the Share Subscription or other date from which the Share Subscription Agreement shall terminate with immediate effect
"LPD"	24 September 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Newbridge"	Newbridge Asia AIV III, L.P.
"PAB"	Ping An Bank Co., Ltd., an approximately 90.75% owned subsidiary of the Company

"PAB Share(s)"	ordinary shares(s) of RMB1.00 each in the share capital of PAB
"PAB's Final Valuation"	the total net asset value of PAB as at 30 June 2010 as confirmed by both SDB and the Company, using PAB's net asset value as assessed by an asset valuation institution and as audited by an accounting firm that possess the relevant securities and futures business qualifications as basis and taking into account factors such as profitability and growth potential of PAB. The Company and SDB shall confirm the PAB's Final Valuation within three days after the issue of the PAB's valuation report
"PBOC"	the People's Bank of China
"Ping An Life"	Ping An Life Insurance Company of China, Ltd., a 99.33% owned subsidiary of the Company
"PRC"	The People's Republic of China
"Profit Forecast Compensation Agreement"	the agreement dated 14 September 2010 entered into between the Company and SDB in relation to the compensation arrangement regarding the difference between the actual profits and the forecasted profits to be achieved by PAB
"RMB"	Renminbi, the lawful currency of the PRC
"SDB"	Shenzhen Development Bank Co., Ltd., a joint stock limited liability company established in the PRC, whose shares are listed and traded on SZSE
"SDB Dissenting Shareholder(s)"	any shareholder of SDB who votes against any applicable absorption proposal at the general meeting of SDB and requires SDB to buy back its SDB Shares in accordance with the requirements of the PRC Company Law and/or the articles of association of SDB, and has not effectively revoked such request and not lost the right to make such request
"SDB Share(s)"	A share(s) of RMB1.00 each in the share capital of SDB which is/are listed and traded on SZSE

"SFO"	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
"SSE"	The Shanghai Stock Exchange
"Share Subscription"	the subscription of the Subscription Shares by the Company pursuant to the Share Subscription Agreement
"Share Subscription Agreement"	the agreement dated 1 September 2010 entered into between the Company and SDB in relation to the Share Subscription
"Shareholders"	holders of Shares in the Company
"Share(s)"	share(s) of RMB1.00 each in the capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Consideration"	the total consideration for the Share Subscription
"Subscription Price"	RMB17.75 per each Subscription Share, being the average trading price of the SDB Shares as quoted on SZSE for the 20 consecutive trading days prior to the date of the first announcement of the resolutions of the board of directors of SDB approving the Share Subscription
"Subscription Shares"	new SDB Shares to be issued by SDB to the Company pursuant to the Share Subscription Agreement
"Supplemental Share Subscription Agreement"	the supplemental agreement to the Share Subscription Agreement dated 14 September 2010 entered into between the Company and SDB in relation to the Share Subscription
"SZSE"	The Shenzhen Stock Exchange
"%"	per cent.

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Ping An Insurance (Group) Company of China, Ltd.

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(Stock Code: 2318)

Executive Directors:
Ma Mingzhe
Sun Jianyi
Cheung Chi Yan Louis
Wang Liping
Yao Jason Bo

Non-executive Directors:
Lin Lijun
Chen Hongbo
Wong Tung Shun Peter
Ng Sing Yip
Li Zhe
Guo Limin
David Fried

Independent Non-executive Directors:
Chow Wing Kin Anthony
Zhang Hongyi
Chen Su
Xia Liping
Tang Yunwei
Lee Ka Sze Carmelo
Chung Yu-wo Danny

Registered office:
Offices at 15, 16, 17 and 18 Floors
Galaxy Development Center
Fu Hua No. 3 Road
Futian District
Shenzhen
Guangdong Province, China

Principal place of business in Hong Kong:
17th Floor
Allied Kajima Building
138 Gloucester Road
Wan Chai
Hong Kong

30 September 2010

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
PROPOSED SUBSCRIPTION OF NEW SHARES IN SHENZHEN DEVELOPMENT BANK CO., LTD. INVOLVING A DISPOSAL OF SHARES IN PING AN BANK CO., LTD.

(I) INTRODUCTION

Reference is made to the Announcements in relation to, among other things, the Share Subscription.

The purpose of this circular is, among other things, to provide you with more information in relation to the Share Subscription to enable you to make an informed decision on whether to vote for or against those resolutions at the EGM.

(II) THE SHARE SUBSCRIPTION

(A) Share Subscription Agreement

Date: 1 September 2010

Parties:

(a) Issuer of Subscription Shares:

SDB, a joint stock limited company and the SDB Shares are listed on SZSE. Save for the Group's interest in approximately 29.99% of the existing total issued share capital of SDB, and to the best of the Directors' knowledge, information and belief having made reasonable enquiries, SDB is an Independent Third Party under the Listing Rules.

(b) Subscriber of the Subscription Shares:

The Company

The Share Subscription

Pursuant to the Share Subscription Agreement, based on the preliminary valuation of the entire issued share capital of PAB (RMB29.1 billion), SDB has conditionally agreed to issue approximately 1,639 million new SDB Shares. The Subscription Consideration payable by the Company to SDB shall be satisfied by the following two parts:

(1) Asset Consideration, being the 7,825,181,106 PAB Shares held by the Company as at the date of the Share Subscription Agreement (representing approximately 90.75% of the total issued share capital of PAB); and

(2) cash consideration in RMB, being the amount equivalent to the Subscription Consideration minus the amount equivalent to the valuation of the Asset Consideration.

The final number of Subscription Shares shall be determined by dividing the PAB's Final Valuation by the Subscription Price of RMB17.75.

PAB's Final Valuation shall be determined by reference to the net asset value of PAB as at 30 June 2010 as audited by an accounting firm and as assessed by an asset valuation institution that possess relevant securities and futures business qualifications, taking into account factors such as profitability and growth potential of PAB, and shall be confirmed by SDB and the Company within three days after the said valuation report is issued.

The parties agree that under permissible circumstances, they will finalise the number of Subscription Shares in accordance with the above formula as soon as practicable, and the number of Subscription Shares shall be subject to the final outcome as approved by CSRC.

Subscription Price

The Subscription Price shall be RMB17.75, being the average trading price of the SDB Shares as quoted on SZSE for the 20 consecutive trading days prior to the date of the first announcement of the resolutions of the board of directors of SDB approving the Share Subscription. The Subscription Consideration shall be determined by multiplying the number of Subscription Shares and the Subscription Price.

If prior to the Completion Date, there occurs any interest distribution, transfer of capital surplus into share capital or rights issue of SDB Shares, causing it necessary to make ex-right and ex-dividend adjustments to SDB Shares, then the Subscription Price shall be adjusted correspondingly in accordance with the formula for calculating the "ex-right (ex-dividend) reference price" as stipulated by the Trading Rules of SZSE. In this case, the parties to the Subscription Agreement shall as soon as possible, but no later than the Completion Date, enter into a "confirmation of adjusted Subscription Price for each Subscription Share" to confirm the adjustment in the Subscription Price.

Based on the preliminary valuation of PAB and the Subscription Price, the estimated Subscription Consideration for the Share Subscription shall be RMB29.1 billion and satisfied by the Company as follows:

(1) 7,825,181,106 PAB Shares shall be satisfied through transfer to SDB within ten Business Days after the Completion Date; and

(2) the amount equivalent to the valuation of the 797,643,372 PAB Shares as at 30 June 2010 shall be satisfied directly in cash in RMB on the Completion Date.

The funds for the Subscription Consideration are derived from funds of the Company that can be applied without any restrictions.

The Board considers the Subscription Price is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Lock Up Period

The Subscription Shares are subject to a lock up period of 36 months after the end of the issue of the Subscription Shares, during which the Company shall not transfer the Subscription Shares, but subject to applicable laws, transfers of Subscription Shares between associated entities of the Company (being any entity which directly or indirectly controls the Company, is directly or indirectly controlled by the Company or is under the same control as the Company) are not restricted by the lock up period. The Company can dispose of such Subscription Shares in accordance with the relevant requirements of CSRC and SZSE after the expiration of the aforementioned period.

Conditions to the Share Subscription Agreement

Completion of the Share Subscription shall be conditional upon the fulfilment of the following conditions (except for items (c) and (d) below, the other conditions cannot be waived):

(a) all the following approvals have been properly obtained and remain effective in all aspects on the Completion Date:

(i) approval for the Share Subscription at the general meeting of SDB and consent granted at the general meeting of SDB for the exemption of the Company to make the general offer;

(ii) approval for the Share Subscription at the general meeting of the Company;

(iii) approval for the Share Subscription from the relevant competent authorities;

(iv) approval for the Share Subscription, constituting a major asset restructuring of the Company, from CSRC;

(v) approval for the Share Subscription, constituting a major asset restructuring of SDB, from CSRC;

(vi) no opposition by CSRC to the acquisition report of the Company and approval by CSRC in respect of an exemption of obligation of the Company to make a general offer; and

(vii) approval for the Share Subscription from other competent authorities (if necessary).

(b) the relevant competent authorities have not issued, published or executed any laws, regulations, rules, directives, orders or notices which forbid the Share Subscription or significantly increase the costs of the Company in participating in the Share Subscription;

(c) there shall be no material adverse effect on the assets, finance and business of PAB and SDB after the date of the Share Subscription Agreement; and

(d) all representations and warranties given by the Company and SDB under the Share Subscription Agreement shall remain true and accurate in all material respects on the date of the Share Subscription Agreement and at all times after the date of the Share Subscription Agreement up to and including the Completion Date (as if they have been repeated on the Completion Date).

In the event that the above conditions cannot be fulfilled or waived as appropriate on or before the Long Stop Date, each party shall have the right to terminate the Share Subscription Agreement with immediate effect. Following the termination of the Share Subscription Agreement, the rights and obligations of each party under the Share Subscription Agreement shall terminate at the same time, but the termination shall not affect the rights and obligations of each party that have already occurred on the date of termination.

Termination of the Share Subscription Agreement

At any time prior to the completion of the Share Subscription, in the event that (i) any one party is in material breach of any provision under the Share Subscription Agreement; and (ii) the defaulting party does not remedy the breach within 30 days from the date the non-defaulting party issues a written notice to the defaulting party requesting it to take action to remedy such breach, the non-defaulting party can issue a notice in writing to the defaulting party and elect either to complete the transaction immediately or terminate the Share Subscription Agreement, and is entitled to request the defaulting party to bear responsibility of compensation for loss.

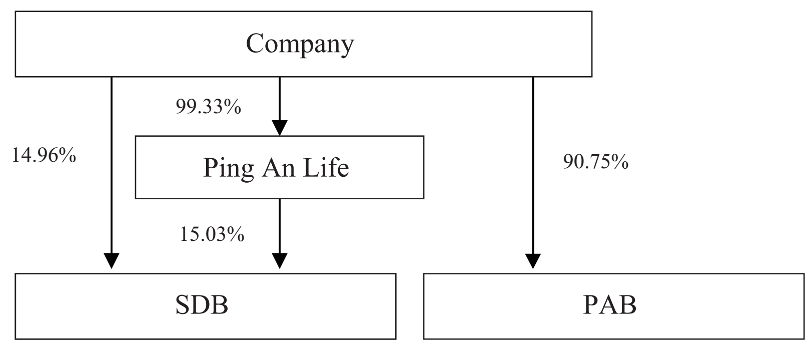
Completion of the Share Subscription

Completion of the Share Subscription shall take place on the seventh Business Day after fulfillment (or waiver as appropriate) of the last condition or an earlier date as agreed by both parties to the Share Subscription Agreement, but shall not be earlier than the date the last condition is fulfilled or waived as appropriate.

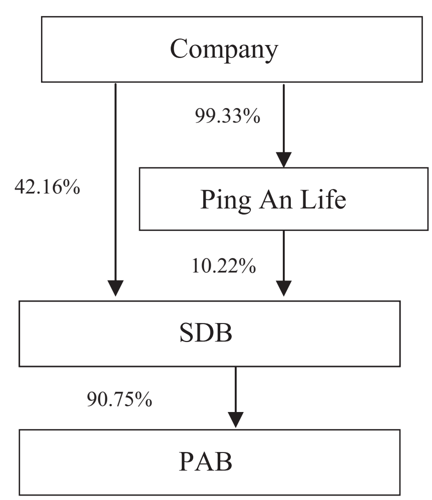
Immediately after completion of the Share Subscription, based on the PAB's Final Valuation, the Company will in aggregate own approximately 52.38% of the total issued share capital of SDB and its financial results will be consolidated with the results of the Group. PAB will become an approximately 90.75% owned subsidiary of SDB and continue to be an indirect subsidiary of the Group, through the Company's controlling shareholding in SDB.

Set out below is the shareholding structure of the Company in SDB and PAB before and after completion of the Share Subscription:

Before completion of the Share Subscription



After completion of the Share Subscription



Further Arrangement

Pursuant to the requirements of the relevant authorities, the proposed integration between PAB and SDB shall be completed within a specified period ("**Proposed Integration**"). The Share Subscription is part of the Proposed Integration. To further advance the Proposed Integration, the Company and SDB further agree that, SDB can achieve the Proposed Integration at the appropriate time through legally permitted means, including but not limited to, absorption of PAB, according to the progress of the Share Subscription and communications with and approvals from the relevant authorities.

The Company agrees that it will support SDB to proceed with the Proposed Integration and provide necessary assistance to SDB, including but not limited to when SDB adopts the absorption proposal to integrate with PAB, to the extent it is permissible by applicable laws and relevant authorities, the Company will provide, or to designate a third party to provide, the SDB Shares as absorption consideration to the PAB shareholders (other than SDB) and buy back the SDB Shares from any SDB Dissenting Shareholders etc. The parties agree that they will enter into further agreements to regulate the above arrangements, which will be subject to the terms of the then agreements. The Company will issue further announcement regarding the said arrangement, if necessary under the relevant Listing Rules.

(B) Supplemental Share Subscription Agreement

The Company further entered into the Supplemental Share Subscription Agreement with SDB on 14 September 2010 pursuant to which they have confirmed or determined the following:

1.	PAB's Final Valuation:	RMB29,080,475,600
2.	Subscription Consideration:	RMB29,080,475,600
3.	Asset Consideration:	RMB26,390,423,300
4.	Amount of cash consideration payable to SDB pursuant to the Share Subscription:	RMB2,690,052,300
5.	Number of Subscription Shares:	1,638,336,654*

* the number of Subscription Shares shall be subject to the final outcome as approved by CSRC

(C) Profit Forecast Compensation Agreement

According to the valuation report of PAB issued on 14 September 2010, the forecasted net profits of PAB (the "Forecasted Profits") prepared in accordance with the PRC Accounting Standards for Business Enterprises for the half year ending 31 December 2010 is RMB838 million, for the year ending 31 December 2011 is RMB2,300 million, for the year ending 31 December 2012 is RMB2,858 million and for the year ending 31 December 2013 is RMB3,597 million. Our auditor, Ernst & Young, certified public accountants in Hong Kong, has reviewed and opined on the arithmetical accuracy of the calculation of the cash flow projection underlying the valuation of the entire issued share capital of PAB which has been arrived at based on the income approach, which takes into account the net discounted cash flows of PAB, given that the PRC Accounting Standards for Business Enterprises used under the valuation report have no material difference from IFRS.

Considering that the actual profits finally achieved by PAB and the Forecasted Profits that were used to determine the Subscription Consideration might be different, the Company has further entered into the Profit Forecast Compensation Agreement with SDB on 14 September 2010 to agree on the compensation arrangement. Details of the same are set out as follows:

- SDB shall prepare the pro forma net profit amount of PAB (the "Actual Profit Amount") by applying accounting policies that are in conformity with the PRC Accounting Standards for Business Enterprises and the basis of preparation and assumptions as agreed between the Company and SDB within four months after the end of each year for the next three years upon the completion of the Share Subscription (the "Compensation Period") and procure its appointed accounting firm to issue a specific purpose audit opinion (the "Specific Purpose Audit Opinion") on the Actual Profit Amount in order to determine the difference between such Actual Profits and the Forecasted Profits as soon as practicable. The Specific Purpose Audit Opinion shall be final and binding upon the parties.

- The Company agrees that if, based on the Specific Purpose Audit Opinion, the Actual Profits of PAB in any year during the Compensation Period is lower than the corresponding Forecasted Profits stated in the valuation report, the Company shall pay 90.75% of the shortfall between the Actual Profits and the Forecasted Profits to SDB in cash.

Conditions to the Profit Forecast Compensation Agreement

The performance of the obligations under the Profit Forecast Compensation Agreement shall be conditional upon the fulfilment of the following conditions:

(a) approvals for the Profit Forecast Compensation Agreement at the general meetings of SDB and the Company;

(b) the transactions contemplated under the Share Subscription Agreement have been completed;

(c) the relevant authorities have not issued, published or executed any laws, regulations, rules, directives, orders or notices which forbid the performance of obligations of the parties disclosed above.

(III) FINANCIAL EFFECTS OF THE SHARE SUBSCRIPTION ON THE ENLARGED GROUP

After the completion of the Share Subscription, the Company will in aggregate own approximately 52.38% of the enlarged issued share capital of SDB. SDB will become a subsidiary of the Company and its financial results will be consolidated with the results of the

Group. The unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular is prepared based on the assumption that the Share Subscription has been completed by 30 June 2010, and the financial effects of the completion of the Share Subscription are as follows:

(a) Assets

Total assets as at 30 June 2010 would increase from approximately RMB1,032,908 million to approximately RMB1,642,526 million.

(b) Liabilities

Total liabilities as at 30 June 2010 would increase from approximately RMB923,013 million to approximately RMB1,516,990 million.

(c) Earnings

Further, after the completion of the Share Subscription, SDB will be changed from an associate of the Company to a 52.38% controlled subsidiary of the Company, which shall be consolidated into the Company's consolidated financial statements. As a result, the Enlarged Group's earnings will incorporate SDB's earnings after the completion of the Share Subscription. In addition, the 29.99% equity interest in SDB that the Group previously held should be remeasured at fair value on the acquisition date in accordance with *IFRS 3 Business Combinations (as amended in 2008)*. Please refer to note (iii)(b)(1) in Section (A) of the Appendix III to this circular for details of the impact on earnings arising from the Share Subscription.

(IV) TRADING AND FINANCIAL PROSPECTS OF THE ENLARGED GROUP

The Share Subscription would contribute towards the more balanced development of insurance, banking and investment businesses as the three pillars of the Enlarged Group, accelerate the growth of our banking business and is a significant development of strategic importance that will provide strong support to realize our vision to become an integrated financial service company. Going forward, the Enlarged Group will, on the premise of compliance with corporate governance practices and applicable laws and regulations, fully explore the potential cooperation opportunities across various business sectors including insurance, banking and investment to improve our cross-selling capability and enhance our integrated financial service platform, with aim to creating sustainable value for our Shareholders, customers, employees and society.

a. The Enlarged Group will maintain a stable asset and liability structure and a reasonable level of leverage ratio

The Share Subscription will result in the change of SDB from an associate company to a subsidiary of the Group, whose financials will be consolidated. As a result, the scale of assets of the Enlarged Group will increase while asset and liability structure will remain stable. As SDB is a commercial bank relying on certain liabilities such as deposit to fund its daily operation, SDB has a higher leverage ratio and will cause the leverage of the Enlarged Group to increase slightly but it will still be at a reasonable level that is comparable with those of peers in the same industry.

b. The Enlarged Group will maintain sufficient cash flow after completion of the Share Subscription

The Company is required to pay a cash consideration of RMB2.69 billion for the Subscription Shares through the private placement, which constitutes a relatively low percentage of our total cash balance. In fact, after the completion of the Share Subscription, as the financial statements of SDB will be consolidated into the Enlarged Group, the cash consideration will remain in the cash balance of the Enlarged Group and therefore, the Share Subscription would not have any adverse impact on the normal operating expenditure and distribution policy. The Enlarged Group will continue to maintain a strong liquidity and its financial security will not be adversely affected.

c. The Enlarged Group will keep its main business unchanged with larger and stronger banking operations

Our business scope covers investment in financial and insurance companies; supervision and management of various domestic and international businesses of investment portfolios and capital operation. Before the Share Subscription, the Company offers a variety of financial products and services ranging from insurance, banking, securities and trust to asset management primarily through our subsidiaries including Ping An Life, PAB, Ping An Property & Casualty Insurance Company of China, Ltd., Ping An Health Insurance Company of China, Ltd., Ping An Annuity Insurance Company of China, Ltd., Ping An Securities Company Ltd., Ping An Trust Co., Ltd., Ping An Asset Management Co., Ltd. and Ping An Asset Management (Hong Kong) Company Limited. In addition, the Company and Ping An Life, its controlled subsidiary, also holds 1,045,322,687 SDB Shares before the Share Subscription, representing approximately 29.99% of SDB's existing total share capital.

The Share Subscription will allow the Company to fully inject its equity interest held in PAB into SDB to achieve a higher shareholding in SDB without causing any changes to the main businesses of the Enlarged Group. After the completion of the Share Subscription, the assets relating to the banking business of the Enlarged Group will be centralized into SDB and via measures to integrate the two banks, promote the effects of synergies, further refining the banking business of the Enlarged Group so as to build up its banking franchise and enhance the overall competitiveness of the Enlarged Group in the banking industry.

d. The Enlarged Group will improve its cross-selling capability

Before the Share Subscription, the Company has approximately 56 million retail customers and approximately 2 million corporate customers. The individual customers of the Company are mainly based in the more developed coastal cities in the eastern region with higher level of education and per capita income. Moreover, the Company has a strong distribution network nationwide with over 100 branches and 3,700 offices, approximately 410,000 individual life insurance sales agents, over 30,000 property and casualty insurance agents and business brokers, as well as branches and sales services department across the country. Along with the internet-based financial account services called "One Account" and a national call centre, the Company has established a leading sales force and distribution network among peers.

After the completion of the Share Subscription, the Enlarged Group will incorporate the national banking network of SDB comprising 20 branches and 303 outlets around the country as of 30 June 2010 and further expand the distribution channels to generate significant synergies from the combination with our existing large and quality customer base. In the future, the Enlarged Group will capitalize on the more extensive and convenient bank locations within the banking network coupled with the alignment of existing sales and distribution force to offer integrated financial products and services covering insurance, banking and investment to more customers.

e. The Enlarged Group will further refine its diversified financial service platform

Over the years, the Company has strived to become a "leading integrated financial services provider" as its long-term strategic goal and create an integrated financial service platform of "one customer, one account, multiple products and one-stop services". Prior to the investment in SDB, the Company only controlled a regional bank, PAB. Through investing in SDB, the Company will change the formerly weak banking business into a real core platform to support the integrated financial services offered by the Enlarged Group. In particular, an integrated financial service platform will be established through the national banking outlets, internet banking and telephone banking among other channels, it will also have an integrated financial product distribution platform that will offer first-class banking products, services and integrated financial solutions, cross selling the products of companies within the group, and an integrated financial settlement platform using the internet banking system that promotes the use of a master account providing "one account, multiple products" for customers.

Looking ahead, the Enlarged Group will be more capable of offering diversified financial services to both individual and corporate customers under one single brand. Through the unified financial service platform, the Enlarged Group is able to share customer information, lower development cost, meet the increasing needs of customers and enhance customer satisfaction and loyalty; this would enhance and sustain the competitive advantage of the Enlarged Group in the long run.

(V) REASONS AND BENEFITS FOR THE SHARE SUBSCRIPTION

In May 2010, the Company has completed its acquisition of 520,414,439 SDB Shares from Newbridge and in June 2010, the Company, through Ping An Life, subscribed for 379,580,000 SDB Shares. After the said acquisition and subscription, the Company and Ping An Life hold in aggregate 1,045,322,687 SDB Shares, representing approximately 29.99% of SDB's existing total issued share capital.

Pursuant to the requirements of the "Approval of CBRC on the Share Transfer of SDB and the Relevant Shareholders' Qualifications" (Yinjianfu [2010] No.147), in order to ensure fair peer competition, PAB shall complete the integration with SDB within one year after the transfer of the SDB Shares from Newbridge to the Company and the subscription of the SDB Shares by Ping An Life.

Through the Share Subscription, the Company will inject its PAB Shares into SDB in order to avoid potential peer competition between PAB and SDB, which is in compliance with the requirements of the regulatory authorities, including CBRC, for the Proposed Integration. The implementation of the Share Subscription also allows the synergies among SDB, PAB and the Company to be fully utilized, maximizing value for the shareholders of the Company and SDB.

From the Company's perspective, upon the completion of the Share Subscription, the Company will gain control of a bank of a larger scale, which in turn will enhance the capabilities of its banking segment, optimize the resource allocation of the banking business within the Group and contribute to the more balanced development among its three major businesses, namely insurance, banking and investment. Capitalising on SDB's nationwide banking network, the Company will significantly enhance its cross-selling capabilities within the Group and expedite the achievement of the Company's strategic objective to become "a leading international integrated financial services company".

The Directors (including the independent non-executive Directors) consider that the Share Subscription Agreement was entered into on normal commercial terms in the ordinary and usual course of business of the Group and that the terms of the Share Subscription Agreement are fair and reasonable and in the best interests of the Group and the Shareholders as a whole.

(VI) RISKS INVOLVED IN THE SHARE SUBSCRIPTION

1. The Share Subscription is subject to the further review and approval at the forthcoming general meetings of the Company and SDB; it shall also be subject to review, approval and waiver procedures by relevant competent authorities including the CSRC;

2. the Share Subscription is subject to approvals from the relevant competent authorities which shall take a considerable amount of time to complete, and the share price of the Company and SDB may be volatile during such period; and

3. the operating results, financial conditions and development prospects of the assets proposed to be acquired by the Company in the Share Subscription are, to a large extent, subject to the economic conditions, the macro-economic policies and the effect of structural adjustments to various industries in the PRC. The PRC is in the process of economic transformation through adjusting its industry structure, improving its income allocation structure and increasing its urbanization rate. Such processes poses challenges to the traditional operating model of the banking industry. The banking industry, in general, has to adapt to the economic transformation and enhance their products and service offerings. Changes in the pattern of economic growth, adjustment to the industry structure and changes in market environment are likely to have an impact on various industries and customers, which will in turn affect the operating results of the banking industry. In addition, with the acceleration of global economic integration, domestic enterprises are also exposed to the risks of globalization of the economy. The global financial crisis and Europe's debt crisis may result in the slowdown of economic growth or even depress the growth of developed countries. Changes in the global economic landscape may extend to the PRC through various channels and further extend to the banking industry in the PRC.

(VII) INFORMATION RELATING TO THE GROUP, PAB AND SDB

The Group

The Company together with its subsidiaries is an insurance and financial services group in the PRC with the ability to provide multiple insurance and financial services and products to corporate and retail customers.

SDB

SDB is a joint stock company incorporated and registered in the PRC and the SDB Shares are listed and traded on SZSE. It is the first commercial bank to issue shares to the general public and be listed on the stock exchange in the PRC. It has excellent business networks and channels through over 300 branches in commercial cities including Beijing, Shanghai, Tianjin, Chongqing, Guangzhou, Shenzhen, Hangzhou, Nanjing, Jinan, Dalian, Qingdao, Chengdu, Kunming, Haikou, Zhuhai, Foshan, Ningbo, Wenzhou, Yiwu and Wuhan. SDB has established a complete product system and has strong market influence on its main business sectors including corporate banking, retail banking and consumer loans.

According to SDB's published 2009 annual report, as of 31 December 2009 prepared in accordance with IFRS, the net asset value of SDB amounted to RMB20,469,609,000. Its net profit before and after taxation in 2009 amounted to RMB6,190,537,000 and RMB5,030,729,000, respectively; and its net profit before and after taxation in 2008 amounted to RMB792,609,000 and RMB614,035,000, respectively. The audited net asset value of SDB as of 30 June 2010 amounted to RMB 30,421,108,000 according to SDB's published 2010 interim report.

Upon completion of the Share Subscription, SDB will become a subsidiary of the Company and its financial results will be consolidated with the Group.

PAB

PAB is a joint-stock commercial bank with cross-region operations which is headquartered in Shenzhen with branches covering Shenzhen, Shanghai, Fuzhou, Quanzhou, Xiamen, Hangzhou, Guangzhou, Dongguan, and Huizhou etc. PAB is an essential part of the integrated financial service platform of the Company, which provides innovative products and services. PAB is developing into a bank with retail and small and medium enterprises business focus, embedded with advanced risk management and a high standard of corporate governance.

According to PAB's published 2009 annual report, as of 31 December 2009 prepared in accordance with the Accounting Standards for Enterprise – Basic Standards, the net asset value of PAB amounted to RMB14,315,021,000. Its net profit before and after taxation in 2009 amounted to RMB1,378,927,000 and RMB1,105,096,000, respectively; and net profit before and after taxation in 2008 amounted to RMB1,609,344,000 and RMB1,636,030,000, respectively. The audited net asset value of PAB as of 30 June 2010 amounted to RMB15,329,093,000 based on the PAB's audited financial statements for the first half of 2010.

(VIII) LISTING RULES IMPLICATIONS

The Share Subscription involves (i) an acquisition of further shareholding in SDB by the Company (which constitutes a major transaction of the Company under the Listing Rules as the highest applicable percentage ratio is more than 25% but less than 100%); and (ii) a disposal of the Company's interest in PAB to SDB (which constitutes a discloseable transaction of the Company under the Listing Rules as the highest applicable percentage ratio is more than 5% but less than 25%). Pursuant to Rule 14.24 of the Listing Rules, in the case of a transaction involving both acquisition and disposal elements, the transaction should be classified by reference to the larger of the acquisition or the disposal. As the acquisition element of the Share Subscription is the larger of the two elements, the Share Subscription shall be classified as a major transaction of the Company under the Listing Rules and subject to the Shareholders' approval.

(IX) EGM

A notice convening the EGM to be held at 1:30 p.m. on Monday, 1 November 2010 at Ping An Hall, Ping An School of Financial Services, Guanlan, Shenzhen, Guangdong province, PRC, a form of proxy for use at the EGM and a reply slip have been despatched by the Company on 15 September 2010 and are also published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.pingan.com).

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries as at the LPD, no Shareholder is required to abstain from voting on the resolutions to be approved at the EGM.

In order to determine the list of Shareholders who are entitled to attend the EGM, the Company's register of members will be closed from Thursday, 30 September 2010 to Monday, 1 November 2010, both days inclusive, during which period no transfer of Shares will be effected. Holders of the Company's H Shares whose names appear on the Company's register of members on Thursday, 30 September 2010 are entitled to attend the EGM.

Whether or not you intend to attend the EGM, you are requested to complete and return (i) the reply slip in accordance with the instructions printed thereon not later than Tuesday, 12 October 2010 and (ii) the form of proxy enclosed in the notice of EGM in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy will not preclude you from attending the EGM and voting in person if you so wish.

Voting by poll

According to Article 105 of the articles of association of the Company and Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting shall be taken by poll.

(X) RECOMMENDATION

The Board believes that the Share Subscription Agreement, the Supplemental Share Subscription Agreement and the Profit Forecast Compensation Agreement were entered into on normal commercial terms and the terms of the Share Subscription Agreement, the Supplemental Share Subscription Agreement and the Profit Forecast Compensation Agreement are fair and reasonable and are in the best interests of the Company and its Shareholders as a whole. Accordingly, the Board recommends that all the Shareholders should vote in favour of the resolutions to be proposed at the EGM as set out in the notice of the EGM.

(XI) FURTHER INFORMATION

The Directors are aware of the requirements of Rule 14.66(10) of the Listing Rules and paragraph 30 of Appendix 1B to the Listing Rules, which state that the Company is required to include in this circular a statement by the Directors that in their opinion the working capital available to the Enlarged Group is sufficient for the Enlarged Group's requirements for at least 12 months from the date of publication of this circular or, if not, how it is proposed to provide the additional working capital thought by the Directors to be necessary.

However, the Group is an insurance and financial services group in the PRC. In respect of insurance and financial services companies, working capital is not a key indicator of solvency because the insurance and financial business models do not involve having sufficient cash to purchase goods and subsequently converting such goods into cash through sales. The traditional concept of "working capital" also does not apply to the banking businesses such as PAB's and SDB's. For insurance and banking companies, their solvency and capital adequacy would be the key indicators of their liquidity.

In addition, the Enlarged Group is regulated in the PRC by, among others, the CIRC and the CBRC. These regulatory authorities impose minimum solvency, capital adequacy and liquidity requirements on insurance companies and commercial banks operating in the PRC. In view of the prudential supervision by the CIRC and the CBRC, the inclusion of a working capital statement in this circular is not considered as meaningful and will not provide additional significant information for investors.

The Company has applied for and the Stock Exchange has granted a waiver from strict compliance with Rule 14.66(10) and paragraph 30 of Appendix 1B to the Listing Rules that this circular contain a statement as to the sufficiency of working capital of the Enlarged Group, subject to the following alternative disclosures to demonstrate the Enlarged Group's solvency and capital adequacy:

Solvency margin and capital adequacy

Solvency margin

The PRC Insurance Law requires an insurance company to maintain a minimum solvency margin commensurate with the scale of its business operations and risk exposures. According to the Administrative Regulation of Solvency of Insurance Companies promulgated by the CIRC, the minimum solvency ratio is 100%. The solvency ratio means the ratio of an insurer's actual capital to its minimum capital. Minimum capital is defined as the amount of capital that an insurance company must maintain to respond to the adverse impact of asset risks and underwriting risks on its solvency margin, while actual capital refers to the margin between the admitted assets and the admitted liabilities of an insurance company.

An insurance company is required to prepare and file various solvency reports, which include annual, quarterly and interim reports. In particular, an insurance company must submit a report to the CIRC within five working days upon the event that it is not in compliance with the minimum solvency ratio requirement.

Capital adequacy

According to the Measures for the Management of Capital Adequacy Ratios of Commercial Banks promulgated by the CBRC, the minimum capital adequacy ratio a bank has to maintain is 8%.

Capital adequacy ratio is the amount of a bank's capital expressed as a percentage of its risk-weighted assets. It measures the strength of a bank and minimum requirements are set by the CBRC to ensure that a bank has adequate capital to absorb unexpected losses or risks involved.

A commercial bank is required to report to the CBRC their period-end unconsolidated capital adequacy ratios on a quarterly basis and their consolidated capital adequacy ratios on a semi-annual basis.

Enlarged Group

Major entities within the Enlarged Group have been in compliance with the solvency and capital adequacy ratios requirements set by the regulators as of 31 December 2008 and 2009 and 30 June 2010. As of 31 December 2008 and 2009 and 30 June 2010, their solvency margin ratios and capital adequacy ratios are as follows:

	31 December 2008	31 December 2009	30 June 2010	Minimum regulatory requirement
The insurance companies' solvency ratio				
Ping An Life	183.7%	226.7%	206.3%	100%
Ping An P&C	153.3%	143.6%	136.2%	100%
The banks' capital adequacy ratio				
PAB	10.7%	13.0%	11.8%	8%
SDB	8.6%	8.9%	10.4%	8%

Your attention is also drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,
By order of the Board of Directors
PING AN INSURANCE (GROUP) COMPANY OF CHINA, LTD.
Ma Mingzhe
Chairman and Chief Executive Officer

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2009, 2008 and 2007 and the six months ended 30 June 2010 are disclosed in the annual reports for the years ended 31 December 2009, 2008 and 2007, respectively and the interim report for the six months ended 30 June 2010, which are published on both the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.pingan.com) on 27 April 2010, 16 April 2009, 26 March 2008 and 31 August 2010.

2. INDEBTEDNESS STATEMENT

At the close of business on 31 July 2010, being the latest practicable date for the purpose of this indebtedness statement, the total indebtedness of the Enlarged Group are as follows:

Borrowings

(In RMB million)	**31 July 2010**
Bank loans, secured	7,533
Bank loans, unsecured	6,196
Subtotal	13,729
Other borrowings, secured	155
Other borrowings, unsecured	53
Total	13,937
Within 1 year	3,604
1-2 years	344
2-5 years	6,707
More than 5 years	3,282
Total	13,937

As at 31 July 2010, the Enlarged Group's borrowings were secured by the pledge of the following assets:

(In RMB million)	31 July 2010
Investment properties	2,218
Intangible assets	6,446
Total	8,664

As at 31 July 2010, the Enlarged Group had total available bank credit facilities of approximately RMB21,087 million, of which approximately RMB8,692 million had been utilized.

Bonds payable

As at 31 July 2010, the Enlarged Group had approximately RMB16,988 million of bonds payable. The maturity of the bonds payable was as follows:

(In RMB million)	31 July 2010
2-5 years	7,976
More than 5 years	9,012
Total	16,988

Assets sold under agreements to repurchase

As at 31 July 2010, the Enlarged Group's non-banking business had assets sold under agreements to repurchase of approximately RMB19,994 million whose maturity was within 1 year.

As at 31 July 2010, assets sold under agreements to repurchase of the Enlarged Group's non-banking business were secured by the pledge of the following assets:

(In RMB million)	31 July 2010
Bonds	20,535
Others	108
Total	20,643

In addition, as of 31 July 2010, the Enlarged Group's indebtedness includes customer deposits, amounts due to banks and other financial institutions, balances under repurchase agreements that arise from the normal course of banking business, credit commitments, acceptances, issued letters of guarantee and letters of credit, other commitments and contingencies (including outstanding litigation) that arise from the ordinary course of business.

Save as aforesaid or as otherwise mentioned herein and apart from intra-group liabilities, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital, debt securities, bank loans and overdrafts or other similar indebtedness as at the close of business on 31 July 2010.

As at the LPD, the Directors were not aware of any material adverse changes in the Enlarged Group's indebtedness position since 31 July 2010.

3. MATERIAL ADVERSE CHANGE

As at the LPD, the Directors were not aware of any material adverse change in the financial or trading position of the Enlarged Group since 31 December 2009, being the date to which the latest audited financial statements of the Group and SDB were made up.

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The Directors
Shenzhen Development Bank Co., Ltd.
Ping An Insurance (Group) Company of China, Ltd.

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Shenzhen Development Bank Co., Ltd. (the "Company") for each of the three financial years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 (the "Relevant Periods") and the six months ended 30 June 2009 for inclusion in the circular of Ping An Insurance (Group) Company of China, Ltd. ("Ping An of China") dated 30 September 2010 (the "Circular") issued in connection with the proposed subscription by Ping An of China of 1,638,336,654 new A shares of the Company.

The Company is a joint-stock commercial bank listed on the Shenzhen Stock Exchange.

The statutory financial statements of the Company for the financial years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 were prepared in accordance with the Accounting Standards for Business Enterprises issued by Ministry of Finance, and were audited by Ernst & Young Hua Ming.

The directors of the Company have prepared the financial statements of the Company for the Relevant Periods (the "IFRS Financial Statements") in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board, which were audited by us in accordance with the International Standards on Auditing. The Financial Information set out in this report has been prepared from the IFRS Financial Statements. No adjustments were made to the IFRS Financial Statements for the purpose of the Financial Information included in this report.

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRS. In preparing the Financial Information that gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgments and estimates made are reasonable. The directors of Ping An of China are responsible for the content of the Circular in which this report is included.

Procedures performed in respect of the Relevant Periods

For the purpose of this report, we have carried out independent audit procedures on the Financial Information. We conducted our audit in accordance with International Standards on Auditing and carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by Hong Kong Institute of Certified Public Accountants.

Procedures performed in respect of the six months ended 30 June 2009

For the purpose of this report, we have also performed a review of the Financial Information for the six months ended 30 June 2009 (the "30 June 2009 Financial Information") in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review consists of making inquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 June 2009 Financial Information.

Opinion in respect of the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, and of the results and cash flows of the Company for the Relevant Periods.

Review conclusion in respect of the six months ended 30 June 2009

On the basis of our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the 30 June 2009 Financial Information is not prepared, in all material respect, in accordance with IFRS.

Ernst & Young
Certified Public Accountants
Hong Kong

30 September 2010

INCOME STATEMENT

	Notes	**Jan-Jun 2010** *RMB'000*	**Jan-Jun 2009** *RMB'000* (Unaudited)	**2009** *RMB'000*	**2008** *RMB'000*	**2007** *RMB'000*
Interest income	*4*	12,179,595	11,171,292	21,985,512	26,465,264	18,043,900
Interest expense	*4*	(4,770,383)	(4,807,758)	(9,001,138)	(13,867,376)	(8,438,051)
Net interest income	*4*	7,409,212	6,363,534	12,984,374	12,597,888	9,605,849
Fee and commission income	*5*	864,728	569,812	1,386,972	1,056,647	667,751
Fee and commission expense	*5*	(114,903)	(91,747)	(206,188)	(205,259)	(147,038)
Net fee and commission income	*5*	749,825	478,065	1,180,784	851,388	520,713
Investment income	*6*	131,553	489,208	561,950	398,881	200,984
Gains or losses from changes in fair values of financial instruments	*7*	(20,184)	(36,098)	(49,190)	80,887	14,908
Gains or losses from changes in fair values of investment properties		12,538	(4,911)	47,858	(15,087)	42,733
Net foreign exchange difference		98,840	122,232	241,623	462,543	257,346
Other net income	*8*	140,422	68,434	160,115	103,127	214,802
TOTAL OPERATING INCOME		8,522,206	7,480,464	15,127,514	14,479,627	10,857,335
Staff expenses	*9*	(1,887,061)	(1,590,957)	(3,347,943)	(2,685,103)	(2,130,330)
General and administrative expenses	*9*	(1,185,604)	(920,939)	(2,051,676)	(1,823,082)	(1,443,441)
Depreciation, amortisation and rental expenses	*9*	(517,818)	(431,041)	(911,472)	(715,681)	(633,723)
Business tax and surcharges		(606,891)	(522,352)	(1,069,134)	(1,151,665)	(824,307)
Profit before impairment losses on assets		4,324,832	4,015,175	7,747,289	8,104,096	5,825,534
Impairment losses on assets	*10*	(493,909)	(1,104,032)	(1,575,088)	(7,334,162)	(2,053,759)
OPERATING PROFIT		3,830,923	2,911,143	6,172,201	769,934	3,771,775
Share of profits of associates		40,824	18,336	18,336	22,675	–
PROFIT BEFORE TAX		3,871,747	2,929,479	6,190,537	792,609	3,771,775
Income tax expense	*11*	(838,628)	(618,091)	(1,159,808)	(178,574)	(1,121,872)
PROFIT FOR THE PERIOD/YEAR		3,033,119	2,311,388	5,030,729	614,035	2,649,903
EARNINGS PER SHARE						
Basic earnings per share *(Renminbi Yuan)*	*12*	0.98	0.74	1.62	0.20	0.97
Diluted earnings per share *(Renminbi Yuan)*	*12*	0.98	0.74	1.62	0.20	0.95

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Jan-Jun 2010 RMB'000	Jan-Jun 2009 RMB'000 (Unaudited)	2009 RMB'000	2008 RMB'000	2007 RMB'000
PROFIT FOR THE PERIOD/YEAR		3,033,119	2,311,388	5,030,729	614,035	2,649,903
OTHER COMPREHENSIVE INCOME						
(i) Net gain/(loss) on available-for-sale financial assets		32,617	(435,618)	(764,156)	1,276,798	(105,991)
Less: Income tax effect	27	(8,839)	82,207	152,616	(253,848)	16,954
Net gain or loss previously recognised in other comprehensive income transferred to income statement during the period/year		(19,557)	(461,514)	(463,282)	49,882	(56,984)
Less: Income tax effect	27	5,301	87,095	92,526	(9,917)	9,114
Subtotal		9,522	(727,830)	(982,296)	1,062,915	(136,907)
(ii) Share of the other comprehensive income of associates		(9,219)	(7,601)	(7,601)	(10,126)	–
Less: Income tax effect		–	–	–	–	–
Subtotal		(9,219)	(7,601)	(7,601)	(10,126)	–
(iii) Revaluation surplus on owner-occupied properties transferred to investment properties		15,243	14,444	36,947	3,816	12,489
Less: Income tax effect	27	(4,434)	(3,799)	(8,960)	(1,013)	(2,249)
Subtotal		10,809	10,645	27,987	2,803	10,240
Total other comprehensive income		11,112	(724,786)	(961,910)	1,055,592	(126,667)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR, NET OF TAX		3,044,231	1,586,602	4,068,819	1,669,627	2,523,236

STATEMENT OF FINANCIAL POSITION

	Notes	**2010-6-30** *RMB'000*	**2009-12-31** *RMB'000*	**2008-12-31** *RMB'000*	**2007-12-31** *RMB'000*
ASSETS					
Cash on hand and due from the Central Bank	*13*	61,505,223	54,243,952	39,767,901	40,726,387
Precious metals		2,227	3,302	9,225	8,200
Placements of deposits with other financial institutions	*14*	8,844,875	15,592,536	21,500,809	4,013,690
Funds loaned to other financial institutions	*15*	5,318,759	5,361,139	9,236,676	2,642,656
Financial assets at fair value through profit or loss	*16*	543,137	1,132,048	41,441	1,477,625
Derivative financial assets	*17*	201,606	99,996	290,751	291,816
Reverse repurchase agreements	*18*	54,961,502	40,923,396	34,733,353	33,768,925
Accounts receivables	*19*	9,870,054	4,782,161	1,359,592	778,069
Loans and advances	*20*	368,488,474	355,562,545	281,714,687	215,011,565
Available-for-sale financial assets	*21*	40,981,351	36,937,298	48,797,086	18,027,517
Held-to-maturity investments	*22*	37,496,313	34,554,094	15,509,155	15,826,998
Receivables	*23*	27,592,100	30,427,100	13,750,000	13,450,000
Investments in associates	*24*	299,031	287,346	279,672	–
Investment properties	*25*	550,313	523,846	411,690	441,098
Property and equipment	*26*	2,488,005	2,034,301	1,915,446	1,710,094
Intangible assets		160,483	156,788	113,917	67,725
Deferred tax assets	*27*	1,768,243	1,582,934	1,811,816	994,389
Other assets	*28*	3,326,483	3,606,252	3,196,956	3,302,607
TOTAL ASSETS		624,398,179	587,811,034	474,440,173	352,539,361

	Notes	**2010-6-30** *RMB'000*	**2009-12-31** *RMB'000*	**2008-12-31** *RMB'000*	**2007-12-31** *RMB'000*
LIABILITIES					
Due to the Central Bank		1,203,900	–	–	–
Placements of deposits from other financial institutions	*29*	48,139,886	74,139,673	36,063,032	32,388,762
Funds borrowed from other financial institutions	*30*	4,978,100	7,570,118	7,380,000	2,300,000
Financial liabilities at fair value through profit or loss	*16*	–	–	39,420	1,246,657
Derivative financial liabilities	*17*	156,947	21,540	58,598	255,173
Repurchase agreements	*31*	15,302,487	13,733,384	38,916,115	16,467,582
Customer deposits	*32*	505,988,338	454,635,208	360,514,036	281,276,981
Employee benefits payable	*33*	1,415,002	1,681,728	1,247,420	925,411
Corporate income tax payable		262,933	294,784	688,812	412,970
Accounts payables		2,098,596	850,881	507,483	340,297
Bonds payable	*34*	9,466,373	9,462,714	7,964,282	–
Provisions	*35*	3,370	3,358	25,809	77,447
Deferred tax liabilities	*27*	102,488	94,525	341,679	98,544
Other liabilities	*36*	4,858,651	4,853,512	4,292,697	3,743,474
TOTAL LIABILITIES		593,977,071	567,341,425	458,039,383	339,533,298
SHAREHOLDERS' EQUITY					
Share capital	*37*	3,485,014	3,105,434	3,105,434	2,293,407
Share premium		13,500,958	6,973,270	6,973,270	5,263,534
Reserves	*38*	6,015,907	6,004,795	5,370,653	3,386,065
Unappropriated profit	*39*	7,419,229	4,386,110	951,433	2,063,057
TOTAL SHAREHOLDERS' EQUITY		30,421,108	20,469,609	16,400,790	13,006,063
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		624,398,179	587,811,034	474,440,173	352,539,361

STATEMENT OF CHANGES IN EQUITY

	Share capital *RMB'000*	Share premium *RMB'000*	Reserves *(Note 38)* *RMB'000*	Of which: cumulative changes in fair value of available-for-sale financial assets *RMB'000*	Of which: revaluation surplus on owner-occupied properties transferred to investment properties *RMB'000*	Of which: general reserve *RMB'000*	Unappropriated profit *(Note 39)* *RMB'000*	Total *RMB'000*
Jan-Jun 2010								
I. At 1 January 2010	3,105,434	6,973,270	6,004,795	20,499	41,790	4,676,276	4,386,110	20,469,609
II. Movements in the period								
(i) Profit for the period	–	–	–	–	–	–	3,033,119	3,033,119
(ii) Other comprehensive income	–	–	11,112	9,522	10,809	–	–	11,112
Subtotal of (i) and (ii)	–	–	11,112	9,522	10,809	–	3,033,119	3,044,231
(iii) Capital injection from shareholders	379,580	6,527,688	–	–	–	–	–	6,907,268
(iv) Profit appropriation	–	–	–	–	–	–	–	–
III. At 30 June 2010	3,485,014	13,500,958	6,015,907	30,021	52,599	4,676,276	7,419,229	30,421,108
Jan-Jun 2009 (Unaudited)								
I. At 1 January 2009	3,105,434	6,973,270	5,370,653	1,002,795	13,803	3,583,296	951,433	16,400,790
II. Movements in the period								
(i) Profit for the period	–	–	–	–	–	–	2,311,388	2,311,388
(ii) Other comprehensive income	–	–	(724,786)	(727,830)	10,645	–	–	(724,786)
Subtotal of (i) and (ii)	–	–	(724,786)	(727,830)	10,645	–	2,311,388	1,586,602
(iii) Profit appropriation	–	–	–	–	–	–	–	–
III. At 30 June 2009	3,105,434	6,973,270	4,645,867	274,965	24,448	3,583,296	3,262,821	17,987,392

	Share capital *RMB'000*	Share premium *RMB'000*	Reserves *(Note 38)* *RMB'000*	Of which: cumulative changes in fair value of available-for-sale financial assets *RMB'000*	Of which: revaluation surplus on owner-occupied properties transferred to investment properties *RMB'000*	Of which: general reserve *RMB'000*	Unappropriated profit *(Note 39)* *RMB'000*	Total *RMB'000*
2009								
I. At 1 January 2009	3,105,434	6,973,270	5,370,653	1,002,795	13,803	3,583,296	951,433	16,400,790
II. Movements in the year								
(i) Profit for the year	–	–	–	–	–	–	5,030,729	5,030,729
(ii) Other comprehensive income	–	–	(961,910)	(982,296)	27,987	–	–	(961,910)
Subtotal of (i) and (ii)	–	–	(961,910)	(982,296)	27,987	–	5,030,729	4,068,819
(iii) Profit appropriation	–	–	1,596,052	–	–	1,092,980	(1,596,052)	–
III. At 31 December 2009	3,105,434	6,973,270	6,004,795	20,499	41,790	4,676,276	4,386,110	20,469,609
2008								
I. At 1 January 2008	2,293,407	5,263,534	3,386,065	(60,120)	11,000	2,715,704	2,063,057	13,006,063
II. Movements in the year								
(i) Profit for the year	–	–	–	–	–	–	614,035	614,035
(ii) Other comprehensive income	–	–	1,055,592	1,062,915	2,803	–	–	1,055,592
Subtotal of (i) and (ii)	–	–	1,055,592	1,062,915	2,803	–	614,035	1,669,627
(iii) Exercise of warrants	95,388	1,709,736	–	–	–	–	–	1,805,124
(iv) Profit appropriation	716,639	–	928,996	–	–	867,592	(1,725,659)	(80,024)
III. At 31 December 2008	3,105,434	6,973,270	5,370,653	1,002,795	13,803	3,583,296	951,433	16,400,790
2007								
I. At 1 January 2007	1,945,822	1,571,730	2,211,742	76,787	760	1,679,704	867,746	6,597,040
II. Movements in the year								
(i) Profit for the year	–	–	–	–	–	–	2,649,903	2,649,903
(ii) Other comprehensive income	–	–	(126,667)	(136,907)	10,240	–	–	(126,667)
Subtotal of (i) and (ii)	–	–	(126,667)	(136,907)	10,240	–	2,649,903	2,523,236
(iii) Exercise of warrants	206,649	3,698,598	–	–	–	–	–	3,905,247
(iv) Expenses of share reform plan	–	(6,794)	–	–	–	–	–	(6,794)
(v) Profit appropriation	140,936	–	1,300,990	–	–	1,036,000	(1,454,592)	(12,666)
III. At 31 December 2007	2,293,407	5,263,534	3,386,065	(60,120)	11,000	2,715,704	2,063,057	13,006,063

STATEMENT OF CASH FLOWS

	Notes	**Jan-Jun 2010** *RMB'000*	**Jan-Jun 2009** *RMB'000* (Unaudited)	**2009** *RMB'000*	**2008** *RMB'000*	**2007** *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES	*40*	(1,977,641)	4,692,070	33,529,537	25,491,200	18,155,886
Income tax paid		(1,055,797)	(847,202)	(1,335,926)	(1,148,589)	(1,104,310)
Net cash flows generated from/(used in) operating activities		(3,033,438)	3,844,868	32,193,611	24,342,611	17,051,576
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of property and equipment		(255,375)	(237,123)	(865,602)	(798,627)	(316,764)
Purchases of intangible assets		(17,033)	(15,308)	(54,306)	(39,376)	(55,434)
Purchases of investment properties		–	–	(65,344)	–	–
Proceeds from disposal of items of property and equipment		3,465	252	672	17,158	109,300
Proceeds from disposal of investment properties		–	–	–	25,819	18,940
Interest received from investment securities		1,403,948	855,398	2,488,369	1,508,070	673,687
Dividend received from investment securities		22,610	8,000	1,905	1,878	6,955
Purchases of bond investments		(92,103,381)	(36,809,587)	(156,416,547)	(133,691,351)	(123,539,875)
Cash receipts from investment securities upon disposal/maturity		89,050,273	37,824,962	139,159,125	104,670,827	111,192,097
Proceeds from disposal of a subsidiary		–	–	–	61,000	–
Proceeds from disposal of equity investments		57,099	76,173	110,514	30,279	179,317
Net cash flows generated from/(used in) investing activities		(1,838,394)	1,702,767	(15,641,214)	(28,214,323)	(11,731,777)

	Notes	Jan-Jun 2010 RMB'000	Jan-Jun 2009 RMB'000 (Unaudited)	2009 RMB'000	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from exercise of warrants		–	–	–	2,602,335	3,136,366
Cash receipts from share issue		6,931,130	–	–	–	–
Cash payments for dividend distribution and bond interest		(459,700)	(376,824)	(463,562)	(101,712)	(20,858)
Cash payments for share reform and exercise of warrants		–	–	–	(22,003)	(13,120)
Cash receipts from bond issue		–	1,500,000	1,500,000	8,000,000	–
Cash payments for bond issue		–	(9,638)	(9,810)	(37,865)	–
Net cash flows generated from financing activities		6,471,430	1,113,538	1,026,628	10,440,755	3,102,388
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,599,598	6,661,173	17,579,025	6,569,043	8,422,187
Cash and cash equivalents at beginning of the period/year		54,703,483	37,124,458	37,124,458	30,555,415	22,133,228
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR		56,303,081	43,785,631	54,703,483	37,124,458	30,555,415

	Notes	Jan-Jun 2010 RMB'000	Jan-Jun 2009 RMB'000 (Unaudited)	2009 RMB'000	2008 RMB'000	2007 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash on hand		792,996	793,142	779,169	981,859	1,062,241
Cash equivalents:						
Within three months before original maturity date						
– Placements of deposits with other financial institutions		5,301,231	4,564,274	5,487,900	5,489,878	2,372,907
– Funds loaned to other financial institutions		3,479,748	4,712,974	3,234,997	5,846,025	1,337,892
– Reverse repurchase agreements		27,265,035	22,503,322	23,443,025	15,661,984	15,346,034
Unrestricted balance with the Central Bank		10,863,485	7,796,398	14,354,511	9,144,712	10,436,341
Bond investments (with maturity of less than three months when acquired)		8,600,586	3,415,521	7,403,881	–	–
		56,303,081	43,785,631	54,703,483	37,124,458	30,555,415
SUPPLEMENTARY INFORMATION						
Interest received		11,911,204	10,753,229	21,798,323	25,090,736	16,652,111
Interest paid		(4,618,368)	(5,310,734)	(9,273,958)	(12,630,076)	(7,648,161)

NOTES TO THE FINANCIAL STATEMENTS

1. 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.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments, 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, as further explained in the respective accounting policies below.

The Company maintains its books and prepares its statutory financial statements in accordance with "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 (the "MOF") of the PRC in February 2006. As the accounting policies adopted in the preparation of the statutory financial statements are basically the same as those adopted in these financial statements, there is no significant difference in the results of operations and financial performance.

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations promulgated by the International Accounting Standards Board (the "IASB").

2.2 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 reporting 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.

(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 estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

(d) Fair value of financial instruments

If the market for a financial instrument is not active, the Company establishes fair value for 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 chosen 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 of the Company, which would affect the amount of impairment losses.

2.3 Impact of new and revised International Financial Reporting Standards

For the purpose of this Financial Information, the Company has adopted, at the beginning of the Relevant Periods, all the new and revised IFRSs applicable to the Relevant Periods. As for the purpose of the accountants' report, based on Auditing Guideline 3.340, the financial information in the report should be stated on the basis of the current accounting policies.

2.4 Summary of significant accounting policies of the Company

Investments in associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Company has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Company's investments in associates are accounted for under the equity method of accounting. Under the equity method, an investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Company's share of the net assets of the associate, less any impairment losses. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Company determines whether it is necessary to recognise any additional impairment loss with respect to the Company's net investment in the associate. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes and discloses this, when applicable, in the statement of comprehensive income. Profits and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the Company are identical and the associates' accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

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 assets classified as available for sale and held for trading, interest income or expense is recorded using 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 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.

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.

Precious metals

The Company's precious metals represent gold. Precious metals are initially measured at cost. At the reporting 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".

Financial instruments

(a) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(b) Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. 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.

(c) "Day 1" profit or loss

When the transaction price is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognises the difference between the transaction price and fair value (a "Day 1" profit or loss) in the income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and the model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

(d) Financial assets or financial liabilities held for trading

Included in this classification are debt securities, equities, derivatives (except for a derivative that is designated and an effective hedging instrument) and short positions which have been acquired principally for the purpose of selling or repurchasing in the near term. Financial assets or financial liabilities held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in "Gains or losses from changes in fair values of financial instruments".

(e) Financial assets and financial liabilities designated as at fair value through profit or loss

A financial instrument may be designated as a financial asset or financial liability at fair value through profit or loss upon initial recognition, if it meets the criteria set out below, and is so designated by management:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or the financial liabilities or recognising the gains and losses on them on a different basis;

- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The financial instrument contains one or more embedded derivatives that significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in "Gains or losses from changes in fair values of financial instruments".

(f) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the 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 rate, less impairment provision. The amortisation is included in "Net Interest Income" in the income statement. The losses arising from impairment of such investments are recognised in the income statement line "Impairment losses on assets".

The Company shall reclassify any remaining held-to-maturity investments as available for sale and shall not classify any financial assets as held to maturity if it has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity other than sales or reclassifications that:

(i) 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) occur after the Company has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

(iii) 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.

(g) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Company has no intention of trading the assets immediately or in the near term. Loans and receivables mainly include loans and advances to customers, receivables and discounted bills. After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. The amortisation is included in "Net interest income" in the income statement. The losses arising from impairment are recognised in the income statement in "Impairment losses on assets".

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 the effective interest method.

(h) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. After initial recognition, financial assets which are classified as available for sale are stated at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest method and taken to the interest income.

Changes in fair value of available-for-sale financial assets are reported as a separate component of other comprehensive income until the financial asset is derecognised or the financial asset is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "Cumulative changes in fair value of available-for-sale financial assets" within other comprehensive income is included in the income statement.

In the case of an equity investment classified as available for sale, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it will be measured at cost.

(i) Deposits, debt securities issued and other financial liabilities

Deposits, debt securities issued other than those designated as trading liabilities or at fair value through profit or loss, and other financial liabilities are carried at amortised cost using the effective interest method.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets (other than those at fair value through profit or loss) is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) 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 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.

(a) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the income statement.

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

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

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When a loan and receivable is uncollectible, it is written off against the related allowance for impairment losses. Such loans and receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off decrease the amount of the provision for impairment losses in the income statement.

(b) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because 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. Impairment losses on these assets are not reversed.

(c) Available-for-sale financial assets

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Derecognition of financial assets and financial liabilities

(a) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or

- The Company has transferred its rights to receive cash flows from the assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or 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 the income statement.

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 the income statement.

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 the income statement.

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 and sale 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.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position only when the Company currently has a legally enforceable right to offset the recognised amounts; and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Reverse repurchase agreements and repurchase agreements

Assets sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "Repurchase agreements". The difference between the sale and the repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate.

Conversely, assets purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position within "Reverse repurchase agreements". The difference between the purchase and the resale prices is treated as interest income and is accrued over the life of the agreement using the effective interest rate.

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 the income statement.

As a lessor under operating leases

Lease income from operating leases is recognized by the lessor in the income statement on a straight-line basis over the lease term.

Construction in progress

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

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

Property and equipment

All property and equipment are stated at cost less any accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Properties and buildings	3.30%
Transportation vehicles	16.20%
Computers	19.80% or 33.00%
Electronic appliances	9.90% or 19.80%
Automatic teller machines	19.80%
Owner-occupied property improvements	10.00% or 20.00%
Leasehold improvements	Over the lease terms

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year/period the asset is derecognised.

Intangible assets

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

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

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

The useful life and amortisation method for intangible assets with finite useful lives are reviewed at each reporting 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 reporting 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.

Impairment of non-financial assets excluding goodwill

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement under those expense categories consistent with the function of the impaired assets.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investment properties

Investment properties are interests in land or buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business. 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.

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 reporting 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 the repossessed assets is recognised in the income statement in "Impairment losses on assets".

Foreign currency translation

The financial statements are presented in RMB, being the functional currency of the Company's operations.

Transactions in foreign currencies are initially recorded at the functional currency rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting date. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are taken to the income statement.

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

Fiduciary activities

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

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

Financial guarantee contracts

The Company gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. These financial guarantee contracts provided for specified payments to be made to reimburse the holder for a loss it incurs when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or other obligation.

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 liabilities under such contracts are each 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 the income statement.

Related parties

A party is considered to be related to the Company if:

(i) the party, directly or indirectly through one or more intermediaries: (a) controls, is controlled by, or is under common control with, the Company; (b) has an interest in the Company that gives it significant influence over the Company; or (c) has joint control over the Company;

(ii) the party is an associate of the Company;

(iii) the party is joint venture in which the Company is a venturer;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of the Company, or of any entity that is a related party of the Company.

Income tax

Income tax comprises current income tax and movements in deferred tax balances. Except to the extent that the tax arises from a business combination; or a transaction or event which is recognised directly in other comprehensive income, all the income tax should be expensed or credited to the income statement as appropriate.

Current income tax

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

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

Deferred tax

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

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

(i) where the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or deductible loss;

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled enterprises, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

Employee benefits

Short term employee benefits

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

Defined contribution plans

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

Supplementary retirement benefits

Certain employees of the Company in Mainland China can enjoy supplementary retirement benefits after retirement. These benefits are unfunded. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the income statement in 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 reporting date up to and including the settlement date, with changes in fair value recognised in the income statement.

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 cash flow statement, 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.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

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.

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 reporting date are disclosed as an event after the reporting date.

2.5 Issued but not yet effective International Financial Reporting Standards

The Company has not applied the following new and revised IFRSs and IFRIC interpretations that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendment	Amendment to IFRS 1 *Limited Exemption from Comparatives IFRS 7 Disclosures for First-time Adopters*[2]
IFRS 9	*Financial Instruments*[4]
IAS 24 (Revised)	*Related Party Disclosures*[3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
IFRIC – Int 14 Amendment	Amendment to IFRIC – Int 14 *Prepayments of a Minimum Funding Requirement*[3]
IFRIC – Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 January 2013

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs. In connection with this, the amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010 while the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

The Company is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Company considers that except for the adoption of IFRS 9 as further explained below, these new and revised IFRSs are unlikely to have a significant impact on the Company's results of operations and financial position.

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

2.6 Differences in accounting policies between the Company and Ping An of China

In respect of requirements set out in rule 14.67 (6) (a) (i) of Chapter 14 of the Hong Kong Stock Exchange Listing Rules, the accounting policies adopted for the preparation of the Financial Information on the Company are materially consistent with those used in financial statements of Ping An Insurance (Group) Company of China, Ltd. ("Ping An of China") except that the Company has adopted fair value model for 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. However, based on the accounting policies of Ping An of China, investment properties are initially and subsequently measured using the cost method. Depreciation is calculated using the straight-line method.

Considering that the adoption of the fair value model for measurement of investment properties did not have any material effect on the financial performance or position of the Company, no adjustments are made to the IFRS Financial Statements for the purpose of the Financial Information included in this report.

3. 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 the Company's interbank business and money market business. This segment mainly serves the liquidity management of the Company and facilitates the needs of customers of other operating segments.

Other

This category consists of debt and equity investments, non-performing assets centrally managed by the Company and 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 average cost of funding 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 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. The Company did not use the above operating segment information to set up budget or carry out performance evaluation in 2007. Consequently, no financial information for 2007 is restated as management considers that the necessary information is not available and the cost to develop it would be excessive.

	Corporate banking *RMB'000*	**Retail banking** *RMB'000*	**Interbank business** *RMB'000*	**Other** *RMB'000*	**Total** *RMB'000*
Jan-Jun 2010					
Net interest income	5,282,239	1,388,031	479,042	259,900	7,409,212
Including: 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	129,956	1,112,994
Operating income	5,769,079	1,713,414	649,857	389,856	8,522,206
Operating costs *(Note 2)*	(2,076,738)	(1,465,732)	(137,292)	(517,612)	(4,197,374)
Including: 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)
Share of profits of associates	–	–	–	40,824	40,824
Segment profit/(loss)	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
Including: Investments in associates	–	–	–	299,031	299,031
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, losses from changes in fair values of investment properties, net foreign exchange difference and other operating income.

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

	Corporate banking *RMB'000*	Retail banking *RMB'000*	Interbank business *RMB'000*	Other *RMB'000*	Total *RMB'000*
Jan-Jun 2009 (Unaudited)					
Net interest income	4,114,108	1,546,961	615,137	87,328	6,363,534
Including: External net interest income	3,071,561	1,792,990	886,270	612,713	6,363,534
Internal net interest income/(expense)	1,042,547	(246,029)	(271,133)	(525,385)	–
Net non-interest income *(Note 1)*	402,004	143,244	96,422	475,260	1,116,930
Operating income	4,516,112	1,690,205	711,559	562,588	7,480,464
Operating costs *(Note 2)*	(1,832,872)	(1,243,292)	(117,549)	(271,576)	(3,465,289)
Including: Depreciation, amortisation and rental expenses	(223,681)	(197,912)	(10,170)	(1,186)	(432,949)
Impairment losses on assets	(1,050,112)	(77,796)	(5,738)	29,614	(1,104,032)
Share of profits of associates	–	–	–	18,336	18,336
Segment profit	1,633,128	369,117	588,272	338,962	2,929,479
Income tax expense					(618,091)
Profit for the period					2,311,388
2009-6-30 (Unaudited)					
Total assets	229,189,325	92,399,904	123,941,128	95,695,379	541,225,736
Including: Investments in associates	–	–	–	287,346	287,346
Total liabilities	322,694,646	65,718,826	90,281,275	44,543,597	523,238,344

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

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

	Corporate banking RMB'000	Retail banking RMB'000	Interbank business RMB'000	Other RMB'000	Total RMB'000
2009					
Net interest income	8,567,920	2,837,599	934,202	644,653	12,984,374
Including: External net interest income	6,831,683	3,501,759	1,317,172	1,333,760	12,984,374
Internal net interest income/(expense)	1,736,237	(664,160)	(382,970)	(689,107)	–
Net non-interest income *(Note 1)*	892,708	368,331	246,432	635,669	2,143,140
Operating income	9,460,628	3,205,930	1,180,634	1,280,322	15,127,514
Operating costs *(Note 2)*	(3,897,918)	(2,573,700)	(230,800)	(677,807)	(7,380,225)
Including: Depreciation, amortisation and rental expenses	(476,083)	(422,428)	(22,563)	(4,036)	(925,110)
Impairment losses on assets	(1,645,801)	(176,327)	(4,834)	251,874	(1,575,088)
Share of profits of associates	–	–	–	18,336	18,336
Segment profit	3,916,909	455,903	945,000	872,725	6,190,537
Income tax expense					(1,159,808)
Profit for the year					5,030,729
2009-12-31					
Total assets	256,927,202	101,868,661	121,910,029	107,105,142	587,811,034
Including: Investments in associates	–	–	–	287,346	287,346
Total liabilities	342,559,690	70,944,657	95,443,175	58,393,903	567,341,425

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

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

	Corporate banking *RMB'000*	Retail banking *RMB'000*	Interbank business *RMB'000*	Other *RMB'000*	Total *RMB'000*
2008					
Net interest income	9,685,975	2,467,491	900,912	(456,490)	12,597,888
Including: External net interest income	7,297,380	3,656,653	984,304	659,551	12,597,888
Internal net interest income/(expense)	2,388,595	(1,189,162)	(83,392)	(1,116,041)	–
Net non-interest income *(Note 1)*	652,784	300,105	507,562	421,288	1,881,739
Operating income	10,338,759	2,767,596	1,408,474	(35,202)	14,479,627
Operating costs *(Note 2)*	(3,757,883)	(2,331,228)	(204,659)	(81,761)	(6,375,531)
Including: Depreciation, amortisation and rental expenses	(410,882)	(295,416)	(21,712)	(4,600)	(732,610)
Impairment losses on assets	(3,606,948)	(522,865)	(7,295)	(3,197,054)	(7,334,162)
Share of profits of associates	–	–	–	22,675	22,675
Segment profit/(loss)	2,973,928	(86,497)	1,196,520	(3,291,342)	792,609
Income tax expense					(178,574)
Profit for the year					614,035
2008-12-31					
Total assets	206,301,751	82,164,623	97,368,179	88,605,620	474,440,173
Including: Investments in associates	–	–	–	279,672	279,672
Total liabilities	275,180,587	58,204,585	82,359,147	42,295,064	458,039,383

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

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

For 2007, the details of the geographical segments of the Company in the table below are as follows:

Southern China: Shenzhen, Guangzhou, Foshan, Zhuhai, Haikou

Eastern China: Shanghai, Hangzhou, Ningbo, Wenzhou, Nanjing

Northern and north-eastern China: Beijing, Tianjin, Dalian, Jinan, Qingdao

South-western China: Chongqing, Kunming, Chengdu

Offshore businesses

In presenting information on the basis of geographical segment, operating income and expense are based on the location of the branches that generated the revenue and incurred the expense. Segment assets and liabilities are allocated based on the geographical locations of the underlying assets. Segment assets and liabilities, and segment revenues and profit are calculated according to the accounting policies of the Company.

	Southern China	Eastern China	Northern and north-eastern China	South-western China	Offshore businesses	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2007							
Net interest income	4,810,811	2,693,923	1,485,325	525,796	89,994	–	9,605,849
Including: external net interest income	4,810,811	2,693,923	1,485,325	525,796	89,994	–	9,605,849
Internal net interest income	–	–	–	–	–	–	–
Net fee and commission income	277,462	116,143	71,000	20,336	35,772	–	520,713
Other income	572,903	66,052	76,526	5,828	9,464	–	730,773
Total operating income	5,661,176	2,876,118	1,632,851	551,960	135,230	–	10,857,335
Business tax and surcharges	(282,563)	(300,549)	(189,233)	(51,962)	–	–	(824,307)
General and administrative expenses	(2,280,845)	(1,021,335)	(695,421)	(209,893)	–	–	(4,207,494)
Impairment losses on assets	(1,772,992)	(184,862)	(49,857)	(31,507)	(14,541)	–	(2,053,759)
Operating expenses	(4,336,400)	(1,506,746)	(934,511)	(293,362)	(14,541)	–	(7,085,560)
Operating profit	1,324,776	1,369,372	698,340	258,598	120,689	–	3,771,775
Depreciation and amortisation	(146,890)	(53,155)	(49,180)	(25,611)	–	–	(274,836)
Capital expenditure	236,530	56,019	48,505	31,143	–	–	372,197
2007-12-31							
Segment assets	213,890,764	105,849,188	80,366,622	21,728,490	3,621,120	(73,911,212)	351,544,972
Deferred tax assets							994,389
Total assets							352,539,361
Segment liabilities	204,208,241	104,486,345	79,674,242	21,471,851	3,505,287	(73,911,212)	339,434,754
Deferred tax liabilities							98,544
Total liabilities							339,533,298

Geographical information

The Company's external operating income and non-current assets are mainly attributable to Mainland China based on the location of the customers and assets respectively for the six-month periods ended 30 June 2010 and the years ended 31 December 2009, 2008 and 2007. Non-current assets for this purpose consist of investment properties, property and equipment, 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 Jan-Jun 2010, Jan-Jun 2009, 2009, 2008 and 2007.

4. NET INTEREST INCOME

	Jan-Jun 2010 *RMB'000*	**Jan-Jun 2009** *RMB'000* (Unaudited)	**2009** *RMB'000*	**2008** *RMB'000*	**2007** *RMB'000*
Interest income:					
Interest income on loans and advances *(Note)*	9,026,785	8,021,898	16,258,728	19,406,389	14,222,092
Interest income on amounts due from financial institutions	1,607,756	1,817,115	3,093,070	4,670,673	2,520,703
Interest income on investment securities (excluding financial assets at fair value through profit or loss)	1,538,466	1,316,361	2,601,525	2,330,843	1,261,540
Subtotal	12,173,007	11,155,374	21,953,323	26,407,905	18,004,335
Interest income on financial assets at fair value through profit or loss	6,588	15,918	32,189	57,359	39,565
Total	12,179,595	11,171,292	21,985,512	26,465,264	18,043,900
Interest expense:					
Interest expense on amounts due to financial institutions	962,842	833,226	1,498,875	4,977,674	3,390,478
Interest expense on customer deposits	3,532,345	3,732,502	6,981,323	8,556,601	5,014,596
Interest expense on bonds	275,196	241,446	520,356	325,488	–
Subtotal	4,770,383	4,807,174	9,000,554	13,859,763	8,405,074
Interest expense on financial liabilities at fair value through profit or loss	–	584	584	7,613	32,977
Total	4,770,383	4,807,758	9,001,138	13,867,376	8,438,051
Net interest income	7,409,212	6,363,534	12,984,374	12,597,888	9,605,849

Note: Included in interest income was RMB32,876 thousand (Jan-Jun 2009: RMB48,115 thousand; 2009: RMB109,510 thousand; 2008: RMB384,238 thousand; 2007: RMB518,592 thousand) in respect of interest income accrued on impaired financial assets (see Note 20f).

5. NET FEE AND COMMISSION INCOME

	Jan-Jun 2010 RMB'000	Jan-Jun 2009 RMB'000 (Unaudited)	2009 RMB'000	2008 RMB'000	2007 RMB'000
Fee and commission income:					
Settlement fee income	229,832	181,335	387,014	341,688	265,309
Wealth management products related fee income	21,223	3,590	17,025	1,867	–
Agency business fee income	57,531	31,110	102,718	100,645	70,418
Bank card fee income	338,036	167,716	392,259	307,981	131,102
Advisory and consulting fee income	125,934	100,504	301,182	169,170	–
Account management fee income	21,175	14,354	29,966	19,474	–
Others	70,997	71,203	156,808	115,822	200,922
Subtotal	864,728	569,812	1,386,972	1,056,647	667,751
Fee and commission expense:					
Agency business fee expenses	25,771	17,797	111,021	123,036	–
Bank card fee	75,273	62,298	72,884	65,026	91,837
Others	13,859	11,652	22,283	17,197	55,201
Subtotal	114,903	91,747	206,188	205,259	147,038
Net fee and commission income	749,825	478,065	1,180,784	851,388	520,713

6. INVESTMENT INCOME

	Jan-Jun 2010 RMB'000	Jan-Jun 2009 RMB'000 (Unaudited)	2009 RMB'000	2008 RMB'000	2007 RMB'000
Net gain or loss on disposal of bond investments held for trading	7,622	906	(10,783)	41,810	4,352
Net gain or loss on disposal of bond investments designated as at fair value through profit or loss	–	–	12	(91)	(31,408)
Net gain on disposal of available-for-sale bond investments	15,153	428,642	435,403	322,953	40,017
Net gain on disposal of available-for-sale equity investments	8,428	36,182	65,785	13,247	175,736
Net loss on disposal of held-to-maturity bond investments *(Note 22)*	–	–	(29,128)	–	–
Dividend income	2,690	2,004	1,905	4,554	6,955
Net realised gain or loss on derivative financial instruments (excluding foreign exchange derivative financial instruments)	6,354	(3,862)	1,463	16,408	5,332
Gain on disposal of bills	88,705	25,336	97,293	–	–
Net gain on disposal of debt instruments being underwritten	2,601	–	–	–	–
Total	131,553	489,208	561,950	398,881	200,984

7. GAINS OR (LOSSES) FROM CHANGES IN FAIR VALUES OF FINANCIAL INSTRUMENTS

	Jan-Jun 2010 *RMB'000*	Jan-Jun 2009 *RMB'000* (Unaudited)	2009 *RMB'000*	2008 *RMB'000*	2007 *RMB'000*
Financial instruments held for trading	2,565	2,816	78	1,241	(459)
Financial assets designated as at fair value through profit or loss	–	476	(83)	4,729	12,534
Financial liabilities designated as at fair value through profit or loss	–	8	567	2,740	(10,925)
Derivative financial instruments (excluding foreign exchange derivative financial instruments)	(22,749)	(39,398)	(49,752)	72,177	13,758
Total	(20,184)	(36,098)	(49,190)	80,887	14,908

8. OTHER NET INCOME

	Jan-Jun 2010 *RMB'000*	Jan-Jun 2009 *RMB'000* (Unaudited)	2009 *RMB'000*	2008 *RMB'000*	2007 *RMB'000*
Gain on disposal of property and equipment, net	131	81	289	261	21,011
Loss on disposal of investment properties, net	–	–	–	(419)	(6,311)
Rental income	32,243	31,186	67,053	63,365	65,994
Gain on disposal of repossessed assets, net	70,827	14,045	20,276	12,266	23,218
Provision against litigation claims	(12)	2,402	3,508	(29,712)	(23,998)
Others	37,233	20,720	68,989	57,366	134,888
Total	140,422	68,434	160,115	103,127	214,802

9. OPERATING EXPENSES

	Jan-Jun 2010 RMB'000	Jan-Jun 2009 RMB'000 (Unaudited)	2009 RMB'000	2008 RMB'000	2007 RMB'000
Staff expenses:					
Salaries, bonuses, allowances and subsidies	1,471,425	1,216,363	2,507,090	2,034,524	1,599,861
Including: Deferred bonus accrual *(Note 33)*	2,420	26,593	91,334	65,400	33,800
Social insurance, supplementary pension contributions and staff welfare	292,139	286,264	641,287	494,408	364,568
Housing funds	75,559	55,670	121,418	89,934	69,842
Labour union and training expenses	42,846	29,282	73,380	56,875	54,177
Others	5,092	3,378	4,768	9,362	41,882
Subtotal	1,887,061	1,590,957	3,347,943	2,685,103	2,130,330
General and administrative expenses:					
Computer system maintenance fees	81,608	85,304	140,042	168,425	138,120
Telecommunication and postage expenses	49,372	46,342	98,813	95,546	77,285
Water and electricity expenses	29,234	25,194	58,721	47,769	40,381
Publication and stationery expenses	101,698	91,625	210,738	197,604	151,377
Travel expenses	37,571	38,681	95,734	90,173	87,515
Marketing and public relation expenses	311,548	200,252	475,516	358,019	241,706
Motor vehicle expenses	66,861	64,212	133,344	128,463	134,107
Legal expenses	47,057	31,369	87,907	44,080	35,754
Professional fees	182,167	72,174	280,427	169,425	100,047
Sundry tax expenses	20,886	22,197	45,524	30,269	36,014
CBRC supervisory fee	45,081	31,319	62,702	51,582	44,473
Others	212,521	212,270	362,208	441,727	356,662
Subtotal	1,185,604	920,939	2,051,676	1,823,082	1,443,441
Depreciation, amortisation and rental expenses:					
Depreciation of property and equipment	199,614	164,515	342,228	273,104	260,561
Amortisation of intangible assets	24,203	15,735	36,032	20,852	14,275
Rental expenses	294,001	250,791	533,212	421,725	358,887
Subtotal	517,818	431,041	911,472	715,681	633,723
Total	3,590,483	2,942,937	6,311,091	5,223,866	4,207,494
Including:					
Auditors' remuneration – audit service fees	2,460	1,860	5,530	5,635	4,700

10. IMPAIRMENT LOSSES ON ASSETS

Jan-Jun 2010	Notes	Balance at beginning of the period RMB'000	Charge/ (reversal) for the period RMB'000	Amounts written off RMB'000	Add-back of loans written off previously RMB'000	Recovery of assets written off previously RMB'000	Amounts released upon disposal of assets RMB'000	Interest accrued on impaired loans and advances RMB'000	Other movements RMB'000	Balance at end of the period RMB'000
Provision for decline in value of precious metals		78	66	–	–	–	–	–	(137)	7
Impairment provision for placements of deposits with other financial institutions	14	40,695	–	(10,000)	–	–	–	–	–	30,695
Impairment provision for funds loaned to other financial institutions	15	29,979	–	–	–	–	–	–	(153)	29,826
Impairment provision for reverse repurchase agreements	18	35,000	–	–	–	–	–	–	–	35,000
Impairment provision for loans and advances	20	3,954,868	484,838	(115,387)	–	845,957	–	(32,876)	(1,138)	5,136,262
Impairment provision for available-for-sale financial assets carried at cost	21	112,857	–	–	–	–	–	–	–	112,857
Impairment provision for investments in associates	24	23,061	–	–	–	–	–	–	–	23,061
Provision for decline in value of repossessed assets	28	360,961	13,143	–	–	–	(89,936)	–	–	284,168
Impairment provision for property and equipment	26	6,289	–	–	–	–	–	–	–	6,289
Impairment provision for other assets		154,408	(4,138)	(3)	–	1,028	–	–	31	151,326
Total		4,718,196	493,909	(125,390)	–	846,985	(89,936)	(32,876)	(1,397)	5,809,491
Impairment losses on financial guarantee contracts			–							
Total impairment losses			493,909							

Jan-Jun 2009 (Unaudited)	**Balance at beginning of the period** *RMB'000*	**Charge/ (reversal) for the period** *RMB'000*	**Amounts written off** *RMB'000*	**Add-back of loans written off previously** *RMB'000*	**Recovery of assets written off previously** *RMB'000*	**Amounts released upon disposal of assets** *RMB'000*	**Interest accrued on impaired loans and advances** *RMB'000*	**Other movements** *RMB'000*	**Balance at end of the period** *RMB'000*
Provision for decline in value of precious metals	259	(120)	–	–	–	–	–	–	139
Impairment provision for placements of deposits with other financial institutions	40,695	–	–	–	–	–	–	–	40,695
Impairment provision for funds loaned to other financial institutions	29,079	(262)	–	–	1,345	–	–	20	30,182
Impairment provision for reverse repurchase agreements	29,000	6,000	–	–	–	–	–	–	35,000
Impairment provision for loans and advances	2,026,679	1,015,476	(57,465)	–	344,250	–	(48,115)	8,175	3,289,000
Impairment provision for available-for-sale financial assets carried at cost	87,627	28,530	–	–	–	(500)	–	–	115,657
Impairment provision for investments in associates	20,000	3,061	–	–	–	–	–	–	23,061
Provision for decline in value of repossessed assets	319,480	33,314	–	–	–	(19,445)	–	–	333,349
Impairment provision for property and equipment	6,289	–	–	–	–	–	–	–	6,289
Impairment provision for other assets	212,637	18,033	(871)	–	–	–	–	169	229,968
Total	2,771,745	1,104,032	(58,336)	–	345,595	(19,945)	(48,115)	8,364	4,103,340
Impairment losses on financial guarantee contracts		–							
Total impairment losses		1,104,032							

2009	*Notes*	Balance at beginning of the year *RMB'000*	Charge/ (reversal) for the year *RMB'000*	Amounts written off *RMB'000*	Add-back of loans written off previously *RMB'000*	Recovery of assets written off previously *RMB'000*	Amounts released upon disposal of assets *RMB'000*	Interest accrued on impaired loans and advances *RMB'000*	Other movements *RMB'000*	Balance at end of the year *RMB'000*
Provision for decline in value of precious metals		259	(181)	–	–	–	–	–	–	78
Impairment provision for placements of deposits with other financial institutions	*14*	40,695	–	–	–	–	–	–	–	40,695
Impairment provision for funds loaned to other financial institutions	*15*	29,079	(1,166)	–	–	1,774	–	–	292	29,979
Impairment provision for reverse repurchase agreements	*18*	29,000	6,000	–	–	–	–	–	–	35,000
Impairment provision for loans and advances	*20*	2,026,679	1,440,552	(175,017)	356,235	673,160	(302,717)	(109,510)	45,486	3,954,868
Impairment provision for available-for-sale financial assets carried at cost	*21*	87,627	28,530	–	–	–	(3,300)	–	–	112,857
Impairment provision for investments in associates	*24*	20,000	3,061	–	–	–	–	–	–	23,061
Provision for decline in value of repossessed assets	*28*	319,480	88,861	–	–	–	(47,380)	–	–	360,961
Impairment provision for property and equipment	*26*	6,289	–	–	–	–	–	–	–	6,289
Impairment provision for other assets		212,637	5,459	(64,340)	–	–	–	–	652	154,408
Total		2,771,745	1,571,116	(239,357)	356,235	674,934	(353,397)	(109,510)	46,430	4,718,196
Impairment losses on financial guarantee contracts			3,972							
Total impairment losses			1,575,088							

2008	Notes	Balance at beginning of the year RMB'000	Charge/ (reversal) for the year RMB'000	Amounts written off RMB'000	Recovery of loans written off previously RMB'000	Amounts released upon disposal of assets RMB'000	Interest accrued on impaired loans and advances RMB'000	Other movements RMB'000	Balance at end of the year RMB'000
Provision for decline in value of precious metals		61	198	–	–	–	–	–	259
Impairment provision for placements of deposits with other financial institutions	14	66,786	(1,496)	(25,400)	–	–	–	805	40,695
Impairment provision for funds loaned to other financial institutions	15	309,897	8,619	(284,987)	–	–	–	(4,450)	29,079
Impairment provision for reverse repurchase agreements	18	30,549	172	(1,721)	–	–	–	–	29,000
Impairment provision for loans and advances	20	6,023,964	6,972,839	(10,606,712)	29,944	–	(384,238)	(9,118)	2,026,679
Impairment provision for available-for-sale financial assets carried at cost	21	470,745	63,184	–	–	(446,302)	–	–	87,627
Impairment provision for investments in associates	24	–	20,000	–	–	–	–	–	20,000
Provision for decline in value of repossessed assets	28	198,143	126,114	–	–	(7,577)	–	2,800	319,480
Impairment provision for property and equipment	26	–	6,289	–	–	–	–	–	6,289
Impairment provision for other assets		238,448	37,990	(61,447)	–	–	–	(2,354)	212,637
Total		7,338,593	7,233,909	(10,980,267)	29,944	(453,879)	(384,238)	(12,317)	2,771,745
Impairment losses on available-for-sale financial assets carried at fair value			100,253						
Total impairment losses			7,334,162						

2007	Notes	Balance at beginning of the year RMB'000	Charge/ (reversal) for the year RMB'000	Amounts written off RMB'000	Recovery of loans written off previously RMB'000	Amounts released upon disposal of assets RMB'000	Interest accrued on impaired loans and advances RMB'000	Other movements RMB'000	Balance at end of the year RMB'000
Provision for decline in value of precious metals		–	61	–	–	–	–	–	61
Impairment provision for placements of deposits with other financial institutions	14	67,425	361	(1,000)	–	–	–	–	66,786
Impairment provision for funds loaned to other financial institutions	15	324,985	8,283	(17,498)	–	–	–	(5,873)	309,897
Impairment provision for reverse repurchase agreements	18	27,550	2,999	–	–	–	–	–	30,549
Impairment provision for loans and advances	20	6,937,141	1,946,243	(1,591,751)	34,061	(710,230)	(518,592)	(72,908)	6,023,964
Impairment provision for available-for-sale financial assets carried at cost	21	470,745	–	–	–	–	–	–	470,745
Impairment provision for investments in associates	24	–	–	–	–	–	–	–	–
Provision for decline in value of repossessed assets	28	189,538	14,419	–	–	–	–	(5,814)	198,143
Impairment provision for property and equipment	26	–	–	–	–	–	–	–	–
Impairment provision for other assets		188,891	51,393	–	–	–	–	(1,836)	238,448
Total		8,206,275	2,023,759	(1,610,249)	34,061	(710,230)	(518,592)	(86,431)	7,338,593
Impairment losses on available-for-sale financial assets carried at fair value			30,000						
Total impairment losses			2,053,759						

11. INCOME TAX EXPENSE

	Jan-Jun 2010 *RMB'000*	Jan-Jun 2009 *RMB'000* (Unaudited)	2009 *RMB'000*	2008 *RMB'000*	2007 *RMB'000*
Current tax:					
Charge for the period/year	818,987	576,047	1,151,737	1,381,363	1,216,465
Adjustments in respect of current income tax for prior years *(Note)*	204,959	(112,274)	(209,839)	(363,719)	24,171
Subtotal	1,023,946	463,773	941,898	1,017,644	1,240,636
Deferred income tax *(Note 27)* *(Note)*	(185,318)	154,318	217,910	(839,070)	(118,764)
Total	838,628	618,091	1,159,808	178,574	1,121,872

Note: During Jan-Jun 2010, the adjustments in respect of current income tax for prior years were mainly related to the salary and bonus payable amounting to RMB245,943 thousand at the 2009 year end. As such salary and bonus payable balance could be deductible from the taxable income when it is actually paid out, deferred tax asset is recognised by the Company correspondingly for this deductible temporary difference which offsets the effect of the current tax for the period.

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 2010 *RMB'000*	Jan-Jun 2009 *RMB'000* (Unaudited)	2009 *RMB'000*	2008 *RMB'000*	2007 *RMB'000*
Profit before tax	3,871,747	2,929,479	6,190,537	792,609	3,771,775
Income tax at the statutory rate of 25% (2007: 33%)	967,937	732,370	1,547,634	198,152	1,244,686
Effects of 22% tax rate (2009: 20%; 2008: 18%; 2007: 15%) applicable to the regions of Shenzhen, Zhuhai and Haikou	(79,482)	(99,612)	(211,555)	(1,971)	(148,921)
Adjustments in respect of current income tax for prior years	8,339	7,956	(209,839)	(363,719)	24,171
Non-taxable income	(60,778)	(56,653)	(111,777)	(131,617)	(152,226)
Non-deductible expenses and other adjustments	2,612	34,030	145,345	477,729	154,162
Income tax expense	838,628	618,091	1,159,808	178,574	1,121,872

12. EARNINGS PER SHARE

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

	Jan-Jun 2010 *RMB'000*	Jan-Jun 2009 *RMB'000* (Unaudited)	2009 *RMB'000*	2008 *RMB'000*	2007 *RMB'000*
Net profit attributable to ordinary shareholders of the Company	3,033,119	2,311,388	5,030,729	614,035	2,649,903
The weighted average number of ordinary shares outstanding *(in thousands)*	3,105,434	3,105,434	3,105,434	3,060,103	2,721,446
Basic earnings per share *(Renminbi Yuan)*	0.98	0.74	1.62	0.20	0.97

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

	Jan-Jun 2010 *RMB'000*	Jan-Jun 2009 *RMB'000* (Unaudited)	2009 *RMB'000*	2008 *RMB'000*	2007 *RMB'000* *(Note)*
Net profit attributable to ordinary shareholders of the Company	3,033,119	2,311,388	5,030,729	614,035	2,649,903
The weighted average number of ordinary shares outstanding *(in thousands)*	3,105,434	3,105,434	3,105,434	3,060,103	2,721,446
Dilutive effect – weighted average number of ordinary shares: Warrants	–	–	–	17,984	74,140
Adjusted weighted average number of ordinary shares outstanding *(in thousands)*	3,105,434	3,105,434	3,105,434	3,078,087	2,795,586
Diluted earnings per share *(Renminbi Yuan)*	0.98	0.74	1.62	0.20	0.95

Note: The number of ordinary shares increased by 716,639 thousand as a result of a scrip dividend in October 2008. Since there was no effect on the amount of shareholders' equity, the earnings per share for 2007 were recalculated on the basis of the adjusted number of shares.

13. CASH ON HAND AND DUE FROM THE CENTRAL BANK

	2010-6-30 *RMB'000*	2009-12-31 *RMB'000*	2008-12-31 *RMB'000*	2007-12-31 *RMB'000*
Cash on hand	792,996	779,169	981,859	1,062,241
Statutory reserve with the Central Bank – RMB	49,144,002	38,650,469	29,321,249	28,894,261
Statutory reserve with the Central Bank – foreign currency	348,282	327,335	309,783	327,038
Unrestricted balance with the Central Bank	10,863,485	14,354,511	9,144,712	10,436,341
Other deposits with the Central Bank – fiscal deposits	356,458	132,468	10,298	6,506
Total	61,505,223	54,243,952	39,767,901	40,726,387

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.

14. PLACEMENTS OF DEPOSITS WITH OTHER FINANCIAL INSTITUTIONS

Analysed by location and counterparty

	2010-6-30	**2009-12-31**	**2008-12-31**	**2007-12-31**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Domestic banks	6,058,271	14,074,591	18,313,172	2,273,251
Other domestic financial institutions	32,222	42,222	45,462	68,150
Overseas banks	2,785,077	1,516,418	3,182,870	1,739,075
Subtotal	8,875,570	15,633,231	21,541,504	4,080,476
Less: Impairment provision *(Note 10)*	(30,695)	(40,695)	(40,695)	(66,786)
Total	8,844,875	15,592,536	21,500,809	4,013,690

As at 30 June 2010, included in this total amount of placements of deposits with other financial institutions was an amount of RMB31,520 thousand (31 December 2009: RMB41,520 thousand; 31 December 2008: RMB44,520 thousand; 31 December 2007: RMB69,920 thousand) impaired assets brought forward from prior years.

15. FUNDS LOANED TO OTHER FINANCIAL INSTITUTIONS

Analysed by location and counterparty

	2010-6-30	**2009-12-31**	**2008-12-31**	**2007-12-31**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Domestic banks	2,522,750	1,204,596	4,101,050	687,940
Other domestic financial institutions	1,433,217	533,393	183,572	129,061
Overseas banks	1,392,618	3,653,129	4,981,133	2,135,552
Subtotal	5,348,585	5,391,118	9,265,755	2,952,553
Less: Impairment provision *(Note 10)*	(29,826)	(29,979)	(29,079)	(309,897)
Total	5,318,759	5,361,139	9,236,676	2,642,656

As at 30 June 2010, included in this total amount of loans funded to other financial institutions was an amount of RMB33,217 thousand (31 December 2009: RMB33,393 thousand; 31 December 2008: RMB33,572 thousand; 31 December 2007: RMB323,771 thousand) impaired assets brought forward from prior years.

16. FINANCIAL ASSETS/FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

16.1 Financial assets at fair value through profit or loss

	2010-6-30 *RMB'000*	2009-12-31 *RMB'000*	2008-12-31 *RMB'000*	2007-12-31 *RMB'000*
Bonds held for trading	543,137	1,132,048	36,610	276,802
Financial assets designated as at fair value through profit or loss	–	–	4,831	1,200,823
Total	543,137	1,132,048	41,441	1,477,625

	2010-6-30 *RMB'000*	2009-12-31 *RMB'000*	2008-12-31 *RMB'000*	2007-12-31 *RMB'000*
Bond investments analysed by issuer:				
Governments and the Central Bank	199,825	–	–	816,669
Policy banks	343,312	1,132,048	36,610	616,136
Other banks and non-bank financial institutions	–	–	4,831	44,820
Total	543,137	1,132,048	41,441	1,477,625

In the opinion of management, there are no significant restrictions on realising the financial assets at fair value through profit or loss.

16.2 Financial liabilities at fair value through profit or loss

	2010-6-30 *RMB'000*	2009-12-31 *RMB'000*	2008-12-31 *RMB'000*	2007-12-31 *RMB'000*
Financial liabilities designated at fair value through profit or loss	–	–	39,420	1,246,657

During 2008 and 2007, the change in fair value of financial liabilities designated at fair value through profit or loss that was attributable to changes in the credit risk was not significant as the credit spread of the Company remained stable. As at 31 December 2008, the difference between the carrying amount and the amount that the Company would be contractually required to pay at maturity to the holders of these financial liabilities was RMB567 thousand (31 December 2007: RMB31,506 thousand).

17. 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, swaps and options.

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.

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

2010-6-30	Notional amounts with remaining lives of Up to 3 months	3 months to 1 year	1 to 5 years	Total	Fair value Assets	Liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Foreign exchange derivative instruments:						
Forward foreign exchange contracts	14,056,078	23,756,662	8,137	37,820,877	168,917	(128,271)
Interest rate derivative instruments:						
Interest rate swap contracts	–	700,000	2,150,000	2,850,000	32,689	(28,676)
Total	14,056,078	24,456,662	2,158,137	40,670,877	201,606	(156,947)

2009-12-31	Notional amounts with remaining lives of Up to 3 months	3 months to 1 year	1 to 5 years	Total	Fair value Assets	Liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Foreign exchange derivative instruments:						
Forward foreign exchange contracts	9,599,495	9,634,913	682,660	19,917,068	71,142	(19,448)
Interest rate derivative instruments:						
Interest rate swap contracts	–	–	800,000	800,000	28,854	–
Equity derivative instruments:						
Equity option contracts	–	93,356	–	93,356	–	(337)
Equity swap contracts	–	93,356	–	93,356	–	(1,755)
Total	9,599,495	9,821,625	1,482,660	20,903,780	99,996	(21,540)

2008-12-31	Notional amounts with remaining lives of Up to 3 months	3 months to 1 year	1 to 5 years	Total	Fair value Assets	Liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Foreign exchange derivative instruments:						
Forward foreign exchange contracts	11,720,148	7,181,310	73,121	18,974,579	182,345	(27,016)
Interest rate derivative instruments:						
Interest rate swap contracts	–	130,000	1,140,000	1,270,000	86,632	(6,733)
Equity derivative instruments:						
Equity option contracts	511,437	1,508,952	–	2,020,389	21,312	(21,312)
Equity swap contracts	–	46,767	–	46,767	–	(3,075)
Other derivative instruments	19,219	407,060	–	426,279	462	(462)
Total	12,250,804	9,274,089	1,213,121	22,738,014	290,751	(58,598)

2007-12-31	Notional amounts with remaining lives of Up to 3 months	3 months to 1 year	1 to 5 years	Total	Fair value Assets	Liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Foreign exchange derivative instruments:						
Forward foreign exchange contracts	5,847,222	5,077,180	–	10,924,402	166,122	(139,604)
Interest rate derivative instruments:						
Interest rate swap contracts	–	–	170,000	170,000	–	(1,553)
Equity derivative instruments:						
Equity option contracts	805,824	224,966	1,531,691	2,562,481	71,417	(76,149)
Equity swap contracts	–	482,036	–	482,036	16,410	–
Other derivative instruments	–	1,482,337	–	1,482,337	37,867	(37,867)
Total	6,653,046	7,266,519	1,701,691	15,621,256	291,816	(255,173)

As at 30 June 2010 and 31 December 2009, 2008 and 2007, no derivatives were designated as hedging instruments.

18. REVERSE REPURCHASE AGREEMENTS

(a) Analysed by counterparty

	2010-6-30	2009-12-31	2008-12-31	2007-12-31
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Banks	54,461,357	40,152,396	34,542,353	33,347,752
Non-bank financial institutions	535,145	806,000	220,000	451,722
Subtotal	54,996,502	40,958,396	34,762,353	33,799,474
Less: Impairment provision *(Note 10)*	(35,000)	(35,000)	(29,000)	(30,549)
Total	54,961,502	40,923,396	34,733,353	33,768,925

As at 30 June 2010, included in this total amount of reverse repurchase agreements was an amount of RMB50 million (31 December 2009: RMB50 million; 31 December 2008: RMB50 million; 31 December 2007: RMB51.722 million) impaired assets brought forward from prior years.

(b) Analysed by collateral

	2010-6-30	2009-12-31	2008-12-31	2007-12-31
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Securities	4,449,200	50,000	1,020,000	551,722
Bills	50,261,857	40,152,396	33,572,353	22,470,502
Loans	–	150,000	170,000	10,777,250
Receivables under finance leases	285,445	606,000	–	–
Subtotal	54,996,502	40,958,396	34,762,353	33,799,474
Less: Impairment provision *(Note 10)*	(35,000)	(35,000)	(29,000)	(30,549)
Total	54,961,502	40,923,396	34,733,353	33,768,925

(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 reporting date, the fair values of the collateral held on such terms are as follows:

	2010-6-30		2009-12-31	
	Amount of reverse repurchase agreements	Fair value of collateral	Amount of reverse repurchase agreements	Fair value of collateral
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bills	29,206,542	29,206,542	21,994,768	21,994,768

	2008-12-31		2007-12-31	
	Amount of reverse repurchase agreements	Fair value of collateral	Amount of reverse repurchase agreements	Fair value of collateral
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bills	33,572,353	33,572,353	11,425,106	11,425,106
Loans	170,000	170,000	10,777,250	10,777,250

As at 30 June 2010, included in the above fair value of collateral were bills of RMB7,959,428 thousand (31 December 2009: Nil; 31 December 2008: RMB15,578,493 thousand; 31 December 2007: RMB1,393,049 thousand) that had been re-pledged and the Company had an obligation to return such collateral.

19. ACCOUNTS RECEIVABLES

	2010-6-30	2009-12-31	2008-12-31	2007-12-31
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Receivables with respect to making payments on behalf of customers *(Note)*	5,023,426	3,169,088	1,119,445	778,069
Receivables under factoring	2,369,239	676,502	240,147	–
Receivables with respect to making payments on behalf of other banks under letters of credit	2,005,004	491,328	–	–
Receivables under discounted bills	472,385	445,243	–	–
Total	9,870,054	4,782,161	1,359,592	778,069

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".

As at 30 June 2010 and 31 December 2009, 2008 and 2007, the Company did not make any impairment provisions for the above outstanding balances of accounts receivable.

20. LOANS AND ADVANCES

20a. Analysed by corporation and individual

	2010-6-30	2009-12-31	2008-12-31	2007-12-31
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and advances to corporations:				
Loans	244,886,106	216,593,743	167,617,360	149,712,815
Discounted bills	20,347,519	45,285,528	42,217,821	7,780,001
Subtotal	265,233,625	261,879,271	209,835,181	157,492,816
Loans and advances to individuals:				
Credit cards	6,072,181	4,750,620	3,722,178	2,010,827
Residential mortgages	93,430,392	85,800,764	65,861,574	59,297,346
Others	8,888,538	7,086,758	4,322,433	2,234,540
Subtotal	108,391,111	97,638,142	73,906,185	63,542,713
Total loans and advances	373,624,736	359,517,413	283,741,366	221,035,529
Less: Loan impairment provisions *(Notes 20f & 10)*	(5,136,262)	(3,954,868)	(2,026,679)	(6,023,964)
Loans and advances, net	368,488,474	355,562,545	281,714,687	215,011,565

As at 30 June 2010, included in the discounted bills was an amount of RMB77,589 thousand that had been pledged for amounts due to the Central Bank. As at 31 December 2009, included in the discounted bills was an amount of RMB5,260,731 thousand (31 December 2008: RMB12,691,340 thousand; 31 December 2007: Nil) that had been pledged for repurchase agreements.

In addition, as at 30 June 2010, the Company transferred out (without recourse) discounted bills amounting to RMB60.4 billion (31 December 2009: RMB56.5 billion; 31 December 2008: RMB30.5 billion; 31 December 2007: RMB28.3 billion) that have not yet matured at the period end.

20b. Analysed by industry

	2010-6-30	2009-12-31	2008-12-31	2007-12-31
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Agriculture, husbandry and fisheries	872,985	590,000	598,700	502,050
Extraction (Heavy industry)	4,461,350	3,523,490	2,872,440	2,812,800
Manufacturing (Light industry)	71,769,465	59,974,269	53,372,139	51,257,738
Energy	9,236,469	8,000,990	11,786,383	6,955,199
Transportation, storage and communication	20,108,522	17,405,390	12,516,879	12,443,080
Commercial	44,630,021	36,069,931	23,618,771	23,975,066
Real estate	24,274,012	23,254,621	15,877,985	14,351,705
Service, technology, culture and sanitary industries	51,556,569	52,516,681	35,628,222	29,533,465
Construction	15,374,938	13,405,329	10,176,997	7,290,034
Discounted bills	20,347,519	45,285,528	42,217,821	7,780,001
Loans and advances to individuals	108,391,111	97,638,142	73,906,185	63,542,713
Others	2,601,775	1,853,042	1,168,844	591,678
Total loans and advances	373,624,736	359,517,413	283,741,366	221,035,529
Less: Loan impairment provisions *(Notes 20f & 10)*	(5,136,262)	(3,954,868)	(2,026,679)	(6,023,964)
Loans and advances, net	368,488,474	355,562,545	281,714,687	215,011,565

20c. Analysed by type of collateral held or other credit enhancements

	2010-6-30	2009-12-31	2008-12-31	2007-12-31
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unsecured	71,657,887	64,776,195	47,041,232	31,864,556
Guaranteed	74,473,516	66,303,241	59,769,814	62,372,647
Secured by collateral	207,145,814	183,152,449	134,712,499	119,018,325
Of which:				
secured by mortgages	175,837,853	156,820,843	111,667,469	89,703,166
secured by monetary assets	31,307,961	26,331,606	23,045,030	29,315,159
Subtotal	353,277,217	314,231,885	241,523,545	213,255,528
Discounted bills	20,347,519	45,285,528	42,217,821	7,780,001
Total loans and advances	373,624,736	359,517,413	283,741,366	221,035,529
Less: Loan impairment provisions *(Notes 20f & 10)*	(5,136,262)	(3,954,868)	(2,026,679)	(6,023,964)
Loans and advances, net	368,488,474	355,562,545	281,714,687	215,011,565

20d. Aging analysis of past due loans

	2010-6-30				
	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
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Unsecured	254,474	74,894	191	–	329,559
Guaranteed	39,285	39,665	293,127	39,992	412,069
Secured by collateral	2,009,558	370,365	828,436	330,143	3,538,502
Of which:					
secured by mortgages	1,928,992	304,993	456,559	325,235	3,015,779
secured by monetary assets	80,566	65,372	371,877	4,908	522,723
Total	2,303,317	484,924	1,121,754	370,135	4,280,130

	2009-12-31				
	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
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Unsecured	173,864	80,390	190	–	254,444
Guaranteed	28,237	278,579	84,564	63,288	454,668
Secured by collateral	1,458,413	455,196	927,866	573,478	3,414,953
Of which:					
secured by mortgages	1,432,051	388,525	597,893	434,730	2,853,199
secured by monetary assets	26,362	66,671	329,973	138,748	561,754
Total	1,660,514	814,165	1,012,620	636,766	4,124,065

	2008-12-31				
	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**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Unsecured	480,859	23,932	–	–	504,791
Guaranteed	217,842	221,673	6,204	261,646	707,365
Secured by collateral	2,554,398	494,824	586,104	640,253	4,275,579
Of which:					
secured by mortgages	2,315,592	466,465	406,337	520,253	3,708,647
secured by monetary assets	238,806	28,359	179,767	120,000	566,932
Total	3,253,099	740,429	592,308	901,899	5,487,735

	2007-12-31				
	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**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Unsecured	239,346	46,310	100,395	25,132	411,183
Guaranteed	120,429	126,920	2,527,372	3,996,214	6,770,935
Secured by collateral	2,265,619	836,882	1,449,149	2,724,078	7,275,728
Of which:					
secured by mortgages	1,977,097	559,370	1,029,084	1,881,857	5,447,408
secured by monetary assets	288,522	277,512	420,065	842,221	1,828,320
Total	2,625,394	1,010,112	4,076,916	6,745,424	14,457,846

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

20e. Analysed by geographical region

	2010-6-30	**2009-12-31**	**2008-12-31**	**2007-12-31**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Southern and Central China	115,363,459	110,844,053	86,815,602	78,054,481
Eastern China	137,248,048	128,154,646	100,457,432	78,061,876
Northern and North-eastern China	90,809,756	91,587,937	75,600,230	49,966,780
South-western China	27,601,697	27,084,283	19,700,651	14,360,528
Offshore businesses	2,601,776	1,846,494	1,167,451	591,864
Total loans and advances	373,624,736	359,517,413	283,741,366	221,035,529
Less: Loan impairment provisions *(Notes 20f &10)*	(5,136,262)	(3,954,868)	(2,026,679)	(6,023,964)
Loans and advances, net	368,488,474	355,562,545	281,714,687	215,011,565

20f. Movements in impairment provisions for loans and advances

	Jan-Jun 2010			2009		
	Individual	**Collective**	**Total**	**Individual**	**Collective**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at beginning of the period/year	994,935	2,959,933	3,954,868	481,327	1,545,352	2,026,679
Charge/reversal for the period/year	(786,388)	1,271,226	484,838	9,802	1,430,750	1,440,552
Amounts written off	(9,130)	(106,257)	(115,387)	–	(175,017)	(175,017)
Reversal for the period/year:						
Add-back of loans written off previously *(Note)*	–	–	–	356,235	–	356,235
Recovery of loans written off previously	775,519	70,438	845,957	514,312	158,848	673,160
Amounts released upon disposal of loans	–	–	–	(302,717)	–	(302,717)
Interest accrued on impaired loans and advances	(32,876)	–	(32,876)	(109,510)	–	(109,510)
Other changes for the period/year	(1,138)	–	(1,138)	45,486	–	45,486
Balance at end of the period/year *(Note 10)*	940,922	4,195,340	5,136,262	994,935	2,959,933	3,954,868

	2008			2007		
	Individual	**Collective**	**Total**	**Individual**	**Collective**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at beginning of the year	5,073,555	950,409	6,023,964	6,452,271	484,870	6,937,141
Charge for the year	5,667,836	1,305,003	6,972,839	1,380,948	565,295	1,946,243
Amounts written off	(9,896,652)	(710,060)	(10,606,712)	(1,491,995)	(99,756)	(1,591,751)
Reversal for the year:						
Add-back of loans written off previously	–	–	–	–	–	–
Recovery of loans written off previously	29,944	–	29,944	34,061	–	34,061
Amounts released upon disposal of loans	–	–	–	(710,230)	–	(710,230)
Interest accrued on impaired loans and advances	(384,238)	–	(384,238)	(518,592)	–	(518,592)
Other changes for the year	(9,118)	–	(9,118)	(72,908)	–	(72,908)
Balance at end of the year *(Note 10)*	481,327	1,545,352	2,026,679	5,073,555	950,409	6,023,964

Note: In accordance with the reminder letter CaiZhuShenJianHan No. [2009] 17 dated 10 October 2009 issued by the MOF Shenzhen Office, the Company compared the "Administrative Measures of Write-off of Doubtful Debts for Financial Institutions" and recorded a total amount of RMB356 million loans, which had been written off at the year end of 2008, in its general ledger in November 2009. Simultaneously, the Company booked the corresponding loan impairment provisions amounting to RMB356 million.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010-6-30	2009-12-31	2008-12-31	2007-12-31
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bond investments analysed by issuer:				
Governments and the Central Bank	20,599,956	17,043,489	29,556,827	10,657,828
Policy banks	19,645,665	18,192,544	18,789,453	6,621,821
Other banks and non-bank financial institutions	489,496	634,433	112,335	272,851
Corporations	130,000	885,227	133,094	88,452
Subtotal	40,865,117	36,755,693	48,591,709	17,640,952
Equity investments *(Note 21a)*:				
Tradable shares	30,875	76,246	67,659	134,617
Non-tradable shares *(Note)*	198,216	218,216	225,345	722,693
Less: Impairment provisions *(Note 10)*	(112,857)	(112,857)	(87,627)	(470,745)
Non-tradable shares, net	85,359	105,359	137,718	251,948
Subtotal	116,234	181,605	205,377	386,565
Total available-for-sale financial assets	40,981,351	36,937,298	48,797,086	18,027,517

Note: These available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be reliably measured are stated at cost.

As at 30 June 2010, included in the bond investments were amounts of RMB2,010,449 thousand (31 December 2009: RMB5,319,856 thousand; 31 December 2008: RMB1,984,666 thousand; 31 December 2007: Nil) and nil (31 December 2009: RMB1,269,572 thousand; 31 December 2008 and 31 December 2007: Nil) that had been pledged for repurchase agreements and agreements of time deposit from the PBOC, respectively.

As a result of the change in intention, the Company reclassified available-for-sale financial assets with a carrying amount of RMB6,764,847 thousand to the category of held-to-maturity investments during 2009. There was no such reclassification during the current period,2008 and 2007.

As at 30 June 2010, there were no restricted tradable available-for-sale financial assets. (31 December 2009: RMB7,343 thousand; 31 December 2008: RMB10,000 thousand; 31 December 2007: Nil).

21a. Equity investments

	2010-6-30 RMB'000	2009-12-31 RMB'000	2008-12-31 RMB'000	2007-12-31 RMB'000
Tradable shares				
Shenzhen Hongkai (Group) Co., Ltd.	–	5,757	2,790	12,770
Shenzhen Fountain Corporation	–	–	–	2,559
Hafei Aviation Industry Co., Ltd.	–	–	5,631	39,089
Harbin Pharmaceutical Group Co., Ltd.	–	–	48,467	80,199
Yihua Real Estate Co., Ltd. *(Note)*	26,472	59,455	10,000	–
Visa Inc.	1,064	1,324	771	–
Stellar Megaunion Corporation	–	5,450	–	–
Shanghai Worldbest Co., Ltd.	3,339	4,260	–	–
Subtotal	30,875	76,246	67,659	134,617
Non-tradable shares				
Shenzhen Yuan Sheng Industrial Co., Ltd.	–	–	–	507,348
China UnionPay Co., Ltd	50,000	50,000	50,000	50,000
Gintian Industry (Group) Co., Ltd.	9,662	9,662	9,662	9,662
Hainan Pearl River Holdings Co., Ltd.	9,650	9,650	9,650	9,650
Hainan Wuzhou Travel Co., Ltd.	5,220	5,220	5,220	5,220
Meizhou Polyester (Group) Co.	1,100	1,100	1,100	1,100
Shenzhen Zoto Investment Co., Ltd.	2,500	2,500	2,500	2,500
Hainan Junhe Travel Co., Ltd.	–	–	2,800	2,800
Guangdong Sanxing Enterprises (Group) Co., Ltd.	500	500	500	500
Hainan Baiyunshan Co., Ltd.	1,000	1,000	1,000	1,000
Hainan Saige Co., Ltd.	1,000	1,000	1,000	1,000
Hainan Zhuxin Investment Co., Ltd.	–	–	500	500
Hainan Zhonghailian Real Estate Co., Ltd.	1,000	1,000	1,000	1,000
Shenzhen Jiafeng Textile Industrial Co., Ltd.	16,725	16,725	16,725	16,725
SWIFT	684	684	230	230
Yong An Property Insurance Co., Ltd.	67,000	67,000	67,000	67,000
Wuhan Steel Electricity Co., Ltd.	32,175	32,175	32,175	32,175
Macat Optics & Electronics Co., Ltd. (Note)	–	–	–	10,000
Founder Securities Co., Ltd.	–	–	4,283	4,283
Chengdu Unionfriend Network Co., Ltd.	–	20,000	20,000	–
Less: Impairment provisions *(Note 10)*	(112,857)	(112,857)	(87,627)	(470,745)
Subtotal	85,359	105,359	137,718	251,948
Total	116,234	181,605	205,377	386,565

Note: Yihua Real Estate Co. Ltd was originally named as Macat Optics & Electronics Co., Ltd which was renamed in 2008.

22. HELD-TO-MATURITY INVESTMENTS

	2010-6-30 RMB'000	2009-12-31 RMB'000	2008-12-31 RMB'000	2007-12-31 RMB'000
Bond investments analysed by issuer:				
Governments and the Central Bank	12,184,578	11,578,694	8,637,220	9,423,912
Policy banks	15,457,177	13,758,516	5,786,616	5,738,760
Other banks and non-bank financial institutions	2,841,618	2,924,145	649,751	319,472
Corporations	7,012,940	6,292,739	435,568	344,854
Total	37,496,313	34,554,094	15,509,155	15,826,998

As at 30 June 2010, included in the bond investments were amounts of RMB6,510,077 thousand (31 December 2009: RMB8,777,992 thousand; 31 December 2008: RMB3,612,979 thousand; 31 December 2007: Nil) and RMB4,428,449 thousand (31 December 2009: RMB1,208,175 thousand; 31 December 2008: RMB5,405,600 thousand; 31 December 2007: RMB14,555,660 thousand) that had been pledged for agreements of time deposit from the PBOC and repurchase agreements, respectively. As at 31 December 2008, the Company pledged RMB205,485 thousand (31 December 2007: RMB1,124,046 thousand) of held-to-maturity bond investments for loan guarantee contracts.

In November 2009, the Company sold held-to-maturity investments with a carrying value of RMB519,960 thousand (31 December 2008: Nil), which represented 1.3% of the total held-to-maturity investments prior to the sale. The above held-to-maturity investments sold were subordinated debts issued by other commercial banks that were originally purchased during the period between July 2009 and August 2009.

There are no changes in the assessment of the Company's intention and ability to hold the investments to maturity.

23. RECEIVABLES

	2010-6-30	**2009-12-31**	**2008-12-31**	**2007-12-31**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
PBOC bills	11,450,000	13,450,000	13,450,000	13,450,000
Subordinated bonds issued by financial institutions	500,000	500,000	300,000	–
Principal guaranteed wealth management products issued by financial institutions	15,642,100	16,477,100	–	–
Total	27,592,100	30,427,100	13,750,000	13,450,000

As at 30 June 2010, included in the bond investments is an amount of RMB2,000,000 thousand (31 December 2009: RMB2,000,000 thousand; 31 December 2008: RMB3,000,000 thousand; 31 December 2007: Nil) that was pledged for repurchase agreements.

As at 30 June 2010, included in the bond investments was an amount of RMB100,000 thousand (31 December 2009: RMB100,000 thousand) subordinated bonds issued by Ping An Property & Casualty Insurance Company of China, Ltd. and these subordinated bonds were purchased by the Company in March 2009.

24. INVESTMENTS IN ASSOCIATES

	2010-6-30	**2009-12-31**	**2008-12-31**	**2007-12-31**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Associates				
Chengdu Gongtou Assets Management Co., Ltd.	293,054	279,800	269,065	–
Shandong Xinkaiyuan Real Estate Co., Ltd.	29,038	30,607	30,607	–
Subtotal	322,092	310,407	299,672	–
Less: Impairment provisions *(Note 10)*	(23,061)	(23,061)	(20,000)	–
Net investment balance	299,031	287,346	279,672	–

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

	Initial cost of investment RMB'000	Balance at beginning of the period RMB'000	Movements in equity: Share of profit for the period RMB'000	Movements in equity: Movement in other comprehensive income RMB'000	Impairment provision: Charge for the period RMB'000	Impairment provision: Accumulated balance RMB'000	Balance at end of the period RMB'000
Chengdu Gongtou Assets Management Co., Ltd. *(Note 1)*	259,836	259,800	22,473	(9,219)	–	(20,000)	273,054
Shandong Xinkaiyuan Real Estate Co., Ltd. *(Note 2)*	30,607	27,546	(1,569)	–	–	(3,061)	25,977
Total	290,443	287,346	20,904	(9,219)	–	(23,061)	299,031

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

Note 2: At 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 has significant influence over the investee.

Note 3: As at 30 June 2010, there were no significant restrictions on the ability of associates to transfer funds to the Company. During the period, the Company received cash dividends of RMB19,920 thousand from Chengdu Gongtou Assets Management Co., Ltd.

The key financial information of the associates is as follows:

	Place of registration	Nature of business	Registered capital RMB'000
Chengdu Gongtou Assets Management Co., Ltd.	Chengdu	Asset management	518,700
Shandong Xinkaiyuan Real Estate Co., Ltd.	Jinan	Real estate	210,000

	2010-6-30 Total assets RMB'000	2010-6-30 Total liabilities RMB'000	Jan- Jun 2010 Operating income RMB'000	Jan- Jun 2010 Net profit *(Note 1)* RMB'000
Chengdu Gongtou Assets Management Co., Ltd.	1,546,260	649,151	58,614	85,498
Shandong Xinkaiyuan Real Estate Co., Ltd.	573,688	384,804	–	(9,009)

	2009-12-31 Total assets RMB'000	2009-12-31 Total liabilities RMB'000	2009 Operating income RMB'000	2009 Net profit *(Note 1)* RMB'000
Chengdu Gongtou Assets Management Co., Ltd.	1,545,541	648,916	81,955	97,422
Shandong Xinkaiyuan Real Estate Co., Ltd.	369,065	169,238	–	(10,176)

	2008-12-31		2008 *(Note2)*	
	Total assets	**Total liabilities**	**Operating income**	**Net profit** *(Note 1)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Chengdu Gongtou Assets Management Co., Ltd.	1,458,061	632,679	72,994	68,300
Shandong Xinkaiyuan Real Estate Co., Ltd.	288,105	78,102	–	–

Note 1: The amount represents the net profit attributable to the parent company on the face of the consolidated income statement of the associate.

Note 2: The operating income and net profit for 2008 represented the operating income and the net profit attributable to the parent company on the face of the consolidated income statement of the associate for the period from the date the Company acquired the shareholding of the associate up to 31 December 2008.

25. INVESTMENT PROPERTIES

	2010-6-30	**2009-12-31**	**2008-12-31**	**2007-12-31**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at beginning of the period/year	523,846	411,690	441,098	460,656
Purchase during the period/year	–	54,306	–	–
Disposals during the period/year	–	–	(2,058)	(25,251)
Fair value changes recognised in the income statement	12,538	47,858	(15,087)	42,733
Transfer from/(to) owner-occupied properties during the period/year, net	13,929	9,992	(12,263)	(37,040)
Balance at end of the period /year	550,313	523,846	411,690	441,098

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. The revaluation as at 30 June 2010 was performed by Shenzhen Guozi Land and Real Estate Valuation Co., Ltd. In connection with this, the valuation was carried out by qualified persons who are members of the Shenzhen Institute of Real Estate Appraisers. During Jan-Jun 2010, certain investment properties were transferred from owner-occupied properties mainly because these properties were leased out.

As at 30 June 2010, included in the investment properties was an amount of RMB29,180 thousand (31 December 2009: RMB23,322 thousand; 31 December 2008: RMB6,930 thousand; 31 December 2007: RMB18,346 thousand) that did not have corresponding registration certificates of property rights.

The gross rental income earned from the investment properties during the period amounted to RMB20,548 thousand (2009: RMB40,086 thousand; 2008: RMB38,982 thousand; 2007: RMB45,377 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 RMB1,142 thousand (2009: RMB2,907 thousand; 2008: RMB2,589 thousand; 2007: RMB3,284 thousand).

26. PROPERTY AND EQUIPMENT

Jan-Jun 2010	**Balance at beginning of the period** *RMB'000*	**Additions** *RMB'000*	**Transfer from construction in progress** *RMB'000*	**Subtraction** *RMB'000*	**Balance at end of the period** *RMB'000*
At cost:					
Properties and buildings	1,552,298	7,691	373,553	(10,692)	1,922,850
Transportation vehicles	84,150	5,315	–	(4,110)	85,355
Computers	578,218	48,754	2,032	(12,726)	616,278
Electronic appliances	489,283	27,152	22,565	(4,922)	534,078
Automatic teller machines	281,469	1,733	–	(5,415)	277,787
Owner-occupied property improvements	370,896	3,723	88,166	(4,200)	458,585
Leasehold improvements	829,417	23,549	63,779	(4,535)	912,210
Total	4,185,731	117,917	550,095	(46,600)	4,807,143
Accumulated depreciation:					
Properties and buildings	494,463	30,286	–	(4,426)	520,323
Transportation vehicles	51,403	4,153	–	(3,508)	52,048
Computers	380,626	47,561	–	(11,935)	416,252
Electronic appliances	263,923	33,827	–	(4,909)	292,841
Automatic teller machines	159,986	20,112	–	(5,364)	174,734
Owner-occupied property improvements	285,163	15,104	–	(1,683)	298,584
Leasehold improvements	509,577	48,571	–	(81)	558,067
Total	2,145,141	199,614	–	(31,906)	2,312,849
Less: Impairment provision *(Note 10)*	(6,289)				(6,289)
Net book value	2,034,301				2,488,005

2009	Balance at beginning of the year *RMB'000*	Additions *RMB'000*	Transfer from construction in progress *RMB'000*	Subtraction *RMB'000*	Balance at end of the year *RMB'000*
At cost:					
Properties and buildings	1,538,502	43,921	–	(30,125)	1,552,298
Transportation vehicles	82,794	13,687	–	(12,331)	84,150
Computers	540,963	77,397	172	(40,314)	578,218
Electronic appliances	368,692	119,464	30,845	(29,718)	489,283
Automatic teller machines	259,613	36,661	589	(15,394)	281,469
Owner-occupied property improvements	335,628	14,480	22,393	(1,605)	370,896
Leasehold improvements	673,109	57,487	102,335	(3,514)	829,417
Total	3,799,301	363,097	156,334	(133,001)	4,185,731
Accumulated depreciation:					
Properties and buildings	455,371	53,386	–	(14,294)	494,463
Transportation vehicles	55,446	7,288	–	(11,331)	51,403
Computers	333,320	52,700	–	(5,394)	380,626
Electronic appliances	203,296	87,148	–	(26,521)	263,923
Automatic teller machines	135,349	39,760	–	(15,123)	159,986
Owner-occupied property improvements	262,197	23,852	–	(886)	285,163
Leasehold improvements	432,587	78,094	–	(1,104)	509,577
Total	1,877,566	342,228	–	(74,653)	2,145,141
Less: Impairment provision *(Note 10)*	(6,289)				(6,289)
Net book value	1,915,446				2,034,301

2008	Balance at beginning of the year	Additions	Transfer from construction in progress	Subtraction	Balance at end of the year
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At cost:					
Properties and buildings	1,536,206	35,262	–	(32,966)	1,538,502
Transportation vehicles	95,235	15,612	957	(29,010)	82,794
Computers	700,932	194,663	7,132	(126,691)	776,036
Electronic appliances	307,632	88,250	16,383	(19,033)	393,232
Owner-occupied property improvements	318,845	6,677	10,759	(653)	335,628
Leasehold improvements	527,275	76,094	70,788	(1,048)	673,109
Total	3,486,125	416,558	106,019	(209,401)	3,799,301
Accumulated depreciation:					
Properties and buildings	413,076	51,594	–	(9,299)	455,371
Transportation vehicles	73,338	7,278	–	(25,170)	55,446
Computers	471,129	97,726	–	(120,125)	448,730
Electronic appliances	203,740	36,116	–	(16,621)	223,235
Owner-occupied property improvements	243,289	19,211	–	(303)	262,197
Leasehold improvements	371,459	61,179	–	(51)	432,587
Total	1,776,031	273,104	–	(171,569)	1,877,566
Less: Impairment provision *(Note 10)*	–				(6,289)
Net book value	1,710,094				1,915,446

2007	Balance at beginning of the year *RMB'000*	Additions *RMB'000*	Transfer from construction in progress *RMB'000*	Subtraction *RMB'000*	Balance at end of the year *RMB'000*
At cost:					
Properties and buildings	1,518,063	53,708	–	(35,565)	1,536,206
Transportation vehicles	218,195	6,535	–	(129,495)	95,235
Computers	601,519	134,271	1,114	(35,972)	700,932
Electronic appliances	269,035	49,125	10,157	(20,685)	307,632
Owner-occupied property improvements	301,766	2,489	25,139	(10,549)	318,845
Leasehold improvements	484,551	46,838	39,713	(43,827)	527,275
Total	3,393,129	292,966	76,123	(276,093)	3,486,125
Accumulated depreciation:					
Properties and buildings	373,005	51,728	–	(11,657)	413,076
Transportation vehicles	171,586	17,321	–	(115,569)	73,338
Computers	413,418	83,560	–	(25,849)	471,129
Electronic appliances	182,440	32,609	–	(11,309)	203,740
Owner-occupied property improvements	225,340	21,434	–	(3,485)	243,289
Leasehold improvements	333,400	53,909	–	(15,850)	371,459
Total	1,699,189	260,561	–	(183,719)	1,776,031
Less: Impairment provision *(Note 10)*	–				–
Net book value	1,693,940				1,710,094

As at 30 June 2010, the original cost and net book value of properties and buildings amounting to RMB119,709 thousand (31 December 2009: RMB140,603 thousand; 31 December 2008: RMB143,053 thousand; 31 December 2007: RMB130,831 thousand) and RMB71,339 thousand (31 December 2009: RMB83,033 thousand; 31 December 2008: RMB88,723 thousand; 31 December 2007: RMB87,453 thousand) respectively, were in use by the Company without having the registration certificates of property right.

27. DEFERRED TAX ASSETS/LIABILITIES

Jan-Jun 2010

	Balance at beginning of the period *RMB'000*	Recognised in the income statement *(Note 11)* *RMB'000*	Recognised in other comprehensive income *RMB'000*	Balance at end of the period *RMB'000*
Deferred tax assets				
Impairment provisions	1,492,006	(56,813)	–	1,435,193
Salaries and bonuses	67,522	181,200	–	248,722
Others	23,406	60,922	–	84,328
Subtotal	1,582,934	185,309	–	1,768,243
Deferred tax liabilities				
Changes in fair values:				
Financial instruments at fair value through profit or loss and derivative financial instruments	(18,680)	6,482	–	(12,198)
Available-for-sale financial assets	(6,106)	–	(3,538)	(9,644)
Changes in fair values of investment properties and revaluation surplus on owner-occupied properties transferred to investment properties	(69,739)	(6,473)	(4,434)	(80,646)
Subtotal	(94,525)	9	(7,972)	(102,488)
Net amount	1,488,409	185,318	(7,972)	1,665,755

2009

	Balance at beginning of the year *RMB'000*	Recognised in the income statement *(Note 11)* *RMB'000*	Recognised in other comprehensive income *RMB'000*	Balance at end of the year *RMB'000*
Deferred tax assets				
Impairment provisions	1,742,460	(250,454)	–	1,492,006
Salaries and bonus	21,600	45,922	–	67,522
Others	47,756	(24,350)	–	23,406
Subtotal	1,811,816	(228,882)	–	1,582,934
Deferred tax liabilities				
Changes in fair values:				
Financial instruments at fair value through profit or loss and derivative financial instruments	(46,585)	27,905	–	(18,680)
Available-for-sale financial assets	(251,248)	–	245,142	(6,106)
Changes in fair values of investment properties and revaluation surplus on owner-occupied properties transferred to investment properties	(43,846)	(16,933)	(8,960)	(69,739)
Subtotal	(341,679)	10,972	236,182	(94,525)
Net amount	1,470,137	(217,910)	236,182	1,488,409

2008

	Balance at beginning of the year *RMB'000*	Recognised in the income statement *(Note 11)* *RMB'000*	Recognised in other comprehensive income *RMB'000*	Balance at end of the year *RMB'000*
Deferred tax assets				
Impairment provisions	945,647	796,813	–	1,742,460
Changes in fair values of available-for-sale financial assets	12,862	–	(12,862)	–
Salaries and bonuses	7,704	13,896	–	21,600
Others	28,176	19,580	–	47,756
Subtotal	994,389	830,289	(12,862)	1,811,816
Deferred tax liabilities				
Tax losses deducted against taxable profits of different tax rates	(54,135)	54,135	–	–
Changes in fair values:				
Financial instruments at fair value through profit or loss and derivative financial instruments	(4,365)	(42,220)	–	(46,585)
Available-for-sale financial assets	(345)	–	(250,903)	(251,248)
Changes in fair values of investment properties and revaluation surplus on owner-occupied properties transferred to investment properties	(39,699)	(3,134)	(1,013)	(43,846)
Subtotal	(98,544)	8,781	(251,916)	(341,679)
Net amount	895,845	839,070	(264,778)	1,470,137

2007

	Balance at beginning of the year *RMB'000*	Recognised in the income statement *(Note 11)* *RMB'000*	Recognised in other comprehensive income *RMB'000*	Balance at end of the year *RMB'000*
Deferred tax assets				
Impairment provisions	988,120	(42,473)	–	945,647
Changes in fair values of available-for-sale financial assets	(15,006)	(8)	27,876	12,862
Salaries and bonuses	–	7,704	–	7,704
Others	14,425	13,751	–	28,176
Subtotal	987,539	(21,026)	27,876	994,389
Deferred tax liabilities				
Tax losses deducted against taxable profits of different tax rates	(211,652)	157,517	–	(54,135)
Changes in fair values:				
Financial instruments at fair value through profit or loss and derivative financial instruments	1,638	(6,003)	–	(4,365)
Available-for-sale financial assets	1,477	(14)	(1,808)	(345)
Changes in fair values of investment properties and revaluation surplus on owner-occupied properties transferred to investment properties	(25,740)	(11,710)	(2,249)	(39,699)
Subtotal	(234,277)	139,790	(4,057)	(98,544)
Net amount	753,262	118,764	23,819	895,845

28. OTHER ASSETS

(a) Analysed by nature

	2010-6-30	2009-12-31	2008-12-31	2007-12-31
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest receivable on bond investments and wealth management products	1,431,195	1,113,585	1,076,175	708,291
Interest receivable on loans and amounts due from other financial institutions	738,116	709,931	745,409	577,892
Long term prepayments	103,245	109,439	114,936	120,942
Prepayments *(Note 28b)*	171,348	118,255	167,323	93,963
Prepaid legal expenses *(Note 28c)*	64,186	68,697	113,948	164,437
Repossessed assets *(Note 28d)*	731,725	1,028,124	937,303	1,005,318
Construction in progress *(Note 28e)*	259,862	673,587	257,040	10,809
Receivable of bills due from other banks	21	1,977	54,274	2,288
Receivable of deferred consumption payments	112,234	141,141	57,017	22,352
Receivable of exercise of warrants	–	–	–	789,961
Others *(Note 28f)*	150,045	156,885	205,648	242,945
Total other assets	3,761,977	4,121,621	3,729,073	3,739,198
Less: Impairment provisions:				
Prepaid legal expenses *(Note 28c)*	(56,262)	(61,636)	(82,275)	(101,773)
Repossessed assets *(Note 28d)*	(284,168)	(360,961)	(319,480)	(198,143)
Others *(Note 28f)*	(95,064)	(92,772)	(130,362)	(136,675)
Total impairment provisions	(435,494)	(515,369)	(532,117)	(436,591)
Other assets, net	3,326,483	3,606,252	3,196,956	3,302,607

(b) Aging analysis of prepayments

	2010-6-30		2009-12-31	
	Amount	Percentage	Amount	Percentage
	RMB'000		*RMB'000*	
Less than 1 year	126,527	73.84%	77,536	65.57%
1 to 2 years	15,506	9.05%	15,768	13.33%
2 to 3 years	8,525	4.98%	6,178	5.22%
Over 3 years	20,790	12.13%	18,773	15.88%
Total	171,348	100%	118,255	100%

	2008-12-31		2007-12-31	
	Amount	Percentage	Amount	Percentage
	RMB'000		*RMB'000*	
Less than 1 year	130,549	78.02%	63,599	67.69%
1 to 2 years	9,221	5.51%	8,040	8.56%
2 to 3 years	4,510	2.70%	2,626	2.79%
Over 3 years	23,043	13.77%	19,698	20.96%
Total	167,323	100%	93,963	100%

As at 30 June 2010 and 31 December 2009, 2008 and 2007, the Company has not made any provision for prepayments.

(c) Prepaid legal expenses

	2010-6-30				2009-12-31			
	Carrying amount		Impairment provision		Carrying amount		Impairment provision	
	Amount	Percentage	Amount	Coverage	Amount	Percentage	Amount	Coverage
	RMB'000		*RMB'000*		*RMB'000*		*RMB'000*	
Individual assessment	59,050	92.00%	(53,086)	89.90%	63,071	91.81%	(58,155)	92.21%
Collective assessment:								
Aging less than 1 year	2,545	3.96%	(975)	38.31%	2,865	4.17%	(956)	33.37%
Aging between 1 and 2 years	1,522	2.37%	(1,132)	74.38%	790	1.15%	(554)	70.13%
Aging between 2 and 3 years	526	0.82%	(526)	100.00%	522	0.76%	(522)	100.00%
Aging over 3 years	543	0.85%	(543)	100.00%	1,449	2.11%	(1,449)	100.00%
Subtotal	5,136	8.00%	(3,176)	61.84%	5,626	8.19%	(3,481)	61.87%
Total	64,186	100%	(56,262)	87.65%	68,697	100%	(61,636)	89.72%

	2008-12-31				2007-12-31			
	Carrying amount		Impairment provision		Carrying amount		Impairment provision	
	Amount	Percentage	Amount	Coverage	Amount	Percentage	Amount	Coverage
	RMB'000		*RMB'000*		*RMB'000*		*RMB'000*	
Individual assessment	89,071	78.17%	(64,858)	72.82%	96,639	58.77%	(52,562)	54.39%
Collective assessment:								
Aging less than 1 year	5,462	4.79%	(3,733)	68.34%	50,269	30.57%	(39,450)	78.48%
Aging between 1 and 2 years	2,824	2.48%	(2,364)	83.71%	2,663	1.62%	(695)	26.10%
Aging between 2 and 3 years	3,187	2.80%	(1,723)	54.06%	3,992	2.43%	(1,719)	43.06%
Aging over 3 years	13,404	11.76%	(9,597)	71.60%	10,874	6.61%	(7,347)	67.56%
Subtotal	24,877	21.83%	(17,417)	70.01%	67,798	41.23%	(49,211)	72.58%
Total	113,948	100%	(82,275)	72.20%	164,437	100%	(101,773)	61.89%

(d) Repossessed assets

	2010-6-30	**2009-12-31**	**2008-12-31**	**2007-12-31**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Land, properties and buildings	683,347	976,451	915,282	983,027
Others	48,378	51,673	22,021	22,291
Total	731,725	1,028,124	937,303	1,005,318
Less: Provision for decline in value *(Note 10)*	(284,168)	(360,961)	(319,480)	(198,143)
Repossessed assets, net	447,557	667,163	617,823	807,175

During the period, the Company took possession of collateral held as security with a carrying amount of RMB73,682 thousand (2009: RMB404,393 thousand; 2008: RMB52,152 thousand; 2007: RMB37,319 thousand). The collateral mainly comprises buildings. During the period, the Company disposed of repossessed assets with their gross carrying value amounting to RMB370,081 thousand (2009: RMB313,572 thousand; 2008: RMB120,167 thousand; 2007: RMB175,270 thousand). The Company plans to dispose of the repossessed assets through auctions, bidding or transfers in future.

(e) Construction in progress

	2010-6-30	**2009-12-31**	**2008-12-31**	**2007-12-31**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at beginning of the period/year	673,587	257,040	10,809	9,522
Additions	147,234	592,473	367,942	77,922
Transfer to property and equipment	(550,095)	(156,334)	(106,019)	(76,123)
Transfer to intangible assets	(10,864)	(19,592)	(15,692)	(512)
Balance at end of the period/year	259,862	673,587	257,040	10,809

Movements in key projects of construction in progress during Jan-Jun 2010 were as follows:

Project name	**Budget amount**	**Balance at beginning of the period**	**Additions**	**Balance at end of the period**	**Percentage of budget incurred**	**Progress of project**	**Funding sources**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*			
Bank premises of Tianjin Branch	268,548	197,504	16,375	213,879	80%	90%	Internal

Movements in key projects of construction in progress during 2009 were as follows:

Project name	Budget amount	Balance at beginning of the year	Additions	Balance at end of the year	Percentage of budget incurred	Progress of project	Funding sources
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*			
Property development project for Information Technology Building of SDB	217,095	–	176,788	176,788	81%	90%	Internal
Bank premises of Tianjin Branch	268,548	–	197,504	197,504	74%	10%	Internal
Bank premises of Nanjing Branch (Hetai Building)	253,444	215,444	18,354	233,798	92%	92%	Internal

(f) Others

	2010-6-30				2009-12-31			
	Carrying amount		Impairment provision		Carrying amount		Impairment provision	
	Amount	Percentage	Amount	Coverage	Amount	Percentage	Amount	Coverage
	RMB'000		*RMB'000*		*RMB'000*		*RMB'000*	
Individual assessment	132,568	88.35%	(94,581)	71.35%	145,776	92.92%	(92,611)	63.53%
Collective assessment:								
Aging less than 1 year	17,382	11.59%	(423)	2.43%	11,030	7.03%	(114)	1.03%
Aging between 1 and 2 years	18	0.01%	(1)	5.56%	–	–	–	–
Aging between 2 and 3 years	–	–	–	–	7	0.00%	(7)	100.00%
Aging over 3 years	77	0.05%	(59)	76.62%	72	0.05%	(40)	55.56%
Subtotal	17,477	11.65%	(483)	2.76%	11,109	7.08%	(161)	1.45%
Total	150,045	100%	(95,064)	63.36%	156,885	100%	(92,772)	59.13%

	2008-12-31				2007-12-31			
	Carrying amount		Impairment provision		Carrying amount		Impairment provision	
	Amount	Percentage	Amount	Coverage	Amount	Percentage	Amount	Coverage
	RMB'000		*RMB'000*		*RMB'000*		*RMB'000*	
Individual assessment	194,392	94.53%	(129,632)	66.69%	242,667	99.89%	(136,529)	56.26%
Collective assessment:								
Aging less than 1 year	10,782	5.24%	(269)	2.49%	190	0.08%	(93)	48.95%
Aging between 1 and 2 years	81	0.04%	(70)	86.42%	4	0.00%	(1)	25.00%
Aging between 2 and 3 years	38	0.02%	(38)	100.00%	2	0.00%	(2)	100.00%
Aging over 3 years	355	0.17%	(353)	99.44%	82	0.03%	(50)	60.98%
Subtotal	11,256	5.47%	(730)	6.49%	278	0.11%	(146)	52.52%
Total	205,648	100%	(130,362)	63.39%	242,945	100%	(136,675)	56.26%

29. PLACEMENTS OF DEPOSITS FROM OTHER FINANCIAL INSTITUTIONS

	2010-6-30 *RMB'000*	2009-12-31 *RMB'000*	2008-12-31 *RMB'000*	2007-12-31 *RMB'000*
Domestic banks	29,053,106	53,708,335	22,881,311	16,789,193
Domestic non-bank financial institutions	19,086,780	20,431,338	13,181,721	15,599,569
Total	48,139,886	74,139,673	36,063,032	32,388,762

30. FUNDS BORROWED FROM OTHER FINANCIAL INSTITUTIONS

	2010-6-30 *RMB'000*	2009-12-31 *RMB'000*	2008-12-31 *RMB'000*	2007-12-31 *RMB'000*
Domestic banks	4,978,100	7,570,118	7,380,000	2,300,000

31. REPURCHASE AGREEMENTS

	2010-6-30 *RMB'000*	2009-12-31 *RMB'000*	2008-12-31 *RMB'000*	2007-12-31 *RMB'000*
(a) Analysed by collateral				
Securities	8,450,000	8,448,000	10,360,000	14,110,800
Bills	6,852,487	5,285,384	28,556,115	2,356,782
Total	15,302,487	13,733,384	38,916,115	16,467,582
(b) Analysed by counterparty				
Banks	13,852,487	13,733,384	38,916,115	13,868,582
Non-bank financial institutions	1,450,000	–	–	2,599,000
Total	15,302,487	13,733,384	38,916,115	16,467,582

32. CUSTOMER DEPOSITS

	2010-6-30 *RMB'000*	2009-12-31 *RMB'000*	2008-12-31 *RMB'000*	2007-12-31 *RMB'000*
Current deposits:				
Corporate customers	119,733,320	116,998,653	86,279,463	80,950,179
Personal customers	30,641,431	27,243,974	19,234,242	16,518,537
Sub-total	150,374,751	144,242,627	105,513,705	97,468,716
Fixed deposits:				
Corporate customers	160,265,391	125,519,956	100,842,409	76,783,023
Personal customers	48,830,676	43,175,696	38,836,902	24,371,478
Sub-total	209,096,067	168,695,652	139,679,311	101,154,501
Guarantee deposits	124,809,156	121,671,280	104,393,453	74,801,665
Fiscal deposits	11,795,851	9,936,132	6,772,448	6,717,154
Time deposits from the PBOC	5,430,000	8,320,000	3,000,000	–
Inward and outward remittances	4,482,513	1,769,517	1,155,119	1,134,945
Total	505,988,338	454,635,208	360,514,036	281,276,981

33. EMPLOYEE BENEFITS PAYABLE

Jan-Jun 2010	Balance at beginning of the period/year *RMB'000*	Increase during the period/year *RMB'000*	Payment made during the period/year *RMB'000*	Balance at end of the period/year *(Note 2)* *RMB'000*
Salaries, bonuses, allowances and subsidies	1,419,343	1,471,425	(1,774,025)	1,116,743
Including: Deferred bonus accrual *(Note 1)*	159,602	2,420	(47,218)	114,804
Social insurance, supplementary pension contributions and staff welfare	262,385	292,139	(263,204)	291,320
Housing funds	–	75,559	(75,559)	–
Labour union and training expenses	–	42,846	(35,907)	6,939
Others	–	5,092	(5,092)	–
Total	1,681,728	1,887,061	(2,153,787)	1,415,002
2009				
Salaries, bonuses, allowances and subsidies	1,000,417	2,507,090	(2,088,164)	1,419,343
Including: Deferred bonus accrual *(Note 1)*	108,200	91,334	(39,932)	159,602
Social insurance, supplementary pension contributions and staff welfare	247,003	641,287	(625,905)	262,385
Housing funds	–	121,418	(121,418)	–
Labour union and training expenses	–	73,380	(73,380)	–
Others	–	4,768	(4,768)	–
Total	1,247,420	3,347,943	(2,913,635)	1,681,728

2008	Balance at beginning of the year *RMB'000*	Increase during the year *RMB'000*	Payment made during the year *RMB'000*	Balance at end of the year *RMB'000*
Salaries, bonuses, allowances and subsidies	706,104	2,034,524	(1,740,211)	1,000,417
Including: Deferred bonus accrual *(Note 1)*	42,800	65,400	–	108,200
Social insurance, supplementary pension contributions and staff welfare	219,307	494,408	(466,712)	247,003
Housing funds	–	89,934	(89,934)	–
Labour union and training expenses	–	56,875	(56,875)	–
Others	–	9,362	(9,362)	–
Total	925,411	2,685,103	(2,363,094)	1,247,420
2007				
Salaries, bonuses, allowances and subsidies	453,633	1,599,861	(1,347,390)	706,104
Including: Deferred bonus accrual *(Note 1)*	9,000	33,800	–	42,800
Social insurance, supplementary pension contributions and staff welfare	160,995	364,568	(306,256)	219,307
Housing funds	–	69,842	(69,842)	–
Labour union and training expenses	–	54,177	(54,177)	–
Others	–	41,882	(41,882)	–
Total	614,628	2,130,330	(1,819,547)	925,411

Note 1: 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.

Note 2: As at 30 June 2010, included in the outstanding balances of employee benefits payable was an approximate amount of RMB1 billion (31 December 2009: RMB1.4 billion) that is expected to be settled in 12 months.

34. BONDS PAYABLE

	2010-6-30	**2009-12-31**	**2008-12-31**	**2007-12-31**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Subordinated bonds *(Note 1)*	7,975,567	7,972,653	7,964,282	–
Hybrid capital debt instrument *(Note 2)*	1,490,806	1,490,061	–	–
Total	9,466,373	9,462,714	7,964,282	–

As at 30 June 2010 and 31 December 2009, 2008 and 2007, 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.

As at 30 June 2010, included in the hybrid capital debt instrument issued by the Company was an amount of RMB29.8 million (31 December 2009: RMB29.8 million) purchased by the Ping An Bank Co., Ltd. in May 2009.

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 SHIBOR3M+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.

35. PROVISIONS

	2010-6-30	**2009-12-31**	**2008-12-31**	**2007-12-31**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at beginning of the period/year	3,358	25,809	77,447	55,449
Charge/(reversal) for the period/year	12	(3,508)	29,712	23,998
Amounts paid or released	–	(18,943)	(81,350)	(2,000)
Balance at end of the period/year	3,370	3,358	25,809	77,447

36. OTHER LIABILITIES

	2010-6-30 *RMB'000*	2009-12-31 *RMB'000*	2008-12-31 *RMB'000*	2007-12-31 *RMB'000*
Interest payable	2,830,518	2,682,162	2,963,224	1,728,071
Tax payable – other than income tax	383,385	357,505	509,037	406,786
Bank drafts	26,774	189,471	195,295	712,635
Amounts pending for settlement and clearing	464,188	88,739	57,917	91,552
Financial guarantee contracts	64,313	54,692	53,324	32,595
Amounts payable for bond redemption as intermediaries	46,140	29,994	29,456	25,425
Accrued expenses	268,736	129,483	108,002	90,511
Amounts payable for acquisition of bonds	123,174	794,952	–	250,000
Inactive deposit account balances	36,586	39,457	44,414	62,367
Dividends payable *(Note)*	11,260	11,260	14,172	14,022
Subscription monies of open-ended funds	–	–	16,798	106,481
Advanced receipts of rentals and proceeds from disposal of repossessed assets	40,385	89,795	18,448	8,209
Others	563,192	386,002	282,610	214,820
Total	4,858,651	4,853,512	4,292,697	3,743,474

Note: As at 30 June 2010, the above-mentioned balance of dividends payable has been outstanding for more than one year as the related shareholders have not collected the dividends.

37. SHARE CAPITAL

As at 30 June 2010, the number of the Company's ordinary shares issued and fully paid was 3,485,014 thousand, with RMB1 Yuan each. The nature and the structure of the share capital are as follows:

		2009-12-31 *RMB'000*	Percentage	Movement in the period *RMB'000*	2010-6-30 *RMB'000*	Percentage
I.	Restricted tradable shares:					
	Domestic non-state-owned corporation shares	56	0.00%	379,580	379,636	10.89%
	Domestic individual shares	8	0.00%	2	10	0.00%
	Foreign corporation shares	181,256	5.84%	(181,256)	–	0.00%
	Total restricted tradable shares	181,320	5.84%	198,326	379,646	10.89%
II.	Unrestricted tradable shares:					
	RMB ordinary shares	2,924,114	94.16%	181,254	3,105,368	89.11%
III.	Total shares	3,105,434	100.00%	379,580	3,485,014	100.00%

The Company's original shareholder, Newbridge Asia AIV III, L.P. transferred its holding of 520,414 thousand shares of the Company to Ping An Insurance (Group) Company of China, Ltd. (hereafter referred to as "Ping An of China") on 7 May 2010. Of which, 181,256 thousand shares were restricted tradable shares. As at 28 June 2010, these restricted tradable shares became unrestricted upon the expiry of the respective lock-up periods.

The Company signed a share placement agreement with Ping An Life Insurance Company of China, Ltd. ("Ping An Life") on 12 June 2009. As approved by CSRC on 28 June 2010 in accordance with the ZhengJianXuKe No. [2010]862, the Company issued 379,580 thousand shares to Ping An Life at a price of RMB18.26 Yuan per share, with the proceeds amounting to RMB6,931,130 thousand. After deducting the share issue related expenses amounting to RMB23,862 thousand, the share capital and the share premium increased by RMB379,580 thousand and RMB6,527,688 thousand, respectively. The above shares are restricted to any transfer in 36 months after the issue. However, related parties of Ping An Life (referring to enterprises directly or indirectly controlling Ping An Life, or those being controlled directly or indirectly by Ping An Life, or those subject to the same control by another entity as Ping An Life) are not included in such transfer restriction.

38. RESERVES

	2010-6-30 *RMB'000*	2009-12-31 *RMB'000*	2008-12-31 *RMB'000*	2007-12-31 *RMB'000*
Statutory surplus reserve	1,283,957	1,283,957	780,885	719,481
General reserve	4,676,276	4,676,276	3,583,296	2,715,704
Accumulated share of the other comprehensive income of associates	(26,946)	(17,727)	(10,126)	–
Cumulative changes in fair value of available-for-sale financial assets	30,021	20,499	1,002,795	(60,120)
Revaluation surplus on owner-occupied properties transferred to investment properties	52,599	41,790	13,803	11,000
Total	6,015,907	6,004,795	5,370,653	3,386,065

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 2010 and 31 December 2009, 2008 and 2007, the amount of the surplus reserve represented the statutory surplus 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 year end balance of its risk assets.

39. UNAPPROPRIATED PROFIT

Pursuant to a board resolution on 19 March 2009, based on the audited profit for the year as reported in the statutory financial statements for the year ended 31 December 2008, the Company reversed the statutory surplus reserve amounting to RMB152,980 thousand in the second half of the year considering the respective appropriation in the first half of 2008, with the result that an appropriation of RMB61,404 thousand was made to the statutory surplus reserve for 2008 based on 10% of the profit for the year; and an appropriation of RMB258,968 thousand was made to the general reserve for the second half of 2008. The above proposed appropriations were approved at the shareholders' meeting of the Company held on 18 May 2009.

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.

40. NOTE TO THE CASH FLOW STATEMENT

	Jan-Jun 2010 *RMB'000*	Jan-Jun 2009 *RMB'000* (Unaudited)	2009 *RMB'000*	2008 *RMB'000*	2007 *RMB'000*
Profit before tax	3,871,747	2,929,479	6,190,537	792,609	3,771,775
Adjustments to reconcile profit before tax to cash flows arising from operating activities					
Non-cash items included in profit before tax and other adjustments:					
Depreciation of property and equipment	199,614	164,515	342,228	273,104	260,561
Impairment provision on loans	484,838	1,015,476	1,440,552	6,972,839	1,946,243
Interest income accrued on impaired financial assets	(32,876)	(48,115)	(109,510)	(384,238)	(518,592)
Impairment provisions on other assets	9,071	88,556	134,536	361,323	107,516
Increase/(decrease) in provisions	12	(2,402)	(3,508)	29,712	23,998
Amortisation of long term prepayments	6,195	7,594	13,638	16,929	17,495
Amortisation of intangible assets	24,203	15,735	36,032	20,852	14,275
Net unrealised gain of financial assets/liabilities at fair value through profit or loss	20,184	36,098	49,190	(80,887)	(14,908)
Net gain on disposal of property and equipment	(131)	(81)	(289)	(261)	(21,011)
Interest income on debt investments	(1,538,466)	(1,316,361)	(2,601,525)	(2,330,843)	(1,261,540)
Dividend income from investment securities	(2,690)	(2,004)	(1,905)	(4,554)	(6,955)
Net gain on disposal of investment securities	(23,581)	(464,824)	(472,060)	(336,200)	(215,753)
Net loss on disposal of investment properties	–	–	–	419	6,311
Changes in fair value of investment properties	(12,538)	4,911	(47,858)	15,087	(42,733)
Interest expense on bonds	275,196	241,446	520,356	325,488	–
Share of profits of associates	(40,824)	(18,336)	(18,336)	(22,675)	–
Net decrease/(increase) in operating assets:					
Deposit reserves with the Central Bank	(10,738,470)	(3,997,298)	(9,468,942)	(413,525)	(14,324,470)
Placements of deposits with other financial institutions	6,560,992	(237,691)	5,906,295	(14,369,457)	(1,257,854)
Funds loaned to other financial institutions	287,284	104,180	1,263,609	(2,090,056)	(806,571)
Reverse repurchase agreements	(10,216,096)	3,610,752	1,584,997	(648,650)	(11,279,835)
Financial assets at fair value through profit or loss	(280,544)	(1,672,770)	(98,772)	1,420,953	(1,343,977)
Loans and advances	(14,287,426)	(58,885,078)	(76,230,806)	(73,638,472)	(42,083,861)
Long term prepayments	–	(28,686)	(8,271)	(11,568)	(29,763)
Other assets	(3,957,041)	(1,070,850)	(2,458,522)	(767,168)	(151,348)
Net increase/(decrease) in operating liabilities:					
Amounts due to the Central Bank	1,203,900	–	–	–	–
Placements of deposits from other financial institutions	(25,999,787)	6,717,056	38,076,641	3,674,270	15,319,518
Interbank borrowings	(2,592,018)	6,790,946	190,118	5,080,000	2,300,000
Repurchase agreements	1,569,103	(5,585,874)	(25,182,731)	22,448,533	15,726,572
Financial liabilities at fair value through profit or loss	108,822	(40,268)	(103,764)	(1,306,628)	989,964
Customer deposits	48,640,134	55,723,884	93,506,775	79,216,880	49,002,123
Inward and outward remittances	2,712,996	333,962	614,398	20,175	68,530
Other liabilities	1,770,556	278,118	466,434	1,227,209	1,960,176
Cash flows from operating activities	(1,977,641)	4,692,070	33,529,537	25,491,200	18,155,886

41. COMMITMENTS AND CONTINGENT LIABILITIES

41a. Capital commitments

At the reporting date, the Company had capital commitments as follows:

	2010-6-30	2009-12-31	2008-12-31	2007-12-31
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Authorised, but not contracted for	54,471	62,464	–	–
Contracted, but not provided for	237,461	75,081	144,000	–
Total	291,932	137,545	144,000	–

41b. Operating Lease commitments

Operating lease commitments – Company as lessee

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

	2010-6-30	2009-12-31	2008-12-31	2007-12-31
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year, inclusive	472,417	443,244	370,634	263,204
In the second to fifth years, inclusive	1,278,230	1,180,074	1,021,447	627,439
More than five years	691,035	617,839	543,875	281,526
Total	2,441,682	2,241,157	1,935,956	1,172,169

Operating lease commitments – Company as lessor

The Company has entered into commercial property leases on its investment portfolio. All investment properties are leased out under operating leases. Future minimum rentals receivable under non-cancellable operating leases at the reporting date were as follows:

	2010-6-30	2009-12-31	2008-12-31	2007-12-31
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year, inclusive	34,034	37,512	33,886	34,724
In the second to fifth years, inclusive	46,239	39,883	45,254	29,342
More than five years	3,757	2,424	252	588
Total	84,030	79,819	79,392	64,654

41c. Credit commitments

	2010-6-30	2009-12-31	2008-12-31	2007-12-31
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial guarantee contracts:				
Bank acceptances	218,060,796	196,808,019	164,888,094	121,882,685
Guarantees issued	3,431,828	2,306,093	1,884,883	2,212,937
Letters of credit issued	4,298,378	2,391,676	1,826,290	1,912,162
Loan guarantee contracts	–	–	177,698	963,135
Subtotal	225,791,002	201,505,788	168,776,965	126,970,919
Unused limit of credit cards and undrawn irrevocable loan commitments	7,908,120	8,447,565	15,343,716	8,804,290
Total	233,699,122	209,953,353	184,120,681	135,775,209
Credit risk weighted amounts of credit commitments	82,664,716	69,039,949	59,080,564	49,277,576

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.

41d. Fiduciary transactions

	2010-6-30	2009-12-31	2008-12-31	2007-12-31
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Entrusted deposits	8,038,753	9,028,475	10,867,862	5,551,762
Entrusted loans	8,038,753	9,028,475	10,867,862	5,551,762
Entrusted funding	8,698,196	3,319,686	3,427,869	2,007,738
Entrusted investments	8,698,196	3,319,686	3,427,869	2,007,738

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 for 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.

41e. Contingent liabilities

(1) Legal proceedings

As at 30 June 2010, the total claimed amount of the litigation cases of which the Company is the defendant was RMB285 million (31 December 2009: RMB175 million; 31 December 2008: RMB179 million; 31 December 2007: RMB161 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 end of the period, based on the legal opinion from an independent third-party lawyer, the Company had no immediate obligation to repay the monies.

(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 2010, the Company has sold voucher-type government bonds and savings bonds (electronic) with accumulated amounts of RMB3,148,331 thousand (31 December 2009: RMB2,911,597 thousand; 31 December 2008: RMB3,100,574 thousand; 31 December 2007: RMB3,667,606 thousand) and RMB152,519 thousand (31 December 2009: RMB99,648 thousand; 31 December 2008 and 2007: Nil) 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 2010 and 31 December 2009, there was no unexpired underwriting commitment of the government bonds (31 December 2008: RMB2,354,426 thousand; 31 December 2007: RMB2,647,960 thousand).

42. 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.

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.

	2010-6-30	**2009-12-31**	**2008-12-31**	**2007-12-31**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net core capital	29,820,830	19,854,282	14,710,153	12,692,620
Supplementary capital	13,595,028	12,372,093	9,577,523	112,317
Net capital	43,109,102	31,905,240	23,959,430	12,691,876
Risk-weighted assets and market risk capital adjustment	413,927,829	359,508,049	279,112,744	220,056,277
Core capital adequacy ratio	7.2%	5.5%	5.3%	5.8%
Capital adequacy ratio	10.4%	8.9%	8.6%	5.8%

43. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

A maturity analysis of the assets and liabilities of the Company as at 30 June 2010 was as follows:

	2010-6-30							
	Overdue/ on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS:								
Cash on hand and due from the Central Bank	11,656,481	–	–	–	–	–	49,848,742	61,505,223
Precious metals	2,227	–	–	–	–	–	–	2,227
Amounts due from other financial institutions (1)	3,665,250	32,162,938	23,697,735	9,302,164	297,049	–	–	69,125,136
Financial assets at fair value through profit or loss and derivative financial assets	–	20,963	41,045	107,289	575,446	–	–	744,743
Accounts receivables	8,673	1,816,567	3,889,020	4,155,794	–	–	–	9,870,054
Loans and advances	2,489,706	21,445,653	44,489,687	141,338,571	102,702,458	56,022,399	–	368,488,474
Available-for-sale financial assets	–	9,120,847	1,453,568	7,405,695	17,639,345	5,245,662	116,234	40,981,351
Held-to-maturity investments	–	229,990	281,507	3,642,171	22,214,489	11,128,156	–	37,496,313
Receivables	–	–	7,600,000	19,492,100	500,000	–	–	27,592,100
Investments in associates	–	–	–	–	–	–	299,031	299,031
Property and equipment	–	–	–	–	–	–	2,488,005	2,488,005
Others	43,137	175,906	725,500	1,039,472	2,022,488	105,461	1,693,558	5,805,522
Total assets	17,865,474	64,972,864	82,178,062	186,483,256	145,951,275	72,501,678	54,445,570	624,398,179
LIABILITIES:								
Amounts due to the Central Bank	–	400,630	754,528	48,742	–	–	–	1,203,900
Amounts due to other financial institutions (2)	20,322,625	33,736,587	9,764,544	4,596,717	–	–	–	68,420,473
Derivative financial liabilities	–	21,270	29,239	78,291	28,147	–	–	156,947
Accounts payables	8,673	610,398	974,880	504,645	–	–	–	2,098,596
Customer deposits	219,860,436	65,123,978	64,106,344	118,922,822	35,974,756	2,000,002	–	505,988,338
Bonds payable	–	–	–	–	7,975,567	1,490,806	–	9,466,373
Others	1,172,893	1,391,479	845,364	2,396,538	762,587	72,487	1,096	6,642,444
Total liabilities	241,364,627	101,284,342	76,474,899	126,547,755	44,741,057	3,563,295	1,096	593,977,071
Liquidity net value	(223,499,153)	(36,311,478)	5,703,163	59,935,501	101,210,218	68,938,383	54,444,474	30,421,108

(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.

A maturity analysis of the assets and liabilities of the Company as at 31 December 2009 was as follows:

	2009-12-31							
	Overdue/on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS:								
Cash on hand and due from the Central Bank	15,133,680	–	–	–	–	–	39,110,272	54,243,952
Precious metals	3,302	–	–	–	–	–	–	3,302
Amounts due from other financial institutions (1)	2,377,139	40,295,852	11,677,293	7,240,255	286,532	–	–	61,877,071
Financial assets at fair value through profit or loss and derivative financial assets	–	7,637	11,205	49,100	794,011	370,091	–	1,232,044
Accounts receivables	–	725,992	1,654,232	2,401,937	–	–	–	4,782,161
Loans and advances	1,304,424	12,592,417	65,908,873	136,032,782	77,603,938	62,120,111	–	355,562,545
Available-for-sale financial assets	–	350,221	9,188,618	7,368,260	13,863,505	5,985,089	181,605	36,937,298
Held-to-maturity investments	–	68,267	61,552	1,049,169	22,153,872	11,221,234	–	34,554,094
Receivables	–	135,000	4,902,100	23,890,000	1,500,000	–	–	30,427,100
Investments in associates	–	–	–	–	–	–	287,346	287,346
Property and equipment	–	–	–	–	–	–	2,034,301	2,034,301
Others	51,141	147,056	539,713	982,325	1,795,474	105,032	2,249,079	5,869,820
Total assets	18,869,686	54,322,442	93,943,586	179,013,828	117,997,332	79,801,557	43,862,603	587,811,034
LIABILITIES:								
Amounts due to other financial institutions (2)	25,363,893	45,678,632	21,699,520	2,701,130	–	–	–	95,443,175
Derivative financial liabilities	–	2,797	1,917	13,910	2,916	–	–	21,540
Accounts payables	–	128,765	202,851	519,265	–	–	–	850,881
Customer deposits	206,237,520	59,737,139	65,560,566	88,261,790	34,338,193	500,000	–	454,635,208
Bonds payable	–	–	–	–	7,967,482	1,495,232	–	9,462,714
Others	821,277	2,035,632	2,014,217	1,059,949	888,314	107,618	900	6,927,907
Total liabilities	232,422,690	107,582,965	89,479,071	92,556,044	43,196,905	2,102,850	900	567,341,425
Liquidity net value	(213,553,004)	(53,260,523)	4,464,515	86,457,784	74,800,427	77,698,707	43,861,703	20,469,609

(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.

A maturity analysis of the assets and liabilities of the Company as at 31 December 2008 was as follows:

	2008-12-31							
	Overdue/on demand	**Within 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undated**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS:								
Cash on hand and due from the Central Bank	10,126,571	–	–	–	–	–	29,641,330	39,767,901
Precious metals	9,225	–	–	–	–	–	–	9,225
Amounts due from other financial institutions (1)	3,519,315	23,226,652	16,048,497	22,676,374	–	–	–	65,470,838
Financial assets at fair value through profit or loss and derivative financial assets	–	28,202	68,279	147,433	88,278	–	–	332,192
Accounts receivables	–	277,498	779,875	170,873	131,346	–	–	1,359,592
Loans and advances	1,100,587	18,084,808	42,767,591	137,094,540	41,978,384	40,688,777	–	281,714,687
Available-for-sale financial assets	–	1,219,607	458,485	19,866,795	18,354,295	8,692,528	205,376	48,797,086
Held-to-maturity investments	–	–	71,510	1,879,307	11,641,589	1,916,749	–	15,509,155
Receivables	–	–	–	–	13,750,000	–	–	13,750,000
Investments in associates	–	–	–	–	–	–	279,672	279,672
Property and equipment	–	–	–	–	–	–	1,915,446	1,915,446
Others	81,765	797,038	237,479	795,307	1,932,804	7,257	1,682,729	5,534,379
Total assets	14,837,463	43,633,805	60,431,716	182,630,629	87,876,696	51,305,311	33,724,553	474,440,173
LIABILITIES:								
Amounts due to other financial institutions (2)	12,277,306	46,961,045	19,773,124	3,347,672	–	–	–	82,359,147
Derivative financial liabilities	–	4,873	13,760	74,541	4,844	–	–	98,018
Accounts payables	–	25,005	446,395	36,083	–	–	–	507,483
Customer deposits	148,834,502	44,211,379	48,269,061	86,149,026	33,050,066	2	–	360,514,036
Bonds payable	–	–	–	–	7,964,282	–	–	7,964,282
Others	652,830	1,773,034	1,869,207	1,295,128	949,281	56,937	–	6,596,417
Total liabilities	161,764,638	92,975,336	70,371,547	90,902,450	41,968,473	56,939	–	458,039,383
Liquidity net value	(146,927,175)	(49,341,531)	(9,939,831)	91,728,179	45,908,223	51,248,372	33,724,553	16,400,790

(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.

A maturity analysis of the assets and liabilities of the Company as at 31 December 2007 was as follows:

	2007-12-31							
	Overdue/on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS:								
Cash on hand and due from the Central Bank	11,498,582	–	–	–	–	–	29,227,805	40,726,387
Precious metals	8,200	–	–	–	–	–	–	8,200
Amounts due from other financial institutions (1)	2,191,196	20,283,485	14,507,930	2,952,660	490,000	–	–	40,425,271
Financial assets at fair value through profit or loss and derivative financial assets	–	720,993	149,154	748,642	100,652	50,000	–	1,769,441
Accounts receivables	–	50,300	459,070	268,699	–	–	–	778,069
Loans and advances	6,806,547	13,070,871	29,193,395	97,641,259	31,199,641	37,099,852	–	215,011,565
Available-for-sale financial assets	43,040	1,928,133	2,904,950	3,001,922	8,851,488	911,419	386,565	18,027,517
Held-to-maturity investments	–	–	109,424	1,075,462	8,803,074	5,839,038	–	15,826,998
Receivables	–	–	–	–	13,450,000	–	–	13,450,000
Property and equipment	–	–	–	–	–	–	1,710,094	1,710,094
Others	140,815	1,118,653	810,358	36,629	221,218	45,502	2,432,644	4,805,819
Total assets	20,688,380	37,172,435	48,134,281	105,725,273	63,116,073	43,945,811	33,757,108	352,539,361
LIABILITIES:								
Amounts due to other financial institutions (2)	27,144,470	17,450,302	5,097,692	1,463,880	–	–	–	51,156,344
Derivative financial liabilities	–	13,808	733,606	646,395	108,021	–	–	1,501,830
Accounts payables	–	50,300	63,674	226,323	–	–	–	340,297
Customer deposits	106,115,991	40,340,274	48,667,576	68,583,447	17,569,378	315	–	281,276,981
Others	770,532	3,393,978	652,184	228,819	212,333	–	–	5,257,846
Total liabilities	134,030,993	61,248,662	55,214,732	71,148,864	17,889,732	315	–	339,533,298
Liquidity net value	(113,342,613)	(24,076,227)	(7,080,451)	34,576,409	45,226,341	43,945,496	33,757,108	13,006,063

(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.

44. RISK DISCLOSURE

44a. 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.

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.

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

	2010-6-30	**2009-12-31**	**2008-12-31**	**2007-12-31**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due from the Central Bank	60,712,227	53,464,783	38,786,042	39,664,146
Placements of deposits with other financial institutions	8,844,875	15,592,536	21,500,809	4,013,690
Funds loaned to other financial institutions	5,318,759	5,361,139	9,236,676	2,642,656
Financial assets at fair value through profit or loss	543,137	1,132,048	41,441	1,477,625
Derivative financial assets	201,606	99,996	290,751	291,816
Reverse repurchase agreements	54,961,502	40,923,396	34,733,353	33,768,925
Loans and advances	368,488,474	355,562,545	281,714,687	215,011,565
Available-for-sale financial assets (excluding equity investments)	40,865,117	36,755,693	48,591,709	18,027,517
Held-to-maturity investments	37,496,313	34,554,094	15,509,155	15,826,998
Receivables	27,592,100	30,427,100	13,750,000	13,450,000
Other assets	12,213,775	6,819,969	3,566,749	3,141,750
Total	617,237,885	580,693,299	467,721,372	347,316,688
Credit commitments	233,699,122	209,953,353	184,120,681	135,775,209
Maximum exposure to credit risk	850,937,007	790,646,652	651,842,053	483,091,897

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 20 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.

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 analysed as follows:

2010-6-30	**Neither past due nor impaired** *RMB'000*	**Past due but not impaired** *RMB'000*	**Impaired** *(Note)* *RMB'000*	**Total** *RMB'000*
Placements of deposits with other financial institutions	8,844,050	–	31,520	8,875,570
Funds loaned to other financial institutions	5,315,368	–	33,217	5,348,585
Financial assets at fair value through profit or loss	543,137	–	–	543,137
Reverse repurchase agreements	54,946,502	–	50,000	54,996,502
Accounts receivables	9,870,054	–	–	9,870,054
Loans and advances	369,068,194	2,219,818	2,336,724	373,624,736
Available-for-sale financial assets (excluding equity investments)	40,865,117	–	–	40,865,117
Held-to-maturity investments	37,496,313	–	–	37,496,313
Receivables	27,592,100	–	–	27,592,100
Total	554,540,835	2,219,818	2,451,461	559,212,114

2009-12-31	**Neither past due nor impaired** *RMB'000*	**Past due but not impaired** *RMB'000*	**Impaired** *(Note)* *RMB'000*	**Total** *RMB'000*
Placements of deposits with other financial institutions	15,591,711	–	41,520	15,633,231
Funds loaned to other financial institutions	5,357,725	–	33,393	5,391,118
Financial assets at fair value through profit or loss	1,132,048	–	–	1,132,048
Reverse repurchase agreements	40,908,396	–	50,000	40,958,396
Accounts receivables	4,782,161	–	–	4,782,161
Loans and advances	355,276,052	1,764,663	2,476,698	359,517,413
Available-for-sale financial assets (excluding equity investments)	36,755,693	–	–	36,755,693
Held-to-maturity investments	34,554,094	–	–	34,554,094
Receivables	30,427,100	–	–	30,427,100
Total	524,784,980	1,764,663	2,601,611	529,151,254

2008-12-31	**Neither past due nor impaired** *RMB'000*	**Past due but not impaired** *RMB'000*	**Impaired** *(Note)* *RMB'000*	**Total** *RMB'000*
Placements of deposits with other financial institutions	21,496,984	–	44,520	21,541,504
Funds loaned to other financial institutions	9,232,183	–	33,572	9,265,755
Financial assets at fair value through profit or loss	41,441	–	–	41,441
Reverse repurchase agreements	34,712,353	–	50,000	34,762,353
Accounts receivables	1,359,592	–	–	1,359,592
Loans and advances	278,084,078	3,601,124	2,056,164	283,741,366
Available-for-sale financial assets (excluding equity investments)	48,591,709	–	–	48,591,709
Held-to-maturity investments	15,509,155	–	–	15,509,155
Receivables	13,750,000	–	–	13,750,000
Total	422,777,495	3,601,124	2,184,256	428,562,875

2007-12-31	Neither past due nor impaired *RMB'000*	Past due but not impaired *RMB'000*	Impaired *(Note)* *RMB'000*	Total *RMB'000*
Placements of deposits with other financial institutions	4,010,556	–	69,920	4,080,476
Funds loaned to other financial institutions	2,628,782	–	323,771	2,952,553
Financial assets at fair value through profit or loss	1,477,625	–	–	1,477,625
Reverse repurchase agreements	33,747,752	–	51,722	33,799,474
Accounts receivables	778,069	–	–	778,069
Loans and advances	206,160,615	2,346,293	12,528,621	221,035,529
Available-for-sale financial assets (excluding equity investments)	17,597,912	–	73,040	17,670,952
Held-to-maturity investments	15,826,998	–	–	15,826,998
Receivables	13,450,000	–	–	13,450,000
Total	295,678,309	2,346,293	13,047,074	311,071,676

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 2009, impaired loans and advances comprise overdue loans of RMB2,060,312 thousand (31 December 2009: RMB2,359,402 thousand; 31 December 2008: RMB1,886,611 thousand; 31 December 2007: RMB12,111,553 thousand) and non-overdue loans of RMB276,412 thousand (31 December 2009: RMB117,296 thousand; 31 December 2008:RMB169,553 thousand; 31 December 2007: RMB417,068 thousand).

Neither past due nor impaired loans and advances

At the reporting 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.

	2010-6-30 *RMB'000*	2009-12-31 *RMB'000*	2008-12-31 *RMB'000*	2007-12-31 *RMB'000*
Pass	368,342,957	354,198,769	275,466,761	204,432,482
Special Mention	725,237	1,077,283	2,617,317	1,728,133
Total	369,068,194	355,276,052	278,084,078	206,160,615

Past due but not impaired loans and advances

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

2010-6-30

	Within 1 month	1 to 2 months	2 to 3 months	More than 3 months	Total	Fair value of collateral held
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Corporate loans and advances	129,789	24,965	–	–	154,754	106,754
Personal loans	1,718,984	246,356	99,724	–	2,065,064	5,930,858
Total	1,848,773	271,321	99,724	–	2,219,818	6,037,612

2009-12-31

	Within 1 month	1 to 2 months	2 to 3 months	More than 3 months	Total	Fair value of collateral held
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Corporate loans and advances	78,070	18,325	5,000	129,928	231,323	169,402
Personal loans	1,286,773	188,524	58,043	–	1,533,340	3,271,790
Total	1,364,843	206,849	63,043	129,928	1,764,663	3,441,192

2008-12-31

	Within 1 month	1 to 2 months	2 to 3 months	More than 3 months	Total	Fair value of collateral held
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Corporate loans and advances	475,139	112,009	56,624	268,810	912,582	231,650
Personal loans	2,305,914	247,719	134,909	–	2,688,542	4,528,426
Total	2,781,053	359,728	191,533	268,810	3,601,124	4,760,076

2007-12-31

	Within 1 month	1 to 2 months	2 to 3 months	More than 3 months	Total	Fair value of collateral held
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Corporate loans and advances	94,872	55,482	12,280	102,968	265,602	173,033
Personal loans	1,631,756	330,336	118,599	–	2,080,691	5,309,325
Total	1,726,628	385,818	130,879	102,968	2,346,293	5,482,358

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 2010 amounted to RMB874 million (31 December 2009: RMB841 million; 31 December 2008: RMB859 million; 31 December 2007: RMB1,988 million).

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:

	2010-6-30	**2009-12-31**	**2008-12-31**	**2007-12-31**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and advances to customers	142,913	282,172	215,638	390,718

44b. 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 assets and liabilities. To limit the risk, management has arranged diversified funding sources, and monitors loans 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.

As at 30 June 2010 and 31 December 2009, the remaining contractual maturity analysis of the Company's financial liabilities (based on contractual undiscounted cash flows) was as follows:

	Overdue/on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2010-6-30								
Amounts due to the Central Bank	–	400,630	756,274	49,000	–	–	–	1,205,904
Amounts due to other financial institutions (1)	20,328,569	33,803,121	9,827,021	4,687,883	–	–	–	68,646,594
Derivative financial instruments								
– Contractual amounts payable	–	4,725,774	2,985,101	10,170,384	8,027	–	–	17,889,286
– Contractual amounts receivable	–	(4,703,926)	(2,957,254)	(10,153,943)	(8,137)	–	–	(17,823,260)
Accounts payable	8,673	612,204	980,633	514,854	–	–	–	2,116,364
Customer deposits	222,737,957	65,347,847	64,723,331	121,994,491	37,577,332	2,007,400	–	514,388,358
Bonds payable	–	–	4,700	545,100	9,345,400	1,842,000	–	11,737,200
Other financial liabilities	1,265,251	–	229,364	1,053,404	337,728	54,788	–	2,940,535
Subtotal	244,340,450	100,185,650	76,549,170	128,861,173	47,260,350	3,904,188	–	601,100,981
Credit commitments	10,393,649	50,101,306	79,694,872	93,042,427	463,138	3,730	–	233,699,122
Total	254,734,099	150,286,956	156,244,042	221,903,600	47,723,488	3,907,918	–	834,800,103
2009-12-31								
Amounts due to other financial institutions (1)	25,372,481	45,824,394	21,827,086	2,743,611	–	–	–	95,767,572
Derivative financial instruments								
– Contractual amounts payable	–	2,410,381	1,476,607	3,003,302	338,351	–	–	7,228,641
– Contractual amounts receivable	–	(2,407,585)	(1,474,807)	(2,989,392)	(335,435)	–	–	(7,207,219)
Accounts payable	–	128,765	202,851	529,318	–	–	–	860,934
Customer deposits	206,325,253	60,122,412	66,345,753	90,308,325	37,560,031	501,682	–	461,163,456
Bonds payable	–	–	370,025	177,075	9,714,725	1,927,500	–	12,189,325
Other financial liabilities	1,582,642	1,310	1,366,277	215,762	176,936	51,706	–	3,394,633
Subtotal	233,280,376	106,079,677	90,113,792	93,988,001	47,454,608	2,480,888	–	573,397,342
Credit commitments	9,232,655	39,599,210	76,524,196	83,888,728	708,564	–	–	209,953,353
Total	242,513,031	145,678,887	166,637,988	177,876,729	48,163,172	2,480,888	–	783,350,695

(1) 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.

As at 31 December 2008 and 31 December 2007, the remaining contractual maturity analysis of the Company's financial liabilities (based on contractual undiscounted cash flows) was as follows:

	Overdue/ on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2008-12-31								
Amounts due to other financial institutions [(1)]	12,283,928	47,033,925	19,854,362	3,394,422	–	–	–	82,566,637
Financial liabilities at fair value through profit or loss and derivative financial liabilities	–	483	–	39,325	–	–	–	39,808
Derivative financial instruments								
– Contractual amounts payable	–	2,500,170	1,107,226	484,693	4,844	–	–	4,096,933
– Contractual amounts receivable	–	(2,495,298)	(1,093,466)	(449,571)	–	–	–	(4,038,335)
Accounts payable	–	25,243	482,385	39,269	–	–	–	546,897
Customer deposits	125,935,704	48,911,972	60,430,312	96,550,156	37,119,340	2	–	368,947,486
Bonds payable	–	–	370,537	93,363	9,843,008	–	–	10,306,908
Other financial liabilities	620,318	60	947,503	176,041	176,381	56,937	–	1,977,240
Subtotal	138,839,950	95,976,555	82,098,859	100,327,698	47,143,573	56,939	–	464,443,574
Credit commitments	16,766,967	30,099,458	63,373,841	73,454,735	425,680	–	–	184,120,681
Total	155,606,917	126,076,013	145,472,700	173,782,433	47,569,253	56,939	–	648,564,255
2007-12-31								
Amounts due to other financial institutions [(1)]	27,167,521	17,475,221	5,152,738	1,526,586	–	–	–	51,322,066
Financial liabilities at fair value through profit or loss and derivative financial liabilities	–	–	690,015	516,118	43,103	–	–	1,249,236
Derivative financial instruments								
– Contractual amounts payable	–	2,626,943	1,273,982	2,545,114	65,946	–	–	6,511,985
– Contractual amounts receivable	–	(2,613,136)	(1,230,390)	(2,413,286)	–	–	–	(6,256,812)
Accounts payable	–	53,173	66,653	239,319	–	–	–	359,145
Customer deposits	106,168,886	40,621,695	49,282,780	70,122,182	20,188,968	318	–	286,384,829
Other financial liabilities	723,493	887,713	546,389	307,496	36,342	–	–	2,501,433
Subtotal	134,059,900	59,051,609	55,782,167	72,843,529	20,334,359	318	–	342,071,882

(1) 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.

44c. 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.

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.

As at 30 June 2010, the Company's foreign currency assets and liabilities analysed by currency were as follows:

	2010-6-30			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Cash on hand and due from the Central Bank	469,818	173,149	11,255	654,222
Amounts due from other financial institutions [(1)]	2,184,680	1,872,042	1,266,981	5,323,703
Financial assets at fair value through profit or loss and derivative financial assets	–	–	–	–
Accounts receivable	5,093,148	37,304	126,829	5,257,281
Loans and advances	8,144,627	1,322,724	47,727	9,515,078
Available-for-sale financial assets	239,029	–	–	239,029
Held-to-maturity investments	963,209	–	–	963,209
Others	83,998	2,689	1,452	88,139
Total assets	17,178,509	3,407,908	1,454,244	22,040,661
Liabilities				
Amounts due to other financial institutions [(2)]	1,758,692	108,718	–	1,867,410
Derivative financial liabilities	–	–	–	–
Accounts payable	632,855	18,247	–	651,102
Customer deposits	13,625,621	4,509,900	1,355,526	19,491,047
Others	85,515	18,942	2,725	107,182
Total liabilities	16,102,683	4,655,807	1,358,251	22,116,741
Net position of foreign currency [(3)]	1,075,826	(1,247,899)	95,993	(76,080)
Notional amount of foreign exchange derivative financial instruments	81,087	1,262,325	(89,309)	1,254,103
Total	1,156,913	14,426	6,684	1,178,023
Off-balance sheet credit commitments	4,177,605	103,003	367,562	4,648,170

(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.

As at 31 December 2009, the Company's foreign currency assets and liabilities analysed by currency were as follows:

	2009-12-31			
	USD (RMB equivalent)	**HKD (RMB equivalent)**	**Others (RMB equivalent)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Cash on hand and due from the Central Bank	386,339	160,973	11,453	558,765
Amounts due from other financial institutions (1)	8,151,882	672,300	1,153,153	9,977,335
Financial assets at fair value through profit or loss and derivative financial assets	–	–	–	–
Accounts receivables	3,040,441	–	131,545	3,171,986
Loans and advances	6,709,044	1,160,499	40,238	7,909,781
Available-for-sale financial assets	242,210	–	–	242,210
Held-to-maturity investments	1,039,253	–	48,864	1,088,117
Others	103,492	11,265	1,591	116,348
Total assets	19,672,661	2,005,037	1,386,844	23,064,542
Liabilities				
Amounts due to other financial institutions (2)	2,885,061	64,975	–	2,950,036
Derivative financial liabilities	–	–	–	–
Accounts payables	391,318	–	–	391,318
Customer deposits	13,782,860	2,232,455	1,359,166	17,374,481
Others	72,184	4,073	651	76,908
Total liabilities	17,131,423	2,301,503	1,359,817	20,792,743
Net position of foreign currency (3)	2,541,238	(296,466)	27,027	2,271,799
Notional amount of foreign exchange derivative financial instruments	(1,598,058)	380,281	(11,929)	(1,229,706)
Total	943,180	83,815	15,098	1,042,093
Off-balance sheet credit commitments	3,368,490	126	301,306	3,669,922

(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.

As at 31 December 2008, the Company's foreign currency assets and liabilities analysed by currency were as follows:

	2008-12-31			
	USD (RMB equivalent)	**HKD (RMB equivalent)**	**Others (RMB equivalent)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Cash on hand and due from the Central Bank	372,005	155,085	12,241	539,331
Amounts due from other financial institutions (1)	14,267,058	964,733	960,605	16,192,396
Financial assets at fair value through profit or loss and derivative financial assets	9,549	–	153	9,702
Accounts receivable	1,108,327	12,439	–	1,120,766
Loans and advances	3,736,356	217,667	41,883	3,995,906
Available-for-sale financial assets	–	–	–	–
Held-to-maturity investments	452,928	–	46,983	499,911
Others	154,191	14,933	3,040	172,164
Total assets	20,100,414	1,364,857	1,064,905	22,530,176
Liabilities				
Amounts due to other financial institutions (2)	2,568,477	64,533	–	2,633,010
Derivative financial liabilities	44,138	–	153	44,291
Accounts payable	507,483	–	–	507,483
Customer deposits	10,959,758	1,923,193	979,905	13,862,856
Others	81,888	14,020	1,770	97,678
Total liabilities	14,161,744	2,001,746	981,828	17,145,318
Net position of foreign currency (3)	5,938,670	(636,889)	83,077	5,384,858
Notional amount of foreign exchange derivative financial instruments	(5,911,075)	197,768	(47,636)	(5,760,943)
Total	27,595	(439,121)	35,441	(376,085)
Off-balance sheet credit commitments	3,085,518	17,499	444,294	3,547,311

(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.

As at 31 December 2007, the Company's foreign currency assets and liabilities analysed by currency were as follows:

	2007-12-31			
	USD (RMB equivalent)	**HKD (RMB equivalent)**	**Others (RMB equivalent)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Cash on hand and due from the Central Bank	455,463	277,444	10,493	743,400
Amounts due from other financial institutions [(1)]	2,894,457	572,489	445,528	3,912,474
Financial assets at fair value through profit or loss and derivative financial assets	30,696	8,660	4,115	43,471
Accounts receivable	778,069	–	–	778,069
Loans and advances	4,570,397	761,477	98,456	5,430,330
Available-for-sale financial assets	139,426	–	–	139,426
Held-to-maturity investments	542,929	22,423	–	565,352
Others	116,023	32,650	890	149,563
Total assets	9,527,460	1,675,143	559,482	11,762,085
Liabilities				
Amounts due to other financial institutions [(2)]	1,774,301	112,440	–	1,886,741
Derivative financial liabilities	153,975	13,918	1,718	169,611
Accounts payable	340,297	–	–	340,297
Customer deposits	7,764,505	2,061,236	640,085	10,465,826
Others	97,309	31,520	2,522	131,351
Total liabilities	10,130,387	2,219,114	644,325	12,993,826
Net position of foreign currency [(3)]	(602,927)	(543,971)	(84,843)	(1,231,741)
Notional amount of foreign exchange derivative financial instruments	460,252	558,098	(3)	1,018,347
Total	(142,675)	14,127	(84,846)	(213,394)
Off-balance sheet credit commitment	3,201,181	79,942	294,687	3,575,810

(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.

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.

2010-6-30

Currency	**Change in exchange rate in %**	**Effect on profit before tax**
USD	+/-2%	+/-23,138
HKD	+/-2%	+/-289

2009-12-31

Currency	**Change in exchange rate in %**	**Effect on profit before tax**
USD	+/-3%	+/-28,295
HKD	+/-3%	+/-2,514

2008-12-31

Currency	**Change in exchange rate in %**	**Effect on profit before tax**
USD	+/-1%	+/-276
HKD	+/-1%	–/+4,391

2007-12-31

Currency	**Change in exchange rate in %**	**Effect on profit before tax**
USD	+/-8%	–/+2,988
HKD	+/-8%	+/-1,840

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.

As at 30 June 2010, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Company's statement of financial position were analysed as follows:

	2010-6-30					
	Within 3 months	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Non-interest-bearing**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets:						
Cash on hand and due from the Central Bank	59,815,653	–	–	–	1,689,570	61,505,223
Precious metals	–	–	–	–	2,227	2,227
Amounts due from other financial institutions (1)	59,972,972	9,102,164	50,000	–	–	69,125,136
Financial assets at fair value through profit or loss and derivative financial assets	302,808	40,504	199,825	–	201,606	744,743
Accounts receivable	5,085,587	1,942,843	–	–	2,841,624	9,870,054
Loans and advances	215,705,620	142,455,224	7,515,099	2,812,531	–	368,488,474
Available-for-sale financial assets	22,357,834	9,743,894	8,241,378	522,011	116,234	40,981,351
Held-to-maturity investments	4,013,544	9,862,525	18,222,535	5,397,709	–	37,496,313
Receivables	7,600,000	19,492,100	500,000	–	–	27,592,100
Investments in associates	–	–	–	–	299,031	299,031
Property and equipment	–	–	–	–	2,488,005	2,488,005
Others	–	–	–	–	5,805,522	5,805,522
Total assets	374,854,018	192,639,254	34,728,837	8,732,251	13,443,819	624,398,179
Liabilities:						
Amounts due to the Central Bank	1,155,158	48,742	–	–	–	1,203,900
Amounts due to other financial institutions (2)	63,823,756	4,596,717	–	–	–	68,420,473
Derivative financial liabilities	–	–	–	–	156,947	156,947
Accounts payable	983,533	418,126	–	–	696,937	2,098,596
Customer deposits	374,140,133	111,257,990	18,367,707	2,000,002	222,506	505,988,338
Bonds payable	500,000	–	7,475,567	1,490,806	–	9,466,373
Others	–	–	–	–	6,642,444	6,642,444
Total liabilities	440,602,580	116,321,575	25,843,274	3,490,808	7,718,834	593,977,071
Interest rate risk exposure	(65,748,562)	76,317,679	8,885,563	5,241,443	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.

As at 31 December 2009, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Company's statement of financial position were analysed as follows:

	2009-12-31					
	Within 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-interest-bearing	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets:						
Cash on hand and due from the Central Bank	52,863,536	–	–	–	1,380,416	54,243,952
Precious metals	–	–	–	–	3,302	3,302
Amounts due from other financial institutions (1)	54,350,284	7,240,255	286,532	–	–	61,877,071
Financial assets at fair value through profit or loss and derivative financial assets	935,600	101,595	94,853	–	99,996	1,232,044
Accounts receivable	2,047,627	1,612,790	–	–	1,121,744	4,782,161
Loans and advances	180,379,059	164,044,284	8,219,018	2,920,184	–	355,562,545
Available-for-sale financial assets	16,537,017	14,338,674	5,738,171	141,831	181,605	36,937,298
Held-to-maturity investments	1,938,023	7,970,016	19,354,225	5,291,830	–	34,554,094
Receivables	5,037,100	23,890,000	1,500,000	–	–	30,427,100
Investments in associates	–	–	–	–	287,346	287,346
Property and equipment	–	–	–	–	2,034,301	2,034,301
Others	–	–	–	–	5,869,820	5,869,820
Total assets	314,088,246	219,197,614	35,192,799	8,353,845	10,978,530	587,811,034
Liabilities:						
Amounts due to other financial institutions (2)	92,742,045	2,701,130	–	–	–	95,443,175
Derivative financial liabilities	–	–	–	–	21,540	21,540
Accounts payable	–	390,740	–	–	460,141	850,881
Customer deposits	335,186,700	88,234,946	30,537,951	500,001	175,610	454,635,208
Bonds payable	500,000	–	7,472,653	1,490,061	–	9,462,714
Others	–	–	–	–	6,927,907	6,927,907
Total liabilities	428,428,745	91,326,816	38,010,604	1,990,062	7,585,198	567,341,425
Interest rate risk exposure	(114,340,499)	127,870,798	(2,817,805)	6,363,783	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.

As at 31 December 2008, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Company's statement of financial position were analysed as follows:

	2008-12-31					
	Within 3 months	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Non-interest-bearing**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets:						
Cash on hand and due from the Central Bank	38,671,784	–	–	–	1,096,117	39,767,901
Precious metals	–	–	–	–	9,225	9,225
Amounts due from other financial institutions (1)	42,794,464	22,676,374	–	–	–	65,470,838
Financial assets at fair value through profit or loss and derivative financial assets	–	41,441	–	–	290,751	332,192
Accounts receivable	1,053,623	65,822	–	–	240,147	1,359,592
Loans and advances	136,284,356	138,707,587	6,144,749	577,995	–	281,714,687
Available-for-sale financial assets	5,677,900	27,529,814	10,196,378	5,187,617	205,377	48,797,086
Held-to-maturity investments	946,344	5,547,784	8,499,347	515,680	–	15,509,155
Receivables	–	–	13,750,000	–	–	13,750,000
Investments in associates	–	–	–	–	279,672	279,672
Property and equipment	–	–	–	–	1,915,446	1,915,446
Others	–	–	–	–	5,534,379	5,534,379
Total assets	225,428,471	194,568,822	38,590,474	6,281,292	9,571,114	474,440,173
Liabilities:						
Amounts due to other financial institutions (2)	78,992,335	3,356,887	–	–	9,925	82,359,147
Financial liabilities at fair value through profit or loss and derivative financial liabilities	–	39,420	–	–	58,598	98,018
Accounts payable	442,000	65,483	–	–	–	507,483
Customer deposits	240,037,645	86,149,026	33,050,066	2	1,277,297	360,514,036
Bonds payable	498,195	–	7,466,087	–	–	7,964,282
Others	–	–	–	–	6,596,417	6,596,417
Total liabilities	319,970,175	89,610,816	40,516,153	2	7,942,237	458,039,383
Interest rate risk exposure	(94,541,704)	104,958,006	(1,925,679)	6,281,290	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.

As at 31 December 2007, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Company's statement of financial position were analysed as follows:

	2007-12-31					
	Within 3 months	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Non-interest-bearing**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets:						
Cash on hand and due from the Central Bank	39,308,438	–	–	–	1,417,949	40,726,387
Precious metals	–	–	–	–	8,200	8,200
Amounts due from other financial institutions (1)	36,982,611	2,952,660	490,000	–	–	40,425,271
Financial assets at fair value through profit or loss and derivative financial assets	857,867	569,758	–	50,000	291,816	1,769,441
Accounts receivable	509,370	268,699	–	–	–	778,069
Loans and advances	98,461,358	109,379,700	6,340,160	830,347	–	215,011,565
Available-for-sale financial assets	7,063,115	4,738,453	4,998,178	841,206	386,565	18,027,517
Held-to-maturity investments	600,387	4,659,390	6,279,872	4,287,349	–	15,826,998
Receivables – bond investments	–	–	13,450,000	–	–	13,450,000
Property and equipment	–	–	–	–	1,710,094	1,710,094
Others	–	–	–	–	4,805,819	4,805,819
Total assets	183,783,146	122,568,660	31,558,210	6,008,902	8,620,443	352,539,361
Liabilities:						
Amounts due to other financial institutions (2)	49,692,464	1,463,880	–	–	–	51,156,344
Financial liabilities at fair value through profit or loss and derivative financial liabilities	690,015	550,390	6,252	–	255,173	1,501,830
Accounts payable	113,974	226,323	–	–	–	340,297
Customer deposits	197,468,485	65,092,412	17,481,005	315	1,234,764	281,276,981
Others	–	–	–	–	5,257,846	5,257,846
Total liabilities	247,964,938	67,333,005	17,487,257	315	6,747,783	339,533,298
Interest rate risk exposure	(64,181,792)	55,235,655	14,070,953	6,008,587	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.

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 2010 and 31 December 2009, 2008 and 2007, the gap analyses of the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) were as follows:

	2010-6-30 Changes in interest rate (basis points)		**2009-12-31** Changes in interest rate (basis points)	
	–50	**+50**	**–100**	**+100**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Effect on the net interest income				
Increase/(decrease)	145,955	(145,955)	529,531	(529,531)
Effect on equity				
Increase/(decrease)	125,638	(125,638)	166,225	(166,225)

	2008-12-31 Changes in interest rate (basis points)		**2007-12-31** Changes in interest rate (basis points)	
	–100	**+100**	**–100**	**+100**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Effect on the net interest income				
Increase/(decrease)	433,655	(433,655)	355,998	(355,998)
Effect on equity				
Increase/(decrease)	649,171	(649,171)	90,170	(90,170)

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 reporting 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.

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.

44d. 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 *RMB'000*	Fair value *RMB'000*
30 June 2010:		
Receivables	27,592,100	27,609,796
Held-to-maturity debt securities	37,496,313	37,763,607
Bonds payable	9,466,373	9,791,411
31 December 2009:		
Receivables	30,427,100	30,489,418
Held-to-maturity debt securities	34,554,094	34,381,556
Bonds payable	9,462,714	9,599,219
31 December 2008:		
Receivables	13,750,000	13,926,630
Held-to-maturity debt securities	15,509,155	16,017,550
Bonds payable	7,964,282	8,574,308
31 December 2007:		
Receivables	13,450,000	13,388,444
Held-to-maturity debt securities	15,826,998	15,246,058

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	Placements 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

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

	Quoted market price ("Level 1") *RMB'000*	Valuation techniques – market observable inputs ("Level 2") *RMB'000*	Valuation techniques – non-market observable inputs ("Level 3") *RMB'000*	Total *RMB'000*
2010-6-30				
Financial assets:				
Financial assets at fair value through profit or loss	–	543,137	–	543,137
Derivative financial assets	–	201,606	–	201,606
Available-for-sale financial assets	27,536	40,868,456	–	40,895,992
Total	27,536	41,613,199	–	41,640,735
Financial liabilities:				
Derivative financial liabilities	–	156,947	–	156,947
2009-12-31				
Financial assets:				
Financial assets at fair value through profit or loss	–	1,132,048	–	1,132,048
Derivative financial assets	–	99,996	–	99,996
Available-for-sale financial assets	66,536	36,765,403	–	36,831,939
Total	66,536	37,997,447	–	38,063,983
Financial liabilities:				
Derivative financial liabilities	–	21,540	–	21,540
2008-12-31				
Financial assets:				
Financial assets at fair value through profit or loss	–	41,441	–	41,441
Derivative financial assets	–	290,751	–	290,751
Available-for-sale financial assets	57,659	48,601,709	–	48,659,368
Total	57,659	48,933,901	–	48,991,560
Financial liabilities:				
Financial liabilities at fair value through profit or loss	–	39,420	–	39,420
Derivative financial liabilities	–	58,598	–	58,598
Total	–	98,018	–	98,018

	Quoted market price ("Level 1") *RMB'000*	Valuation techniques – market observable inputs ("Level 2") *RMB'000*	Valuation techniques – non-market observable inputs ("Level 3") *RMB'000*	Total *RMB'000*
2007-12-31				
Financial assets:				
Financial assets at fair value through profit or loss	–	1,477,625	–	1,477,625
Derivative financial assets	–	291,816	–	291,816
Available-for-sale financial assets	134,617	17,640,952	–	17,775,569
Total	134,617	19,410,393	–	19,545,010
Financial liabilities:				
Financial liabilities at fair value through profit or loss	–	1,246,657	–	1,246,657
Derivative financial liabilities	–	255,173	–	255,173
Total	–	1,501,830	–	1,501,830

During Jan-Jun 2010, there were transfers of available-for-sale equity investments amounting to RMB1 million (2009: RMB10 million) from Level 2 to Level 1 fair value measurements as the related tradable shares became unrestricted during the period.

45. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

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

Name	Place of registration	Percentage of equity interest held 2010-6-30 *RMB'000*	2009-12-31 *RMB'000*	2008-12-31 *RMB'000*	2007-12-31 *RMB'000*
Ping An Insurance (Group) Company of China, Ltd.	Shenzhen, PRC	14.96%	Not applicable	Not applicable	Not applicable
Ping An Life Insurance Company of China, Ltd.	Shenzhen, PRC	15.03%	Not applicable	Not applicable	Not applicable
Newbridge Asia AIV III, L.P.	Delaware, USA	Not applicable	16.76%	16.76%	16.76%

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

Newbridge Asia AIV III, L.P. is an investment fund whose register form is a limited partnership and its registered capital is USD724 million. It focuses on strategic investment. It was established on 22 June 2000 and its initial existing period is 10 years. The ultimate controlling parties of Newbridge Asia AIV III, L.P. are Mr. David Bonderman, Mr. James G. Coulter and Mr. Richard C. Blum.

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

Outstanding balances at the period/year end	**2010-6-30**	**2009-12-31**
	RMB'000	*RMB'000*
Amounts due to other financial institutions	147,289	259,172
Customer deposits	808,842	500,000
Credit limit of factoring	300,000	–
Interbank credit limit	1,000,000	–

Transactions during the period	**Jan-Jun 2010**	**Jan-Jun 2009**
	RMB'000	*RMB'000*
Agency business fee income	4,120	Not applicable
Custodian services fee income	328	Not applicable
Interest expenses on amounts due to other financial institutions	949	Not applicable
Interest expenses on customer deposits	7,324	Not applicable
Insurance premium expenses	99	Not applicable

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

The Company signed a conditional share placement agreement with Ping An Insurance (Group) Company of China, Ltd. (the "Ping An of China") on 1 September 2010. Such agreement was approved by the Board of Directors of the Company on 1 September 2010. Furthermore, on 14 September 2010, the Company signed a supplementary agreement relating to the conditional share placement agreement dated 1 September 2010. In accordance with the above agreements, the acquisition cost of Ping An of China for the share placement of approximately 1.638 billion shares of the Company includes the holding of 7,825,181,106 shares of PAB (representing approximately 90.75% of total share capital of PAB) and RMB2.690 billion cash which is equivalent to 9.25% of the share capital of PAB. There are several conditions that need to be satisfied prior to the completion of the business combination. Such conditions include but not limiting to the shareholders' approval of both the Company and Ping An of China, as well as the approval from CSRC and other relevant regulators.

In respect of the above transaction, the valuation of the acquiree, PAB, amounted to RMB29.08 billion as at 30 June 2010, representing about 142.07% of the net assets of the Company as at 31 December 2009. According to the "Measures for the administration of material asset restructuring of listed companies", the transaction was regarded as material restructuring of a listed company.

Apart from the above related party transactions, there are other transactions with the subsidiaries of Ping An of China as stated in Note 23 and Note 34.

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

Loans	**Jan-Jun 2010** *RMB'000*	**Jan-Jun 2009** *RMB'000* (Unaudited)	**2009** *RMB'000*	**2008** *RMB'000*	**2007** *RMB'000*
Balance at beginning of the period/year	455	543	543	712	–
Increase during the period/year	–	–	–	–	800
Decrease during the period/year	(44)	(44)	(88)	(169)	(88)
Balance at end of the period/year	411	499	455	543	712
Interest income on loans	5	5	9	9	20

At 30 June 2010, the annual interest rates of these loan transactions ranged from 1.62% to 1.8%.

Deposits	**Jan-Jun 2010** *RMB'000*	**Jan-Jun 2009** *RMB'000* (Unaudited)	**2009** *RMB'000*	**2008** *RMB'000*	**2007** *RMB'000*
Balance at beginning of the period/year	12,271	7,425	7,425	18,616	10,786
Increase during the period/year	220,636	88,280	199,840	116,066	89,627
Decrease during the period/year	(202,095)	(86,018)	(194,994)	(127,257)	(81,797)
Balance at end of the period/year	30,812	9,687	12,271	7,425	18,616
Interest expense on deposits	151	31	48	40	29

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

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

	Jan-Jun 2010 *RMB'000*	**Jan-Jun 2009** *RMB'000* (Unaudited)	**2009** *RMB'000*	**2008** *RMB'000*	**2007** *RMB'000*
Salaries and other short term employee benefits	28,839	22,090	48,242	43,071	70,156
Post-employment benefits	270	241	759	665	556
Other long term employee benefits	–	–	18,798	19,119	–
Termination benefits	5,105	–	–	–	–
Deferred bonus accrual *(Note)*	(126)	5,508	15,527	9,765	6,278
Total	34,088	27,839	83,326	72,620	76,990

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.

As at 30 June 2010, the Company has authorised a total credit facility of RMB1.592 billion (31 December 2009: RMB1.732 billion; 31 December 2008: RMB2.602 billion; 31 December 2007: RMB2.772 billion) for entities relating to the key management personnel of the Company and the associate companies, which included an outstanding loan balance amounting to RMB RMB0.639 billion (31 December 2009: RMB0.605 billion; 31 December 2008: RMB1.089 billion; 31 December 2007: RMB1.19 billion) and an outstanding facility of the off-balance sheet items amounting to RMB360 thousand (31 December 2009: RMB0.076 billion; 31 December 2008: RMB0.267 billion; 31 December 2007: RMB0.39 billion).

46. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company have been made up in respect of any period subsequent to 30 June 2010.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION

(i) Basis of preparation of the unaudited pro forma statement of assets and liabilities of the Enlarged Group

To provide additional financial information, the unaudited pro forma statement of assets and liabilities (the "Unaudited Pro Forma Financial Information") of the Enlarged Group (being the Group together with SDB) as at 30 June 2010 has been prepared based on:

(a) the unaudited consolidated statement of financial position of the Group as at 30 June 2010 which has been extracted from the interim report of the Company for the six months ended 30 June 2010;

(b) the audited statement of financial position of SDB as at 30 June 2010 which has been extracted from Appendix II to this circular; and

(c) after taking into account of the unaudited pro forma adjustments as described in the notes thereto, to demonstrate how the proposed acquisition of the additional 22.39% equity interests in SDB might have affected the historical financial information in respect of the Group as if the acquisition had taken place on 30 June 2010.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information contained in this circular and the Accountants' Report on SDB set out in Appendix II to this circular.

The Unaudited Pro Forma Financial Information of the Enlarged Group is for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 June 2010 or at any future date.

(ii) Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group as if the acquisition had been completed on 30 June 2010

(In RMB million)	The Group as at 30 June 2010	SDB as at 30 June 2010	Unaudited pro forma adjustments in connection with major transaction (1)	(2)	Unaudited pro forma Enlarged Group as at 30 June 2010
Assets					
Balances with central bank and statutory deposits	30,964	60,712	–	–	91,676
Cash and amounts due from banks and other financial institutions	161,798	14,957	–	–	176,755
Fixed maturity investments	507,230	161,458	–	–	668,688
Equity investments	62,780	116	–	–	62,896
Derivative financial assets	6	202	–	–	208
Loans and advances to customers	122,398	368,488	–	–	490,886
Investments in subsidiaries	–	–	19,014	(19,014)	–
Investments in associates and joint ventures	38,386	299	(25,814)	–	12,871
Premium receivables	5,784	–	–	–	5,784
Accounts receivable	–	9,870	–	–	9,870
Reinsurers' share of insurance liabilities	6,346	–	–	–	6,346
Policyholder account assets in respect of insurance contracts	37,620	–	–	–	37,620
Policyholder account assets in respect of investment contracts	4,055	–	–	–	4,055
Investment properties	6,677	550	–	–	7,227
Property and equipment	9,576	2,488	–	–	12,064
Intangible assets	9,794	160	–	11,034	20,988
Deferred tax assets	6,895	1,768	–	–	8,663
Other assets	22,599	3,330	–	–	25,929
Total assets	1,032,908	624,398	(6,800)	(7,980)	1,642,526

(In RMB million)	The Group as at 30 June 2010	SDB as at 30 June 2010	Unaudited pro forma adjustments in connection with major transaction (1)	(2)	Unaudited pro forma Enlarged Group as at 30 June 2010
Equity and liabilities					
Equity					
Share capital	7,644	3,485	–	(3,485)	7,644
Reserves	74,976	19,517	–	(19,517)	74,976
Retained profits	22,491	7,419	(6,800)	(7,419)	15,691
Equity attributable to owners of the parent	105,111	30,421	(6,800)	(30,421)	98,311
Non-controlling interests	4,784	–	–	22,441	27,225
Total equity	109,895	30,421	(6,800)	(7,980)	125,536
Liabilities					
Due to banks and other financial institutions	38,553	54,322	–	–	92,875
Assets sold under agreements to repurchase	57,905	15,302	–	–	73,207
Derivative financial liabilities	12	157	–	–	169
Customer deposits and payables to brokerage customers	159,584	505,988	–	–	665,572
Insurance payables	17,039	–	–	–	17,039
Insurance contract liabilities	579,511	–	–	–	579,511
Investment contract liabilities for policyholders	27,307	–	–	–	27,307
Policyholder dividend payable	17,338	–	–	–	17,338
Income tax payable	1,014	263	–	–	1,277
Bonds payable	7,517	9,466	–	–	16,983
Deferred tax liabilities	734	102	–	–	836
Other liabilities	16,499	8,377	–	–	24,876
Total liabilities	923,013	593,977	–	–	1,516,990
Total equity and liabilities	1,032,908	624,398	(6,800)	(7,980)	1,642,526

(iii) Notes to unaudited pro forma financial information

(a) The Group holds 29.99% equity interest in SDB as of 30 June 2010. Pursuant to a Share Subscription Agreement and its Supplemental Agreement dated 1 September 2010 and 14 September 2010, respectively, entered into between the Company and SDB, the Company agreed to transfer 90.75% equity interest in Ping An Bank Co., Ltd. ("PAB") and cash of RMB2,690 million to SDB, who will issue 1,638 million shares to the Company as consideration. Upon the completion of the proposed acquisition (the "Acquisition"), the Group would have further acquired an additional 22.39% equity interest in SDB and the Group's equity interest in SDB would have increased to 52.38%.

The Acquisition by the Company is assumed to have been completed on 30 June 2010.

(b) The pro forma adjustments represent:

(1) Adjustment to remeasure the Group's previously held 29.99% equity interest in SDB at acquisition-date fair value and to recognize the resulting loss in the income statement. Such accounting treatment is required by *IFRS 3 Business Combinations (as amended in 2008)* for business combinations achieved in stages. For this purpose, RMB18.19 per share which is the closing price of SDB shares as of 2 September 2010 when the Acquisition was announced is used as an estimate of the acquisition-date fair value of the Group's previously held 29.99% equity interests in SDB.

As the acquisition-date fair value of the Group's previously held 29.99% equity interest in SDB may be substantially different from the amount applied in the Unaudited Pro Forma Financial Information, the actual profit or loss arising from remeasuring the Group's previously held 29.99% equity interest in SDB at acquisition-date fair value may be different from the loss calculated as shown above.

(2) Adjustment to account for the Acquisition and to eliminate the Group's entire equity interest in SDB upon completion of the Acquisition which is assumed to be as of 30 June 2010.

(c) The calculation of the goodwill arising from the Acquisition is as follows:

	RMB million
Acquisition-date fair value of the Group's 29.99% equity interest in SDB	19,014
90.75% of net assets of PAB as of 30 June 2010	14,012
Cash consideration	2,690
Total consideration	35,716
Fair value of identifiable net assets of SDB as of 30 June 2010	30,421
New share capital to be obtained by the Company through transfer of 90.75% of net assets of PAB	14,012
New share capital to be paid by the Company in cash	2,690
Total identifiable net assets of SDB upon completion of the Acquisition	47,123
52.38% of the identifiable net assets of SDB acquired	24,682
Goodwill	11,034

The goodwill is calculated on the assumptions that:

(i) the acquisition-date fair value of SDB shares is RMB18.19 per share which is the closing price as of 2 September 2010 when the Acquisition was announced; and

(ii) the acquisition-date fair value of the identifiable net assets of SDB approximates their carrying amounts as of 30 June 2010 since the Acquisition is assumed to have been completed by 30 June 2010.

As the acquisition-date fair value of the Group's previously held 29.99% equity interest in SDB and the acquisition-date fair value of the identifiable net assets of SDB may be substantially different from the amount applied in the Unaudited Pro Forma Financial Information, the actual goodwill arising from the Acquisition may be different from the goodwill calculated as shown above.

(d) The reorganization expenses attributable to the Acquisition have not been accounted for in the preparation of the Unaudited Pro Forma Financial Information as such expenses cannot be reliably estimated at this stage.

(B) ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong:

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30 September 2010

The Directors
Ping An Insurance (Group) Company of China, Ltd.

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the "Unaudited Pro Forma Financial Information") of Ping An Insurance (Group) Company of China, Ltd. (the "Company") and its subsidiaries (collectively the "Group") and Shenzhen Development Bank Co., Ltd. ("SDB", together with the Group hereinafter collectively referred to as the "Enlarged Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of an additional 22.39% of equity interest in SDB by the Company might have affected the historical financial information in respect of the Group for inclusion as Appendix III to the circular dated 30 September 2010 (the "Circular") issued by the Company. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix III to the Circular.

Respective responsibilities of the directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guidelines 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any report previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumption of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of:

- the Enlarged Group had the transaction actually occurred as at the date indicated therein; or

- the Enlarged Group at any future date.

Opinion

In our opinion:

(a) the accompanying Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Ernst & Young
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL INFORMATION OF SDB

The following is the management discussion and analysis of the financial information of SDB for the three years ended 2009, 2008 and 2007, respectively and the six months ended 30 June 2010.

* In this section, the total amount may differ from the direct sum of each item or some of the percentage indicators may differ from the outcome directly calculated from the relevant values as a result of round off differences.

(a) Income statement analysis

Operating results

In RMB million

Item	1H2010	2009	2008	2007
Operating income	8,522	15,128	14,480	10,857
Operating expense	4,197	7,380	6,376	5,032
Operating profit before provision	4,325	7,747	8,104	5,826
Operating profit	3,831	6,172	770	3,772
Net profit	3,033	5,031	614	2,650

From 2009 to the first half of 2010, due to the lagged impact of a series of interest cuts by PBOC in 2008, the banking industry experienced substantial interest spread squeeze; meanwhile the macro economic environment posed a challenge to the business performance of the whole banking industry. Through good management of assets and liabilities volume, structure, and pricing, SDB effectively diminished the extent caused by the narrowing net interest margin. Combined with solid volume growth and increases in fee-based income, SDB realized operating income of RMB8.522 billion in the first half of 2010 and RMB15.128 billion in 2009, up by 4.5% from RMB14.480 billion in 2008, which increased by 33.4% from RMB10.857 billion in 2007. Pre-provision operating profit was RMB4.325 billion in the first half of 2010 and RMB7.747 billion in 2009, down by 4.4% from RMB8.104 billion in 2008 due to continuous investments and outlays made to improve operations and grow business which resulted in increases in operating cost and special expenditures incurred in 2009. Omitting the impact of special payment items, pre-provision operating profit slightly increased compared with that in the same period in 2008. The pre-provision operating profit in 2008 increased by 39.1% from RMB5.826 billion in 2007. Net profit of SDB was RMB3.033 billion in the first half of 2010 and RMB5.031 billion in 2009, an increase of 719.3% from RMB614 million in 2008, 2008 operating profit decreased by 76.8% from RMB2.650 billion in 2007 largely due to the massive provision and write-offs made by SDB in the fourth quarter of 2008. Currently SDB has stable asset quality and level of credit provision is back to normal.

Operating Income

The following table sets out the breakdown of SDB's operating income for the last three years and the stub period:

In RMB million; %

Item	1H2010	As % of total operating income	2009	As % of total operating income	2008	As % of total operating income	2007	As % of total operating income
Net interest income	7,409	86.94	12,984	85.83	12,598	87.00	9,606	88.47
Net fee and commission income	750	8.80	1,181	7.81	851	5.88	521	4.80
Other net operating income	363	4.26	963	6.36	1,031	7.12	730	6.73
Total operating income	8,522	100.00	15,128	100.00	14,480	100.00	10,857	100.00

Net interest income

Net interest income has traditionally been the largest contributor and accounted for 86.9%, 85.8%, 87.0% and 88.5% of SDB's operating income for the six months ended 30 June 2010 and for the years ended 31 December 2009, 31 December 2008 and 31 December 2007, respectively.

Net interest income of SDB was RMB7.409 billion in the first half of 2010 and RMB12.984 billion in 2009, up by 3.1% from RMB12.598 billion in 2008. This was mainly attributable to the growth of average balance of interest-earning assets, which increased by 31.2% from RMB9.606 billion in 2007, mainly driven by the growth of interest income from loans and debt securities. Compared with 2008, the growth of net interest income in 2009 slowed down as a result of the interest cuts and narrower deposit-loan spread, causing a negative effect on the growth of net interest income.

Net fee income

Net fee and commission income of SDB can be broken down into the fee income of settlement, fee income of wealth management business, fee income of credit cards, consultation fee, fee income of trade finance and fee income of accounts management. For the six months ended 30 June 2010 and for the years ended 31 December 2009, 31

December 2008 and 31 December 2007, the net fee and commission income was RMB750 million, RMB1.181 billion, RMB851 million and RMB521 million, accounting for 8.8%, 7.8%, 5.9% and 4.8% of operating income, respectively. The net fee and commission income increased by 38.7% in 2009 over 2008 and 63.3% in 2008 over 2007, mainly driven by the growth of fee income from fee-based business.

Net other operating income

Net other operating income includes investment return, gains/losses from fair value changes of financial instruments and investment properties, foreign exchange gains/losses and other business income. SDB reported net other operating income of RMB363 million in the first half of 2010 and RMB963 million in 2009, down by 6.6% from RMB1.031 billion in 2008, mainly due to decrease in foreign exchange gain and gain/loss on fair value change of financial instruments in relation to market factors. In 2008, SDB's net other operating income increased by 41.1% from RMB730 million in 2007.

Operating Expense

Operating and management expense of SDB was RMB3.590 billion for the first half of 2010, RMB6.311 billion for 2009, RMB5.224 billion for 2008 and RMB4.207 billion for 2007, with the year-on-year growth largely due to costs incurred to expand the operating network, headcount and business volume growth as well as continuous investments made to improve management processes and the IT system.

The following table sets out the breakdown of SDB's operating and management expense for the last 3 years and the stub period:

In RMB million

Item	**1H2010**	**2009**	**2008**	**2007**
Labor cost	1,887	3,348	2,685	2,130
General & administrative expenses	1,186	2,052	1,823	1,443
Depreciation and amortization	517	911	716	634
Total	3,590	6,311	5,224	4,207
Cost to income ratio	42.26%	41.76%	35.99%	38.93%

Note: Certain expenses for the years 2007, 2008 and 2009 have been reclassified to facilitate comparison with expense classification as presented in 2010. However, such adjustment has no impact on the total expenses.

Business tax and surcharge of SDB was RMB607 million for the first half of 2010, RMB1.069 billion for 2009, RMB1.151 billion for 2008 and RMB824 million for 2007. The effective income tax rate was 21.7% for the first half of 2010 and 18.7% for 2009, the lower tax rate for 2009 by 3.8 percentage points from 2008 was the result of change of tax collection and payment method in 2008 (the tax collection and payment in 2008 was done at the beginning of 2009 and showed effect in 2009). In 2008, the effective income tax rate was 22.5%, 7.2 percentage points down from the 29.7% in 2007, as a result of changes in state income tax policy and tax deductions available from the disposal of non-performing loans.

(b) Balance sheet analysis

Assets

As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, SDB's total assets were RMB624.398 billion, RMB587.811 billion, RMB474.440 billion and RMB352.539 billion, with a year-on-year growth of 6.2%, 23.9% and 34.6%, respectively.

The following table sets out the breakdown of total assets for the last three years and the stub period:

In RMB million; %

	30 June 2010		31 December 2009		31 December 2008		31 December 2007	
Assets	Amount	As % of total assets	Amount	As % of total assets	Amount	As % of total assets	Amount	As % of total assets
Net loans and advances	368,488	59.01	355,563	60.49	281,715	59.38	215,012	60.99
Investments[1]	107,114	17.15	103,438	17.60	78,668	16.58	49,074	13.92
Cash on hand and due from the Central Bank	61,505	9.85	54,244	9.23	39,768	8.38	40,726	11.55
Net placements of deposits with and funds loaned to other financial institutions	14,164	2.27	20,954	3.56	30,737	6.48	6,656	1.89
Net reverse repurchase agreements	54,962	8.80	40,923	6.96	34,733	7.32	33,769	9.58
Others[2]	18,166	2.91	12,690	2.16	8,819	1.86	7,302	2.07
Total assets	624,398	100	587,811	100	474,440	100	352,539	100

Note:

(1) including financial assets at fair value through profit or loss, receivables investments, available-for-sale financial assets, held-to-maturity investments, investments in associates and derivative financial assets;

(2) data from 2007 onward including precious metal, accounts receivable, interest receivable, investment properties, property and equipment, intangible assets, deferred tax assets and other assets.

Loans and advances

SDB offers diversified loan products to the customers through its branch network. As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, net loans and advances after deducting loan impairment provisions were RMB368.488 billion, RMB355.563 billion, RMB281.715 billion and RMB215.012 billion, accounting for 59.0%, 60.5%, 59.4% and 61.0% of total assets respectively.

The following table sets out the breakdown of SDB's loans and advances by product type for the last three years and the stub period:

In RMB million; %

	30 June 2010		31 December 2009		31 December 2008		31 December 2007	
Item	Amount	As % of total loans and advances	Amount	As % of total loans and advances	Amount	As % of total loans and advances	Amount	As % of total loans and advances
Corporate loans	265,234	70.99	261,879	72.84	209,835	73.95	157,493	71.25
Retail loans	108,391	29.01	97,638	27.16	73,906	26.05	63,543	28.75
Total loans and advances	373,625	100	359,517	100	283,741	100	221,036	100

Corporate loans constitute the most important part of SDB's loan portfolio. As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, corporate loans accounted for 71.0%, 72.8%, 74.0% and 71.3% of total loans and advances, respectively, with a generally stable mix of corporate and retail loans. As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, corporate loans of SDB were RMB265.234 billion, RMB261.879 billion, RMB209.835 billion and RMB157.493 billion, respectively, with a year-on-year growth of 1.3%, 24.8% and 33.2%. The continuous growth in corporate loans is primarily driven by the swift recovery of the Chinese economy, which provided a favourable environment for SDB's loan business growth.

Retail loans also showed a steady growth. As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, retail loans of the bank were RMB108.391 billion, RMB97.638 billion, RMB73.906 billion and RMB63.543 billion, with a year-on-year growth of 11.0%, 32.1% and 16.3%, respectively. In 2009, SDB reviewed the retail development process of the past five years, and clearly defined the strategic goal for the next five years. SDB initiated the retail banking development strategy focusing on "product, service, convenience", and set and implemented a series of strategic actions and infrastructure building work which has achieved good result at the current stage.

Asset quality of loans and advances

The following table sets out the breakdown of SDB's loans by five-tier classification for the last three years and the stub period:

In RMB million; %

	30 June 2010		31 December 2009		31 December 2008		31 December 2007	
Item	**Amount**	**As % of total loans and advances**	**Amount**	**As % of total loans and advances**	**Amount**	**As % of total loans and advances**	**Amount**	**As % of total loans and advances**
Normal	370,404	99.14	355,717	98.94	278,120	98.02	206,551	93.45
Special mention	929	0.25	1,356	0.38	3,694	1.3	2,009	0.91
Substandard	1,294	0.35	1,474	0.41	1,928	0.68	7,370	3.33
Doubtful	601	0.16	529	0.15	–	–	4,506	2.04
Loss	398	0.11	441	0.12	–	–	600	0.27
Total loans and advances	373,625	100	359,517	100	283,741	100	221,036	100
Total NPLs	2,292	–	2,444	–	1,928	–	12,475	–
NPL ratio (regulatory measurement) (%)	0.61	–	0.68	–	0.68	–	5.64	–
Provision coverage ratio (%)	224.09	–	161.84	–	105.14	–	48.28	–

As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, SDB's NPL balance totalled RMB2.292 billion, RMB2.444 billion, RMB1.928 billion and RMB12.475 billion, with a NPL ratio of 0.61%, 0.68%, 0.68% and 5.64%, respectively. With the continuous growth in total loans, overall asset quality of SDB's loan portfolio kept improving, bringing down the NPL ratio to a lower level.

Investments

SDB's investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, derivative financial assets, receivables investments and investments in associates.

The following table sets out the breakdown of SDB's investment portfolio by investment purpose for the last three years and the stub period:

In RMB million; %

Item	30 June 2010 Amount	30 June 2010 As % of total investments	31 December 2009 Amount	31 December 2009 As % of total investments	31 December 2008 Amount	31 December 2008 As % of total investments	31 December 2007 Amount	31 December 2007 As % of total investments
Financial assets at fair value through profit or loss	543	0.51	1,132	1.09	41	0.05	1,478	3.01
Derivative financial assets	202	0.19	100	0.10	291	0.37	292	0.60
Available-for-sale financial assets	40,981	38.26	36,937	35.71	48,797	62.03	18,028	36.74
Held-to-maturity investments	37,496	35.01	34,554	33.41	15,509	19.71	15,827	32.25
Receivables investments	27,592	25.76	30,427	29.42	13,750	17.48	13,450	27.41
Investments in associates	299	0.28	287	0.28	280	0.36	–	–
Total	107,114	100	103,438	100	78,668	100	49,074	100

As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, SDB's investments totalled RMB107.114 billion, RMB103.438 billion, RMB78.668 billion and RMB49.074 billion, with a year-on-year growth of 3.6%, 31.5% and 60.3%, respectively. From the second half of 2008 to the first half of 2010, SDB under the direction of monetary policy and changes in financial market conditions adjusted its use of funds.

Other items of assets

Other items of assets include cash on hand and due from the Central Bank, placements of deposits with and funds lent to other financial institutions, reverse repurchase agreements and other assets, which include precious metal, accounts receivable, investment properties, property and equipment, intangible assets, deferred tax assets and other assets. From 2007 to date, other items of assets have remained stable as a percentage of total assets.

As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, SDB's cash on hand and due from the Central Bank was RMB61.505 billion, RMB54.244 billion, RMB39.768 billion and RMB40.726 billion, accounting for 9.9%, 9.2%, 8.4% and 11.6% of total assets, respectively.

As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, SDB's net placements of deposits with and funds loaned to other financial institutions were RMB14.164 billion, RMB20.954 billion, RMB30.737 billion and RMB6.656 billion, accounting for 2.3%, 3.6%, 6.5% and 1.9% of total assets, respectively.

As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, SDB's net reverse repurchase agreements were RMB54.962 billion, RMB40.923 billion, RMB34.733 billion and RMB33.769 billion, accounting for 8.8%, 7.0%, 7.3% and 9.6% of total assets, respectively.

As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, SDB's other assets were RMB18.166 billion, RMB12.690 billion, RMB8.819 billion and RMB7.302 billion, accounting for 2.9%, 2.2%, 1.9% and 2.1% of total assets, respectively.

Liabilities

As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, SDB's liabilities were RMB593.977 billion, RMB567.341 billion, RMB458.039 billion and RMB339.533 billion, with a year-on-year increase of 4.7%, 23.9% and 34.9%, respectively.

The following table sets out the breakdown of total liabilities for the last three years and the stub period:

In RMB million; %

	30 June 2010		31 December 2009		31 December 2008		31 December 2007	
Item	Amount	As % of total liabilities	Amount	As % of total liabilities	Amount	As % of total liabilities	Amount	As % of total liabilities
Customer deposits	505,988	85.19	454,635	80.13	360,514	78.71	281,277	82.84
Placements of deposits from other financial institutions	48,140	8.10	74,140	13.07	36,063	7.87	32,389	9.54
Other liabilities[(1)]	39,849	6.71	38,566	6.8	61,462	13.42	25,867	7.62
Total liabilities	593,977	100	567,341	100	458,039	100	339,533	100

Note:

(1) other assets from 2007 to 2009 include funds borrowed from other financial institutions, financial liabilities at fair value through profit or loss, derivative financial liabilities, repurchase agreements, employee benefits payable, tax payable, accounts payable, interest payable, bonds payable, contingent liabilities, deferred tax liabilities and other liabilities.

Customer deposits

As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, SDB's customer deposits were RMB505.988 billion, RMB454.635 billion, RMB360.514 billion and RMB281.277 billion, accounting for 85.2%, 80.1%, 78.7% and 82.8% of total liabilities, respectively with a year-on-year growth of 11.3%, 26.1% and 28.2%. During the last three years and the stub period, SDB's deposits remained generally stable in composition and maintained a steady growth in size, mainly driven by sufficient market liquidity and SDB's active efforts to expand deposit business and funding sources.

Placements of deposits from other financial institutions

In RMB million; %

	30 June 2010		31 December 2009		31 December 2008		31 December 2007	
Item	**Amount**	**As % of total**	**Amount**	**As % of total**	**Amount**	**As % of total**	**Amount**	**As % of total**
Domestic banks	29,053	60.35	53,708	72.44	22,881	63.45	16,789	51.84
Domestic non-bank financial institutions	19,087	39.65	20,431	27.56	13,182	36.55	15,600	48.16
Total	48,140	100	74,140	100	36,063	100	32,389	100

As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, SDB's placements of deposits from other financial institutions were RMB48.140 billion, RMB74.139 billion, RMB36.063 billion and RMB32.389 billion, accounting for 8.1%, 13.1%, 7.9% and 9.5% of total liabilities, respectively. From 2007 to 2009, changes in the placements of deposits from other financial institutions were associated with SDB's enhanced efforts to absorb deposits from other financial institutions, driven by the needs of business growth.

Other items of liabilities

Other items of liabilities include funds borrowed from other financial institutions, financial liabilities at fair value through profit or loss, derivative financial liabilities, repurchase agreements, employee benefits payable, tax payable, accounts payable, bonds payable, contingent liabilities, deferred tax liabilities and other liabilities. As at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007, SDB's other liabilities were RMB39.849 billion, RMB38.566 billion, RMB61.462 billion and RMB25.867 billion. The significant decrease in other liabilities in 2009 was mainly due to repurchase arrangements entered into by SDB while the significant increase in 2008 was mainly driven by the increase in bonds payable, repurchase agreements and interest payable.

(c) Capital resources

Shareholders' equity

Shareholders' equity of SDB increased from RMB13.006 billion as at 31 December 2007 to RMB16.401 billion as at 31 December 2008, and from RMB20.470 billion as at 31 December 2009 to RMB30.421 billion as at 30 June 2010, which resulted mainly from the increases in retained earnings and capital increases in the first half of 2010 through issuance of shares and in 2007 through issuance of warrants.

Capital adequacy ratio

SDB calculated the core capital and supplementary capital 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 and unappropriated profit. The supplementary capital includes revaluation surplus, general reserve, long term subordinated bonds and hybrid capital debt instrument. As at 30 June 2010, SDB's capital adequacy ratio and core capital adequacy ratio was 10.4% and 7.2%, both in compliance with regulatory requirements. From 2007 to the first half of 2010, SDB expanded its capital base and improved capital adequacy ratio through issuance of shares, warrants and bonds to enhance its risk resistance capability.

Issuance of shares and warrants

On 28 June 2010, SDB issued 379,580,000 SDB Shares to Ping An Life at a price of RMB18.26 per SDB Share for a total of RMB6,931,130,000. Net proceeds after deducting issuance fees were fully used to enhance SDB's core capital and improve capital adequacy ratio. As at 30 June 2010, SDB's total share capital post the issuance was enlarged to RMB3,485,014,000.

On 15 October 2008, pursuant to the resolution approved by the 2008 1st Extraordinary Shareholders' Meeting, SDB rendered 3 SDB Shares for every 10 SDB Shares based on the total equity of 2,388,795,000 SDB Shares before the distribution, which resulted in an increase of 716,639,000 shares. As at 31 October 2008, SDB's total share capital post the distribution was enlarged to RMB3,105,434,000.

On 8 June 2007, pursuant to the resolution of the 2007 1st Extraordinary Shareholders' Meeting and relevant shareholder meetings, SDB issued 104,337,917 12-month Bermuda warrants ("SFC 2 Warrant") to the shareholders registered in the shareholders' register on the registration date of warrant issue for free. Each shareholder obtained 0.5 warrants for every 10 SDB Shares. Each warrant could be used to purchase one SDB Share, at an exercise price of RMB 19 for each SDB Share. Up to the last trading date for SFC 2 Warrant on 27 June 2008, there were 95,388,057 SFC 2 Warrant exercised in total, increasing the share capital of SDB by RMB 95,388,000 to RMB2,388,795,000.

On 8 June 2007, pursuant to the resolution of the 2007 1st Extraordinary Shareholders' Meeting and relevant shareholder meetings, SDB rendered 1 SDB Share for every 10 SDB Shares held by public shareholders based on the total public float of 1,409,362,000 SDB Shares, which resulted in an increase of 140,936,000 SDB Shares. As at 30 June 2007, SDB's total share capital post the distribution was enlarged to RMB2,086,758,000.

Issuance of bonds

On 26 May 2009, SDB issued hybrid capital bonds of RMB1.5 billion on the interbank bond market to further supplement tier-2 capital. SDB is entitled to full redemption rights on face value at the end of the 10th year, i.e. 26 May 2019. The bonds are payable at a fixed rate per annum, with a step-up feature under which the coupon rate is 5.70% for the first 10 interest-counting years from 26 December 2008 and subject to a step up of 3% based on the initial coupon rate from the 11th interest-counting year onward if the redemption rights are not exercised.

SDB issued three sets of subordinated bonds with a total amount of RMB8 billion on 21 March 2008 and 28 October 2008 to further supplement tier-2 capital. 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 duration 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 SHIBOR3M+1.40% for the floating-rate bonds. If SDB does not exercise the call option at the end of the 6th year, both the fixed and floating coupon rates will increase by 3%.

(d) Operating segment information

For management purposes, SDB is organised into operating segments based on the internal organisation structure, management requirements and internal reporting, specifically corporate banking, retail banking, interbank business and others. Please refer to the Notes to the Financial Statements as of 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007 prepared under the IFRS included in Appendix II hereunder for detailed operating segment information.

(e) Liquidity

Liquidity risk is the risk that SDB will be unable to meet its payment obligations when they fall due. The risk is attributable to any mismatch in amounts and terms between assets and liabilities. To limit this risk, management has arranged diversified funding sources, and monitors loans and deposit balances on a daily basis. SDB also maintains a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flows. Furthermore, SDB performs stress testing regularly to assess and identify the actions that can meet the payment obligations under different critical scenarios. The following table sets out relevant indices of SDB as of 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007:

Item		Index standard	30 June 2010		31 December 2009		31 December 2008		31 December 2007	
%			Year-end	Monthly average	Year-end	Monthly average	Year-end	Monthly average	Year-end	Monthly average
Liquidity ratio	RMB	≥25	44.79	43.59	38.59	27.81	41.50	41.90	39.33	41.85
	Foreign currency	≥25	43.71	48.64	54.02	52.69	49.68	60.75	42.21	57.24
Loan to deposit ratio (discount inclusive)	Local and foreign currencies	≤75	73.88	77.85	79.14	81.55	79.08	76.83	78.60	–

(f) Interest rate risk and exchange rate risk

The principal market risk SDB faces comes from risks in interest rate and exchange rate. Since October 2007, PBOC has tightened its macro control by a combination of adjustments in deposit and lending rates and deposit reserve ratio, open market operation and window guidance. The narrowed interest spread had a negative effect on SDB's profitability. On the exchange rate front, more flexible RMB exchange rate heightens the exchange rate risk SDB faces, with a definite hidden danger of liquidity risk in foreign exchange in the medium to long term. SDB mainly uses limit management, sensitivity analysis of interest rate and stress test to regularly measure and monitor the market risk.

Interest rate risk

SDB'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 SDB are mainly denominated in RMB. SDB uses sensitivity analysis to measure the possible effect of a change in interest rates on its net interest income and equity. The following table sets out the results of gap analysis based on the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) as at 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007:

In RMB million

	30 June 2010 Changes in interest rate (basis point)		31 December 2009 Changes in interest rate (basis point)		31 December 2008 Changes in interest rate (basis point)		31 December 2007 Changes in interest rate (basis point)	
	–50	50	–100	+100	–100	+100	–100	+100
Effect on the net interest income increase/(decrease)	145.96	–145.96	529.53	–529.53	433.66	–433.66	356.00	–356.00
Effect on equity increase/(decrease)	125.64	–125.64	166.23	–166.23	649.17	–649.17	90.17	–90.17

Exchange rate risk

Exchange rate risk mainly includes risk of loss 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. The following table sets out the results of sensitivity analysis of exchange rate changes of the currencies to which SDB had significant exposure on its monetary assets and liabilities and its forecast cash flows as of 30 June 2010, 31 December 2009, 31 December 2008 and 31 December 2007:

In RMB million

	30 June 2010 Change in exchange rate in %		31 December 2009 Change in exchange rate in %		31 December 2008 Change in exchange rate in %		31 December 2007 Change in exchange rate in %	
	–2%	+2%	–3%	+3%	–1%	+1%	–8%	+8%
Effect on profit before tax increase/(decrease)								
USD	–23.14	23.14	–28.30	28.30	–0.28	0.28	2.99	–2.99
HKD	–0.29	0.29	–2.51	2.51	4.39	–4.39	–1.84	1.84

(g) External Investment of SDB

As at 30 June 2010, the details of SDB's external long-term equity investments are as follows:

No.	Name of investee	Shareholding percentage *(%)*	Source of shares	
1	China UnionPay Co., Ltd.	1.71	–	
2	SWIFT	0.03	–	
3	Gintian Industry (Group) Co., Ltd.	2.03	Historical investment	Historical investment; restricted circulating legal person shares previously but delisted afterwards
4	Hainan Pearl River Holdings Co., Ltd.	0.27	Historical investment	Non-circulating with lock-up restrictions
5	Hainan Wuzhou Travel Co., Ltd.	3.70	Historical investment	Non-circulating with lock-up restrictions
6	Meizhou Polyester (Group) Co.	0.41	Historical investment	Non-circulating with lock-up restrictions
7	Shenzhen Zoto Investment Co., Ltd.	4.10	Historical investment	Non-circulating with lock-up restrictions
8	Hainan Baiyunshan Co., Ltd.	0.91	Historical investment	Non-circulating with lock-up restrictions
9	Hainan Saige Co., Ltd.	0.56	Historical investment	Non-circulating with lock-up restrictions

No.	Name of investee	Shareholding percentage (%)	Source of shares	
10	Guangdong Sanxing Enterprises (Group) Co., Ltd.	0.05	Historical investment	Non-circulating with lock-up restrictions
11	Hainan Zhonghailian Real Estate Co., Ltd.	0.74	Historical investment	Non-circulating with lock-up restrictions
12	Shenzhen Jiafeng Textile Industrial Co., Ltd.	13.82	Historical investment	Non-circulating with lock-up restrictions
13	Yong An Property Insurance Co., Ltd.	4.03	Repossessed equities	Non-listed with ownership disputes
14	Wuhan Steel Electricity Co., Ltd.	3.37	Repossessed equities	Non-listed
15	Chengdu Gongtou Assets Management Co., Ltd.	33.20	Repossessed equities	Non-listed
16	Shandong Xinkaiyuan Real Estate Co., Ltd.	15.42	Repossessed equities	Non-listed

Pursuant to the requirements of the Commercial Banking Law, commercial banks shall not invest in non-banking financial institutions and enterprises. Accordingly, apart from investing in China UnionPay Co., Ltd. and SWIFT, the shareholdings of the above enterprises held by SDB do not comply with the requirements of the Commercial Banking Law. As explained by SDB, the foregoing 1-12 long-term equity investments are formed from the external investments of SDB before the promulgation of the Commercial Banking Law; whereas the 13-16 items are repossessed equities. SDB will actively accelerate the recognition of the above long-term equity investments in accordance with the relevant requirements.

Despite that SDB has external long-term equity investments that are not in compliance with the Commercial Banking Law, such external investments are historical investments or repossessed equities and SDB has adopted measures to gradually dispose of such external investments. Accordingly, such external investments will not have a material adverse effect on the major asset restructuring.

(h) Major Asset Restructuring

Since its establishment to the date of the Circular, SDB is not involved in any consolidation, sub-division and debt restructuring, nor any material acquisition and disposal of assets.

(i) Employees and Staff Remuneration

As at 30 June 2010, SDB had 15,449 employees in total (including temporary and contract workers), of which there were 11,357 full-time employees.

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 SDB.

Defined contribution plans

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

Supplementary retirement benefits

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

Share-based payment transactions

SDB 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 reporting date up to and including the settlement date, with changes in fair value recognised in the income statement.

	Balance at the beginning of the period/year	Increase during the period/year	Payment made during the period/year	Balance at the end of the period/year (Note 2)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Jan-Jun 2010				
Salaries, bonuses, allowances and subsidies	1,419,343	1,471,425	(1,774,025)	1,116,743
Including: Deferred bonus accrual *(Note 1)*	159,602	2,420	(47,218)	114,804
Social insurance, supplementary pension contributions and staff welfare	262,385	292,139	(263,204)	291,320
Housing funds	–	75,559	(75,559)	–
Labour union and training expenses	–	42,846	(35,907)	6,939
Others	–	5,092	(5,092)	–
Total	1,681,728	1,887,061	(2,153,787)	1,415,002
2009				
Salaries, bonuses, allowances and subsidies	1,000,417	2,507,090	(2,088,164)	1,419,343
Including: Deferred bonus accrual *(Note 1)*	108,200	91,334	(39,932)	159,602
Social insurance, supplementary pension contributions and staff welfare	247,003	641,287	(625,905)	262,385
Housing funds	–	121,418	(121,418)	–
Labour union and training expenses	–	73,380	(73,380)	–
Others	–	4,768	(4,768)	–
Total	1,247,420	3,347,943	(2,913,635)	1,681,728

	Balance at the beginning of the period/year *RMB'000*	Increase during the period/year *RMB'000*	Payment made during the period/year *RMB'000*	Balance at the end of the period/year (Note 2) *RMB'000*
2008				
Salaries, bonuses, allowances and subsidies	706,104	2,034,524	(1,740,211)	1,000,417
Including: Deferred bonus accrual *(Note 1)*	42,800	65,400	–	108,200
Social insurance, supplementary pension contributions and staff welfare	219,307	494,408	(466,712)	247,003
Housing funds	–	89,934	(89,934)	–
Labour union and training expenses	–	56,875	(56,875)	–
Others	–	9,362	(9,362)	–
Total	925,411	2,685,103	(2,363,094)	1,247,420
2007				
Salaries, bonuses, allowances and subsidies	453,633	1,599,861	(1,347,390)	706,104
Including: Deferred bonus accrual *(Note 1)*	9,000	33,800	–	42,800
Social insurance, supplementary pension contributions and staff welfare	160,995	364,568	(306,256)	219,307
Housing funds	–	69,842	(69,842)	–
Labour union and training expenses	–	54,177	(54,177)	–
Others	–	41,882	(41,882)	–
Total	614,628	2,130,330	(1,819,547)	925,411

Note 1: The amount of deferred bonus is determined based on the indicators of profitability, the share price and the capital adequacy ratio of SDB 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.

Note 2: As at 30 June 2010, included in the outstanding balances of employee benefits payable was an approximate amount of RMB1 billion (31 December 2009: RMB1.4 billion) that is expected to be settled in 12 months.

(j) Future Business Plans

In the future, SDB will continue to adopt the key strategies of "focusing on SMEs and trade finance" to provide strong support to the development of SMEs and capitalize on the existing network, customer base and human resources as well as management experience of the branches with a view to offering one-stop integrated financial services covering banking, insurance and asset management to SME customers in terms of products, channels, customers, branding and standard of services. In addition, SDB will accelerate the development of proprietary agencies and strengthen the assessment of SME business development to continuously enhance the strategic position of SDB's banking business in "focusing on SMEs".

In addition, SDB will continue to enhance the basis of operation in adherence to the principle of stable operation and enhance the risk management level by implementing credit portfolio management on different business structures. In pursuing development, it will also implement differentiated management on the customers; continue to strengthen the business advantages of focusing on SMEs and trade finance; further optimize credit structure; step up its efforts in enhancing the consolidated revenue from credit business to facilitate the continuous, steady and fast growth of SDB's credit business. It will develop and enhance its risk pricing ability to maintain a relatively high level of return; explore the potential of integrated return on assets; and increase revenue from intermediary business. It will strengthen liquidity management; enhance the sensitivity of liquidity risk monitoring and effectiveness of the corresponding measures. It will reinforce the compliance, audit and operational management functions to ensure the ongoing and sound compliance throughout the business operation.

Ping An Bank Co., Ltd.
Profit Forecast Report

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

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

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

Ping An Bank Co., Ltd.

13 September 2010

Ping An Bank Co., Ltd.

Profit Forecast Report for the Years of 2010 and 2011

I. BASIS OF PREPARATION AND BASIC ASSUMPTIONS

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

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

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

3. There will be no material changes in current prevailing inflation rates, interest rates and exchanges rates published by the Central Bank during the forecast period after the date on which this Profit Forecast was made.

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

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

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

II. FINANCIAL PLANS DURING THE FORECAST PERIOD

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

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

III. STATEMENT OF PROFIT FORECAST

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

Note: Business and administrative expenses include other operating costs.

The Profit Forecast Report as set out in page V-1 to page V-31 has been signed by the following persons:

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

IV. NOTES TO PROFIT FORECAST

1. GENERAL INFORMATION OF THE BANK

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

2.1 Accounting year

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

2.2 Reporting currency

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

2.3 Basis of accounting treatment and measurement

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

2.4 Foreign currency translation

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

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

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

2.5 Reverse repurchase and repurchase agreements

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

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

2.6 Financial assets

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

Financial assets at fair value through profit or loss

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

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

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

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

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

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

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

Held-to-maturity investments

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

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

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

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

Loans and receivables

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

Available-for-sale financial assets

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

2.7 Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Financial assets carried at cost

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

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

Available-for-sale financial assets

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

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

2.8 Financial liabilities

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

Financial guarantee contracts

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

Other financial liabilities

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

2.9 Derivative financial instruments

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

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

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

2.10 Long-term equity investments

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

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

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

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

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

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

On disposal of a long-term equity investment, the difference between the proceeds actually received and the carrying amount is recognized in the income statement. For long-term equity investment recognized using equity method, the portion originally recognized in equity shall be transferred to the income statement for the current period on a pro-rate basis upon disposal.

2.11 Investment properties

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

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

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

2.12 Fixed assets and depreciation

(i) Recognition of fixed assets

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

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

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

(ii) Measurement and depreciation of fixed assets

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

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

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

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

2.13 Intangible assets

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

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

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

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

2.14 Long-term deferred expenses

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

2.15 Repossessed assets

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

2.16 Impairment of assets

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

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

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

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

2.17 Revenue recognition

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

Interest income and interest expense

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

Fee and commission income

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

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

2.18 Income tax

Income tax comprises current tax and movements in deferred tax balances. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current income tax are computed based on the taxable income for the period, which comes from profit before tax less all allowable adjustments according to the tax law.

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

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

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

(i) The initial recognition of goodwill and assets or liabilities arising from the following transactions which are simultaneously featured by the following: the transaction is not a business combination; and at the time of the transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

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

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

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

On the balance sheet date, the deferred income tax assets and deferred income tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled and reflect the effect of the expected asset recovery or liability settlement method on the balance sheet date of the income taxes. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. When it is probable to obtain sufficient taxable income taxes, such a write-down amount shall be subsequently reversed.

2.19 Employee benefits

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

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

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

2.20 Accrued liability

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

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

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

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

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

2.21 Leases

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

2.22 Offsetting

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

2.23 Significant accounting judgements and estimates

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

(a) Designation of held-to-maturity investments

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

(b) Impairment losses of loans and advances

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

(c) Income tax

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

(d) Fair value of financial instruments

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

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

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

3. NOTES TO THE PROFIT FORECAST

3.1 Interest income and interest expenses

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

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

Note 1: The daily average balance for the period;

Note 2: The forecast average balance for the period;

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

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

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

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

3.1.1 *Interest income*

3.1.1.1 Loans and advances

1) Average balance

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

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

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

2) Yield of loans

Basis of loan yield forecasting

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

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

3.1.1.2 Bond investments

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

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

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

1) Average balance

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

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

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

2) Yields of bond investments

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

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

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

3.1.1.3 Amounts due from the Central Bank

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

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

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

1) Average balance

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

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

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

2) Average yield

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

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

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

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

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

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

1) Average balance

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

2) Yields

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

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

3.1.2 Interest expenses

3.1.2.1 Customer deposits

1) Average balances

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

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

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

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

2) Interest rate

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

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

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

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

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

In RMB million	2007 (actual)	2008 (actual)	2009 (actual)	1H 2010 (actual)	2010 (forecast)	2011 (forecast)	Changes (%) 2008 vs. 2007	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010
Closing balance	20,286	26,597	50,995	41,302	37,749	57,154	31%	92%	(26%)	51%
Average balance	9,902	21,229	34,537	53,650	51,815	54,657	114%	63%	50%	5%
Average interest rate	3.22%	3.04%	1.79%	1.93%	1.95%	1.90%	(0.18%)	(1.25%)	0.16%	(0.05%)
Interest expense	319	646	619	518	1,008	1,041	103%	(4%)	63%	3%

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

1) Average balance

Based on an analysis of historical data of the Bank for the past three years, the daily average balance of amounts due to and placements from banks and other financial institutions account for approximately 20% to 26% of total interest-bearing liabilities. For the purpose of maintaining liquidity, the Bank expects this proportion will stay at such level in 2010 and 2011. Due to growth of deposits, the proportion of deposits to interest-bearing liabilities will increase by 3 percentage points to 78% while the proportion of the average balance of amounts due to and placements from banks and other financial institutions to that of interest-bearing liabilities will decrease slightly in 2011, but remain above 21% so as to meet our normal liquidity requirement.

2) Interest rate

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

3.1.2.3 Bonds payable

1) Average balance

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

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

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

2) Interest rate

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

3.2. Net fee and commission income

3.2.1 Fee and commission income

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

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

3.2.1.1 Settlement fee income

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

3.2.1.2 Agency business fee income

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

3.2.1.3 Entrusted business fee income

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

3.2.1.4 Bank card fee income

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

3.2.1.5 Others

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

3.2.2 Fee and commission expense

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

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

3.3. Other operating income

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

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

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

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

3.3.2 Net foreign exchange difference

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

3.4. Operating costs

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

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

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

3.4.1 Business tax and surcharges

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

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

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

3.4.2 Staff expenses

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

3.4.3 General and administrative expenses

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

3.4.4 Depreciation and amortization

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

3.5 Impairment loss on assets

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

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

3.5.1 Impairment provision for loans

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

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

3.6. Income tax

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

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

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

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

4.1. Key issues that may affect profit forecast

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

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

4.1.2 Impact of movements in market exchange rate

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

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

4.1.3 Impact of changes in loan quality

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

4.2. Measures to be taken

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

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

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

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

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

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

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

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

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

Appendix: Major financial indicators for profit forecast

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

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

Statement of the Certified Asset Appraisers

1. We have performed this asset valuation assignment in compliance with the relevant laws and regulations and standards for asset appraisal and in strict adherence to the principles of independence, objectivity and fairness. This appraisal organisation and the certified asset appraisers have the practising qualifications and relevant professional valuation experience required for this valuation assignment. Based on the information collected during our practice, the contents of the valuation report represent an objective reflection of facts and we undertake the corresponding legal responsibility for the soundness of the appraisal conclusions reached hereunder.

2. The list of assets and liabilities as well as the future business plan in relation to the appraisal target are reported and signed off by the entrusting party and the appraisee. It shall be the responsibility of the entrusting party and relevant parties involved to ensure the authenticity, legality and completeness of all information provided as well as the proper use of the valuation report.

3. None of us have any present or prospective interest in the appraisal target of the valuation report, nor any present or prospective interest in, or prejudice against, any parties involved.

4. We have conducted on-site inspection of the appraisal target of the valuation report and assets involved and given the necessary attention to the legal title condition thereto.

5. Our analyses, determinations and conclusions contained in the valuation report are subject to the assumptions and qualifications set forth hereunder. Users of the valuation report shall take into full consideration the assumptions, qualifications and special notes as well as any effect thereof on the appraisal conclusions.

Asset Appraisal Report
in relation to the
Proposed Integration between Shenzhen Development Bank Co., Ltd. and
Ping An Bank Co., Ltd.

Summary

China United Assets Appraisal Company Limited has been engaged by Ping An Insurance (Group) Company of China, Ltd. and Ping An Bank Co., Ltd. to perform a valuation of the total shareholders' equity of Ping An Bank Co., Ltd. as at the valuation reference date for the purpose of the economic conduct of the proposed integration between Shenzhen Development Bank Co., Ltd. and Ping An Bank Co., Ltd.

The appraisal target is the total shareholders' equity of Ping An Bank Co., Ltd. The appraisal scope covers all the assets and relevant liabilities of Ping An Bank Co., Ltd, including current assets, non-current assets and associated liabilities.

The valuation reference date is 30 June 2010.

The value type of this appraisal is the market value.

The appraisal is conducted under the premises of going concern use and open market, taking into account the actual circumstances of the appraisal target and various factors to perform the overall valuation of Ping An Bank Co., Ltd., with the methods of income present value and market comparison applied separately and for further review and comparison. Based on the applicability of different valuation methods and purpose of the appraisal, the result derived from using the income present value method has been chosen as the final appraisal result.

After undergoing a combination of processes including checking and verification, on-site inspection, due diligence interviews, market research and inquiry, assessment and estimation, we have concluded the value of total shareholders' equity under the income present value method as at the valuation reference date of 30 June 2010 as follows:

The total shareholders' equity carried a book value of RMB15,329.0935 million and appraised value of RMB29,080.4756 million, with an appreciation of RMB13,751.3821 million or 89.71%.

Users of this report are advised to pay attention to the special notes and post-valuation date events stated herein before relying on our appraisal conclusions.

The appraisal result of this report shall be valid for one year, that is from 30 June 2010 until 29 June 2011.

The above is an extract from the Asset Appraisal Report. For more details of this appraisal assignment and a proper understanding of the appraisal conclusions, please read the full text of the Asset Appraisal Report.

Asset Appraisal Report
in relation to the
Proposed Integration between Shenzhen Development Bank Co., Ltd. and
Ping An Bank Co., Ltd.
China United Assets Appraisal Report No. 698 [2010]

To: Ping An Insurance (Group) Company of China, Ltd.
Ping An Bank Co., Ltd.:

As per your request, China United Assets Appraisal Co., Ltd. has performed a valuation of the total shareholders' equity of Ping An Bank Co., Ltd. as at the valuation reference date for the purpose of the economic conduct of the proposed integration between Shenzhen Development Bank Co., Ltd. and Ping An Bank Co., Ltd. in compliance with the relevant laws and regulations and standards for asset appraisal by applying the income present value and market comparison methods and following the required appraisal processes. Details of the asset appraisal are hereby reported as follows:

I. Entrusting party, appraisee and other users of the valuation report

1. General profile of the entrusting party

Company name:	**Ping An Insurance (Group) Company of China, Ltd.** (referred to as "**Ping An of China**" hereunder)
Registered address:	15th, 16th, 17th and 18th Floors, Galaxy Development Centre, Fu Hua No. 3 Road, Futian District, Shenzhen, Guangdong Province
Legal representative:	Ma Mingzhe
Registered capital:	RMB7,345,053,334 (total share capital enlarged to 7,644,142,092 shares (ordinary shares) after the directed issuance of H Shares to Newbridge had been completed on 7 May 2010, with the change of registration with SAIC currently in process)
Business nature:	Joint-stock company limited (A-share and H-share listed company, A-share stock code: 601318; H-share stock code: 2318)
Business license No.:	100000000012314
Business scope:	
Licensed business item:	None
General business item:	investment in financial and insurance businesses; supervision and management of various domestic and overseas operations of controlled and invested companies; operational capital utilization.

Ping An of China was established on 21 March 1988 and over 22 years' development, has grown from a local property & casualty insurer into an integrated financial service provider to offer diversified financial services including insurance, banking, securities and trust with a national coverage and business focus on insurance under one single brand. As the first joint-stock insurance company in PRC, Ping An of China introduced strategic investments from the global renowned investment banks, Goldman Sachs and Morgan Stanley, in 1993 and another partner HSBC in 2008, among the first domestic major financial institutions to develop a management system and corporate governance structure in line with international standards. Ping An of China went public with H Shares listed successfully in Hong Kong on 24 June 2004 and A Shares listed successfully in PRC on 1 March 2007, traded under the stock codes of 2318 and 601318, respectively.

Ping An of China has approximately 417,000 life insurance salespersons and over 83,000 employees with more than 3,800 branches and marketing and service divisions of various levels and types. As at 31 December 2009, the Group recorded a total assets of RMB935.7 billion and a total equity of RMB91.7 billion. In 2009, the Group realized a total revenue of RMB152.8 billion and a net profit of RMB14.5 billion. In terms of insurance income, both Ping An Life and Ping An P&C rank as the second largest insurer in PRC life and property & casualty sectors respectively.

Ping An of China completed the directed issuance of H Shares to Newbridge on 7 May 2010 and post the transaction, its total share capital has been enlarged to 7,644,142,092 shares (ordinary shares), including 4,786,409,636 or 62.62% domestic shares (A share) and 2,857,732,456 or 37.38% overseas listed foreign shares (H share).

2. General profile of the entrusting party and appraisee

Company name:	Ping An Bank Co., Ltd. ("**PAB**")
Registered address:	Semi basement, 1st, 2nd, 4th-17th, 21st -22nd Floors, Ping An Bank Building, 1099 Shennan Road Central, Futian District, Shenzhen
Legal representative:	Sun Jianyi
Registered capital:	RMB8,622,824,478
Business nature:	Unlisted joint-stock company limited
Business license No.:	440301103256945

(1) Introduction

As at the valuation reference date, PAB has a paid-in capital of RMB8,622,824,478. The table below lists the name, number and percentage of shares held by its top 10 shareholders:

Table 2-1 Name, number and percentage of shares held by the top 10 shareholders

No.	Name of investors	No. of shares held	% held
1	Ping An Insurance (Group) Company of China, Ltd.	7,825,181,106	90.75%
2	Sanya Yingwan Tourism Co. Ltd.	46,195,838	0.54%
3	Shenzhen Zhongye Economic Development Center	42,215,298	0.49%
4	Shenzhen Federation of Retired Veterans of Financial Community	40,925,494	0.47%
5	Shenzhen Education Development Foundation	33,703,506	0.39%
6	Shenzhen Shenda Communication Co. Ltd.	30,000,000	0.35%
7	Shenzhen Shangbu Industrial Co. Ltd.	17,285,131	0.20%
8	Shenzhen Jinghui Industrial Co. Ltd.	17,077,840	0.20%
9	Shenzhen Qian Taian Investment Development Co. Ltd.	14,149,767	0.16%
10	Shenzhen Calo Industrial Development Company	13,364,310	0.15%
	Total	8,080,098,290	93.71%

(2) Business scope

Taking in deposits from the general public; extending short, medium and long term loans; handling domestic settlement; bill discounting; issuing financial bonds; acting as an agent for the issuance, honoring and underwriting of government bonds; trading government bonds; engaging in interbank lending; providing letter of credit services and guarantee; acting as an agent for the receipt and payment of money and insurance business; and providing safe deposit box services.

Deposits in foreign currencies; loans in foreign currencies, remittance in foreign currencies; exchange in foreign currencies; international settlement; interbank lending in foreign currencies; bills acceptance and discounting in foreign currencies; borrowings in foreign currencies; guarantee in foreign currencies; purchase and sale of foreign exchange; trading and acting as an agent for trading marketable securities in foreign currencies other than stocks; issuing and acting as an agent for issuing marketable securities in foreign currencies other than stocks; trading foreign exchange for its own or customers' account; credit status enquiry, consultation and authentication services.

Other business activities approved by the regulatory authorities and the State Administration of Foreign Exchange.

(3) Assets, financial and operating conditions

As at the valuation reference date of 30 June 2010, PAB reported total assets of RMB230,619.59 million and total liabilities of RMB215,290.49 million with net assets of RMB15,329.09 million and for the first half of the year, realized revenue of RMB2,892.32 million and net profit of RMB912.16 million. The table below sets forth the assets and key financials of PAB for the last 3 years and as at the valuation reference date:

Table 2 Assets, liabilities and financial conditions of PAB

In RMB'0000

Item	30 June 2010	31 December 2009	31 December 2008	31 December 2007
Total assets	23,061,959	22,068,132	14,592,319	14,161,938
Liabilities	21,529,049	20,636,630	13,728,198	13,535,131
Net assets	1,532,909	1,431,502	864,121	626,807
Item	**1H2010**	**FY2009**	**FY2008**	**FY2007**
Revenue	289,232	428,155	389,307	358,282
Profit before tax	117,672	137,893	160,934	218,687
Net profit	91,216	110,510	163,603	158,397
Auditor	Ernst & Young Hua Ming	Ernst & Young Hua Ming	Ernst & Young Hua Ming	Ernst & Young Hua Ming

3. Relationship between the entrusting party and the appraisee

The entrusting parties are Ping An of China and PAB; whereas the appraisee is PAB. Ping An of China is the controlling shareholder of PAB holding 7,825,181,106 shares, or 90.75% of the total share capital of PAB.

4. Other users of the valuation report specified by the entrusting party and engagement letter

This valuation report shall be used by Ping An of China, PAB, SDB, parties involved in the economic conduct and relevant regulatory authorities to which the report shall be filed with pursuant to the relevant requirements.

Unless otherwise stipulated by PRC laws and regulations, the valuation report may not be used by any organization or individual by way of access thereto without confirmation of the appraisal organisation and the entrusting party.

II. Appraisal purpose

As required by the "Approval of CBRC on the Share Transfer of SDB and the Relevant Shareholders' Qualifications" (Yinjianfu [2010] No. 147), the proposed integration between SDB and PAB shall be completed within one year after the private placement in order to ensure fair peer competition. This appraisal assignment is entrusted by Ping An of China and PAB to value the total shareholders' equity of PAB in relation to the integration between the two banks and to provide reference pricing basis for such economic conduct.

III. Appraisal target and scope

The appraisal target is the total shareholders' equity of PAB. The appraisal scope covers the total assets and relevant liabilities of PAB as at the valuation reference date, which carried a book value of RMB230,619.59 million and RMB215,290.49 million, respectively with net assets amounting to RMB15,329.09 million.

The above information of assets and liabilities are extracted from the balance sheet of PAB as at 30 June 2010 audited by Ernst & Young Hua Ming and the appraisal is performed based on such audited data.

The entrusted appraisal target and scope are consistent with those in relation to the economic conduct involved.

1. Key subject assets

The assets subject to this appraisal comprise primarily of advances and loans, financial instruments, fixed assets, debt assets and intangible assets.

2. On-sheet or off-sheet intangible assets reported

The intangible assets reported for appraisal include the trading systems and various office software products which are working properly.

3. Type, quantities and book value of assets incorporated herein by reference to the conclusions in the report issued by other appraisers

The appraisal assignment is completed solely by China United Assets Appraisal Co. Ltd.

IV. Value type and definition

For the purpose of this appraisal, the appraisal target is valued at the market value.

Market value is the estimated amount for which the subject asset should be exchanged on the valuation reference date between a willing buyer and a willing seller in an arm's-length transaction wherein the parties had each acted sensibly and without compulsion.

V. Valuation reference date

The valuation reference date of this appraisal is 30 June 2010.

The valuation reference date is determined by the entrusting party based on the completion time of the economic conduct, scale of assets of the appraisee, level of workload and compliance among other considerations.

VI. Appraisal basis

The appraisal basis mainly encompasses the economic conduct, laws and regulations, appraisal standards, title to the assets, price references adopted for assessment and estimation and other references, with details as follows:

1. Economic conduct

Relevant documents with respect to the integration between SDB and PAB.

2. Laws and regulations

1) *Administrative Measures for the Transfer of State-owned Assets of Financial Enterprises* (MOF Order No. 54, 17 March 2009);

2) *Provisional Regulations for the Administration of State-owned Asset Appraisal of Financial Enterprises* (MOF Order No. 47, 12 October 2007);

3) *Company Law of the People's Republic of China* (as amended by the 18th Session of the Standing Committee of the 10th National People's Congress on 27 October 2005);

4) *Guarantee Law of the People's Republic of China* (as adopted by the 14th Session of the Standing Committee of the 8th National People's Congress on 30 June 1995);

5) *Land Administration Law of the People's Republic of China* (as amended by the 11th Session of the 10th National People's Congress on 28 August 2004);

6) *Law of the People's Republic of China on Urban Real Estate Administration*;

7) *Administrative Measures for State-Owned Asset Appraisal* (State Council Order No. 91, 1991);

8) *Administrative Measures on Significant Asset Restructuring of Listed Companies* (CSRC Order No. 53, 2008);

9) *Circular issued by the Supreme People's Court on the Summary of Minutes of the Symposium on Hearing Cases involving Assignment of Distressed Financial Claims* (Court Circular No. 19 [2009]);

10) *Circular of the Ministry of Construction, the People's Bank of China and China Banking Regulatory Commission on Regulating the Management of Real Estate Mortgage Appraisals Relating to the Credit Business of Banks* (MOHURD Circular No. 8 [2006]);

11) *Supreme People's Court's Interpretation of Several Issues Concerning the Application of the Guarantee Law of the People's Republic of China* (Court Interpretation No. 44 [2000]);

12) Other laws, regulations and rules in relation to the appraisal.

3. Appraisal standards

1) Asset Evaluation Standards – Basic Standards (MOF Enterprise No. 20 (2004));

2) Standards of Assets Evaluation Professional Ethics – Basic Standards (MOF Enterprise No. 20 (2004));

3) Asset Appraisal Standards – Appraisal Report (CAS No. 189 [2007]);

4) Asset Appraisal Standards – Appraisal Process (CAS No. 189 [2007]);

5) Asset Appraisal Standards – Machinery and Equipment (CAS No. 189 [2007]);

6) Asset Appraisal Standards – Real Estate (CAS No. 189 [2007]);

7) Guidelines for the Value Type of Asset Appraisal (CAS No. 189 [2007]);

8) Guidelines for Enterprise Valuation (Trial) (CAS No. 134 [2004]);

9) Guidelines for the State-owned Asset Appraisal Report of Enterprises (CAS No. 218 [2008]);

10) Guidelines for the Certified Asset Appraisers on the Legal Title of the Subject under Appraisal (CICPA No. 18 [2003]);

11) Code for Real Estate Appraisal (GB/T50291-1999);

12) Code for Urban Land Evaluation (GB/T18508-2001);

13) Code for Urban Land Classification (GB/T18507-2001);

14) Accounting Standards for Business Enterprises – Basic Standards (MOF Order No. 33);

15) Accounting Standards for Business Enterprises No. 1 – Inventory, including 38 standards (MOF Accounting No. 3 [2006]);

16) Accounting Standards for Business Enterprises – Guidelines for Application (MOF Accounting No. 18 [2006]).

4. Title to the assets

1) Title Deed and property ownership certificates;

2) Certificate for the Use of State-owned Land;

3) Motor Vehicle Driving License;

4) Key asset purchase contracts or receipts;

5) Other references.

5. Price references

1) Administrative Measures for the Provisioning for Non-performing Debts of Financial Enterprises (MOF FIG No. 49 [2005]);

2) Regulations of Basic Construction Financial Management (MOF Construction No. 394 [2002]);

3) Provisional Regulations of the People's Republic of China for Vehicle Purchase Tax (State Council Order No. 294 [2000]);

4) Standards for Vehicle Scrapping (SETC No. 456 [1997]);

5) Circular on the Changes to the Standards for Vehicle Scrapping (SETC Trade Resources No. 1202 [2000]);

6) Mechanical and Electrical Products Price Handbook for 2010 (China Machinery Industry Information Institute);

7) Circular on Several Issues Concerning the Transformation and Reform of Value-added Tax (MOF Tax No. 170 [2008]);

8) RMB benchmark exchange rate as at 30 June 2010 published by the State Administration of Foreign Exchange;

9) The People's Bank of China Lending Rates Schedule effective as of 23 December 2008;

10) Other references.

6. Other references

1) Financial statements and audit reports of PAB for 2007, 2008 and 2009 and as at the valuation reference date;

2) Commonly Used Data and Parameters Handbook for Asset Appraisal (2nd Edition) (Beijing Science and Technology Press);

3) Wind Financial Terminals;

4) Investment Valuation (by Damodanran [US], translated by Lin Qian [Canada], Tsinghua University Press);

5) Valuation: Measuring and Managing the Value of Companies (3rd Edition) (co-authored by Copeland, T., translated by Hao Shaolun and Xie Guanping, Publishing House of Electronics Industry);

6) Other references.

7. Valuation Method

(I) Selection of valuation method

According to the provisions of the Asset Evaluation Standards, three methods, namely earnings method, market method and cost method (also known as asset-based method), may be adopted to assess company value. The earnings method is to quantify and determine the present value of overall expected profitability of the company's assets, with emphasis on the company's overall expected profitability. The market method is to use reference objects in the real market to assess the present fair market value of the appraisal target and is characterized by convincing valuation results given that its valuation data is derived directly from the market. Asset-based method refers to the concept of determining the value of the appraisal target on the basis of reasonable valuation of various asset values and liabilities of the company.

Considering the characteristics of the bank's asset values, the income present value method and the market comparison method are selected in this appraisal.

(II) Introduction to earnings method

1. Overview

The earnings method, also known as the discounted cash flow (DCF) method, is a method to assess company value by discounting the company's future expected cash flow into present value, in other words company value is obtained from the discounting of expected cash flow into present value by estimating the company's future expected cash flow and adopting appropriate discount rate. The basic criteria for its application are: the company has the basis and conditions for continuous operations; the presence of a relatively steady corresponding relationship between the operations and earnings; and future earnings and risks can be forecasted and quantified.

The key to the use of DCF method lies in the forecast of future expected cash flow as well as the objectivity, reliability and other factors of data collection and handling. When the estimation of future expected cash flow is relatively objective and fair and the selection of discount rate is relatively reasonable, the valuation result can more fully reflect the value of the company, and hence more acceptable by the market.

2. Basic valuation concept

Based on the status of this due diligence, the asset structure of the appraisal target and the characteristics of its main businesses, the basic valuation concept of this appraisal is:

In regard to assets and main businesses within the scope of statements, shareholders' equity value is obtained by discounting expected earnings (net equity cash flow) estimated according to changes in historical operations conditions in the last few years, business types and other factors.

3. Valuation model

(1) Basic model

The three stages in the basic model of this valuation are:

$$\mathrm{P} = \sum_{n=1}^{i_1} \frac{R_i}{(1+r)^{i_1}} + \sum_{n=1}^{i_2} \frac{R_i}{(1+r)^{i_2}} + \frac{Rn+1}{r(1+r)^n}$$

The first stage of the model is a phase of rapid earnings growth, the second stage is a phase of fixed earnings growth and the third stage is a phase of stable earnings. In the formula:

P: Value of the appraisal target

R_i: Expected earnings of the appraisal target in the next i year (free cash flow)

r: Discount rate

n: Future operation period of the appraisal target

(2) Earnings indicator

Free equity cash flow = Net profit + depreciation and amortization + net increase in deposits – net increase in loans extended – capital expenditure

(3) Discount rate

This appraisal has adopted the capital asset pricing model (CAPM) to determine the discount rate "r"

$$r = r_f + \beta_e (r_e - r_f) + \varepsilon \qquad (2)$$

In the formula:

r_f: Risk-free rate of return

$(r_e - r_f)$: Market risk premium (r_{pm})

ε: PAB's specific risk adjustment coefficient

β_e: Expected market risk coefficient of the equity capital

(III) Introduction to market method

Market method is divided into the public company comparison method and merger and acquisition comparison method. Given that it is difficult to gather information on merger and acquisition transactions and there is no way to understand whether or not there is any non-market value factor, the latter method has not been selected. As for the public company comparison method, given the presence of numerous listed companies in the industry that can be selected as comparable companies for comparison, this method has been selected.

Market method is applicable where: (1) there is a fully active asset market; and (2) information including indicators and technical parameters of reference objects and their target assets can be collected and quantified.

Considering that PAB is in the banking industry and there are comparable listed companies in such industry, this valuation has adopted the public company comparison method, in other words, a method of estimation of the reasonable value of the appraisal target by comparing the appraisal target with listed peers and by making appropriate adjustments of the available prices and economic data of these listed peers.

The main steps are as follows:

1. Select reference companies;

2. Standardize data of financial statements;

3. Calculate various market multiples;

4. Compare the appraisal target with reference companies;

5. Adjust selected valuation multiples;

6. Apply adjusted multiples to obtain valuation result; and

7. Consider if it is necessary to apply a discount or premium.

8. Process and conditions of the implementation of valuation procedures

The entire valuation work is divided into four stages:

(I) Preparatory Stage of Valuation

1. Determination of work plan and valuation method

Set out preliminary work plan and formulate valuation plan upon communication with the entrusting party and understanding of the basic issues of the asset valuation.

2. Submission of information checklist

Submit samples of due diligence information checklist, asset checklist, profit forecast and other information according to the characteristics of target assets and request the appraisal target to implement preparatory work for the valuation.

3. Guidance on the completion of forms

Contact relevant staff of the appraisal target in guiding the appraisal target to prepare the required information and to complete relevant forms for valuation in accordance with the requirements of the asset valuation.

(II) Stage of due diligence and site valuation

The main jobs of the project team at the stage of site valuation are as follows:

1. Review and verification of information

Review and differentiate application information submitted by the company, verify them with relevant financial records and data of the company and coordinate with the company for adjustment of issues found.

2. Highlight checking

Undertake highlight checking of business premises and operating assets of the appraisee based on the application information.

3. Due diligence discussion

Discuss with the company's management staff based on the application information submitted by the appraisal target including future development plans and profit forecast to reach consensus on future development trends as far as possible.

4. Determination of valuation approach and methods

Determine specific models and methods of asset valuation based on the actual conditions and characteristics of the target assets.

5. Re-discussion of valuation model with the management

Communicate with the management again on the valuation model as determined from the results of the preliminary due diligence, set forth the technical requirements of valuation standards and the professional standpoints of valuers and reach consensus with the management on future development trends as regards the model as far as possible.

6. Determination of valuation model for assessment and estimation

Determine valuation model based on the consensus, calculate valuation results and draft relevant written explanations.

(III) Summary stage

Analyze and summarize initial results of various assets and methods, make necessary adjustments, amendments and improvements of the valuation results and submit them to the company for internal review.

(IV) Submission stage

Draft asset valuation report on the basis of the above-mentioned work and exchange opinions on the valuation results with the entrusting party. Upon thorough consideration of relevant opinions, repeat amendment and correction of reports based on the three-tiered system and procedures for internal asset valuation reports of the appraisal organisation and finally issue the official asset valuation report.

9. Valuation Assumptions

In this appraisal, appraisers have followed valuation assumptions set out as below:

(I) General assumptions

1. Transaction assumption

The transaction assumption assumes all assets to be valued are in the course of transaction and the estimation of appraisers is based on simulated market including terms of trade of the target assets. Trade assumption is the most basic precondition for the implementation of asset valuation.

2. Open market assumption

The open market assumption assumes that both trading parties for assets trading or to be traded in the market are of equal position and have opportunities and time to obtain sufficient market information in order to make rational judgments on the assets including their functions, purposes and transaction prices. The basis of open market assumption is that assets can be traded openly in the market.

3. Going concern assumption

The going concern assumption refers to the corresponding determination of valuation methods, parameters and grounds according to the use of the target assets on the basis of various circumstances including their current purposes and the format, scale, frequency and environment of their usage, or according to the use of target assets on a changing basis.

(II) Special assumptions

1. No material change in PRC's existing policies, including those on macro economy and tax rates, will take place.

2. No material change in the social and economic environment in which PAB is situated and policies including duty and tax rates will take place.

3. PAB's future management team will be diligent and will continue to maintain the existing business management models in the business operations.

4. PAB's main business revenues are derived primarily from interest, administrative fees and commissions. In the coming operating period, the main business revenue structure and its proportion will remain at the current levels and no material change will take place.

5. The valuation is only based on the existing business strategies, management capabilities and business conditions as of the valuation reference date and has not taken into account changes that may be resulted from future changes in the management team.

6. The various parameter estimates in this valuation have not taken into account the impact of inflation.

7. No material change in the interest rates and exchange rates of the PBOC will take place within the forecast period after the date of preparation of the profit forecast.

8. The interest rate of subordinated debentures will remain stable.

9. PAB will issue RMB3 billion of subordinated debentures in December 2012.

10. Along with business developments, in order to meet the requirements of the banking industry's capital adequacy ratio, annual profits of PAB will not be allocated entirely for the replenishment of share capital.

When there are changes in the above-mentioned conditions, the valuation results will generally become invalid.

10. Conclusion of Valuation

(I) Valuation conclusion of earnings method

The earnings method has been adopted to assess the value of PAB and the value of the total shareholders' equity (net assets) of PAB as at the valuation reference date of 30 June 2010 was RMB29,080.4756 million.

(II) Valuation conclusion of market method

The market method has been adopted for the valuation and the value of the total shareholders' equity (net assets) of PAB as at the valuation reference date of 30 June 2010 was RMB31,180.7758 million.

(III) Analysis of valuation conclusion and final valuation conclusion

1. Analysis of the difference in valuation results

In this valuation, the value of shareholders' total equity as derived from the earnings method is RMB29,080.4756 million while the value of shareholders' total equity as derived from the market method is RMB31,180.7758 million, hence a difference of RMB2,100.3002 million.

The market method is an assessment of company value from the perspective of the overall market performance and future expectations while the earnings method is an estimation of company value based on the company's profitability itself. The two complement each other. The result of the market method is the market performance of the result of the earnings method while the result of the earnings method which is the internal value of the company serves as a solid base for the result of the market method. Hence, as a precautionary measure, the result of the earnings method will be the final result of this valuation.

2. Selection of valuation results

Upon thorough consideration of various factors, the appraisers believe that the result derived from the earnings method can better reflect the equity value of PAB. The book value of PAB's total shareholders' equity is RMB15,329.0935 million and the valuation is RMB29,080.4756 million, representing an appreciation in valuation of RMB13,751.3821 million or 89.71%.

3. Reasons attributable to the appreciation in valuation

The earnings method is based on the judgment of the company's overall profitability as the core, hence a more objective reflection of the value of the company and the shareholders' equity. Under this method, company value is deemed to be an organic combination. Apart from the company's individual assets which can create value, various intangible assets formed by a combination of factors including its reputation, quality management experience, market channels, customers and brands shall not be ignored as the components of the value.

(1) Looking at the entire banking industry, there has been a substantive growth in these years, no matter in terms of assets scale, net assets, the scale of deposits and loans, or revenues and net profits, there is no way to reflect the potential growth of the company in the financial statements, hence the market value of banks cannot be fully reflected by the book value at a certain point in time. PAB is a fast-growing financial company which has rather strong ability for excess return, sound management system, mature team and relatively high market development capability. It has maintained a relatively fast pace in growth since incorporation. Its customer deposits have grown rapidly, recording a compound annual growth rate ("**CAGR**") of 27.2% over the period from 2006 to June 2010. Despite that the scale of loan expansion has been subject to the control of the regulatory authorities from 2009 to 2010, its loans have still grown faster than those in the market, recording a CAGR

of 30.5% from 2006 to June 2010. When compared with the domestic listed banks, it has the best assets quality with a NPL ratio of 0.45%. Its NPL coverage has also exceeded the regulatory requirement, hitting 156.8%. Meanwhile, it has replenished share capital through a number of channels to strengthen capabilities for sustainable business developments. It recorded a net capital CAGR of 41% from 2006 to June 2010. Operating income jumped from RMB2.111 billion in 2006 to RMB4.282 billion in 2009. As at June 2010, operating income has reached RMB2.892 billion. All these factors are important reasons for the appreciation in valuation.

(2) PAB may utilize the brand, channels, IT and customer resources of the Ping An Group. The Ping An Group has approximately 1,000 service locations at present providing various types of financial service to over 50 million individual clients and over 2 million corporate clients nationwide. Since 2009, PAB has built the crossselling model with the Ping An Group to develop its business and the year-on-year growth in business revenues for the first half of 2010 has been immense. The cross-selling model will bring forth tremendous room for growth and development advantages to PAB, substantially increasing the PAB's profitability.

(3) PAB's goodwill. As one of the three main business pillars of the Ping An Group, PAB relies on the great advantages of the integrated financial services of the Ping An Group, hence forming its goodwill speedily. There is no way to reflect this in the book value of financial statements while a company's goodwill is closely related to future profits and cannot be abandoned in the valuation by the earnings method.

The above reasons have resulted in an appreciation in valuation by the earnings method.

11. Special Issues

(I) Property title defects

Upon investigation and verification, no major property title issue posing impact on the valuation conclusion of PAB has been found, except for the following defects regarding property ownership certificates:

As regards houses and buildings, there is no property ownership certificate for the business premise of the Dongmen branch.

As regards investment properties, the property ownership certificate of Qingyilou is under processing.

As regards repossessed houses, there is dispute on the complex property rights of No.2.4.6 of the Unicorn Industrial City in Guanlan which cannot be applied for transfer; there is no property ownership certificate for the eight apartments at Guangzhou's Zhudao Garden and the debtor plans to repurchase them from PAB; there is no property ownership certificate for the six apartments at Huibin Plaza which has been closed down by other courts prior to the pledge, and three of them are held under the name of employees of Guoji Company which has been liquidated at present, hence there is no way to apply for a certificate at the moment; there is no way to apply for property ownership certificate for the 116 apartments at Xufei Huada Garden which have been approved by the Bureau of Land and Resources as school facilities.

(II) Quotation of other reports

All valuation work of this project was completed by China United Assets Appraisal Co., Ltd. and reports issued by other institutions will not be quoted.

(III) Other necessary matters

1. The appraisers and the appraisal organisation are legally responsible for the professional judgment made on the value of assets intended for the purpose of valuation as stated in this report and no judgment of the appraisers and the appraisal organisation on the economic conduct corresponding to the purpose of valuation of the project is involved. The valuation work, to a large extent, relies on relevant information provided by the entrusting party and the appraisee. Hence, the valuation work is implemented under the precondition that relevant documents regarding economic conduct, relevant documents, certificates and accounting certificates regarding asset ownership and relevant legal documents provided by the entrusting party and the appraisee are true and legitimate.

2. In regard to data, statements and relevant information provided by the appraisee and adopted within the scope of this valuation, the entrusting party and the appraisee are accountable for the authenticity and completeness of the information provided.

3. In regard to relevant ownership certification documents and information provided by the appraisee in connection with the valuation report, the entrusting party and the appraisee bear legal responsibility for the authenticity and legitimacy of the information provided.

4. When there are changes in the number of assets and the pricing standards within the effective period after the valuation reference date, they shall be handled based on the following principles:

    (1) When there are changes in the number of assets, corresponding adjustments of the value of assets shall be made according to the original valuation method;

(2) When there are changes in the pricing standards of assets which have significant impact on the results of the asset valuation, the entrusting party shall timely hire qualified asset appraisal organisation to re-determine the valuation;

(3) In regard to changes in the number of assets and the pricing standards after the valuation reference date, the entrusting party shall give full consideration at the time of the actual pricing of assets and make corresponding adjustments.

12. Restrictions on the use of the valuation report

(I) This valuation report shall only be used for the objective and purpose of valuation as stated in the report. Meanwhile, the results of this valuation report is a reflection of the present fair market value of the appraisal target determined according to the principles of open market and intended for the purpose of this valuation. It has not taken into account the impact on the valuation price arising from additional prices paid for possible future commitments in mortgages, guarantees and special transactions. Moreover, this report has not taken into account the impact on asset prices resulting from changes in the national macroeconomic policies and other natural or force majeure events. When there are changes in the above-mentioned conditions and other conditions including the going concern principle abided by the valuation, the valuation results will generally become invalid. The appraisal organisation is not legally responsible for the valuation results becoming invalid due to changes in these conditions.

This valuation report is founded on the basis that the economic conduct is compliant with relevant provisions of the national laws and regulations and is approved by relevant departments.

(II) This valuation report is only intended for users as stated in the report. The right of usage of the valuation report belongs to the entrusting party and the appraisal organisation shall not disclose freely to other parties without the consent of the entrusting party.

(III) None or no parts of the contents of this valuation report shall be copied, quoted or disclosed to the public media without the consent of the appraisal organisation, unless otherwise agreed in the provisions of laws and regulations and among the parties concerned.

(IV) The effective period of usage of the valuation results: In accordance with PRC's current provisions, the effective usage period of the results of this asset valuation report shall be one year starting from the valuation date of 30 June 2010 to 29 June 2011. Revaluation of the assets will be required after one year.

13. Date of valuation report

The date of the valuation report is 14 September 2010.

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China United Assets Appraisal Co., Ltd.

Legal Representative of Appraisal Organisation: Shen Qi

Registered Valuer: Hu Zhi

Registered Valuer: Deng Yanfang

14 September 2010

Appendix:

Explanatory Notes to the Calculation Process of the Valuation

Section One Asset Verification and Due Diligence

(I) Contents of asset verification and due diligence

Based on the characteristics of this valuation, the main contents of the due diligence determined by the appraisal organisation are:

1. The background of economic conduct of this valuation is primarily the explanation of the entrusting party and the appraisal target on matters of this valuation;

2. Legal conditions in relation to the going concern of the appraisal target primarily include that of the appraisal target's articles of association, investment agreements, contracts and others;

3. Conditions in relation to the appraisal target's land and property rights;

4. Accounting system, fixed assets depreciation method and others undertaken by the appraisal target;

5. Tax rates, tax expenses and taxation conditions of the appraisal target;

6. Conditions of connected transactions in the last few years;

7. PAB's business analysis: public-oriented, private-oriented, credit cards and others;

8. Conditions including PAB's loan scale, deposit and loan interest rates, management fees, occupied facilities and premises (depreciation and amortization), costs of staff wages and benefits in the last few years;

9. PAB's business plans and strategies in the next few years, including market expansion, sales strategies, cost control, financing, investment plans, future income/cost structures and their changes;

10. General conditions of PAB's key competitors, including total assets, net assets, scale of deposits and loans, operating income, non-performing loan ("**NPL**") ratio, core capital adequacy ratio and market share;

11. PAB's main operational advantages and risks, including the advantage and risk of national policies, the advantage and risk of products, the advantage and risk of market (industry) competition, financial (liability) risk and foreign exchange risk;

12. Audited balance sheets, profit and loss statements, cash flow statements, operating income breakdowns and cost breakdowns in recent years;

13. Conditions in relation to external long-term investments and affiliates;

14. Other conditions in relation to this valuation.

(II) Matters affecting asset verification and due diligence

No matter affecting asset verification or due diligence has been found in this valuation.

(III) Process of asset verification and due diligence

The asset verification and due diligence of this valuation is implemented at the site of the operating premises of the company's main businesses. The method adopted is mainly to investigate and review conditions of the appraisal target including its operating situation, management conditions and capabilities, historical operating conditions, operating income, costs, period costs and their composition. In particular, items affecting the pricing of the valuation including the operating scale of its main businesses, the charging standards and related costs have been investigated in details and financial data including relevant accounting statements and books have been reviewed. The company's operating conditions and other matters are being comprehended through communication with the management and financial staff of the company. Market investigation and research in addition to the gathering of macro information of relevant industries as well as financial information and market data of comparable companies are further developed on the basis of asset verification and due diligence.

(IV) Due diligence procedures

To meet the contents and objectives of the above-mentioned due diligence, based on the characteristics of the project, the following due diligence procedures have been implemented in coordination with PAB and its affiliates:

1. Interview with PAB's key departments

Based on PAB's organisation structure and management model, we have interviewed PAB's key departments including risk control department, corporate/personal business department and finance department to understand the conditions of PAB's business and financial developments, its financial and accounting policies, its development plans and others.

2. Investigation of every business segment in the form of questionnaires

We have investigated conditions of every PAB's business segment included in the scope of valuation including mode of operation, operating income, scale of deposits and loans as well as the types and channels of obtaining investment earnings through sample survey of branches as units.

3. Other methods. Matters in relation to the earnings and market valuation methods are comprehended by means of the internet, magazines, statistics reports, statistical yearbooks and others.

Section Two Valuation Procedures of the Earnings Method

I. Basic Assumptions and Limitations

(I) General assumptions

1. Transaction assumption

The transaction assumption assumes all assets to be valued are in the course of transaction and the estimation of appraisers is based on simulated market including terms of trade of the target assets. Transaction assumption is the most basic precondition for the implementation of asset valuation.

2. Open market assumption

The open market assumption assumes that both trading parties for assets trading or to be traded in the market are of equal position and have opportunities and time to obtain sufficient market information in order to make rational judgments on the assets including their functions, purposes and transaction prices. The basis of open market assumption is that assets can be traded openly in the market.

3. Going concern assumption

The going concern assumption refers to the corresponding determination of valuation methods, parameters and grounds according to the use of the target assets on the basis of various circumstances including their current purposes and the format, scale, frequency and environment of their usage, or according to the use of target assets on a changing basis.

(II) Special assumptions

1. No material change in PRC's existing policies including those on macro economy and tax rates will take place.

2. No material change in the social and economic environment in which PAB is situated and policies including duty and tax rates will take place.

3. PAB's future management team will be diligent and will continue to maintain the existing management models in the business operations.

4. PAB's main business revenues are derived primarily from interest, administrative fees and commissions. In the coming operating period, the main business revenue structure and its proportion will remain at the current levels and no material change will take place.

5. The valuation is only based on the existing business strategies, management capabilities and operating conditions as of the valuation reference date and has not taken into account changes that may be resulted from future changes in the management team.

6. The various parameter estimates in this valuation have not taken into account the impact of inflation.

7. No material change in the interest rates and exchange rates of the PBOC will take place within the forecast period after the date of preparation of the profit forecast.

8. The interest rate of subordinated debentures will remain steady.

9. PAB will issue RMB3 billion of subordinated debentures in December 2012.

10. Along with business developments, in order to meet the requirements of the banking industry's capital adequacy ratio, annual profits of PAB will not be allocated entirely for the replenishment of share capital.

When there are changes to the above-mentioned conditions, the valuation result will generally become invalid.

(III) Limitations

None.

II. Valuation Method

(I) Overview

In accordance with relevant provisions and the "Guiding Opinions on the Valuation of Enterprise Value" of the national administrative departments in addition to international and domestic valuation practices for similar transactions, this valuation has determined to adopt discounted cash flow (DCF) method in assessing the value of PAB's equity capital based on the income approach.

The DCF method is a way to assess assets value by discounting the company's future expected net cash flow into present value. Its basic concept is that assessment value is obtained by estimating the company's future expected net cash flow and adopting appropriate discount rate to discount to present value. The basic criteria for its application are: the company has the basis and conditions to operate on an ongoing basis; the presence of a relatively steady corresponding relationship between the operations and earnings; and future earnings and risks can be forecasted and quantified. The biggest difficulty in the use of DCF method lies in the forecast of future expected cash flow as well as the objectivity, reliability and other factors of data collection and handling. When the forecast of future expected cash flow is relatively objective and fair and the selection of discount rate is relatively reasonable, the valuation result will be more objective.

(II) Valuation concept

Based on the status of this due diligence, the asset structure of the company and the characteristics of its main businesses, the basic concept of this valuation is to estimate the value of its total shareholders' equity (net assets) based on the company's audited statements, in other words, firstly, DCF method is adopted based on channels of earnings to estimate the value of the company's operational assets and to obtain the value of the company upon addition of the value of other non-operational or surplus assets as at the valuation reference date, and that the value of total shareholders' equity (net assets) is obtained from the company value upon deduction of the value of interest-bearing liabilities.

(III) Valuation model

1. *Basic model*

The three stages in the basic model of this valuation are:

P: Value of operational assets of the appraisal target

$$P = \sum_{n=1}^{i_1} \frac{R_i}{(1+r)^{i_1}} + \sum_{n=1}^{i_2} \frac{R_i}{(1+r)^{i_2}} + \frac{Rn+1}{r(1+r)^n} \tag{1}$$

The first stage of the model is a phase of rapid earnings growth, the second stage is a phase of fixed earnings growth and the third stage is a phase of steady earnings. In the formula:

R_i: Expected earnings of the appraisal target in the next i year (free equity cash flow)

r: Discount rate

n: Future operation period of the appraisal target

2. Earnings indicator

This valuation uses free equity cash flow as the earnings indicator of the appraisal target and its basic definition is:

R = Net profit + depreciation and amortization + net increase in deposits – net increase in loans extended – capital expenditure

The future expected free equity cash flow of the appraisal target is estimated based on its business history, future market developments and other factors. The value of shareholders' equity is derived by discounting free equity cash flows in the future operation period and adding them up.

3. Discount rate

This valuation adopts the capital asset pricing model (CAPM) to determine discount rate r.

$r = r_f + \beta_e (r_e - r_f) + \epsilon$ (2)

In the formula:

r_f: Risk-free rate of return

$(r_e - r_f)$: Market risk premium (r_{pm})

ϵ: Ping An Bank's specific risk adjustment coefficient

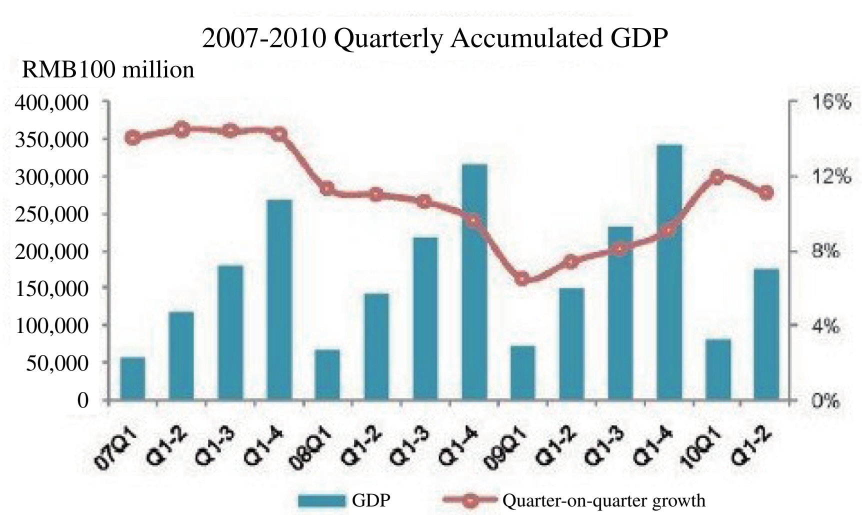
β_e: Expected market risk coefficient of equity capital

III. Analysis of the Industry and PAB's Operations

(I) Macroeconomic situations

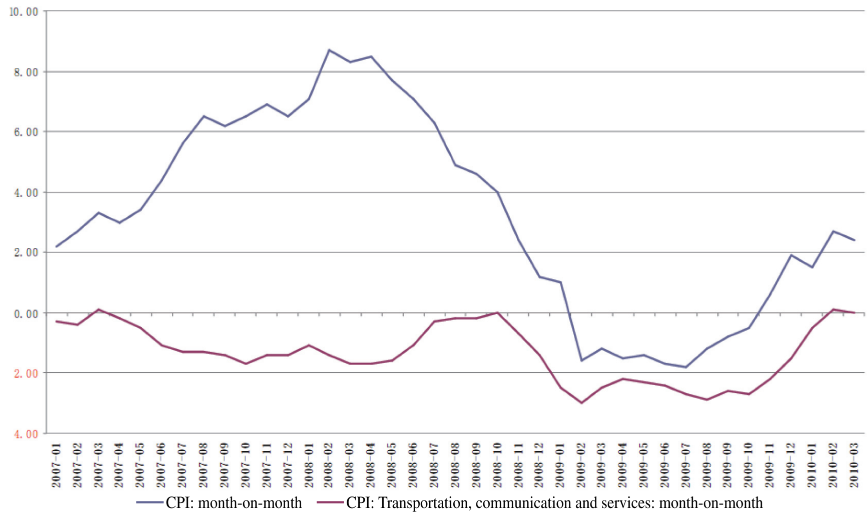
In the first half of 2010, there was no change in the overall growth momentum of PRC's macro economy while the growth of some indicators decelerated. However, under the current environment, this deceleration is positive to the promotion of a steady and relatively rapid growth of the national economy. As compared with the same period last year, PRC's financial conditions improved further and aggressive financial policies had been maintained at a relatively satisfactory continuity and stability. The effects of the increase in expenditure and the decrease in income were significant. In the first half of 2010, PRC's GDP was RMB17,284 billion, representing an increase of 11.1% year-on-year and 3.7 percentage points over the growth of the same period last year if calculated on the basis of comparable prices. Total volume of retail sales of social consumer goods in the first half of 2010 was RMB7,266.9 billion, representing a year-on-year increase of 18.2%. Among which, the volume of retail sales of consumer goods in cities and towns was RMB6,265.9 billion, an increase of 18.6% year-on-year while the volume of retail sales of consumer goods in villages was RMB1,001 billion, an increase of 15.6% year-on-year. In the first half of 2010, total imports and exports amounted to USD1,354.9 billion, representing a year-on-year growth of 43.1%. Among which, exports grew by 35.2% to USD705.1 billion and imports grew by 52.7% to USD649.8 billion. The offsetting of imports and exports resulted in a surplus of USD55.3 billion.

Figure 3-1 Trends of PRC's GDP growth



Source: National Bureau of Statistics of PRC

Figure 3-2 Curve chart of month-on-month change in the CPI



Source: Wind Info

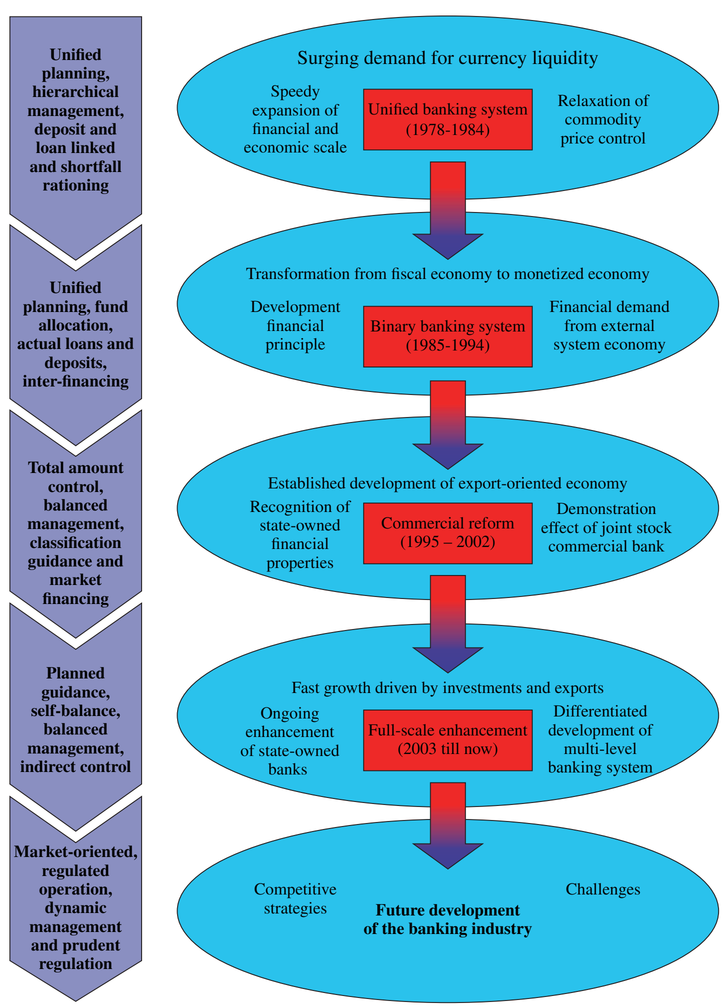
(II) Analysis of the developments of PRC's banking industry

1. History of the development of PRC's banking industry

The development of PRC's banking industry for over 30 years has run through three major lines, namely economic transition, dependence on indirect financing and financial control. Bank credit, the most important source of funding in PRC's economic development, has been closely related with PRC's macroeconomic developments and it has been the changes in market structure over 30 years or so of reforms and opening up that have altered the business model, management system and development format of the banking industry, hence demonstrating the unique development path of PRC's banking industry. We may divide the development of PRC's banking industry into four stages based on the time difference in importance of the impact of the three major lines.

Among which, the initial stage (1978-1984) and the early construction stage (1985-1994) of PRC's banking industry mainly reflected the need to construct a market structural framework of the banking system then at a stage of economic transition. Under the market environment at that time, the banking system was more of pondering on how to achieve the conceptual transformation of the financial system from an administrative approach to a market-oriented approach, instead of on how to carry out the operation and management of commercialization in details. In the enhancement stage (1995-2002) of PRC's banking industry, the operational mechanism of commercialization aroused attention for the first time, in particular the liberalization of line of credit as a crucial means to control indirect financing had led to the first confrontation of PRC's banking industry with market challenges and the inherent lack of awareness of state-owned banks toward commercialized operations brought forth huge risks to PRC's banking industry in this stage. The transition of state-owned commercial banks into commercialized operations was imminent. Thereafter, along with the completion of the shareholding system reformation of state-owned banks, PRC's banking industry has entered into a new development stage (2003-present). The restructuring of state-owned banks has enabled them to preliminarily establish a corporate governance structure compliant with modern corporate requirements and that business and management have also underwent aggressive changes with the introduction of strategic investors. On the basis of a gradually improving asset quality of the banking industry, the last fortress in the financial control of PRC's banking industry – the monopoly of spreads has also faced new market pressures. The establishment of multi-level financial system has directly threatened the profits of the banking industry in which the monopoly of spreads being the important driving factor . The business transformation of different types of commercial banks has become their key to survival and development in the new competitive environment.

Figure 3-3 Development stages of PRC's banking industry



Source: Industrial Securities

2. ***Status and characteristics of the developments of China's banking industry***

(1) Further intensification of reformation of large commercial banks

The Agricultural Bank of China was successfully listed on the A share market on 15 July 2010 and the H share market in Hong Kong on 16 July 2010. The listing of the Agricultural Bank of China has marked the important and fruitful achievements of the reformation of PRC's state-owned commercial banks.

As at the end of 2009, the scale of total asset of large commercial banks amounted to RMB40.1 trillion, representing a year-on-year increase of 25.9%. Outstanding NPLs were RMB362.73 billion, representing a decrease of RMB58.10 billion from the beginning of the year; NPL ratio was 1.80%, representing a decline of 1.00 percentage point from the beginning of the year. The capital adequacy ratio of the Industrial and Commercial Bank of China, the Bank of China, the China Construction Bank and the Bank of Communications reached 12.36%, 11.14%, 11.70% and 12.00%, respectively; NPL ratio was 1.54%, 1.52%, 1.50% and 1.36%, respectively; the net profit was RMB128.599 billion, RMB80.819 billion, RMB106.756 billion, RMB30.075 billion, respectively; and the provision coverage ratio was 164.41%, 151.17%, 175.77% and 151.05%, respectively.

The reformation of large state-owned commercial banks has driven the continuous improvement in the level of service and competitiveness of the overall banking industry, laying solid foundation for the healthy and steady operation of the national economy as well as the financial stability and safety.

(2) Sound operation of joint-stock and city commercial banks

The scale of joint-stock and city commercial banks has grown continuously and their market positions are on the rise. As at the end of 2009, the total asset size of 12 joint-stock commercial banks and 144 city commercial banks reached RMB17.46 trillion, with market share accounting for 22.21% of the national banking industry. In many cities, the market share of medium and small-sized commercial banks has exceeded that of other types of financial institutions and their support to the economy is being strengthened gradually.

The operation of joint-stock and city commercial banks is sound and various monitoring indicators have been improved year by year, with business conditions in 2009 even hovering at the best levels in history. Firstly, asset quality has improved significantly. As at the end of 2009, the NPL ratio of joint-stock commercial banks decreased to 0.95% and that of city commercial banks dropped to 1.30%. Secondly, risk control and resilience capabilities has improved significantly. As at the end of 2009, the capital adequacy ratio of joint-stock commercial banks was 10.27% and that of city commercial banks was 12.96%; loan provisioning coverage ratio was 202.00% for joint-stock commercial banks and 182.28% for city commercial banks as at the end of 2009. Thirdly, earnings capabilities have grown continuously. As at the end of 2009, the ROE and the ROA for joint-stock commercial banks were 18.40% and 0.90%, respectively while the ROE and the ROA for city commercial banks were 15.87% and 1.01%, respectively.

(3) Significant effects of the rural financial reforms

The pilot program of new rural financial institutions has achieved significant effects and the scope of trials has enlarged to the whole country. As at the end of 2009, there were 172 new rural financial institutions established nationwide, of which 148 were rural banks, 8 were lending companies and 16 were rural mutual cooperatives. There were 16 rural mutual cooperatives in the trial regions. Rural funds of the trial regions have started to return, the rural financial market competitiveness is strengthened, and the rural financial services have been actively improved.

(4) Steady increase in cross-border service capability of the banking industry

In 2009, the opening up of PRC's banking industry further expanded. The capital and provisioning of business institutions of foreign banks in PRC were adequate, the quality of their assets was good, alongside relatively good liquidity and earnings conditions. As at the end of 2009, a total of 13 national and regional banks established 33 wholly foreign-owned banks, 2 joint venture banks and 2 wholly foreign-owned financial companies; 24 national and regional banks set up 71 branches and 194 national and regional banks from 46 countries and regions set up 229 representative offices in PRC. As at the end of 2009, the total asset size of foreign banks in PRC amounted to RMB135 million, representing a year-on-year increase of 0.3% and accounting for 1.71% of the total asset size of the country's financial institutions; outstanding loans were RMB702.4 billion, representing a year-on-year decrease of 1.03% and accounting for 1.7% of the total outstanding loans of all financial institutions; the balance of all deposits was RMB701.8 billion, representing a year-on-year increase of 23.3%. The average capital adequacy ratio and core capital adequacy ratio of foreign banks in PRC were 21.22% and 20.76%, respectively.

Meanwhile, the financial institutions of PRC's banking industry have accelerated the layout of overseas institutions in the expansion of business, striving for the increase in cross-border financial service capability. As at the end of 2009, a total of 84 top-tiered overseas business institutions were established by 5 major banks. There were acquisitions of (or equity participation in) altogether 7 overseas institutions by large commercial banks, involving a total acquisition amount of approximately USD8.67 billion.

(5) Fruitful results in financial innovation

Under the environment of an increasingly high level of globalization of the banking industry, in face of tougher international and domestic competition, PRC's banking industry has continuously improved its innovation capability and comprehensive competitiveness, achieving fruitful results in financial innovation. Since 2009, banking institutions have been actively developing consumer credit business including cars and home appliances and developing financial innovation which was beneficial to the promotion of consumption. Consumer credit with auto loans, credit card consumption and mortgage loans as the main force has grown rapidly, vigorously driving the growth in consumption.

3. *Current banking policies in PRC*

(1) Moderately easing macro-financial environment

The growth in domestic money supply was relatively fast. The balance of broad money supply was RMB60.62 trillion as at the end of December 2009, representing a year-on-year increase of 27.6%; RMB65.0 trillion as at the end of March 2010, representing a year-on-year increase of 22.5%; and there was a certain extent of decline as compared with the growth of the same period last year. The balance of renminbi-denominated loans of financial institutions increased year-on-year by 31.74% to RMB39.97 trillion in the end of 2009 and by 24.1% to RMB45.4 trillion in the end of March 2010. The balance of renminbi-denominated deposits of financial institutions increased year-on-year by 28.21% to RMB59.77 trillion in the end of 2009 and by 21.7% to RMB65.3 trillion in the end of March 2010. On the basis of five downward adjustments of benchmark interest rate for deposits and loans since September 2008, the policy on interest rate of deposits and loans has remained stable and the weighted average interest rate for loans was 5.51% in March 2010, representing an increase of 0.26% from the beginning of the year. In 2009, the national foreign reserves increased by USD453.1 billion, representing a year-on-year increase of 23.29%.

(2) Steady and healthy development of the financial system

In 2009, financial institutions cooperated with relevant competent authorities in strengthening the monitoring and evaluation of systematic risks of the banking, securities and insurance industries, closely monitoring cross-financial instrument risks, coordinating with regulatory departments on the handling of illegal fund raising matters, further consolidating the management of refinancing and the commissioning of disposal in assets for financial stability, jointly fostering the steady and healthy development of PRC's financial system.

(3) Steady start of the pilot program of cross-border Renminbi trade settlement

As at the end of 2009, banks had accumulated 409 deals amounting to RMB3.58 billion in cross-border Renminbi trade settlement. There were altogether 160 Renminbi trade settlement accounts opened by domestic agent banks for overseas participating banks and the balance of accounts was RMB690 million. The Bank of China (Hong Kong) Limited opened a total of 53 Renminbi trade settlement accounts for overseas participating banks and the balance of accounts was RMB48.62 billion.

PRC's banking industry will continue to implement a moderately loose monetary policy, capturing well the degree, pace and focus of policy implementation, maintaining the continuity and stability of policies, enhancing relevance and flexibility, consolidating liquidity management, maintaining a moderate growth in money and credit. Meanwhile, it will steadily push forward interest rate marketization reforms, improving Renminbi exchange rate formation mechanism, driving the healthy development of the financial market.

4. Future development trends

(1) The amount of financing for banking institutions will increase to some extent and China will still implement a moderately easing monetary policy

At present, the capital adequacy ratio of key banking institutions has approached the minimum requirements provided by the regulatory departments. In the aim to enhance the risk management capability of commercial banks, banking institutions are required to replenish working capital correspondingly. In order to reduce the impact on the market, relevant market players will implement the diversification of financing under the guidance of regulatory departments so as to expand the financing size of the financial market. PRC's multi-level capital market further improves, satisfying the diversified financing needs better. The number of financing entities will increase further and the amount of financing will increase correspondingly. In 2009, PRC's financial market underwent a certain degree of innovation in financing instruments targeting relevant players including SMEs and local governments. With these financing instruments getting mature in time, the amount of financing may expand further in the coming fiscal years.

(2) The degree of improvement in market products and financing structure will increase to some extent

In 2010, PRC will focus in the support towards economic development and the adjustment of economic structure. As an important fund allocation format, the financing structure of the financial market will make corresponding adjustments. Meanwhile, in the aim to push the economy into an innovation-driven development path of endogenous growth, the pace of product innovation of the financial market will accelerate to some extent. The financing structure of the financial market will be further improved and relevant regulatory departments will increase the degree of guidance and control toward market financing in order to enhance the financing structure of the financial market and to guide market funds for the increase in support towards economically and socially vulnerable areas, employment, strategically new industries, industrial transfer and others, effectively easing the difficulty in financing for small companies and vigorously developing consumer credit.

(3) Relevant system construction of the financial market will continue to proceed

In regard to system construction, the construction of the gold market system will continue to be promoted in order to guide and push forward the steady standardization in the gold business of financial institutions. The system of supervision and regulation of over-the-counter derivatives market will be further improved. In terms of infrastructure construction, the clearing agency system will be further improved and the policy support obtained by clearing agencies will increase to a certain extent.

(4) Steady expansion of the opening up of the financial market

The promotion of the pilot program of cross-border Renminbi trade settlement will raise requirements for the opening up of the financial market. Along with the gradual increase in the volume of Renminbi held by overseas entities, the demand for the diversification of asset allocation will become inevitable, raising requirements toward the development of the money market and others. Overseas Renminbi business will be further developed and the pace of the opening up of PRC's financial market will also be speeded up correspondingly.

(III) PAB's business analysis

PAB, one of the three major business pillars of Ping An of China, has achieved distinguished results in key target markets including retail, credit card and SMEs in the last few years relying on Ping An of China's powerful edge in comprehensive financial service. Its core competitiveness is shown in the following aspects:

1. Customer resources. Through the successful establishment of the cross-selling model with Ping An of China, the rapid transformation of the Group's huge customer groups is achieved.

2. Management. Reinforcement/IT concentration, efficiency improvement, risk control and cost reduction have provided strong support to business expansion. The Group's powerful capital strength. Ping An's brand presence and management culture.

3. Channel. The development of PAB's sales channels with the support of Ping An Group. The promotion of remote account opening to achieve non-physical network expansion. The reliance on the Group' immense IT resources to establish leading online banking for groundbreaking developments.

The above aspects have jointly formed the core competitiveness of PAB, enabling PAB to develop rapidly in the last few years.

Deposits: PAB's customer deposits grew at a CAGR of 27.2% over the period from RMB72 billion in 2006 to RMB168 billion in June 2010.

Loans: PAB's total loans grew at a CAGR of 30.5% over the period from RMB47 billion in 2006 to RMB121 billion in June 2010.

Total assets: PAB's total assets grew at a CAGR of 31% over the period from RMB82 billion in 2006 to RMB231.6 billion in June 2010.

NPL ratio: PAB's NPL ratio declined from 6.51% in 2006 to 0.45% in June 2010. It has the best asset quality among listed domestic banks.

Provision coverage ratio: Since 2008, PAB's provision coverage ratio has been maintained at a level of over 150% in accordance with the requirement of the CBRC.

Capital adequacy ratio: PAB's capital adequacy ratio hit 13.05% in 2009 given the capital injection of the Group. It reached 11.75% in June 2010, mainly attributed to the overly rapid growth in scale of banking assets. Along with the rapid growth in asset scale, PAB will be required to increase capital adequacy ratio through the replenishment of capital or the issue of subordinated debentures.

Net profit: PAB's net profit increased from RMB300 million in 2006 to RMB900 million in the first half of 2010 and is expected to reach RMB1.75 billion through 2010 which will be 5.8 times over that of 2006.

IV. Net Cash Flow Forecast

(I) Operating income forecast

The main sources of revenues of the appraisal target are interest income from loans, deposits at the Central Bank and interbank borrowing and lending as well as revenues from bond investments.

1. Forecast of interest income from loans

Table 4-1 Compound growth of loans of China's commercial banks upon listing

Stock code	Name of stock	Loans	Term
000001.SZ	Shenzhen Development Bank-A	29.77%	10
002142.SZ	Bank of Ningbo	36.47%	5
600000.SH	Shanghai Pudong Development Bank	32.73%	10
600015.SH	Hua Xia Bank	25.28%	9
600016.SH	Minsheng Bank	48.63%	10
600036.SH	China Merchants Bank	30.49%	10
601009.SH	Bank of Nanjing	36.98%	7
601166.SH	Industrial Bank	32.18%	7
601169.SH	Bank of Beijing	20.19%	5
601998.SH	CITIC Bank	26.35%	5
	Total	31.91%	6

Through due diligence, interviews and the profit forecast provided by the company, the appraisers expect that the average interest rate of loans through 2010 will be maintained at the level in the first half of 2010. As for 2011, considering the regulatory requirement on capital adequacy ratio, the company will make appropriate adjustment of loan structure, it is expected that the composite interest rate of loans will decrease slightly and the average interest rate of loans through 2011 will decrease by 5 basis points over 2010. After 2011, the average interest rate of loans will be maintained at the level of 2011. For details of the profit forecast, please refer to Table 4-2.

Table 4-2 Forecast of interest income from loans

Unit: RMB million

	2H 2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Interest income from loans	3,336	7,755	9,183	10,773	12,369	14,043	15,655	17,184

2. Forecast of interest income from deposits at the Central Bank and interbank borrowing

PAB's average rate of return on deposit reserves in the first half of 2010 rose by 4 basis points over 2009. It is expected that the average rate of return on deposit reserves in the second half of 2010 will be continually maintained at the level of the first half year. Assuming that there is no change in the legal reserves rate in 2011, it is expected that the rate of return will be maintained at the level of 2010. After 2011, the rate of return on legal and excess reserves will be maintained at the level of 2011.

Table 4-3 Forecast of interest income from deposits at the Central Bank

Unit: RMB million

	2H 2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Interest income	218	538	634	740	851	966	1,078	1,187

3. Forecast of interest income from interbank borrowing and lending

PAB's average rate of return on interbank borrowing and lending increased by 61 basis points in the first half of 2010 as compared with that of 2009. With the blending of streamlining and the promotion of benefits in companies' business strategies toward interbank business, it is expected that the average rate of return in the second half of 2010 will continue to be maintained at the level of the first half year. It is expected that market interest rate will be maintained at a steady level in 2011 in the absence of impact from interest rate hike. For 2011 and thereafter, the rate of return on interbank borrowing and lending is seen to be maintained at the level of 2010.

Table 4-4 Forecast of interest income from interbank borrowing and lending

Unit: RMB million

	2H 2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Interest income from interbank borrowing and lending	226	308	352	413	474	538	600	659

4. Forecast of revenues from bond investments

In the current year, PAB has gradually increased high yield bonds to a certain proportion in the categories of available-for-sale and held-to-maturity bonds in order to increase interest income. Return on bonds for the full year of 2010 will increase by 4 basis points over that of 2009. Besides, PAB will maintain a stable bond investment strategy and bond interest rates through 2011 are seen to increase by 6 basis points over that of 2010. In 2012, it is expected that bond rates will increase by 5 basis points over that of 2011.

Table 4-5 Forecast of revenues from bond investments

Unit: RMB million

	2H 2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues from bond investments	1,013	2,386	2,618	3,069	3,525	4,001	4,462	4,901

5. Fee and commission income

PAB's fee and commission income mainly refers to the income from settlement and clearing fees, agency fees, bank card fees and revenues from custody business and other fiduciary businesses, as well as other businesses.

The pace of growth in net fee and commission income of PRC's listed banks is extremely fast, with 10 listed banks recording a CAGR of 57.18%. The appraisers have considered PAB's own factors on one hand and the impact of these factors on the other hand in the forecast of PAB's net fee and commission income.

Table 4-6 Compound growth rate of net fee and commission income of PRC's listed commercial banks

Stock code	Stock short name	Net fee and commission income	Term
000001.SZ	Shenzhen Development Bank-A	52.77%	10
002142.SZ	Bank of Ningbo	51.53%	5
600000.SH	Shanghai Pudong Development Bank	47.43%	10
600015.SH	Hua Xia Bank	36.27%	9
600016.SH	Minsheng Bank	81.40%	10
600036.SH	China Merchants Bank	49.31%	10
601009.SH	Bank of Nanjing	53.93%	7
601166.SH	Industrial Bank	71.26%	7
601169.SH	Bank of Beijing	68.44%	5
601998.SH	CITIC Bank	59.44%	5
	Total	57.18%	6

Settlement fee income is mainly derived from the foreign exchange business. Based on network expansion, expected growth in the number of customers and the actual conditions of settlement fee income of RMB23 million in the first half of 2010, the company expects that settlement fee income will grow at a relatively fast speed in 2010 and 2011 but the speed will decelerate gradually. Please refer to Table 4-7 for the forecast details.

From 2007 to 2009, given the company was at a phase of transition and was subject to the impact of the financial crisis, there was a contraction in agency fee income. However, along with the completion of collusion on cross-selling business with other subsidiaries of the Group, the agency business will be back on the right track gradually. Based on the actual conditions of the satisfactory growth in agency fee income in the first half of 2010 (an increase of 25% over that for the full year of 2009), it is expected that agency fee income will continue to grow at a relatively stable speed in 2010, 2011 and beyond.

Fiduciary business fee includes credit line management fee, entrusted loan fee income, quota fee and comprehensive financial planning fee income. The company expects that it will increase by 15% year-on-year through 2010. Along with the recovery in credit line management fee, the increase in the number of branches and outlets, the exploration of various types of companies and retail financial planning business as well as the intense development of cross-selling with the Group, the growth is seen to reach 35% in 2011.

The growth in bank card fee income is mainly attributed to the continuous expansion of the credit card business. The total number of credit cards issued in 2009 and in the first half of 2010 was 3.4 million and 4.3 million respectively. The company forecasts that the number for 2010 and 2011 will exceed 5 million and 8 million respectively. Based on historical data in combination with future plans of the credit card business, the company expects that bank card fee income will also maintain a correspondingly substantive growth. It is expected that bank card fee income will still grow rapidly in 2011, maintaining a relatively fast speed of development.

The growth in other fees is mainly attributed to the growth in investment banking commission. Along with the continuous development of the investment banking business, it is expected that the speed of growth will become stable after 2011.

Table 4-7 Forecast of fee income

Unit: RMB million

	2H 2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Settlement and clearing fees	24	60	111	164	212	259	313	376
Agency fees	13	37	44	52	61	69	78	88
Bank card fees	169	616	1,078	1,725	2,406	3,272	4,418	5,893
Commission from custody and other fiduciary businesses	84	227	431	712	968	1,258	1,616	2,036
Others	28	160	213	266	314	364	419	477

(II) Cost forecast

1. Forecast of deposit interest expense

The forecast of the growth in the company's personal and corporate savings for 2010 and 2011 is based on the historical changes in the past two years and are basically the same. It is expected that the speed of growth in deposits and loans will be maintained at the same level in 2011, in other words the speed of growth will hover at a relatively high level but it will stabilize gradually.

Given the impact of the interest rate cut in 2008, the interest rates for new deposits and re-priced fixed deposits were relatively low in 2009, leading to the decline in average interest rate in 2010. On the other hand, there is a rise in proportion of current deposits in total deposits in 2010, resulting in a decline in average interest rate. The company expects that interest rate for the full year of 2011 will decrease by 15 basis points and the deposit interest rate in 2011 will be maintained at the level of 2011.

Table 4-8 Table of forecast for interest expenses on deposits

Unit: RMB million

	2H 2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Interest expenses on deposits	1,394	2,984	3,512	4,104	4,717	5,352	5,976	6,579

2. *Forecast for interest expenses on balances and placements from banks and financial institutions*

According to the company's estimation, the average return on balances and placements from banks and financial institutions for 2010 will increase by 16 basis points. In 2011, a small portion of term deposits from banks and financial institutions will expire. The company expects that the average interest rate of balances and placements from banks and financial institutions for 2011 will decrease slightly by 5 basis points when compared with that of 2010. It will be much lower than that of 2008. It is expected that the average interest rate of balances and placements from banks and financial institutions after 2011 will be maintained at the same level of 2011.

Table 4-9 Table of forecast for interest expenses on balances and placements from banks and financial institutions

Unit: RMB million

	2H 2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Interest expenses on balances from banks and financial institutions	481	1,041	1,223	1,426	1,637	1,855	2,070	2,277

3. *Forecast for interest expenses on bonds*

In June 2009, PAB issued subordinated bonds of RMB3 billion in the interbank bond market, among which RMB1.15 billion are fixed interest rate bonds and RMB1.85 billion are floating interest rate bonds. The bonds have a maturity period of 10 years and the company has the option to redeem them in the fifth year. As there is no plan to issue new bonds in 2010 and 2011, the company expects that the average balances of bonds payable in 2010 and 2011 will be maintained at the same level of 2009. According to the plan, PAB will continue to issue subordinated bonds of RMB3 billion after the 2009 subordinated bonds expire.

In the first five years, the coupon rate of the abovementioned fixed interest rate bonds is 4.4% per annum and the coupon rate of the floating interest rate bonds is determined based on the rate of one-year term deposit interest rate plus 165 basis points per annum. Among such subordinated bonds, 62% are subject to the floating interest rate. It is expected that the interest rate of subordinated bonds in 2011 will be maintained at the same level of 2010. Also, the interest rate of new subordinated bonds to be issued after 2013 is expected to maintain at the same level of the abovementioned bonds.

Table 4-10 Table of forecast for interest expenses on bonds

Unit: RMB million

	2H 2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Interest expenses on bonds	63	125	125	125	125	125	125	125	125	125

4. Fees and commission expenses

Due to the continuous growth in credit card business, in 2008 and 2009, the actual growth rate of bank cards fee expenses reached 150% and 90% respectively. In the second half year of 2009, the company made three commitments including free global ATM withdrawal, free transfer through individual online banking and compensation by the company for any loss incurred during the use of individual online banking which is not due to customers' mistakes. These three commitments have created great pressure on the bank cards fee expenses. Given the future plan of credit card business together with these three commitments, it is expected that the bank cards fee expenses will continue to maintain a growth to a certain extent.

The fees and commission expenses are closely related to the income. While the income increases, the fee expenses will see a relatively rapid growth.

Table 4-11 Fees and commission expenses

Unit: RMB million

	2H 2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Fees from clearing and settlement business	16	33	44	59	78	102	129	152
Fees from bank card business	37	136	184	248	332	438	548	641
Fees from other businesses	4	9	12	16	21	26	32	37

(III) Forecast for income from other businesses

PAB's income from other businesses mainly includes investment gains, profits and losses due to change in fair value, exchange gains and others. It is expected that the market in second half year of 2010 and 2011 will become stable, forecast for the years after 2012 is not made, and the investment properties and equity investments will increase in value based on the book values. In the first half year of 2010, the realized exchange gains and losses resulted in an income of RMB19 million. However, taking into account the fluctuation of exchange rate, it is expected that the annual income will be RMB29 million. Given that the foreign currency settlement business is one of the company's major businesses, and the branches and network coverage will be increased successively, the exchange gains and losses will have a substantial growth in 2011. The appraisers do not make forecast for the income from other businesses after 2011.

(IV) Forecast for general and administrative expenses and business tax and surcharges

1. Estimation on staff cost

As disclosed in the statement, in 2009 and January to June of 2010, the selling expenses of the appraisal target were RMB1.059 billion and RMB656 million respectively, and the proportion of staff costs in the total operating income were 25% and 23% respectively. This assessment is to estimate the staff cost for the future years based on the composition of staff cost as well as the average proportion of staff cost to operating income for the previous years. It also takes into account the future development plan of the company as well as the proportion of staff cost to operating income of other listed companies in the same industry. See Table 4-12 for the forecast results.

2. *Estimation on administrative expenses*

As disclosed in the statement, in 2009 and January to June of 2010, the administrative expenses of the appraisal target were RMB1.265 billion and RMB687 million respectively, and the proportion of administrative expenses to operating income were 30% and 24% respectively. This assessment is to estimate the administrative expenses for the future years based on the historical annual administrative expenses and the average proportion of administrative expenses to operating income. It also takes into account the future development plan of the company as well as the proportion of staff cost to operating income of other listed companies in the same industry. See Table 4-12 for the forecast results.

Table4-12 Table of forecast for general and administrative expenses

Unit: RMB million

	2H 2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Staff cost	636	1616	1,976	2,465	2,925	3,205	3,655	4,138
General and administrative expenses	819	1,927	2,356	2,924	3,282	3,796	4,347	4,942

(V) Forecast for business tax and surcharges

The consolidated tax rate (including business tax) of PAB remains at 5.3% in Shenzhen and at 5.5% in other regions. According to the historical trend, the consolidated tax rate (including business tax) has been maintained within the range from 5.3% to 5.5%. As the business has been expanding nationwide, the consolidated tax rate will get close to 5.5%. Meanwhile, as the company's net income, including loan interest income and fees, has marked a significant increase, it is expected that the business tax and surcharges will increase by 31% in 2011. With reference to forecast for the statistical data in the future years after 2011, the appraisers will make forecast based on the proportion of business tax and surcharges to operating income in 2011. Please refer to Table 4-13 for the forecast in details.

(VI) Forecast for depreciation and amortization

The fixed assets of the appraisal target mainly include buildings, machinery, electronic equipment, motor vehicles, etc. The fixed assets are measured at cost when acquired. In this assessment, according to the policy of depreciation of fixed assets adopted by the company, the depreciation amount for the future operating periods is estimated based on the audited cost of fixed assets on the base date, expected useful life and weighted depreciation rate. The company implemented the business transformation during the period from 2007 to 2009, in which it made more investment in the infrastructure, such as information technology system and network construction. In 2010, as the peak of investment in information technology system has passed and new projects have gradually decreased, the growth rate of depreciation and amortization costs will decrease gradually. Based on the actual depreciation amount in the first half year of 2010, it is expected that the annual growth rate of depreciation and amortization costs in 2010 will be approximately 28%, and the growth rate will be further reduced to 20% in 2011. The depreciation and amortization costs after 2011 will be estimated based on the overall depreciation rate and amortization rate of the company in the previous years. See Table 4-13 for the details.

(VII) Forecast for impairment loss

The asset impairment losses of PAB mainly include impairment losses of loans. The appraisers forecast the asset impairment losses according to the increase in loans, provision rate and NPL ratio in the future years.

The mid-term NPL ratio of PAB in 2010 is 0.45%. At present, the company has a rigorous procedure for approving loans and a strict post-loan management. Hence, it is expected that there will not be substantial NPLs at the end of 2010 and in 2011. However, given that the total loans tend to increase, the NPL will slightly increase, yet it will be maintained at a relatively low level. Based on the data of listed companies and the future increase of loan to be provided by the company, the appraisers expect that the NPL ratio will reach the average industry level at around 1.4%.

With the forecast for NPL and the requirement of PRC banking industry that the company shall have the provision coverage of 150%, the appraisers expect in a prudent manner that the future loan coverage of the company will be 160%, and then forecast the asset impairment losses. See Table 4-13 for the detailed forecast.

(VIII) Forecast for income tax

In 2010, the income tax rate of PAB is 22% in Shenzhen and 25% in other regions. As the main business of PAB is operated in Shenzhen, it is expected that the income tax rate of PAB will approximate to that of Shenzhen. The income tax rate of Shenzhen will be adjusted to 24% in 2011. Given that the business in Shenzhen remains substantial and in view of tax exemption, it is expected that the effective income tax rate will be close to the income tax rate of Shenzhen invariably. See Table 4-13 for the detailed forecast.

(IX) Forecast for supplementary capital adequacy ratio and retained profit

In accordance with the requirement of PRC banking industry, the capital adequacy ratio of small and medium-sized banks shall be maintained at more than 10%. Also, the core capital adequacy ratio must reach 7% if bonds are expected to issue. Based on the speeds of development and asset expansion of PAB, in order to ensure that the capital adequacy ratio and core capital adequacy ratio in the earning forecast can meet the requirement, it is necessary to retain an appropriate amount of undistributed profit, which means that retained profit will be used to increase the net capital and meet the requirement of capital adequacy ratio.

The percentage of risk assets in total assets of PAB in the previous periods ranged from 66% to 69%. When calculating the capital adequacy ratio, the appraisers have adopted a figure between them of 67% to be the percentage of risk assets in total assets.

(X) Result of forecast for net cash flow

In this assessment, the estimation for the future profit is a professional judgment made according to combined conditions which include the business operating history and the future market development, etc. mainly based on the verification of historical operating income, costs and financial information disclosed in the statement of the appraisal target as well as the market research studies and analyses on the industry.

Table 4-13 Forecast for net cash flow in the future operating periods

Unit: RMB million

Item	2H 2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
I. Operating income	**3,157**	**7,824**	**9,601**	**11,937**	**14,269**	**16,870**	**19,758**	**22,987**
Net interest income	2,855	6,837	7,928	9,340	10,739	12,215	13,624	14,949
Interest income	4,793	10,987	12,787	14,995	17,218	19,548	21,796	23,931
Interest expenses	1,938	4,150	4,859	5,655	6,479	7,333	8,172	8,982
Net fees and commission income	261	922	1,638	2,597	3,529	4,655	6,134	8,038
Fees and commission income	318	1,100	1,878	2,919	3,961	5,222	6,843	8,869
Fees and commission expenses	57	178	239	323	431	567	709	831
Investment gain	23	13	36	–	–	–	–	–
Fair value gain and loss	5	6	–	–	–	–	–	–
Exchange gain and loss	10	37	–	–	–	–	–	–
Net income from other businesses	3	9	–	–	–	–	–	–

Unit: RMB million

Item	2H 2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
II. Operating expenses	**2,098**	**4,806**	**5,851**	**7,202**	**8,236**	**9,223**	**10,207**	**11,385**
Business tax and surcharges	188	491	537	630	723	821	915	1,005
General and administrative expenses	1,628	3,916	4,557	5,648	6,480	7,283	8,282	9,358
Asset impairment losses	282	399	757	924	1,032	1,119	1,010	1,022
III. Operating profit	**1,059**	**3,018**	**3,750**	**4,734**	**6,033**	**7,647**	**9,551**	**11,602**
Add: Non-operating income	16	9	–	–	–	–	–	–
Less: Non-operating expenses	–	–	–	–	–	–	–	–
Total profit	**1,075**	**3,027**	**3,750**	**4,734**	**6,033**	**7,647**	**9,551**	**11,602**
Less: Income tax expenses	237	727	892	1,137	1,449	1,836	2,294	2,786
IV. Net profit	**838**	**2,300**	**2,858**	**3,597**	**4,584**	**5,810**	**7,257**	**8,816**
Add: Depreciation	70	140	164	200	218	229	230	230
Amortisation	29	64	61	58	56	53	50	48
Provision for impairment	287	397	757	924	1,032	1,119	1,010	1,022
Increase in deferred income tax	63	87	167	203	227	246	222	225
Add: Net cash inflow:	–383	–6,119	–104	–4,058	–5,050	–5,013	–5,063	–5,059
Including: Cash inflow	29,874	49,594	11,669	40,478	48,522	51,576	52,091	51,506
Additional interest-bearing liabilities	29,725	49,101	11,296	40,047	48,023	51,057	51,575	51,008
Other additional liabilities	149	494	373	431	500	519	516	498
Including: Cash outflow	30,257	55,713	11,773	44,536	53,572	56,589	57,154	56,565
Fixed assets	188	282	166	135	74	61	107	123
Intangible assets	50	60	49	47	45	42	40	38
Additional investment in interest-bearing assets	29,847	51,978	11,354	41,831	50,487	53,508	54,033	53,428
Net value of other additional investment	172	393	203	524	466	477	474	476
Retained profit		3,000		2,000	2,500	2,500	2,500	2,500
V. Free equity cash flow	903	-3,130	3,904	925	1,067	2,445	3,706	5,281
VI. Discount period	0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50
VII. Discount coefficient	0.9386	0.8269	0.7285	0.6418	0.5655	0.4982	0.4389	0.3867
VIII. Discount value	848	–2,589	2,844	594	603	1,218	1,626	2,042
IX. Equity value	**848**	**–2,589**	**2,844**	**594**	**603**	**1,218**	**1,626**	**2,042**

V. Determination of Equity Capital Value

(I) Determination of discount rate

1. Risk free return (r_f)

With reference to the average interest rate of mid- and long-term government bonds issued by the PRC Government during the previous five years (see Table 4-14), the approximation of risk free return (r_f)is determined based on the average interest rate of government bonds of more than ten years (i.e. r_f = 3.83%).

Table 4-14 Interest rate of mid- and long-term government bonds

No.	Government bond code	Government bond name	Term	Effective interest rate
1	100501	Government Bond 0501	10	0.0449
2	100504	Government Bond 0504	20	0.0415
3	100512	Government Bond 0512	15	0.0368
4	100603	Government Bond 0603	10	0.0282
5	100609	Government Bond 0609	20	0.0373
6	100616	Government Bond 0616	10	0.0294
7	100619	Government Bond 0619	15	0.0330
8	100703	Government Bond 0703	10	0.0343
9	100706	Government Bond 0706	30	0.0432
10	100710	Government Bond 0710	10	0.0445
11	100713	Government Bond 0713	20	0.0457
12	100802	Government Bond 0802	15	0.0420
13	100803	Government Bond 0803	10	0.0411
14	100806	Government Bond 0806	30	0.0455

No.	Government bond code	Government bond name	Term	Effective interest rate
15	100810	Government Bond 0810	10	0.0446
16	100813	Government Bond 0813	20	0.0500
17	100818	Government Bond 0818	10	0.0371
18	100820	Government Bond 0820	30	0.0395
19	100823	Government Bond 0823	15	0.0365
20	100825	Government Bond 0825	10	0.0292
21	100902	Government Bond 0902	20	0.0390
22	100903	Government Bond 0903	10	0.0307
23	100905	Government Bond 0905	30	0.0406
24	100907	Government Bond 0907	10	0.0304
25	100911	Government Bond 0911	15	0.0372
26	100912	Government Bond 0912	10	0.0311
27	100916	Government Bond 0916	10	0.0351
28	100920	Government Bond 0920	20	0.0404
29	100923	Government Bond 0923	10	0.0347
30	100925	Government Bond 0925	30	0.0422
31	100927	Government Bond 0927	10	0.0371
32	100930	Government Bond 0930	50	0.0435
	Average			**0.0383**

2. β_e *value*

Compared to 10 comparable companies' shares of the same class listed in Shanghai or Shenzhen, and according to the measurement and estimation based on the market prices during the period from January 2007 to June 2010, the estimated risk coefficient β_e of the equity capital of the appraisal target is = 1.0236;

3. *Market risk premium (r_{pm})*

The domestic A share market is an emerging market of relatively closed-end type with less historical data. Besides, the market is comparatively speculative and highly volatility.

According to the analysis in the study report on PRC's overseas listed companies made by Haitong Securities, the implied equity risk premium of MSCI PRC Free Index estimated by CSFB is 7.6% on average during the period from 1998 to the present, with a standard deviation of 2.3. Goldman Sachs has estimated that the implied equity risk premium of MSCI China Free Index as compared to the US 10-year treasury yield is 7.5% on average for the previous ten years with a standard deviation of 2.6.

CIRC has started the operation of embedded value reporting system and prepared the Guidelines for Reporting and Preparation of Embedded Value of Life Insurance (Draft) (《人身保險內含價值報告編制指引》（草案）), which points out that "generally, the limit of risk adopted by insurers shall not be lower than 5% and higher than 10%. For insurers with higher risk, the limit of risk adopted may exceed 10%".

Based on some international capital market researches, the historical data of market risk premium in different countries are as follows:

No.	**Characteristics of financial market**	**Market risk premium** *(%)*
1	Emerging markets with political risks (South America, Eastern Europe)	8.5
2	Developing markets (Asia (excluding Japan), Mexico)	7.5
3	Large-scale developed markets (The United States, Japan, The United Kingdom)	5.5
4	Small-scale developed markets (Western European markets (excluding Germany and Switzerland))	4.5-5.5
5	Small-scale and economically stable developed markets (Germany and Switzerland)	3.5-4

To sum up the aforesaid data, the market risk premium (rpm) of 7.5% is used in this assessment.

4. The special risk adjustment coefficient of PAB (ε)

The appraisal target in this assessment is an unlisted company. PAB, a reference bank and a listed company used for comparison, has its special liquidity risk and scale risk. Taking into account the statistical data, the discount coefficient of the consideration paid in the floating of the listed companies of this industry is 18.93%. The adjustment coefficient of liquidity risk is calculated as follows:

Table 4-15 Table of consideration of liquidity discount

Security code	Security abbreviated name	Consideration converted into bonus shares (WIND calculated value)
000001.SZ	Shenzhen Development A	0.257
600000.SH	Shanghai Pudong Development Bank	3
600015.SH	Hua Xia Bank	3
600016.SH	Minsheng Bank	3
600036.SH	China Merchants Bank	2.4207
Average		2.3355

Average discount coefficient = 1 – 10 ÷ (10 + 2.3355) = 18.93%

The effect of special liquidity risk upon the adjustment coefficient

$= \beta_e \times r_{pm} \times 18.93\%$

$= 1.0236 \times 7.5\% \times 18.93\%$

$= 1.45\%$

In addition, given that the scale of PAB is smaller than 10 comparable banks listed in Shanghai or Shenzhen to which we referred in calculating βe, the scale adjustment coefficient of 0.5% is used. Coupled with the liquidity risk and scale risk, the rounded-up special risk adjustment coefficient of the company is ε = 0.02.

5. Equity capital cost (r)

In this assessment, the expected risk coefficient of equity capital (β_e) of the appraisal target has been determined by reference to 10 comparable companies with similar size listed in Shanghai or Shenzhen. Lastly, the equity capital cost (r) of appraisal target is calculated as follows:

$r = 0.0383 + 1.0236 \times 7.5\% + 0.02$

$= 0.1351$

(II) Present value at the stage of rapid income growth

The net cash flow at the stage of rapid growth (Table 4-13) is put in the model of the first stage in order to derive the present value at the stage of steadily rapid growth of the appraisal target

= RMB7,186,999,400

(III) Present value at the stages of fixed income growth and steady income

The appraisers expect that the years from 2018 to 2022 will be the fixed growth stage of the company. Given that the future economic growth of China will not be lower than 8% before 2020 and the growth of banking industry will be slightly faster than the overall economic growth, the company's cash flow of income will rise at a speed of 20 percentage points higher than 8% (i.e. 9.6%), and the income after 2022 will become steady. See Table 4-16 for the detailed forecast and discount values.

Table 4-16 Table of forecast for the present values at the stages of fixed income growth and steady income growth

Unit: RMB million

Item	Fixed growth stage					Perpetual period of steady income
Year	2018E	2019E	2020E	2021E	2022E	After 2023
Cash flow of equity	5,788	6,344	6,953	7,621	8,352	8,352
Discount period	8.5	9.5	10.5	11.5	12.5	13.5
Discount coefficient	0.3406	0.3001	0.2644	0.2329	0.2052	
Equity value	1,972	1,904	1,838	1,775	1,714	12,690

(IV) Equity capital value

The equity capital value of the appraisal target is:

$$P = \sum_{n=1}^{i_1} \frac{R_i}{(1+r)^{i_1}} + \sum_{n=1}^{i_2} \frac{R_i}{(1+r)^{i_2}} + \frac{Rn+1}{r(1+r)^n}$$

= RMB7,186,999,400 + RMB9,203,421,100 + RMB12,690,055,200

= RMB29,080,475,600

PART 3 VALUATION TECHNIQUE OF MARKET METHOD

I. Introduction to the market method

The market method is a valuation method used to determine the appraisal target's value by comparing the equity assets of the appraisal target, such as shareholders' equity and securities, with those of the reference companies and companies which had precedent transactions in the market. Two methods, namely guideline public company method and guideline transaction method, are usually used under the market method. In view of the fact that it is difficult to collect information of guideline transactions in the PRC, and also impossible to know whether there is any non-market value factor involved in those transactions, it is therefore not appropriate to select the guideline transaction method. Given that there are comparable listed companies in the banking industry, the method selected for this valuation shall be the guideline public company method, a method of estimation of the reasonable value of the appraisal target by comparing the appraisal target with listed peers and by making appropriate adjustments of the available prices and economic data of these listed peers. Valuation by the market comparison method was conducted through the following steps:

A. Collecting the information of listed banks to select and determine sample banks available for comparison.

B. Analyzing the sample banks and the appraisal target to select parameters and indicators for comparison so as to determine the comparison system.

C. Calculating the initial value ratio based on the comparable values and every parameter of each of the sample banks.

D. Reaching an initial appraised value of every parameter of the appraisal target by multiplying each of the value ratios of each of the sample banks by every parameter of the appraisal target.

E. Reaching the estimated value of the appraisal target by comparison with each of the sample banks after calculating the average of the initial appraised value of every parameter of the appraisal target.

F. As regards the estimated value of the appraisal target reached by comparison with each of the sample banks, calculate its average and choose its median respectively so as to determine the estimated value of the appraisal target.

G. Choosing the most reasonable estimated value to be the appraised value of the appraisal target after the deduction of liquidity discount.

II. The selection of comparable companies

The appraisee is PAB, which is engaged in the banking industry. There are 16 banks listed on the A-share market. In view of the actual conditions and development scale of PAB, 4 state-owned listed banks, 1 large-scale joint stock commercial bank and 2 newly listed banks, namely, Industrial and Commercial Bank of China, Bank of China, China Construction Bank, Bank of Communications, China Merchants Bank, Agricultural Bank of China and Everbright Bank, are excluded from the list of comparable companies. Finally, the following 9 banks were selected as sample banks for the purpose of this valuation:

No.	Stock short name	Stock code
1	Bank of Ningbo	002142.SZ
2	Bank of Beijing	601169.SH
3	Hua Xia Bank	600015.SH
4	Shenzhen Development Bank A	000001.SZ
5	Bank of Nanjing	601009.SH
6	Shanghai Pudong Development Bank	600000.SH
7	China Minsheng Bank	600016.SH
8	Industrial Bank	601166.SH
9	China CITIC Bank	601998.SH

III. Determination of comparable parameters and indicators

Taking into account the purpose of this valuation, the appraisal target, the characteristics of the banking industry, and the indicators for financial analysis of companies, and combined with the disclosure of financial data of every bank, 7 financial indicators were selected, namely, total assets, total income, total deposits, total loans, total net assets, total net profit and net interest income.

To fully reflect and compare the historical operating conditions and development of the comparable banks and the appraisal target, so as to prudently estimate the value of the shareholders' equity of the appraisal target, comparable indicators and parameters of comparable banks from three relevant periods were selected. Indicators and parameters of comparable companies were extracted or derived from the financial information for the period of 2007-2009 as disclosed by their parent companies. Since the financial information of the appraisal target (being the appraisee, i.e., PAB) as at the valuation reference date can be obtained, thus the financial information of the appraisal target as at 30 June 2010 (as presented in its audited report) were used for this valuation.

The tables below set out the aforesaid indicators of each of the sample banks for comparison with the appraisal target:

Table 5.1 Bank of Ningbo

No.	Financial indicators	Sample bank 1 2007 values for indicators of Bank of Ningbo	Sample bank 1 2008 values for indicators of Bank of Ningbo	Sample bank 1 2009 values for indicators of Bank of Ningbo
1	Total assets	7,551,077.11	10,326,319.06	16,335,186.60
2	Total income	224,378.58	340,379.43	417,550.60
3	Total deposits	5,551,404.43	7,622,173.97	11,075,246.10
4	Total loans	3,603,418.00	4,846,637.78	8,076,783.00
5	Net assets	802,231.70	880,500.35	974,198.30
6	Total net profit	95,107.28	133,173.74	145,744.60
7	Net interest income	206,182.65	289,073.78	355,390.00

Table 5.2 Bank of Beijing

No.	Financial indicators	Sample bank 2 2007 values for indicators of Bank of Beijing	Sample bank 2 2008 values for indicators of Bank of Beijing	Sample bank 2 2009 values for indicators of Bank of Beijing
1	Total assets	35,422,294.10	41,702,101.90	53,346,931.80
2	Total income	764,186.20	1,230,405.50	1,189,410.50
3	Total deposits	25,968,675.60	31,584,011.40	44,693,870.30
4	Total loans	15,332,413.20	18,769,031.80	26,745,010.80
5	Net assets	2,666,794.50	3,381,363.30	3,757,777.10
6	Total net profit	334,819.70	541,658.40	563,279.60
7	Net interest income	720,037.80	1,108,850.10	1,095,392.20

Table 5.3 Hua Xia Bank

No.	Financial indicators	Sample bank 3 2007 values for indicators of Hua Xia Bank	Sample bank 3 2008 values for indicators of Hua Xia Bank	Sample bank 3 2009 values for indicators of Hua Xia Bank
1	Total assets	59,233,827.45	73,163,718.65	84,545,643.24
2	Total income	1,426,028.16	1,761,136.59	1,712,963.49
3	Total deposits	43,878,225.95	48,534,957.68	58,167,838.77
4	Total loans	29,854,935.28	34,566,797.39	41,945,224.70
5	Net assets	1,305,562.75	2,742,135.69	3,023,418.52
6	Total net profit	210,118.92	307,083.83	376,022.68
7	Net interest income	1,124,709.12	1,349,175.67	1,580,718.76

Table 5.4 Shenzhen Development Bank

No.	Financial indicators	Sample bank 4 2007 values for indicators of Shenzhen Development Bank	Sample bank 4 2008 values for indicators of Shenzhen Development Bank	Sample bank 4 2009 values for indicators of Shenzhen Development Bank
1	Total assets	35,253,936.10	47,444,017.30	58,781,103.40
2	Total income	1,080,750.20	1,451,311.90	1,511,444.00
3	Total deposits	28,127,698.10	36,051,403.60	45,463,520.80
4	Total loans	21,578,963.40	28,171,468.70	35,556,254.50
5	Net assets	1,300,606.30	1,640,079.00	2,046,960.90
6	Total net profit	264,990.30	61,403.50	503,072.90
7	Net interest income	960,584.90	1,259,788.80	1,298,437.40

Table 5.5 Bank of Nanjing

No.	Financial indicators	Sample bank 5 2007 values for indicators of Bank of Nanjing	Sample bank 5 2008 values for indicators of Bank of Nanjing	Sample bank 5 2009 values for indicators of Bank of Nanjing
1	Total assets	7,606,371.18	9,370,607.14	14,956,581.81
2	Total income	192,567.94	322,367.00	362,761.05
3	Total deposits	5,093,153.17	6,273,099.12	10,212,722.25
4	Total loans	2,982,363.53	3,905,738.47	6,560,777.36
5	Net assets	994,246.31	1,134,559.46	1,216,820.83
6	Total net profit	90,949.44	145,609.50	154,458.49
7	Net interest income	195,623.67	259,616.49	316,685.31

Table 5.6 Shanghai Pudong Development Bank

No.	Financial indicators	Sample bank 6 2007 values for indicators of Shanghai Pudong Development Bank	Sample bank 6 2008 values for indicators of Shanghai Pudong Development Bank	Sample bank 6 2009 values for indicators of Shanghai Pudong Development Bank
1	Total assets	91,498,034.60	130,942,544.20	162,271,796.04
2	Total income	2,587,643.43	3,456,056.68	3,682,393.22
3	Total deposits	76,347,289.34	94,729,358.15	129,534,234.19
4	Total loans	53,565,764.56	68,126,656.80	91,050,802.54
5	Net assets	2,829,786.80	4,170,179.93	6,808,744.59
6	Total net profit	549,877.54	1,251,583.15	1,321,513.72
7	Net interest income	2,417,997.03	3,153,433.53	3,353,838.81

Table 5.7 China Minsheng Bank

No.	Financial indicators	Sample bank 7 2007 values for indicators of China Minsheng Bank	Sample bank 7 2008 values for indicators of China Minsheng Bank	Sample bank 7 2009 values for indicators of China Minsheng Bank
1	Total assets	91,979,641.00	105,435,000.00	142,639,200.00
2	Total income	2,530,136.80	3,501,700.00	4,206,000.00
3	Total deposits	67,121,943.00	78,578,600.00	112,793,800.00
4	Total loans	54,729,567.20	64,647,500.00	86,773,800.00
5	Net assets	5,018,617.50	5,467,200.00	8,889,400.00
6	Total net profit	633,517.60	789,300.00	1,210,800.00
7	Net interest income	2,258,015.40	3,038,000.00	3,224,000.00

Table 5.8 Industrial Bank

No.	Financial indicators	Sample bank 8 2007 values for indicators of Industrial Bank	Sample bank 8 2008 values for indicators of Industrial Bank	Sample bank 8 2009 values for indicators of Industrial Bank
1	Total assets	85,133,527.00	102,089,882.49	133,216,155.22
2	Total income	2,205,541.08	2,971,498.07	3,167,904.54
3	Total deposits	50,537,085.56	63,242,595.88	90,088,444.80
4	Total loans	39,302,877.72	48,998,577.41	69,196,253.54
5	Net assets	3,889,707.69	4,902,204.61	5,959,746.16
6	Total net profit	858,576.67	1,138,502.66	1,328,194.27
7	Net interest income	2,084,599.20	2,619,245.50	2,720,173.72

Table 5.9 China CITIC Bank

No.	Financial indicators	Sample bank 9 2007 values for indicators of China CITIC Bank	Sample bank 9 2008 values for indicators of China CITIC Bank	Sample bank 9 2009 values for indicators of China CITIC Bank
1	Total assets	101,123,600.00	118,783,700.00	177,503,100.00
2	Total income	2,783,800.00	4,015,500.00	4,080,100.00
3	Total deposits	78,721,100.00	94,583,500.00	134,192,700.00
4	Total loans	56,586,600.00	65,135,200.00	105,047,900.00
5	Net assets	8,414,100.00	9,534,600.00	10,700,800.00
6	Total net profit	829,000.00	1,332,000.00	1,456,000.00
7	Net interest income	2,617,000.00	3,609,100.00	3,598,400.00

IV. Calculation of value ratios

1. Calculation of initial value ratios

The initial value ratios for the period from 2007 to 2009 are derived through comparison of the comparable values of every sample bank with each of the indicators for the period from 2007 to 2009.

The following tables set out the calculation process of every comparable bank's initial value ratios for the period from 2007 to 2009:

Table 5.10 Calculation of 2007 Value Ratios of Bank of Ningbo

No.	Financial indicators	Comparable values of Bank of Ningbo	Values for indicators of Bank of Ningbo	Initial value ratios
1	Total assets	5,482,500.00	7,551,077.11	0.73
2	Total income	5,482,500.00	224,378.58	24.43
3	Total deposits	5,482,500.00	5,551,404.43	0.99
4	Total loans	5,482,500.00	3,603,418.00	1.52
5	Net assets	5,482,500.00	802,231.70	6.83
6	Total net profit	5,482,500.00	95,107.28	57.65
7	Net interest income	5,482,500.00	206,182.65	26.59

Table 5.11 Calculation of 2008 Value Ratios of Bank of Ningbo

No.	Financial indicators	Comparable values of Bank of Ningbo	Values for indicators of Bank of Ningbo	Initial value ratios
1	Total assets	1,700,000.00	10,326,319.06	0.16
2	Total income	1,700,000.00	340,379.43	4.99
3	Total deposits	1,700,000.00	7,622,173.97	0.22
4	Total loans	1,700,000.00	4,846,637.78	0.35
5	Net assets	1,700,000.00	880,500.35	1.93
6	Total net profit	1,700,000.00	133,173.74	12.77
7	Net interest income	1,700,000.00	289,073.78	5.88

Table 5.12 Calculation of 2009 Value Ratios of Bank of Ningbo

No.	Financial indicators	Comparable values of Bank of Ningbo	Values for indicators of Bank of Ningbo	Initial value ratios
1	Total assets	4,372,500.00	16,335,186.60	0.27
2	Total income	4,372,500.00	417,550.60	10.47
3	Total deposits	4,372,500.00	11,075,246.10	0.39
4	Total loans	4,372,500.00	8,076,783.00	0.54
5	Net assets	4,372,500.00	974,198.30	4.49
6	Total net profit	4,372,500.00	145,744.60	30.00
7	Net interest income	4,372,500.00	355,390.00	12.30

Table 5.13 Calculation of 2007 Value Ratios of Bank of Beijing

No.	Financial indicators	Comparable values of Bank of Beijing	Values for indicators of Bank of Beijing	Initial value ratios
1	Total assets	12,679,315.99	35,422,294.10	0.36
2	Total income	12,679,315.99	764,186.20	16.59
3	Total deposits	12,679,315.99	25,968,675.60	0.49
4	Total loans	12,679,315.99	15,332,413.20	0.83
5	Net assets	12,679,315.99	2,666,794.50	4.75
6	Total net profit	12,679,315.99	334,819.70	37.87
7	Net interest income	12,679,315.99	720,037.80	17.61

Table 5.14 Calculation of 2008 Value Ratios of Bank of Beijing

No.	Financial indicators	Comparable values of Bank of Beijing	Values for indicators of Bank of Beijing	Initial value ratios
1	Total assets	5,548,757.64	41,702,101.90	0.13
2	Total income	5,548,757.64	1,230,405.50	4.51
3	Total deposits	5,548,757.64	31,584,011.40	0.18
4	Total loans	5,548,757.64	18,769,031.80	0.30
5	Net assets	5,548,757.64	3,381,363.30	1.64
6	Total net profit	5,548,757.64	541,658.40	10.24
7	Net interest income	5,548,757.64	1,108,850.10	5.00

Table 5.15 Calculation of 2009 Value Ratios of Bank of Beijing

No.	Financial indicators	Comparable values of Bank of Beijing	Values for indicators of Bank of Beijing	Initial value ratios
1	Total assets	12,044,104.68	53,346,931.80	0.23
2	Total income	12,044,104.68	1,189,410.50	10.13
3	Total deposits	12,044,104.68	44,693,870.30	0.27
4	Total loans	12,044,104.68	26,745,010.80	0.45
5	Net assets	12,044,104.68	3,757,777.10	3.21
6	Total net profit	12,044,104.68	563,279.60	21.38
7	Net interest income	12,044,104.68	1,095,392.20	11.00

Table 5.16 Calculation of 2007 Value Ratios of Hua Xia Bank

No.	Financial indicators	Comparable values of Hua Xia Bank	Values for indicators of Hua Xia Bank	Initial value ratios
1	Total assets	8,047,200.00	59,233,827.45	0.14
2	Total income	8,047,200.00	1,426,028.16	5.64
3	Total deposits	8,047,200.00	43,878,225.95	0.18
4	Total loans	8,047,200.00	29,854,935.28	0.27
5	Net assets	8,047,200.00	1,305,562.75	6.16
6	Total net profit	8,047,200.00	210,118.92	38.30
7	Net interest income	8,047,200.00	1,124,709.12	7.15

Table 5.17 Calculation of 2008 Value Ratios of Hua Xia Bank

No.	Financial indicators	Comparable values of Hua Xia Bank	Values for indicators of Hua Xia Bank	Initial value ratios
1	Total assets	3,628,114.09	73,163,718.65	0.05
2	Total income	3,628,114.09	1,761,136.59	2.06
3	Total deposits	3,628,114.09	48,534,957.68	0.07
4	Total loans	3,628,114.09	34,566,797.39	0.10
5	Net assets	3,628,114.09	2,742,135.69	1.32
6	Total net profit	3,628,114.09	307,083.83	11.81
7	Net interest income	3,628,114.09	1,349,175.67	2.69

Table 5.18 Calculation of 2009 Value Ratios of Hua Xia Bank

No.	Financial indicators	Comparable values of Hua Xia Bank	Values for indicators of Hua Xia Bank	Initial value ratios
1	Total assets	6,198,236.17	84,545,643.24	0.07
2	Total income	6,198,236.17	1,712,963.49	3.62
3	Total deposits	6,198,236.17	58,167,838.77	0.11
4	Total loans	6,198,236.17	41,945,224.70	0.15
5	Net assets	6,198,236.17	3,023,418.52	2.05
6	Total net profit	6,198,236.17	376,022.68	16.48
7	Net interest income	6,198,236.17	1,580,718.76	3.92

Table 5.19 Calculation of 2007 Value Ratios of Shenzhen Development Bank

No.	Financial indicators	Comparable values of Shenzhen Development Bank	Values for indicators of Shenzhen Development Bank	Initial value ratios
1	Total assets	8,852,551.58	35,253,936.10	0.25
2	Total income	8,852,551.58	1,080,750.20	8.19
3	Total deposits	8,852,551.58	28,127,698.10	0.31
4	Total loans	8,852,551.58	21,578,963.40	0.41
5	Net assets	8,852,551.58	1,300,606.30	6.81
6	Total net profit	8,852,551.58	264,990.30	33.41
7	Net interest income	8,852,551.58	960,584.90	9.22

Table 5.20 Calculation of 2008 Value Ratios of Shenzhen Development Bank

No.	Financial indicators	Comparable values of Shenzhen Development Bank	Values for indicators of Shenzhen Development Bank	Initial value ratios
1	Total assets	2,937,740.34	47,444,017.30	0.06
2	Total income	2,937,740.34	1,451,311.90	2.02
3	Total deposits	2,937,740.34	36,051,403.60	0.08
4	Total loans	2,937,740.34	28,171,468.70	0.10
5	Net assets	2,937,740.34	1,640,079.00	1.79
6	Total net profit	2,937,740.34	61,403.50	47.84
7	Net interest income	2,937,740.34	1,259,788.80	2.33

Table 5.21 Calculation of 2009 Value Ratios of Shenzhen Development Bank

No.	Financial indicators	Comparable values of Shenzhen Development Bank	Values for indicators of Shenzhen Development Bank	Initial value ratios
1	Total assets	7,567,942.08	58,781,103.40	0.13
2	Total income	7,567,942.08	1,511,444.00	5.01
3	Total deposits	7,567,942.08	45,463,520.80	0.17
4	Total loans	7,567,942.08	35,556,254.50	0.21
5	Net assets	7,567,942.08	2,046,960.90	3.70
6	Total net profit	7,567,942.08	503,072.90	15.04
7	Net interest income	7,567,942.08	1,298,437.40	5.83

Table 5.22 Calculation of 2007 Value Ratios of Bank of Nanjing

No.	Financial indicators	Comparable values of Bank of Nanjing	Values for indicators of Bank of Nanjing	Initial value ratios
1	Total assets	3,508,195.06	7,606,371.18	0.46
2	Total income	3,508,195.06	192,567.94	18.22
3	Total deposits	3,508,195.06	5,093,153.17	0.69
4	Total loans	3,508,195.06	2,982,363.53	1.18
5	Net assets	3,508,195.06	994,246.31	3.53
6	Total net profit	3,508,195.06	90,949.44	38.57
7	Net interest income	3,508,195.06	195,623.67	17.93

Table 5.23 Calculation of 2008 Value Ratios of Bank of Nanjing

No.	Financial indicators	Comparable values of Bank of Nanjing	Values for indicators of Bank of Nanjing	Initial value ratios
1	Total assets	1,541,034.37	9,370,607.14	0.16
2	Total income	1,541,034.37	322,367.00	4.78
3	Total deposits	1,541,034.37	6,273,099.12	0.25
4	Total loans	1,541,034.37	3,905,738.47	0.39
5	Net assets	1,541,034.37	1,134,559.46	1.36
6	Total net profit	1,541,034.37	145,609.50	10.58
7	Net interest income	1,541,034.37	259,616.49	5.94

Table 5.24 Calculation of 2009 Value Ratios of Bank of Nanjing

No.	Financial indicators	Comparable values of Bank of Nanjing	Values for indicators of Bank of Nanjing	Initial value ratios
1	Total assets	3,554,113.84	14,956,581.81	0.24
2	Total income	3,554,113.84	362,761.05	9.80
3	Total deposits	3,554,113.84	10,212,722.25	0.35
4	Total loans	3,554,113.84	6,560,777.36	0.54
5	Net assets	3,554,113.84	1,216,820.83	2.92
6	Total net profit	3,554,113.84	154,458.49	23.01
7	Net interest income	3,554,113.84	316,685.31	11.22

Table 5.25 Calculation of 2007 Value Ratios of Shanghai Pudong Development Bank

No.	Financial indicators	Comparable values of Shanghai Pudong Development Bank	Values for indicators of Shanghai Pudong Development Bank	Initial value ratios
1	Total assets	22,993,780.64	91,498,034.60	0.25
2	Total income	22,993,780.64	2,587,643.43	8.89
3	Total deposits	22,993,780.64	76,347,289.34	0.30
4	Total loans	22,993,780.64	53,565,764.56	0.43
5	Net assets	22,993,780.64	2,829,786.80	8.13
6	Total net profit	22,993,780.64	549,877.54	41.82
7	Net interest income	22,993,780.64	2,417,997.03	9.51

Table 5.26 Calculation of 2008 Value Ratios of Shanghai Pudong Development Bank

No.	Financial indicators	Comparable values of Shanghai Pudong Development Bank	Values for indicators of Shanghai Pudong Development Bank	Initial value ratios
1	Total assets	7,501,285.45	130,942,544.20	0.06
2	Total income	7,501,285.45	3,456,056.68	2.17
3	Total deposits	7,501,285.45	94,729,358.15	0.08
4	Total loans	7,501,285.45	68,126,656.80	0.11
5	Net assets	7,501,285.45	4,170,179.93	1.80
6	Total net profit	7,501,285.45	1,251,583.15	5.99
7	Net interest income	7,501,285.45	3,153,433.53	2.38

Table 5.27 Calculation of 2009 Value Ratios of Shanghai Pudong Development Bank

No.	Financial indicators	Comparable values of Shanghai Pudong Development Bank	Values for indicators of Shanghai Pudong Development Bank	Initial value ratios
1	Total assets	19,152,368.99	162,271,796.04	0.12
2	Total income	19,152,368.99	3,682,393.22	5.20
3	Total deposits	19,152,368.99	129,534,234.19	0.15
4	Total loans	19,152,368.99	91,050,802.54	0.21
5	Net assets	19,152,368.99	6,808,744.59	2.81
6	Total net profit	19,152,368.99	1,321,513.72	14.49
7	Net interest income	19,152,368.99	3,353,838.81	5.71

Table 5.28 Calculation of 2007 Value Ratios of China Minsheng Bank

No.	Financial indicators	Comparable values of China Minsheng Bank	Values for indicators of China Minsheng Bank	Initial value ratios
1	Total assets	21,458,012.07	91,979,641.00	0.23
2	Total income	21,458,012.07	2,530,136.80	8.48
3	Total deposits	21,458,012.07	67,121,943.00	0.32
4	Total loans	21,458,012.07	54,729,567.20	0.39
5	Net assets	21,458,012.07	5,018,617.50	4.28
6	Total net profit	21,458,012.07	633,517.60	33.87
7	Net interest income	21,458,012.07	2,258,015.40	9.50

Table 5.29 Calculation of 2008 Value Ratios of China Minsheng Bank

No.	Financial indicators	Comparable values of China Minsheng Bank	Values for indicators of China Minsheng Bank	Initial value ratios
1	Total assets	7,660,961.81	105,435,000.00	0.07
2	Total income	7,660,961.81	3,501,700.00	2.19
3	Total deposits	7,660,961.81	78,578,600.00	0.10
4	Total loans	7,660,961.81	64,647,500.00	0.12
5	Net assets	7,660,961.81	5,467,200.00	1.40
6	Total net profit	7,660,961.81	789,300.00	9.71
7	Net interest income	7,660,961.81	3,038,000.00	2.52

Table 5.30 Calculation of 2009 Value Ratios of China Minsheng Bank

No.	Financial indicators	Comparable values of China Minsheng Bank	Values for indicators of China Minsheng Bank	Initial value ratios
1	Total assets	17,609,461.49	142,639,200.00	0.12
2	Total income	17,609,461.49	4,206,000.00	4.19
3	Total deposits	17,609,461.49	112,793,800.00	0.16
4	Total loans	17,609,461.49	86,773,800.00	0.20
5	Net assets	17,609,461.49	8,889,400.00	1.98
6	Total net profit	17,609,461.49	1,210,800.00	14.54
7	Net interest income	17,609,461.49	3,224,000.00	5.46

Table 5.31 Calculation of 2007 Value Ratios of Industrial Bank

No.	Financial indicators	Comparable values of Industrial Bank	Values for indicators of Industrial Bank	Initial value ratios
1	Total assets	25,930,000.00	85,133,527.00	0.30
2	Total income	25,930,000.00	2,205,541.08	11.76
3	Total deposits	25,930,000.00	50,537,085.56	0.51
4	Total loans	25,930,000.00	39,302,877.72	0.66
5	Net assets	25,930,000.00	3,889,707.69	6.67
6	Total net profit	25,930,000.00	858,576.67	30.20
7	Net interest income	25,930,000.00	2,084,599.20	12.44

Table 5.32 Calculation of 2008 Value Ratios of Industrial Bank

No.	Financial indicators	Comparable values of Industrial Bank	Values for indicators of Industrial Bank	Initial value ratios
1	Total assets	7,300,000.00	102,089,882.49	0.07
2	Total income	7,300,000.00	2,971,498.07	2.46
3	Total deposits	7,300,000.00	63,242,595.88	0.12
4	Total loans	7,300,000.00	48,998,577.41	0.15
5	Net assets	7,300,000.00	4,902,204.61	1.49
6	Total net profit	7,300,000.00	1,138,502.66	6.41
7	Net interest income	7,300,000.00	2,619,245.50	2.79

Table 5.32 Calculation of 2009 Value Ratios of Industrial Bank

No.	Financial indicators	Comparable values of Industrial Bank	Values for indicators of Industrial Bank	Initial value ratios
1	Total assets	20,155,000.00	133,216,155.22	0.15
2	Total income	20,155,000.00	3,167,904.54	6.36
3	Total deposits	20,155,000.00	90,088,444.80	0.22
4	Total loans	20,155,000.00	69,196,253.54	0.29
5	Net assets	20,155,000.00	5,959,746.16	3.38
6	Total net profit	20,155,000.00	1,328,194.27	15.17
7	Net interest income	20,155,000.00	2,720,173.72	7.41

Table 5.33 Calculation of 2007 Value Ratios of China CITIC Bank

No.	Financial indicators	Comparable values of China CITIC Bank	Values for indicators of China CITIC Bank	Initial value ratios
1	Total assets	39,618,844.21	101,123,600.00	0.39
2	Total income	39,618,844.21	2,783,800.00	14.23
3	Total deposits	39,618,844.21	78,721,100.00	0.50
4	Total loans	39,618,844.21	56,586,600.00	0.70
5	Net assets	39,618,844.21	8,414,100.00	4.71
6	Total net profit	39,618,844.21	829,000.00	47.79
7	Net interest income	39,618,844.21	2,617,000.00	15.14

Table 5.34 Calculation of 2008 Value Ratios of China CITIC Bank

No.	Financial indicators	Comparable values of China CITIC Bank	Values for indicators of China CITIC Bank	Initial value ratios
1	Total assets	15,066,870.80	118,783,700.00	0.13
2	Total income	15,066,870.80	4,015,500.00	3.75
3	Total deposits	15,066,870.80	94,583,500.00	0.16
4	Total loans	15,066,870.80	65,135,200.00	0.23
5	Net assets	15,066,870.80	9,534,600.00	1.58
6	Total net profit	15,066,870.80	1,332,000.00	11.31
7	Net interest income	15,066,870.80	3,609,100.00	4.17

Table 5.35 Calculation of 2009 Value Ratios of China CITIC Bank

No.	Financial indicators	Comparable values of China CITIC Bank	Values for indicators of China CITIC Bank	Initial value ratios
1	Total assets	32,124,442.16	177,503,100.00	0.18
2	Total income	32,124,442.16	4,080,100.00	7.87
3	Total deposits	32,124,442.16	134,192,700.00	0.24
4	Total loans	32,124,442.16	105,047,900.00	0.31
5	Net assets	32,124,442.16	10,700,800.00	3.00
6	Total net profit	32,124,442.16	1,456,000.00	22.06
7	Net interest income	32,124,442.16	3,598,400.00	8.93

2. Obtaining the weighted average of the initial value ratios for the period from 2007 to 2009

Considering the fluctuations of the A-share market in PRC for the period from 2007 to 2009 and according to the number of years prior to the valuation reference date, the weights of 20%, 30% and 50% were given to year 2007, 2008 and 2009 respectively, so as to obtain weighted average value ratios of every comparable bank.

V. Initial appraised values of the appraisal target as calculated by comparison with sample banks

The appraised values of each of the indicators were calculated by multiplying the weighted average value ratios of each of the indicators of every sample bank by the corresponding indicator of the appraisal target, and then an average value based on the appraised values of the 7 indicators of every bank is obtained.

Listed below are tables showing the calculation of the initial appraised values of the appraisal target:

Table 5.36 Initial Appraised Values of the Appraisal target Calculated by Reference to Bank of Ningbo

No.	Financial indicators	Three-year weighted average value ratios of Bank of Ningbo	Values for indicators of PAB	Appraised values for indicators of PAB
1	Total assets	0.33	23,061,958.65	7,574,384.15
2	Total income	11.62	578,464.91	6,722,369.88
3	Total deposits	0.46	16,783,895.83	7,751,261.41
4	Total loans	0.68	11,977,243.28	8,146,984.07
5	Net assets	4.19	1,532,909.35	6,423,167.92
6	Total net profit	30.36	182,431.78	5,538,487.59
7	Net interest income	13.23	491,357.66	6,502,651.01
	Average value			6,951,329.43

Table 5.37 Initial Appraised Values of the Appraisal target Calculated by Reference to Bank of Beijing

No.	Financial indicators	Three-year weighted average value ratios of Bank of Beijing	Values for indicators of PAB	Appraised values for indicators of PAB
1	Total assets	0.22	23,061,958.65	5,174,902.30
2	Total income	9.73	578,464.91	5,630,979.77
3	Total deposits	0.29	16,783,895.83	4,785,014.85
4	Total loans	0.48	11,977,243.28	5,740,068.14
5	Net assets	3.05	1,532,909.35	4,668,866.21
6	Total net profit	21.34	182,431.78	3,892,743.11
7	Net interest income	10.52	491,357.66	5,169,421.08
	Average value			5,008,856.49

Table 5.38 Initial Appraised Values of the Appraisal target Calculated by Reference to Hua Xia Bank

No.	Financial indicators	Three-year weighted average value ratios of Hua Xia Bank	Values for indicators of PAB	Appraised values for indicators of PAB
1	Total assets	0.08	23,061,958.65	1,815,063.96
2	Total income	3.56	578,464.91	2,056,940.83
3	Total deposits	0.11	16,783,895.83	1,886,247.53
4	Total loans	0.16	11,977,243.28	1,907,752.22
5	Net assets	2.65	1,532,909.35	4,069,449.53
6	Total net profit	19.45	182,431.78	3,547,553.95
7	Net interest income	4.20	491,357.66	2,062,866.28
	Average value			2,477,982.04

Table 5.39 Initial Appraised Values of the Appraisal target Calculated by Reference to Shenzhen Development Bank

No.	Financial indicators	Three-year weighted average value ratios of Shenzhen Development Bank	Values for indicators of PAB	Appraised values for indicators of PAB
1	Total assets	0.13	23,061,958.65	3,071,198.28
2	Total income	4.75	578,464.91	2,747,146.84
3	Total deposits	0.17	16,783,895.83	2,863,712.46
4	Total loans	0.22	11,977,243.28	2,632,050.47
5	Net assets	3.75	1,532,909.35	5,744,181.99
6	Total net profit	28.56	182,431.78	5,209,538.80
7	Net interest income	5.46	491,357.66	2,681,332.74
	Average value			3,564,165.94

Table 5.40 Initial Appraised Values of the Appraisal target Calculated by Reference to Bank of Nanjing

No.	Financial indicators	Three-year weighted average value ratios of Bank of Nanjing	Values for indicators of PAB	Appraised values for indicators of PAB
1	Total assets	0.26	23,061,958.65	6,005,199.96
2	Total income	9.98	578,464.91	5,770,998.56
3	Total deposits	0.39	16,783,895.83	6,469,566.37
4	Total loans	0.62	11,977,243.28	7,479,673.51
5	Net assets	2.57	1,532,909.35	3,945,078.79
6	Total net profit	22.39	182,431.78	4,085,502.00
7	Net interest income	10.98	491,357.66	5,394,541.59
	Average value			5,592,937.25

Table 5.41 Initial Appraised Values of the Appraisal target Calculated by Reference to Shanghai Pudong Development Bank

No.	Financial indicators	Three-year weighted average value ratios of Shanghai Pudong Development Bank	Values for indicators of PAB	Appraised values for indicators of PAB
1	Total assets	0.13	23,061,958.65	2,916,415.38
2	Total income	5.03	578,464.91	2,909,027.13
3	Total deposits	0.16	16,783,895.83	2,650,487.24
4	Total loans	0.22	11,977,243.28	2,683,608.99
5	Net assets	3.57	1,532,909.35	5,474,350.26
6	Total net profit	17.41	182,431.78	3,175,707.38
7	Net interest income	5.47	491,357.66	2,688,123.19
	Average value			3,213,959.94

Table 5.42 Initial Appraised Values of the Appraisal target Calculated by Reference to China Minsheng Bank

No.	Financial indicators	Three-year weighted average value ratios of China Minsheng Bank	Values for indicators of PAB	Appraised values for indicators of PAB
1	Total assets	0.13	23,061,958.65	3,002,289.25
2	Total income	4.45	578,464.91	2,571,798.79
3	Total deposits	0.17	16,783,895.83	2,874,176.51
4	Total loans	0.22	11,977,243.28	2,580,298.19
5	Net assets	2.27	1,532,909.35	3,473,556.13
6	Total net profit	16.96	182,431.78	3,093,655.97
7	Net interest income	5.39	491,357.66	2,647,492.92
	Average value			2,891,895.40

Table 5.43 Initial Appraised Values of the Appraisal target Calculated by Reference to Industrial Bank

No.	Financial indicators	Three-year weighted average value ratios of Industrial Bank	Values for indicators of PAB	Appraised values for indicators of PAB
1	Total assets	0.16	23,061,958.65	3,644,146.66
2	Total income	6.27	578,464.91	3,626,672.66
3	Total deposits	0.25	16,783,895.83	4,181,012.17
4	Total loans	0.32	11,977,243.28	3,860,041.51
5	Net assets	3.47	1,532,909.35	5,320,617.44
6	Total net profit	15.55	182,431.78	2,837,028.98
7	Net interest income	7.03	491,357.66	3,453,563.19
	Average value			3,846,154.66

Table 5.44 Initial Appraised Values of the Appraisal target Calculated by Reference to China CITIC Bank

No.	Financial indicators	Three-year weighted average value ratios of Citic Bank	Values for indicators of PAB	Estimated values for indicators of PAB
1	Total assets	0.21	23,061,958.65	4,771,518.02
2	Total income	7.91	578,464.91	4,574,941.10
3	Total deposits	0.27	16,783,895.83	4,500,442.70
4	Total loans	0.36	11,977,243.28	4,339,689.53
5	Net assets	2.92	1,532,909.35	4,471,227.25
6	Total net profit	23.98	182,431.78	4,375,336.16
7	Net interest income	8.74	491,357.66	4,296,394.53
	Average value			4,475,649.90

VI. Calculation of the appraised values of the appraisal target (PAB)

(1) 9 initial appraised values of the appraisal target were reached by comparing individually the above-mentioned 9 sample banks with the appraisal target.

1. The initial appraised value of PAB is RMB69,513,294,300 as calculated by reference to Bank of Ningbo as a comparable bank.

2. The initial appraised value of PAB is RMB50,088,564,900 as calculated by reference to Bank of Beijing as a comparable bank.

3. The initial appraised value of PAB is RMB24,779,820,400 as calculated by reference to Hua Xia Bank as a comparable bank.

4. The initial appraised value of PAB is RMB35,641,659,400 as calculated by reference to Shenzhen Development Bank as a comparable bank.

5. The initial appraised value of PAB is RMB55,929,372,500 as calculated by reference to Bank of Nanjing as a comparable bank.

6. The initial appraised value of PAB is RMB32,139,599,400 as calculated by reference to Shanghai Pudong Development Bank as a comparable bank.

7. The initial appraised value of PAB is RMB28,918,954,000 as calculated by reference to China Minsheng Bank as a comparable bank.

8. The initial appraised value of PAB is RMB38,461,546,600 as calculated by reference to Industrial Bank as a comparable bank.

9. The initial appraised value of PAB is RMB44,756,499,000 as calculated by reference to China CITIC Bank as a comparable bank.

The median and the average of the selected 9 initial appraised values are RMB38,461,546,600 and RMB42,247,701,200 respectively, calculations of which are set out in the following table:

Table 5.45 Appraised Values of PAB

No.	**Comparable Banks**	**Appraised values of PAB deduced from comparable banks (in RMB ten thousands)**
1	Bank of Ningbo	6,951,329.43
2	Bank of Beijing	5,008,856.49
3	Hua Xia Bank	2,477,982.04
4	Shenzhen Development Bank A	3,564,165.94
5	Bank of Nanjing	5,592,937.25
6	Shanghai Pudong Development Bank	3,213,959.94
7	China Minsheng Bank	2,891,895.40
8	Industrial Bank	3,846,154.66
9	China CITIC Bank	4,475,649.90
	Median	3,846,154.66
	Average	4,224,770.12

(2) Calculation of the appraised value of PAB

As the appraisal target is not a listed company, the impact of liquidity on the shareholder's equity of the appraisal target must be considered and some liquidity discount adjustments must be made. The liquidity discount has been revised by reference to the considerations paid by the listed banks when their issued shares were fully circulated. The following table shows the considerations fixed by these listed banks in the non-tradable share reform:

Table 5.46 Liquidity discount table

Stock Code	Stock Short Name	Consideration converted into bonus shares (WIND calculated values)
000001.SZ	Shenzhen Development Bank A	0.257
600000.SH	Shanghai Pudong Development Bank	3
600015.SH	Hua Xia Bank	3
600016.SH	China Minsheng Bank	3
600036.SH	China Merchants Bank	2.4207
	Average	2.3355

Average discount coefficient = 1-10 ÷ (10+2.3355) = 18.93%

Appraised value of PAB on the valuation reference date as calculated based on the median = 3,846,154.66 x (1-18.93%) = RMB31,180,775,800.

Appraised value of PAB on the valuation reference date as calculated based on the average = 4,224,770.12 ×(1-18.93%) = 34,250,211,300.

(3) Determination of the valuation results based on the market method

The median is reached without being affected by the largest and smallest extreme values. The median has the merits of both the average and the mean to some extent, and is therefore a better representative value. Changes in a portion of data have no impact on the median. When there is a significant change in individual figures among a set of data, it is usually used to describe the major trend of the set of data. Therefore, it would be more appropriate to choose the median appraised value based on the above considerations.

As a result, the value of the entire shareholder's equity of PAB is RMB31,180,775,800 as assessed by the market method.

List of Documents for Inspection

1. Documents on economic conduct (copy);

2. Audit report of PAB issued by Ernst & Young Hua Ming (copy);

3. Enterprise legal person business license of the entrusting party and the appraisal target (copy);

4. Major ownership certification documents in connection with the appraisal target (copy);

5. Letter of undertaking from the entrusting party and the appraisal target;

6. Letter of undertaking from the execution registered appraiser;

7. Certificates of appraisal qualification of China United Assets Appraisal Co., Ltd. (copy);

8. Enterprise legal person business license of China United Assets Appraisal Co., Ltd. (copy);

9. Assets valuation service agreement (copy);

10. Certificates of qualification of the execution registered valuer (copy);

11. Calculation tables of valuation of the earnings method.

(1) Letter from Ernst & Young in relation to profit forecast of PAB

Ernst & Young
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30 September 2010

The Directors
Ping An Insurance (Group) Company of China, Ltd.

Dear Sirs,

We have reviewed the calculations of and the accounting policies adopted in arriving at the forecast of the profit attributable to equity holders of Ping An Bank Co., Ltd. ("PAB") – a subsidiary of Ping An Insurance (Group) Company of China, Ltd., (the "Company") for the year ending 31 December 2010 and 31 December 2011 (the "Profit Forecast") as set out in Appendix V to the circular of the Company dated 30 September 2010 (the "Circular") for which the directors of PAB (the "Directors") are solely responsible.

We conducted our work with reference to Auditing Guideline 3.341 "Accountants' Report on Profit Forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast has been prepared by the Directors based on the audited results of PAB for the six months ended 30 June 2010 and a forecast of the results of PAB for the remaining six months ending 31 December 2010 and the year ending 31 December 2011.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases and assumptions made by the Directors as set out in Part I of Appendix V to the Circular, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Company and PAB, the text of which is set out in Appendix V to the Circular.

Ernst & Young
Certified Public Accountant
Hong Kong

(2) Letter from Ernst & Young in relation to the valuation report of PAB

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30 September 2010

The Directors
Ping An Insurance (Group) Company of China, Ltd.

Dear Sirs,

We refer to the valuation as of 30 June 2010 (the "Valuation") prepared by China United Assets Appraisal Co., Ltd. of the entire issued share capital of Ping An Bank Co., Ltd. ("PAB") as included in Appendix VI to the circular of Ping An Insurance (Group) Company of China, Ltd. (the "Company") dated 30 September 2010 (the "Circular").

The Valuation has been arrived at based on the income approach, which takes into account the net discounted cash flows of PAB (hereinafter referred to as the "Underlying Projection"). We have reviewed the arithmetical accuracy of the calculation of the Underlying Projection on which the valuation of the entire issued share capital of PAB is determined.

Responsibilities

The Directors of the Company are responsible for the Underlying Projection. Because the Underlying Projection relates to cash flows, no accounting policies of the Company have been adopted in its preparation. The Underlying Projection has been prepared using a set of assumptions (the "Assumptions") that include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Projection and the variation may be material. The Directors of the Company are responsible for the reasonableness and validity of the Assumptions.

It is our responsibility to form an opinion, based on our work on the arithmetical accuracy of the calculation of the Underlying Projection and to report our opinion solely to you, as a body, solely for the purpose of reporting under Rule 14.62(2) of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and for no other purpose. We have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and express no opinion whatsoever thereon. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

Summary of our work

We conducted our work with reference to Auditing Guideline 3.341 "Accountants' Report on Profit Forecasts" issued by the Hong Kong Institute of Certified Public Accountants. We have reviewed the arithmetical accuracy of the Underlying Projection. Our work has been undertaken solely to assist the Directors of the Company in evaluating whether the Underlying Projection, so far as the calculations are concerned, has been properly compiled on the basis of the Assumptions made. Our work does not constitute any valuation of the entire issued share capital of PAB.

Opinion

Based on the review of the arithmetical accuracy of the Underlying Projection, so far as the calculations are concerned, the Underlying Projection has been properly compiled on the basis of the Assumptions made.

Ernst & Young
Certified Public Accountants
Hong Kong

(3) Letter from CICCHKS

China International Capital
Hong Kong Securities Limited
29/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

30 September 2010

The Board of Directors
Ping An Insurance (Group)
Company of China, Ltd.
Offices at 15, 16, 17 and 18 Floors
Galaxy Development Center
Fu Hua No. 3 Road
Futian District
Shenzhen
Guang Dong Province, China

Dear Sirs,

We refer to: 1) the profit forecast of PING AN BANK CO., LTD ("**PAB**") reviewed by Ernst & Young as set out in Appendix V to the circular of the Company dated 30 September 2010 (the "**Circular**"); and 2) the discounted cash flow forecast underlying the valuation of PAB prepared by China United Assets Appraisal Co., Ltd. (the "**Valuer**") dated 14 September 2010. (the "**Valuation Report**"), which is in accordance with PRC Assets Valuation Standard and set out in Appendix VI to the Circular (collectively, the "**Forecasts**"). Capitalised terms used in this letter have the same meanings as those defined in the Circular, of which this report forms part of, unless the context otherwise requires.

We are engaged to assist the Directors to comply with Rule 14.62 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. We, from the perspective of financial adviser, have reviewed the Forecasts upon which the Valuation has been made for which you as the Directors are solely responsible, and have discussed with you and the Valuer the information and documents provided by you which formed part of the basis and assumptions upon which the Forecasts have been prepared. We have also considered the Letters from Ernst & Young dated 30 September 2010 addressed to yourselves as set out in Section (1) and (2) of this Appendix VII to the Circular regarding the calculations and accounting policies upon which the Forecasts have been made.

On the basis of the foregoing, we are of the opinion that the Forecasts, for which you as the Directors are solely responsible, have been made by you after due and careful enquiry.

Yours faithfully
For and on behalf of
China International Capital Hong Kong Securities Limited

Shoukang Lin
Managing Director

WARNING: CERTAIN FINANCIAL INFORMATION SET OUT IN THIS APPENDIX CONSTITUTES PROFIT FORECASTS UNDER RULE 14.61 OF THE LISTING RULES ("SDB'S PROFIT FORECAST"). HOWEVER, THE SDB'S PROFIT FORECAST DOES NOT MEET THE STANDARDS REQUIRED BY RULE 14.62 AND PARAGRAPH 29(2) OF APPENDIX 1B OF THE LISTING RULES RELATING TO PROFIT FORECASTS. AS THE SDB'S PROFIT FORECAST IS SOLELY PREPARED BY SDB FOR THE PURPOSE OF COMPLIANCE WITH THE PRC REGULATORY REQUIREMENTS, NEITHER CICCHKS HAS REPORTED ON WHETHER THE SDB'S PROFIT FORECAST HAS BEEN PREPARED BY THE BOARD OR THE BOARD OF SDB WITH DUE CARE AND CONSIDERATION, NOR ERNST & YOUNG (AUDITORS OF THE COMPANY) HAS REPORTED ON WHETHER THE SDB'S PROFIT FORECAST, SO FAR AS THE ACCOUNTING POLICIES AND CALCULATIONS ARE CONCERNED, HAVE BEEN PROPERLY COMPILED ON THE BASIS OF THE ASSUMPTIONS MADE. SHAREHOLDERS AND POTENTIAL INVESTORS SHOULD EXERCISE CAUTION IN PLACING ANY RELIANCE ON THE SDB'S PROFIT FORECAST.

SHENZHEN DEVELOPMENT BANK CO., LTD.
PROFIT FORECAST REPORT

Shenzhen Development Bank Co., Ltd. (the "Company") has prepared profit forecast for the years ending 31 December 2010 and 2011 (hereafter referred to as the "Profit Forecast") based on the Company's financial statements for the years ended 31 December 2007, 2008, 2009 and for the six-month period ended 30 June 2010, which were audited by Ernst & Young Hua Ming as well as the Company's financial plans for the years ending 31 December 2010 and 2011. The Profit Forecast has been prepared by management of the Company and reviewed by the Company's Board. In the opinion of the Company's Board, the Profit Forecast has been prepared in accordance with the accounting policies, in all material aspects, consistent with the accounting policies currently adopted by the Company as set out in Note IV. 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY. The Profit Forecast has been cautiously prepared in accordance with the basis of preparation and basic assumptions as set out in Note I. BASIS OF PREPARATION AND BASIC ASSUMPTIONS.

In the opinion of the Company's board, under normal operation situations, the projected net profit of the Company for the years ending 31 December 2010 and 2011 would be RMB6,042 million and RMB7,247 million.

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

Shenzhen Development Bank Co., Ltd.

14 September 2010

SHENZHEN DEVELOPMENT BANK CO., LTD.
PROFIT FORECAST REPORT FOR THE YEARS ENDING 31 DECEMBER 2010 AND 2011

I. BASIS OF PREPARATION AND BASIC ASSUMPTIONS

The Profit Forecast for the years ending 31 December 2010 and 2011 has been prepared based on the Company's financial statements for the years ended 31 December 2007, 2008, 2009 and for the six-month period ended 30 June 2010, which were audited by Ernst & Young Hua Ming as well as the Company's financial plans for the years ending 31 December 2010 and 2011 as set out in Note II. FINANCIAL PLANS DURING THE FORECAST PERIOD. The Profit Forecast has been prepared on a basis consistent with, in all material aspects, the accounting policies currently adopted by the Company as set out in Note IV. 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY and based on the following principal assumptions:

1. There are no significant changes in politics, laws, finance, markets or economic situations in Mainland China, or any other countries/regions where the businesses of the Company are located, or any other countries/regions that may have significant impact on the businesses of the Company.

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

3. There are no significant changes in the current inflation rates, interest rates or exchange rates during the projection period. Any significant changes of the above may have significant impact on the businesses of the Company.

4. There are no significant changes in the tax bases or statutory tax rates of corporate income tax, business tax and surcharges and other levies in Mainland China, or any other countries/regions where the businesses of the Company are located, or any other countries/regions that may have significant impact on the businesses of the Company.

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

6. The Company assumes that the composition of daily average balances of loans and advances and customer deposits in the second half of 2010 and 2011 are consistent with that of the first half of 2010.

7. The profit forecast is solely related to the separate financial statements of the Company, without considering the impact of the acquisition of Ping An Bank Co., Ltd. ("Ping An Bank") or the merger with Ping An Bank during the projection period.

8. The profit forecast assumes no appropriation of cash dividends to shareholders during the projection period.

II. FINANCIAL PLANS DURING THE FORECAST PERIOD

1. During the year ending 31 December 2010, the year-end balance of loans and advances would increase by RMB42.2 billion or 11.7% when comparing to 2009. For 2011, the year-end balance of loans and advances would increase by RMB94 billion or 23.4% when comparing to 2010.

2. During the year ending 31 December 2010, the year-end balance of customer deposits would increase by RMB81 billion or 17.8% when comparing to 2009. For 2011, the year-end balance of customer deposits would increase by RMB125.4 billion or 23.4% when comparing to 2010.

III. STATEMENT OF PROFIT FORECAST

In RMB million	*Note IV*	2009 Audited actual figures	2010 Jan-Jun Audited actual figures	2010 Jul-Dec Forecast figures	2010 Total	2011 Forecast figures
Interest income	*3.1.1*	21,986	12,179	13,631	25,810	30,360
Interest expense	*3.1.2*	(9,001)	(4,770)	(5,338)	(10,108)	(11,719)
Net interest income	*3.1*	12,985	7,409	8,293	15,702	18,641
Fee and commission income	*3.2.1*	1,387	865	904	1,769	2,325
Fee and commission expense	*3.2.2*	(206)	(115)	(166)	(281)	(450)
Net fee and commission income	*3.2*	1,181	750	738	1,488	1,875
Other operating net income	*3.3*	948	337	177	514	619
Total operating income		15,114	8,496	9,208	17,704	21,135
Business tax and surcharge		(1,069)	(607)	(645)	(1,252)	(1,495)
Business and administrative expenses		(6,311)	(3,590)	(3,965)	(7,555)	(8,854)
Total operating costs	*3.4*	(7,380)	(4,197)	(4,610)	(8,807)	(10,349)
Operating profit before impairment losses on assets		7,734	4,299	4,598	8,897	10,786
Impairment losses on assets	*3.5*	(1,575)	(494)	(806)	(1,300)	(1,490)
Operating profit		6,159	3,805	3,792	7,597	9,296
Add: Non-operating income		56	75	14	89	–
Less: Non-operating expenses		(24)	(8)	(31)	(39)	–
Profit before tax		6,191	3,872	3,775	7,647	9,296
Less: Income tax expense	*3.6*	(1,160)	(839)	(766)	(1,605)	(2,049)
Profit for the period		5,031	3,033	3,009	6,042	7,247

Page VIII-2 to page VIII-35 of the profit forecast report has been signed by:

Legal representative	Acting president	Chief financial officer	Preparer

Company chop

IV. NOTES TO THE PROFIT FORECAST

1. GENERAL INFORMATION OF THE COMPANY

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 banking business activities.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY

2.1. Accounting year

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

2.2. Functional currency

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

2.3. Basis of accounting and measurement

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

2.4. Foreign currency translation

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

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

2.5. Precious metals

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

2.6. Reverse repurchase and repurchase agreements

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

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

2.7. Financial assets

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

Financial assets at fair value through profit or loss

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

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

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

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

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

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

Held-to-maturity investments

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

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

(ii) sales or reclassifications of the remaining portion of the financial asset occur after The Company has collected substantially all of the financial asset's original principal through scheduled payments or prepayments.

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

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 Company acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income. The interest income of the discounted bills is recognised using effective interest method.

Available-for-sale financial assets

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

2.8. Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Financial assets carried at cost

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

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.

2.9. Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

Financial guarantee contracts

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

Other financial liabilities

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

2.10. Recognition and derecognition of financial instruments

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

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

(i) the contractual rights to receive the cash flows from the financial asset expire; or

(ii) the financial asset has been transferred and the transfer qualifies for derecognition as set out below.

Transfer of financial assets

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

(i) The Company transfers the contractual rights to receive the cash flows of the financial asset to another party; or

(ii) The Company retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient(s) in an arrangement that meets all of the following conditions:

(a) The Company's obligation to pay amounts to the eventual recipient(s) arises only when it has collected equivalent amounts from the original financial asset. Short-term advances by the Company with the right of full recovery of the amount lent plus accrued interest at market rates for bank loans of equivalent terms do not violate this condition.

(b) The Company is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipient(s) for the obligation to pay them cash flows.

(c) The Company has an obligation to remit any cash flows it collects on behalf of the eventual recipient(s) without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the intervening period between two consecutive payments, which are invested in accordance with the terms of the contract. Income earned on such investments (i.e., reinvesting the cash flows according to the terms of the contract) is passed to the eventual recipient(s) according to the contract terms.

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

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

(i) when the Company has not retained control of the financial asset, the financial asset is derecognised;

(ii) when the Company has retained control of the financial asset, the financial asset is recognised to the extent of the Company's continuing involvement in the transferred financial asset and an associated liability is recognised.

Financial liabilities

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

2.11. Derivative financial instruments

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

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

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

2.12. Long term equity investments

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

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

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

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

Under the equity method, when the initial investment cost of a long term equity investment exceeds the Company's interest in the fair values of the investee's identifiable net assets at the acquisition date, no adjustment is made to the initial investment cost. When initial investment cost is less than the Company's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference is charged to profit or loss for the current period, and the cost of the long term equity investment is adjusted accordingly.

Under the equity method, after acquiring a long term equity investment, the Company recognises its share of the net profits or losses made by the investee as investment income or losses, and adjusts the carrying amount of the investment accordingly. The carrying amount of the investment is reduced by the portion of any profit distributions or cash dividends declared by the investee that is attributed to the Company. The Company shall discontinue recognising its share of net losses of the investee after the carrying amount of the long term equity investment together with any long term interest that in substance form part of the investor's net investment in the investee are reduced to zero, except to the extent that the Company has incurred obligations to assume additional losses. The Company shall adjust the carrying amount of the long term investment for other changes in owners' equity of the investee (other than net profits or losses), and include the corresponding adjustment in other comprehensive income.

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

For a long term equity investment accounted for using the cost method and which is not quoted in an active market and its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The impairment loss is recognised in the income statement in "Impairment losses on assets" and shall not be reversed. For long term equity investments accounted for using the equity method, any impairment is accounted for in accordance with the accounting policy set out in Note IV. 2.18.

2.13. Investment properties

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

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

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

2.14. Fixed assets and accumulated depreciation

(i) Recognition of fixed assets

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

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

Subsequent expenditures incurred for a fixed asset that meet the above conditions are included in the cost of the fixed asset and the carrying amount of the parts that are replaced are derecognised. Otherwise, subsequent expenditures are recognised in the income statement in the period in which they are incurred.

(ii) Measurement and depreciation of fixed assets

Fixed assets are initially measured at cost. All fixed assets are stated at cost less any accumulated depreciation and any impairment losses. The cost of an asset comprises the purchase price, related taxes, and any directly attributable expenditures of bringing the asset to working condition for its intended use, such as delivery and handling costs, installation costs and professional fees.

Depreciation is calculated using the straight-line method. The Company reasonably determines the useful lives and estimated net residual values of the fixed assets according to the natures and use patterns of the fixed assets as follows:

	Useful life	**Estimated net residual value**	**Annual depreciation rate**
Properties and buildings	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.

2.15. Construction in progress

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

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

2.16. Intangible assets

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

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

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

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

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

2.17. Long term deferred expenses

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

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

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

2.18. Impairment of assets

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

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

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The Company estimates the recoverable amount of an asset on an individual basis.

If the result of the recoverable amount calculation indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to profit or loss for the period. A provision for impairment loss of the asset is recognised accordingly.

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

2.19. Repossessed assets

Repossessed assets are initially recognised at fair value. The difference between the initial fair value and the sum of the related loan principal, interest receivable and impairment provision is taken into the income statement. At the balance sheet date, the repossessed assets are measured at the lower of their carrying value and net realisable value. When the carrying value of the repossessed assets is higher than the net realisable value, a provision for the decline in value of repossessed assets is recognised in the income statement in “Impairment losses on assets”.

2.20. Recognition of income and expense

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

Interest income and interest expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available for sale and held for trading, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial instrument. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not the future credit losses.

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

Fee and commission income

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

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

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

(ii) Fee income from providing transaction services

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

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

Dividend income

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

2.21. Income tax

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

Current income tax

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

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

Deferred tax

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

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

(i) where the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or deductible loss;

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled enterprises, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

2.22. Employee benefits

Short term employee benefits

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

Defined contribution plans

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

Supplementary retirement benefits

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

Share-based payment transactions

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

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

2.23. Definition of cash equivalents

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

2.24. Related parties

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

(1) the enterprise's parents;

(2) the enterprise's subsidiaries;

(3) other enterprises which are controlled by the enterprise's parents;

(4) an investor who has joint control over the enterprise;

(5) an investor who can exercise significant influence over the enterprise;

(6) a joint venture in which the enterprise is a venturer;

(7) an associate of the enterprise;

(8) principal individual investors of the enterprise, and close family members of such individuals;

(9) key management personnel of the enterprise or its parent, and close family members of such individuals;

(10) other enterprises that are controlled, jointly controlled, or significantly influenced by the enterprise's principal individual investors, key management personnel, or close family members of such individuals.

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

2.25. Fiduciary activities

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

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

2.26. Leases

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

As a lessee under operating leases

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

As a lessor under operating leases

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

2.27. Contingent liabilities

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

2.28. Provisions

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

(i) the obligation is a present obligation of the Company;

(ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and

(iii) the amount of the obligation can be measured reliably.

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

2.29. Trade date accounting

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

2.30. Offsetting

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

2.31. Dividends

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

2.32. Significant accounting judgements and estimates

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

(i) Designation of held-to-maturity investments

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

(ii) Impairment losses of loans and advances

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

(iii) Income tax

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

(iv) Fair value of financial instruments

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

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

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

3. ANALYSIS OF INDIVIDUAL ITEMS IN PROFIT FORECAST

3.1. Interest income and interest expenses

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

For 1H 2010, the net interest income of the Company amounted to RMB7.4 billion, which increases by 16% compared with that of 1H 2009 and represents 87% of total operating income for 1H 2010. Such proportion of net interest income to total operating income for 1H 2010 has improved by 2% comparing to the proportion of 85% for 1H 2009. The Company has raised capital amounting to RMB6.9 billion in June 2010 through share placement, leading to an increase in interest-earning assets. It is expected that the interest income for 2010 will increase by RMB3.8 billion or 17% compared with that of 2009. The interest income for 2011 will increase by RMB4.6 billion or 18% compared with that of 2010. Such increase in interest income for 2011 is mainly because of further expansion of interest-earning assets. The interest expenses for 2010 are projected to increase by RMB1.1 billion or 12% compared with that of 2009. The interest expenses for 2011 are projected to increase by RMB1.6 billion or 16% compared with that of 2010.

Based on above assumptions, the Company projects that the net interest income for 2010 is expected to amount to RMB15.7 billion, representing an increase by RMB2.7 billion or 21% compared with that of 2009. The net interest income for 2011 is projected to amount to RMB18.6 billion, representing an increase by RMB2.9 billion or 19% compared with that of 2010.

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

In RMB million	2009 Actual			Jan-Jun 2010 Actual			Jul-Dec 2010 Forecast			2010 Forecast			2011 Forecast		
	Average balance *(Note 1)*	Interest	Yield	Average balance *(Note 1)*	Interest	Yield	Average balance *(Note 2)*	Interest	Yield	Average balance *(Note 2)*	Interest	Yield	Average balance *(Note 2)*	Interest	Yield
Assets															
Loans and advances	335,507	17,576	5.24%	377,512	9,455	5.05%	396,818	10,208	5.10%	387,244	19,663	5.08%	461,844	23,369	5.06%
Bond investments	82,137	2,592	3.16%	92,391	1,257	2.74%	95,244	1,329	2.77%	93,829	2,586	2.76%	107,185	2,954	2.76%
Due from the Central Bank	41,769	639	1.53%	55,666	372	1.35%	64,978	519	1.58%	60,360	891	1.48%	72,166	1,059	1.47%
Amounts due from other financial institutions (including reverse repurchase agreements)	63,547	1,145	1.80%	73,392	1,034	2.84%	97,954	1,494	3.03%	85,774	2,528	2.95%	94,652	2,803	2.96%
Other interest-earning assets	1,815	34	1.87%	8,420	61	1.44%	9,159	81	1.75%	8,793	142	1.61%	11,061	175	1.58%
Total interest-earning assets	524,775	21,986	4.19%	607,381	12,179	4.04%	664,153	13,631	4.07%	636,000	25,810	4.06%	746,908	30,360	4.06%
Liabilities															
Customer deposits	412,393	6,974	1.69%	473,939	3,521	1.50%	525,340	4,004	1.51%	499,851	7,525	1.51%	595,928	9,071	1.52%
Amounts due to other financial institutions (including repurchase agreements)	83,510	1,499	1.79%	99,149	963	1.96%	91,843	1,006	2.17%	95,466	1,969	2.06%	97,184	2,005	2.06%
Bonds payable	8,844	520	5.88%	9,465	275	5.86%	9,465	278	5.83%	9,465	553	5.84%	9,465	550	5.81%
Other interest-bearing liabilities	1,515	8	0.53%	1,988	11	1.12%	2,357	50	4.21%	2,174	61	2.81%	2,826	93	3.29%
Total interest-bearing liabilities	506,262	9,001	1.78%	584,541	4,770	1.64%	629,005	5,338	1.68%	606,956	10,108	1.67%	705,403	11,719	1.66%
Net interest income		12,985			7,409			8,293			15,702			18,641	
Net interest spread *(Note 3)*			2.41%			2.40%			2.39%			2.39%			2.40%
Net interest margin *(Note 4)*			2.47%			2.46%			2.48%			2.47%			2.50%

Note1: Average balance for relevant periods

Note2: Projected average balance for relevant periods

Note3: Net interest spread = Yield of interest-earning assets – Cost of funding of interest-bearing liabilities

Note4: Net interest margin = Net interest income/Average balance of interest-earning assets

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

In RMB million	2009 Actual			2010 Forecast			Increase/(decrease)			2011 Forecast			Increase/(decrease)		
	Average balance	Interest	Yield	Average balance	Interest	Yield	Average balance	Interest	Yield	Average balance	Interest	Yield	Average balance	Interest	Yield
Assets															
Loans and advances	335,507	17,576	5.24%	387,244	19,663	5.08%	51,737	2,087	(0.16%)	461,844	23,369	5.06%	74,600	3,706	(0.02%)
Bond investments	82,137	2,592	3.16%	93,829	2,586	2.76%	11,692	(6)	(0.40%)	107,185	2,954	2.76%	13,356	368	–
Due from the Central Bank	41,769	639	1.53%	60,360	891	1.48%	18,591	252	(0.05%)	72,166	1,059	1.47%	11,806	168	(0.01%)
Amounts due from other financial institutions (including reverse repurchase agreements)	63,547	1,145	1.80%	85,774	2,528	2.95%	22,227	1,383	1.15%	94,652	2,803	2.96%	8,878	275	0.01%
Other interest-earning assets	1,815	34	1.87%	8,793	142	1.61%	6,978	108	(0.26%)	11,061	175	1.58%	2,268	33	(0.03%)
Total interest-earning assets	524,775	21,986	4.19%	636,000	25,810	4.06%	111,225	3,824	(0.13%)	746,908	30,360	4.06%	110,908	4,550	–
Liabilities															
Customer deposits	412,393	6,974	1.69%	499,851	7,525	1.51%	87,458	551	(0.18%)	595,928	9,071	1.52%	96,077	1,546	0.01%
Amounts due to other financial institutions (including repurchase agreements)	83,510	1,499	1.79%	95,466	1,969	2.06%	11,956	470	0.27%	97,184	2,005	2.06%	1,718	36	0.00%
Bonds payable	8,844	520	5.88%	9,465	553	5.84%	621	33	(0.04%)	9,465	550	5.81%	–	(3)	(0.03%)
Other interest-bearing liabilities	1,515	8	0.53%	2,174	61	2.81%	659	53	2.28%	2,826	93	3.29%	652	32	0.48%
Total interest-bearing liabilities	506,262	9,001	1.78%	606,956	10,108	1.67%	100,694	1,107	(0.11%)	705,403	11,719	1.66%	98,447	1,611	(0.01%)
Net interest income		12,985			15,702			2,718			18,641			2,939	
Net interest spread			2.41%			2.39%			(0.02%)			2.40%			0.01%
Net interest margin			2.47%			2.47%			–			2.50%			0.03%

3.1.1 Interest income

3.1.1.1 Loans and advances

(1) Average balance

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

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1-2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by % 2008 vs.2007	2009 vs.2008	2010 vs.2009	2011 vs.2010
Corporate loans and advances (excluding discounted bills)	141,288	165,023	195,172	233,435	247,636	302,034	17%	18%	27%	22%
Retail loans and advances	52,316	68,720	84,561	102,566	107,180	123,658	31%	23%	27%	15%
Discounted bills	14,916	21,220	55,774	41,511	32,428	36,152	42%	163%	(42%)	11%
Total	208,520	254,963	335,507	377,512	387,244	461,844	22%	32%	15%	19%

The average balance of the Company's total loans and advances during the first half of 2010 amounted to RMB377.5 billion, representing an increase of RMB42 billion or 13% comparing with that of 2009. Of which, the average balance of general loans and advances (excluding discounted bills) amounted to RMB336.0 billion, representing an increase of RMB56.3 billion or 20% comparing with that of 2009. The average balance of discounted bills amounted to RMB41.5 billion, representing a decrease of RMB14.3 billion or 25% comparing with that of 2009. In connection with this, the Company reduced the balance of discounted bills because of the limit on loan-to-deposit ratio, resulting to a decrease in the average balance of discounted bills. Based on the lending business during the first half of 2010 and the annual plan set at the beginning of the year, the Company forecasts the average balance of total loans and advances for 2010 to amount to RMB387.2 billion, representing an increase of RMB51.7 billion or 15% comparing with that of 2009. Of which, the portfolio of discounted bills is expected to be low during the second half of 2010. The average balance of discounted bills for 2010 is projected to amount to RMB32.4 billion, representing a decrease of RMB23.3 billion or 42% comparing with that of 2009.

Based on the above analysis, the Company expects the balance of total loans and advances at the end of 2010 to amount to RMB401.7 billion, representing an increase of RMB42.2 billion or 11.7% comparing with that of 2009. For 2011, taking into account of maintaining the loan-to-deposit ratio at 75% and the prevailing macroeconomic environment and related policies with an assumption of maintaining a growth rate of 9-10% in GDP, the Company expects the year-end balance of total loans and advances to amount to RMB495.7 billion, representing an increase of RMB94 billion or 23.4% comparing with that of 2010.

Accordingly, the Company expects the average balance of total loans and advances in 2011 to amount to RMB461.8 billion, representing an increase of RMB74.6 billion or 19% comparing with that of 2011. Of which, the average balances of general loans and advances and discounted bills are expected to increase by RMB70.9 billion or 20% and RMB3.7 billion or 11%, respectively.

(2) Average yield

The Company's average yield of loans is expected to decrease from 5.24% in 2009 to 5.08% in 2010, mainly attributable to the drop in interest rates rate by five times consecutively during 2008 with the related effect fully felt in 2009.

The Company expects the yield of loans in 2011 to be approximately the same as that of 2010 based on the following assumptions:

(1) Assuming that the Central Bank does not adjust benchmark interest rates and statutory reserve ratios during the forecast period;

(2) Assuming that there are no significant differences in the composition of the loan portfolio by product type and maturity between 2011 and 2010.

3.1.1.2 Bond investments

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

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1-2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by % 2008 vs.2007	2009 vs.2008	2010 vs.2009	2011 vs.2010
Average balance	42,783	64,973	82,137	92,391	93,829	107,185	52%	26%	14%	14%
Average yield	3.04%	3.68%	3.16%	2.74%	2.76%	2.76%	0.64%	(0.52%)	(0.40%)	–
Interest income	1,301	2,388	2,592	1,257	2,586	2,954	84%	9%	–	14%

(1) Average balance

In 2010, owing to the increase in volume of deposit business and the capital raised from the share placement at the end of June, the Company expects the average balance of bond investments in 2010 to amount to RMB93.8 billion, representing an increase of RMB 11.7 billion or 14% comparing with that of 2009.

Based on the expected yield of debt securities market and availability of funding, the Company projects the average balance of bond investments in 2011 to increase by RMB13.4 billion or 14% comparing with that of 2010.

(2) Average yield

Owing to the reduction in market yield of debt securities, the Company projects the average yield of bond investments in 2010 to be 2.76%, representing a decrease of 40bp comparing with that of 2009. The Company expects the average yield of debt securities for 2011 to be in line with that of 2010.

Based on the above analysis, the Company's interest income on bond investments is expected to amount to RMB2,586 million which is approximately the same as that of 2009. The interest income on bond investments for 2011 is expected to be RMB2,954 million, representing an increase of RMB368 million or 14% comparing with that of 2010.

3.1.1.3 Due from the Central Bank

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

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1-2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by % 2008 vs.2007	2009 vs.2008	2010 vs.2009	2011 vs.2010
Average balance	27,134	42,247	41,769	55,666	60,360	72,166	56%	(1%)	45%	20%
Average yield	1.71%	1.72%	1.53%	1.35%	1.48%	1.47%	0.01%	(0.19%)	(0.05%)	(0.01%)
Interest income	463	729	639	372	891	1,059	57%	(12%)	39%	19%

(1) Average balance

During the first half of 2010, the Central Bank has adjusted the statutory reserve ratio for three times. In connection with this, the statutory reserve ratio of RMB deposits of the Company was adjusted from 13.5% at the end of 2009 to 15%. With the continuing growth in customer deposit balances, the Company projects the average balance of amounts due from the Central Bank to amount to RMB60.4 billion, representing an increase of RMB18.6 billion or 45% comparing with that of 2009. For 2011, it is expected that the various items of deposits will have a stable growth rate and the average balance of amounts due from the Central Bank is expected to amount to RMB72.2 billion, representing an increase of 20% comparing with that of 2010. The following table shows the ratio of the average balance of amounts due from the Central Bank to the average balance of customer deposits of the relevant periods.

	2007 (Actual)	**2008 (Actual)**	**2009 (Actual)**	**2010.1.1-2010.6.30 (Actual)**	**2010 (Forecast)**	**2011 (Forecast)**
Ratio of average balances	10.4%	12.8%	10.1%	11.7%	12.1%	12.1%

(2) Average yield

The Company expects the yield of amounts due from the Central Bank to be 1.48% in 2010, representing a decrease of 5bp comparing with that of 2009. The yield for 2011 is expected to be in line with that of 2010.

3.1.1.4 Amounts due from other financial institutions

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

In RMB million	**2007 (Actual)**	**2008 (Actual)**	**2009 (Actual)**	**2010.1.1-2010.6.30 (Actual)**	**2010 (Forecast)**	**2011 (Forecast)**	**Change by %** **2008 vs.2007**	**2009 vs.2008**	**2010 vs.2009**	**2011 vs.2010**
Average balance	31,365	55,626	63,547	73,392	85,774	94,652	77%	14%	35%	10%
Average yield	6.56%	7.09%	1.80%	2.84%	2.95%	2.96%	0.53%	(5.29%)	1.15%	0.01%
Interest income	2,057	3,942	1,145	1,034	2,528	2,803	92%	(71%)	121%	11%

(1) Average balance

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

For the first half of 2010, the Company's average balance of amounts due from other financial institutions amounted to RMB73.4 billion, representing an increase of RMB9.8 billion or 15% compared with that of 2009. Based on the growth in interbank related balances during 1H 2010, the Company projects the average balance of amounts due from other financial institutions to amount to RMB85.8 billion for 2010, representing an increase of RMB22.2 billion or 35% comparing with that of 2009. The increase was mainly attributable to the significant increase in average balance of wealth management products.

Owing to an increase in sources of funding, the Company expects the average balance of amounts due from other financial institutions to amount to RMB94.7 billion in 2011, representing an increase of RMB8.9 billion or 10% comparing with that of 2010.

(2) Average yield

For the first half of 2010, as a result of tightened liquidity and an increase in market interest rates, the Company's average yield of amounts due from other financial institutions has increased by 104bp comparing with that at the beginning of the year. The Company projects that the average yield will gradually increase in the second half of 2010, with the average yield for 2010 increasing to 2.95%. The average yield for 2011 is expected to be in line with that of 2010.

3.1.2 Interest expenses

3.1.2.1 Customer deposits

(1) Average balance

In view of the historical data of the Company for the past three years, the current status of capital market in China and the expectation of monetary policies in future, the projected average balances of customer deposits of the Company in 2010 and 2011 are as follows.

							Change by %			
In RMB million	**2007 (Actual)**	**2008 (Actual)**	**2009 (Actual)**	**2010.1.1-2010.6.30 (Actual)**	**2010 (Forecast)**	**2011 (Forecast)**	**2008 vs.2007**	**2009 vs.2008**	**2010 vs.2009**	**2011 vs.2010**
Corporate general deposits	203,777	251,413	318,141	366,865	385,380	458,104	23%	27%	21%	19%
Retail deposits	38,796	51,655	64,796	72,794	77,619	93,190	33%	25%	20%	20%
Others *(Note)*	18,635	27,239	29,456	34,280	36,852	44,634	46%	8%	25%	21%
Total	261,208	330,307	412,393	473,939	499,851	595,928	26%	25%	21%	19%

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

For the first half of 2010, the average balances of customer deposits of the Company amounted to RMB473.9 billion, representing an increase of RMB61.5 billion or 15% compared with that of 2009. Of which, the average balance of general corporate deposits for 1H 2010 amounted to RMB366.9 billion, representing an increase of RMB48.7 billion or 15% comparing with that of 2009. The average balance of retail deposits for 1H 2010 amounted to RMB72.8 billion, representing an increase of RMB8.0 billion or 12% comparing with that of 2009. The average balance of total negotiated deposits, fiscal deposits and post-office deposits amounted to RMB34.3 billion, representing an increase of RMB4.8 billion or 16% comparing with that of 2009. Based on the deposit growth rate during 1H 2010 and the annual plan of deposit businesses, the Company projects the average balance of customer deposits in 2010 to amount to RMB499.9 billion, representing an increase of RMB87.5 billion or 21% comparing with that of 2009.

For 2011, in view of the prevailing macroeconomic environment and related policies with a growth rate of 9-10% in GDP, the Company projects the average balance of customer deposits to amount to RMB595.9 billion, representing an increase of RMB96.1 billion or 19% comparing with that of 2010.

(2) Average interest rate

The average deposit interest rate of the Company for the first half of 2010 was 1.50%. In view of the slight increase in interest rates of corporate deposits recently, the Company expects the average interest rate for 2010 to be 1.51%.

The Company projects the average deposit rates for 2011 to be approximately the same as those of 2010 based on the following assumptions:

(1) Assuming that the Central Bank does not adjust any benchmark interest rates during the forecast periods;

(2) Assuming that there are no significant changes in the structure of customer deposits during the forecast periods.

3.1.2.2 Amounts due to other financial institutions

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

In RMB million	**2007 (Actual)**	**2008 (Actual)**	**2009 (Actual)**	**2010.1.1-2010.6.30 (Actual)**	**2010 (Forecast)**	**2011 (Forecast)**	**Change by % 2008 vs.2007**	**2009 vs.2008**	**2010 vs.2009**	**2011 vs.2010**
Average balance	35,988	63,192	83,510	99,149	95,466	97,184	76%	32%	14%	2%
Average cost of funding	9.42%	7.88%	1.79%	1.96%	2.06%	2.06%	(1.54%)	(6.09%)	0.27%	–
Interest expenses	3,390	4,978	1,499	963	1,969	2,005	47%	(70%)	31%	2%

(1) Average balance

For the first half of 2010, the Company's average balance of amounts due to other financial institutions amounted to RMB99.1 billion, representing an increase of RMB 15.6 billion or 19% comparing with that of 2009. Based on the actual result of the first half of 2010 and the expectation of interbank market in the second half of the year, the Company expects the average balance of amounts due to other financial institutions to be RMB95.5 billion for 2010, representing an increase of RMB12.0 billion or 14% comparing with that of 2009.

It is expected that the transaction volume relating to amounts due to other financial institutions in 2011 will increase compared to 2010. The Company projects the average balance of amounts due to other financial institutions for 2011 to amount to RMB97.2 billion, representing an increase of RMB1.7 billion or 2% comparing with that of 2010.

(2) Average interest rate

For the first half of 2010, the average interest rate of amounts due from other financial institutions was 1.96%. In view of the continuing increase in interbank market rates and that the average interbank interest rate in June was 2.22%, the average interest rate of amounts due to other financial institutions for 2010 is expected to be 2.06%.

The average interest rate for 2011 is expected to be in line that of 2010, with the assumptions that the interbank market condition remains stable.

3.1.2.3 Bonds payable

(1) Average balance

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

In RMB million	**2009 (Actual)**	**2010.1.1-2010.6.30 (Actual)**	**2010 (Forecast)**	**2011 (Forecast)**	**Change by % 2010 vs.2009**	**2011 vs.2010**
Subordinated bonds	7,968	7,975	7,975	7,975	–	–
Hybrid capital debt instrument	876	1,490	1,490	1,490	70%	–
Total	8,844	9,465	9,465	9,465	7%	–

For 2010, the Company projects the average balance of issued debt securities to amount to RMB9.5 billion, representing an increase of RMB0.6 billion or 7% comparing with that of 2009. The increase was mainly because of an issue of RMB1.5 billion hybrid capital bonds by the Company on 26 May 2009.

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

(2) Average interest rate

The Company expects the average interest rates of issued debt securities to be 5.84% and 5.81% in 2010 and 2011, respectively. It is assumed that the interest rates remains stable as the Company's issued debt securities are predominately priced at fixed rates except for an issue of a floating-rate bond (at 3-month SHIBOR+1.4%) with a nominal value amounting to RMB0.5 billion.

3.2 Net fee and commission income

3.2.1 Fee and commission income

The following table shows the historical trend and forecasts of fee and commission income of the Company during the relevant periods.

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1-2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by % 2008 vs.2007	2009 vs.2008	2010 vs.2009	2011 vs.2010
Settlement fee	265	342	387	230	470	588	29%	13%	21%	25%
Wealth management products related fee	–	2	17	21	43	82	N/A	750%	153%	91%
Agency services fee	121	101	103	57	117	139	(17%)	2%	14%	19%
Bank card fee income	168	308	392	338	692	1,003	83%	27%	77%	45%
Advisory and consulting fee	–	169	301	126	258	217	N/A	78%	(14%)	(16%)
Trade finance related fee	1	17	37	39	80	175	1,600%	118%	116%	119%
Account management fee	15	19	30	21	43	55	27%	58%	43%	28%
Others	98	99	120	33	66	66	1%	21%	(45%)	–
Total	668	1,057	1,387	865	1,769	2,325	58%	31%	28%	31%

For the first half of 2010, the fee and commission income of the Company amounted to RMB865 million. Of which, bank card services fee income amounted to RMB338 million which represents 86% of the corresponding bank card fee income of 2009. With the expectation that there will be a stable growth in the second half of the year, the Company projects the fee and commission income to amount to RMB1,769 million in 2010, representing an increase of 28% comparing with that of 2009.

In 2011, the Company expects to continue the business development in bank card services, trade financing and wealth management. Accordingly, it is expected that the projected fee and commission income for 2011 to amount to RMB2,325 million, representing an increase of 31% comparing with that of 2010.

3.2.1.1 Settlement fee income

Settlement fee income includes fee and commission income from RMB/foreign currency corporate and retail settlement businesses. Settlement fee income of the Company for the first half of 2010 amounted to RMB0.23 billion. In view of the stable growth in business volume and customers, the projected settlement fee income in 2010 is expected to amount to RMB0.47 billion, representing an increase of RMB83 million or 21% comparing with that of 2009.

In view of continuing growth in business volume and customers, the projected settlement fee income in 2011 is expected to amount to RMB588 million, representing an increase of 25% comparing with that of 2010.

3.2.1.2 Wealth management products related fee income

Wealth management business of the Company has showed remarkable growth in 2009 and the first half of 2010. The forecasted wealth management products related fee income in 2010 is expected to amount to RMB43 million, representing an increase of 153% comparing with that of 2009. With the continuing growth in product types and business volume, the forecasted wealth management products related fee income in 2011 is expected to amount to RMB82 million, representing 91% comparing with that of 2010.

3.2.1.3 Agency business fee income

Agency business fee income includes fee income from entrusted loans, being an agent of selling open-ended funds for fund management companies and voucher-type government bonds etc. The agency business fee income amounted to RMB57 million for the first half of 2010. Based on the fee income for the first half of 2010, the forecasted agency business fee income in 2010 is expected to increase by 14% from 2009 to RMB117 million.

Considering that the stable growth in agency business fee income in 2011, the forecasted agency business fee income in 2011 increases by 19% from 2010 to RMB139 million.

3.2.1.4 Bank card fee income

Bank card fee income mainly includes commission income for settlement and agency services and annual fees of bank cards issued by the Company. The bank card fee income for the first half of 2010 amounted to RMB338 million which represents 86% of the bank card fee income in 2009. This is largely attributable to the growth in the numbers of bank card issued and active bank cards. The forecasted bank card fee income in 2010 is RMB0.692 billion, representing an increase of 77% compared with that of 2009.

The Company will continue to strengthen the research and development of the bank card related products, to increase the volume of bank cards issued and to enlarge the proportion of active bank cards. The forecasted bank card fee income in 2011 is expected to be RMB1.003 billion, representing an increase by 45% compared with that of 2010.

3.2.1.5 Advisory and consulting fee income

Advisory and consulting fee income mainly includes fee income earned from provision of finance consulting services, syndicated loan arrangement and underwriting services of debt instruments. Advisory and consulting fee income amounted to RMB0.126 billion for the first half of 2010. The forecasted advisory and consulting fee income in 2010 is expected to be RMB0.258 billion, representing a decrease of 14% comparing with that of 2009. The forecasted advisory and consulting fee income in 2011 is expected to be RMB0.217 billion, representing a decrease of 16% comparing with that of 2010.

3.2.1.6 Trade finance related fee income

Trade finance related fee income mainly includes fee and commission income earned from provision of intermediary services such as third-party depository and management, making payments on behalf of customers, factoring etc. Trade finance related fee income for the first half of 2010 amounted to RMB39 million which has exceeded the trade finance related fee income in 2009. Based on the fee income in the first half of 2010, the projected trade finance related fee income in 2010 is expected to amount to RMB0.08 billion, representing an increase by 116% comparing with that of 2009.

In 2010, with the growth in business volume and products of the supply-chain trade finance services, the projected trade finance related fee income in 2010 is expected to amount to RMB0.175 billion, representing an increase of 119% comparing with that of 2010.

3.2.2 Fee and commission expenses

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

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1-2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by % 2008 vs.2007	2009 vs.2008	2010 vs.2009	2011 vs.2010
Bank card and agency business fee expenses	(107)	(188)	(184)	(86)	(211)	(254)	76%	(2%)	15%	20%
Others	(40)	(17)	(22)	(29)	(70)	(196)	(58%)	29%	218%	180%
Total	(147)	(205)	(206)	(115)	(281)	(450)	39%	–	36%	60%

Fee and commission expenses mainly include expenses paid to third parties that are directly attributable to the provision of respective intermediary services, including agency business expenses, bank card fee expenses and wealth management products related fee expenses. In line with the growth in business and transaction volume, the fee and commission expenses of the Company in 2010 are projected to amount to RMB0.281 billion, representing an increase of 36% when compared with those of 2009. The fee and commission expenses of the Company in 2011 are projected to amount to RMB0.45 billion, representing an increase by 60% comparing with that of 2010.

3.3 Other operating income

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

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1-2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by % 2008 vs.2007	2009 vs.2008	2010 vs.2009	2011 vs.2010
Investment income	201	422	580	172	172	189	110%	38%	(70%)	10%
Gains or losses from changes in fair values of financial instruments	15	81	(49)	(20)	(10)	–	440%	(160%)	(80%)	–
Gains or losses from changes in fair values of investment properties	43	(15)	48	13	–	–	(135%)	(420%)	(100%)	–
Net foreign exchange difference	257	463	242	99	201	254	80%	(48%)	(17%)	26%
Others	165	113	127	73	151	176	(32%)	13%	18%	17%
Total	681	1,064	948	337	514	619	56%	(11%)	(46%)	20%

3.3.1 Investment income

Investment income mainly includes net gains or losses on disposal of available-for-sale debt securities, equity investments and bills, etc. For the first half of 2010, the investment income amounted to RMB0.172 billion. As there have been increases in interest rates of bonds and bills recently, the amount of net gains on disposal of bonds and bills is of certain extent of uncertainty. With cautious consideration, investment income of the Company is estimated to be RMB0.172 billion in 2010 and RMB0.189 billion in 2011, with an increase of 10% in 2011 comparing to 2010.

3.3.2 Net foreign exchange difference

Net foreign exchange difference of the Company is mainly derived from the sales and purchases of FX for the customers. For the first half of 2010, the net foreign exchange difference amounted to RMB99 million. In view of the actual gains in the first half of 2010 and the expectation of continuous development of international trade finance in the second half of 2010, the projected net foreign exchange difference for 2010 is RMB0.201 billion. Considering that the Company would place emphasis on the development of trade finance business in 2011, the foreign exchange difference is expected to continuously increase. For 2010, the net foreign exchange difference is expected to amount to RMB0.254 billion, representing an increase of 26% compared with that of 2010.

3.3.3 Others

The other operating income includes rental income of investment properties, telecommunication and postage charges, and handling charge. For the first half of 2010, the other operating income of the Company amounted to RMB0.073 billion. Based on the actual income for the first half of 2010, the projected other operating income for 2010 is RMB0.151 billion, representing an increase of 18% compared with that of 2009. For 2011, the projected other income of the Company is RMB0.176 billion, representing an increase of 17% compared with that of 2010.

3.4 Operating costs

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

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1-2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)	Change by % 2008 vs.2007	2009 vs.2008	2010 vs.2009	2011 vs.2010
Business tax and surcharges	(824)	(1,152)	(1,069)	(607)	(1,252)	(1,495)	40%	(7%)	17%	19%
Business and administrative expenses										
Staff expenses	(2,130)	(2,685)	(3,348)	(1,887)	(3,979)	(4,642)	26%	25%	19%	17%
General and administrative expenses	(1,856)	(2,306)	(2,663)	(1,526)	(3,204)	(3,748)	24%	15%	20%	17%
Depreciation and amortisation	(222)	(233)	(300)	(177)	(372)	(464)	5%	29%	24%	25%
Subtotal	(4,208)	(5,224)	(6,311)	(3,590)	(7,555)	(8,854)	24%	21%	20%	17%
Total	(5,032)	(6,376)	(7,380)	(4,197)	(8,807)	(10,349)	27%	16%	19%	18%

3.4.1 Business tax and surcharges

The tax rates of the business tax and surcharges 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%-7%

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

3.4.2 Staff expenses

In view of the increase of the staff and the average salary, the staff expense of the Company is estimated to be RMB3.979 billion in 2010, representing an increase of 19% compared with that of 2009. In 2011, the staff expense is expected to amount to RMB4.642 billion which increases by 17% compared with that of 2010, but at a slightly lower rate of growth comparing to 2010.

3.4.3 General and administrative expenses

Considering the factors such as growth in business, set up new branches and increase in rental level, the amount of general and administrative expenses would increase. The general and administrative expenses are estimated to be RMB3.204 billion in 2010, representing an increase of 20% compared with that of 2009. In 2011, the projected general and administrative expenses are RMB3.748 billion which increases by 17% compared with that of 2010, but at a slightly lower rate of growth comparing to 2010.

3.4.4 Depreciation and amortisation

In view of the new capital expenditure items in recent years including the branch/sub-branch relocation and renovation as well as new automatic teller machines, depreciation and amortisation expenses would increase. For 2010, the depreciation and amortisation expenses are projected to be RMB0.372 billion, representing an increase of 24% compared with that of 2009. For 2011, the depreciation and amortisation expenses are projected to be RMB0.464 billion, representing an increase of 25% compared with that of 2010, at a growth rate in line with that of 2010.

3.5 Impairment losses on assets

3.5.1 Impairment provisions for loans and advances

Based on the impairment provisions for loans and advances charged for the first half 2010, the impairment losses on loans and advances is projected to be RMB0.755 billion and RMB1.43 billion for the second half of 2010 and 2011, respectively. The following table shows the movements in impairment provisions for loans and advances of the Company during 2010 and 2011.

In RMB million	**2010.1.1-2010.6.30 (Actual)**	**2010.7.1-2010.12.31 (Forecast)**	**2010 (Forecast)**	**2011 (Forecast)**
Balance at beginning of the period/year	3,955	5,136	3,955	5,985
Charge for the period/year	485	755	1,240	1,430
Amounts written off	(115)	(109)	(224)	(320)
Reversal for the period/year	846	250	1,096	1,006
Interest accrued on impaired loans and advances	(33)	(47)	(80)	(90)
Other changes for the period/year	(2)	–	(2)	–
Balance at end of the period/year	5,136	5,985	5,985	8,011

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

The Company adopts collective assessment and individual assessment to determine the impairment provisions for loans and advances. Corporate loans graded at Pass and Special Mention are assessed collectively whereas non-performing (i.e., Substandard, Doubtful and Loss) corporate loans are assessed individually. Furthermore, credit cards are assessed collectively for impairment losses. Other than certain high risk portfolio of personal loans, all the personal loans are assessed collectively for impairment losses.

The impairment provisions for loans and advances as at 30 June 2010, 31 December 2010 and 31 December 2011 are as follows.

In RMB million	**30 June 2010 (Actual)**	**31 December 2010 (Forecast)**	**31 December 2011 (Forecast)**
Impairment provisions for corporate loans	4,534	5,244	7,021
Of which: Individual	897	1,150	1,383
Collective	3,637	4,094	5,638
Impairment provisions for personal loans (excluding credit cards)	444	560	780
Of which: Individual	18	20	30
Collective	426	540	750
Impairment provisions for credit cards	158	181	210
Of which: Individual	–	–	–
Collective	158	181	210
Total impairment provisions for loans and advances	5,136	5,985	8,011
Of which: Individual	915	1,170	1,408
Collective	4,221	4,815	6,933

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

(1) The loan migration rates are mainly estimated based on the historical data.

(2) It is assumed that there would be no disposals of non-performing loans during 2010 and 2011.

(3) It is assumed that there are no significant changes in the overall economic environment between 30 June 2010 and the year ends of 2010 and 2011. Therefore, the assumptions used in collective impairment assessment at the year ends of 2010 and 2011 are in line with those of 30 June 2010.

(4) In view of the monitoring of the loans to urban development investment corporations (UDIC) and related policies issued by the Central Government and regulators, it is expected that potential risk of the loans to UDIC will emerge in a progressive manner. Consequently, the projected impairment provisions for UDIC will slightly increase during the second half of 2010 and 2011.

3.5.2 Impairment provisions for other assets

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

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1-2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)
Placements of deposits with other financial institutions	1	(1)	–	–	–	–
Funds loaned to other financial institutions	8	9	(1)	–	–	–
Reverse repurchase agreements	3	–	6	–	–	–
Long term equity investments	–	83	32	–	–	–
Repossessed assets	15	126	89	13	60	60
Fixed assets	–	6	–	–	–	–
Other assets	51	38	5	(4)	–	–
Subtotal	78	261	131	9	60	60
Provision for financial guarantee contracts	–	–	4	–	–	–
Total impairment losses	78	261	135	9	60	60

The Company projects that impairment losses on other assets for the second half of 2010 and 2011 mainly include the provision for the decline in value of repossessed assets.

The repossessed assets mainly comprise of properties. Macro-control policies issued by the government during the first half of 2010 have imposed significant impact on the property market in Mainland China. In connection with this, transaction volume and pricing of the property market in different regions have dropped by various extent. It is expected that the property market is still at a downward trend during the second half of 2010 and with a lot of uncertainty in 2011. As a result, the Company forecasts the provision charge for decline in value of repossessed assets to be RMB47 million and RMB60 million for 1H 2010 and 2011, respectively.

3.6 Income tax expense

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

In RMB million	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1-2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)
Profit before tax	3,772	793	6,191	3,872	7,647	9,296
Income tax at the statutory rate	1,245	198	1,548	968	1,912	2,324
Non-taxable income	(152)	(132)	(112)	(61)	(117)	(122)
Non-deductible expenses and other adjustments	29	112	(276)	(68)	(190)	(153)
Income tax expenses	1,122	179	1,160	839	1,605	2,049
Effective tax rate	29.7%	22.5%	18.7%	21.7%	21.0%	22.0%

Other adjustments of the above table mainly comprise of the effects of tax rate concessions applicable to Shenzhen, Zhuhai and Haikou. The effective tax rate of the Company increases from 18.7% in 2009 to 21% and 22% in 2010 and 2011, respectively. Such changes are mainly because the income tax rate applicable to Shenzhen, Zhuhai and Haikou will progressively increase in future.

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

4.1. Key issues that may affect profit forecast results

4.1.1 Effect of movements in market interest rate

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

In RMB million	**Effect on forecast profit by changes of 1bp** *(Note)* **Jul-Dec 2010**	**2011**
Interest-earning asset (IEA)		
Loans and advances	19.8	46.2
Bond investments	4.8	10.7
Amounts due from the Central Bank	3.2	7.2
Amounts due from other financial institutions	4.9	9.5
Interest-bearing liability (IBL)		
Customer deposits	(26.3)	(59.6)
Amounts due to other financial institutions	(4.6)	(9.7)

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

4.1.2 Effect of movements in market currency rate

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

Considering that the amount of foreign currency items of the Company is relatively immaterial, the Company does not take into account of any effect of movements in currency rates for the purpose of profit forecast. Assuming that the net long position of USD of the Company is USD150 million, the Company will suffer from RMB10 million FX losses when RMB appreciates by 1% against USD.

4.1.3 Effect of changes in loan quality

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

4.2. Proposed measures

4.2.1 Market interest rate risk management

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

4.2.2 Market currency risk management

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.

4.2.3 Credit risk management

The Company established a Credit Portfolio Management Committee, which approves and determines the Company's credit risk management strategies, credit risk preference as well as various credit risk management polices and standards. The Company implements a credit officer system, in which, there is a Chief Credit Officer at Head Office who appoints credit officers to various 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.

The Company has formulated a complete set of operational procedures for credit approval and management. These procedures are being enforced across the Company. The Company has placed emphasis on systems of post-disbursement monitoring and early warning monitoring for the credit business in order to facilitate early detection of early warning signals and effective management of credit risks. Simultaneously, the Company has developed the measures of special report meeting of early warning loans for monitoring the disposal of those early warning loans on a timely basis.

APPENDIX: Summary of profit forecast KPI

	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010.1.1-2010.6.30 (Actual)	2010 (Forecast)	2011 (Forecast)
Profitability indicator:						
Return on total assets	0.75%	0.13%	0.86%	0.49%	0.90%	0.90%
Return on equity (fully diluted)	20.37%	3.74%	24.58%	9.97%	18.08%	17.80%
Return on weighted average equity	33.41%	4.32%	26.59%	13.80%	22.35%	19.56%
Cost to income ratio	38.93%	35.99%	41.76%	42.26%	42.67%	41.89%
Credit cost	0.95%	2.84%	0.49%	0.14%	0.32%	0.31%
Net interest spread	2.99%	2.90%	2.41%	2.40%	2.39%	2.40%
Net interest margin	3.10%	3.02%	2.47%	2.46%	2.47%	2.50%

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

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

Net interest margin = Net interest income/Average IEA balance

WARNING: CERTAIN FINANCIAL INFORMATION SET OUT IN THIS APPENDIX CONSTITUTES PROFIT FORECASTS UNDER RULE 14.61 OF THE LISTING RULES ("CONSOLIDATED PROFIT FORECAST"). HOWEVER, THE CONSOLIDATED PROFIT FORECAST DOES NOT MEET THE STANDARDS REQUIRED BY RULE 14.62 AND PARAGRAPH 29(2) OF APPENDIX 1B OF THE LISTING RULES RELATING TO PROFIT FORECASTS. AS THE CONSOLIDATED PROFIT FORECAST IS SOLELY PREPARED BY SDB FOR THE PURPOSE OF COMPLIANCE WITH THE PRC REGULATORY REQUIREMENTS, NEITHER CICCHKS HAS REPORTED ON WHETHER THE SDB'S PROFIT FORECAST HAS BEEN PREPARED BY THE BOARD OR THE BOARD OF SDB WITH DUE CARE AND CONSIDERATION, NOR ERNST & YOUNG (AUDITORS OF THE COMPANY) HAS REPORTED ON WHETHER THE CONSOLIDATED PROFIT FORECAST, SO FAR AS THE ACCOUNTING POLICIES AND CALCULATIONS ARE CONCERNED, HAVE BEEN PROPERLY COMPILED ON THE BASIS OF THE ASSUMPTIONS MADE. SHAREHOLDERS AND POTENTIAL INVESTORS SHOULD EXERCISE CAUTION IN PLACING ANY RELIANCE ON THE CONSOLIDATED PROFIT FORECAST.

SHENZHEN DEVELOPMENT BANK CO., LTD.
PRO FORMA CONSOLIDATED PROFIT FORECAST REPORT

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

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

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

Shenzhen Development Bank Co., Ltd.

14 September 2010

SHENZHEN DEVELOPMENT BANK CO., LTD.
PRO FORMA CONSOLIDATED PROFIT FORECAST REPORT
FOR THE YEARS ENDING 31 DECEMBER 2010 AND 2011

I. GENERAL INFORMATION OF COMPANIES

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

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

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

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

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

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

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

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

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

II. PROPOSED BUSINESS COMBINATION PLAN

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

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

III. BASIS OF PREPARATION AND BASIC ASSUMPTIONS

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

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

1. The common principal assumptions adopted by the Company and Ping An Bank for preparation of their respective profit forecast are as follows.

   1.1 There are no significant changes in politics, laws, finance, markets or economic situations in Mainland China, or any other countries/regions where the businesses of the enlarged Group are located, or any other countries/regions that may have significant impact on the businesses of the enlarged Group.

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

   1.3 There are no significant changes in the current inflations rates, interest rates or exchange rates during the forecast period. Any significant changes of the above may have significant impact on the businesses of the enlarged Group.

   1.4 There are no significant changes in the tax bases or statutory tax rates of corporate income tax, business tax and surcharges and other levies in Mainland China, or any other countries/regions where the businesses of the enlarged Group are located or any other countries/regions that may have significant impact on the businesses of the enlarged Group.

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

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

2. The Company has also made the following assumptions for the purpose of the pro forma consolidated profit forecast.

   2.1 The pro forma consolidated profit forecast was prepared based on the assumptions that the business combination had been completed on 1 January 2010 (hereafter referred to as the "acquisition date"). It is assumed that the percentage of shares of Ping An Bank held by the Company remains at 90.75% during year 2010 and 2011. As a result, this 90.75% is used for the calculation of the net profit attributable to the equity holders of the parent in the pro forma consolidated profit forecast report.

   2.2 Material transactions between the Company and Ping An Bank during the first half of 2010 have been eliminated for the preparation of the pro forma consolidated profit for the first half of 2010. Material foreseeable transactions between the Company and Ping An Bank in the second half of 2010 and 2011 have been eliminated for the preparation of the pro forma consolidated profit forecast.

   2.3 No synergy is assumed during the preparation of the pro forma consolidated profit forecast. Expenses that may be incurred during the process of the acquisition or any post-acquisition integration expenses are not considered for the purpose of the pro forma consolidated profit forecast.

   2.4 As at the acquisition date, the difference between the cost of acquisition and the fair value of identifiable net assets (i.e., 90.75%) of Ping An Bank was accounted for as goodwill.

3. Pro forma consolidated income statement for 2009 has been prepared mainly based on aggregating the respective income statement of the statutory financial statements of the Company and Ping An Bank which were audited by Ernst & Young Hua Ming, with elimination adjustments of transactions between the Company and Ping An Bank. Ping An Bank purchased RMB30 million hybrid capital debt instruments issued by the Company on 26 May 2009. In connection with this, relevant interest income of RMB1 million and interest expenses of RMB1 million were eliminated for the purpose of the pro forma consolidated income statement for 2009.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Owing to revaluation of fixed assets and intangible assets as at the acquisition date, depreciation and amortisation expenses increase by RMB15,663 thousand whereas income tax expense decreases by RMB3,446 thousand for 2010. With the assumption that there are no significant changes in fixed assets and intangible assets in 2011, depreciation and amortisation expenses increase by RMB14,224 thousand whereas income tax expense decreases by RMB3,414 thousand for 2011.

- According to the data provided by management of Ping An Bank, accretion/amortisation of discount/premium of held-to-maturity investments are adjusted because of the revaluation of these investments as at the acquisition date. In connection with this, interest income on held-to-maturity investments and the income tax expense decrease by RMB15,744 thousand and RMB3,464 thousand for 2010, respectively. After excluding the held-to-maturity investments that are due by maturity during 2010, interest income on held-to-maturity investments and income tax expense decrease by RMB2,805 thousand and RMB673 thousand for 2011, respectively.

- According to the data provided by management of Ping An Bank, the disposal gain of repossessed assets for 1H 2010 amounting to RMB5,677 thousand has been included in revaluation amount of repossessed asset as at the acquisition date. Consequently, the above disposal gain was reversed for the 1H 2010 Actual profit in the pro forma consolidated profit forecast and correspondingly, the income tax expense decreased by RMB1,249 thousand. As the profit forecast for the 2H 2010 and 2011 of Ping An Bank has not included any disposal gains of repossessed assets, no adjustments for the 2H 2010 and 2011 are considered necessary for the purpose of the pro forma consolidated profit forecast.

- As at the acquisition date, included in the intangible assets of Ping An Bank was an amount of RMB70,435 thousand that was related to the Guangzhou branch, Quanzhou branch and Xiamen branch. As the fair values of the above intangible assets included in the financial statements of Ping An Bank cannot be reliably measured as at the acquisition date, these intangible assets were not recognised separately as identifiable assets of Ping An Bank for the purpose of the pro forma consolidated profit forecast. In connection with this, the related amortisation charge amounting to RMB19,210 thousand each for 2010 and 2011 included in the profit forecast of Ping An Bank is reversed during the preparation of the pro forma consolidated profit forecast.

IV. FINANCIAL PLANS DURING THE FORECAST PERIOD

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

2. For the year ending 31 December 2010, the year-end balance of customer deposits of the enlarged Group would increase by RMB122.9 billion or 20% when comparing to 2009. For 2011, the year-end balance of customer deposits would increase by RMB170.9 billion or 24% when comparing to 2010.

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

V. STATEMENT OF THE PRO FORMA CONSOLIDATED PROFIT FORECAST

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

Page IX-2 to page IX-42 of the pro forma consolidated profit forecast report have been signed by:

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

Company chop

VI. NOTES TO THE PRO FORMA CONSOLIDATED PROFIT FORECAST

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY

1.1. Accounting year

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

1.2. Functional currency

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

1.3. Basis of accounting and measurement

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

1.4. Foreign currency translation

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

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

1.5. Precious metals

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

1.6. Reverse repurchase and repurchase agreements

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

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

1.7. Financial assets

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

Financial assets at fair value through profit or loss

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

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

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

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

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

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

Held-to-maturity investments

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

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

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

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

Loans and receivables

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

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

Available-for-sale financial assets

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

1.8. Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Financial assets carried at cost

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

Available-for-sale financial assets

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

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

1.9. Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

Financial guarantee contracts

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

Other financial liabilities

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

1.10. Recognition and derecognition of financial instruments

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

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

(i) the contractual rights to receive the cash flows from the financial asset expire; or

(ii) the financial asset has been transferred and the transfer qualifies for derecognition as set out below.

Transfer of financial assets

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

(i) the Company transfers the contractual rights to receive the cash flows of the financial asset to another party; or

(ii) the Company retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient(s) in an arrangement that meets all of the following conditions:

(a) the Company's obligation to pay amounts to the eventual recipient(s) arises only when it has collected equivalent amounts from the original financial asset. Short-term advances by the Company with the right of full recovery of the amount lent plus accrued interest at market rates for bank loans of equivalent terms do not violate this condition.

(b) the Company is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipient(s) for the obligation to pay them cash flows.

(c) the Company has an obligation to remit any cash flows it collects on behalf of the eventual recipient(s) without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the intervening period between two consecutive payments, which are invested in accordance with the terms of the contract. Income earned on such investments (i.e., reinvesting the cash flows according to the terms of the contract) is passed to the eventual recipient(s) according to the contract terms.

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

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

(i) when the Company has not retained control of the financial asset, the financial asset is derecognised;

(ii) when the Company has retained control of the financial asset, the financial asset is recognised to the extent of the Company's continuing involvement in the transferred financial asset and an associated liability is recognised.

Financial liabilities

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

1.11. Derivative financial instruments

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

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

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

1.12. Long term equity investments

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

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

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

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

Under the equity method, when the initial investment cost of a long term equity investment exceeds the Company's interest in the fair values of the investee's identifiable net assets at the acquisition date, no adjustment is made to the initial investment cost. When initial investment cost is less than the Company's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference is charged to profit or loss for the current period, and the cost of the long term equity investment is adjusted accordingly.

Under the equity method, after acquiring a long term equity investment, the Company recognises its share of the net profits or losses made by the investee as investment income or losses, and adjusts the carrying amount of the investment accordingly. The carrying amount of the investment is reduced by the portion of any profit distributions or cash dividends declared by the investee that is attributed to the Company. The Company shall discontinue recognising its share of net losses of the investee after the carrying amount of the long term equity investment together with any long term interest that in substance form part of the investor's net investment in the investee are reduced to zero, except to the extent that the Company has incurred obligations to assume additional losses. The Company shall adjust the carrying amount of the long term investment for other changes in owners' equity of the investee (other than net profits or losses), and include the corresponding adjustment in other comprehensive income.

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

For a long term equity investment accounted for using the cost method and which is not quoted in an active market and its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The impairment loss is recognised in the income statement in "Impairment losses on assets" and shall not be reversed. For long term equity investments accounted for using the equity method, any impairment is accounted for in accordance with the accounting policy set out in Note VI.1.18.

1.13. Investment properties

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

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

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

1.14. Fixed assets and accumulated depreciation

(i) Recognition of fixed assets

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

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

Subsequent expenditures incurred for a fixed asset that meet the above conditions are included in the cost of the fixed asset and the carrying amount of the parts that are replaced are derecognised. Otherwise, subsequent expenditures are recognised in the income statement in the period in which they are incurred.

(ii) Measurement and depreciation of fixed assets

Fixed assets are initially measured at cost. All fixed assets are stated at cost less any accumulated depreciation and any impairment losses. The cost of an asset comprises the purchase price, related taxes, and any directly attributable expenditures of bringing the asset to working condition for its intended use, such as delivery and handling costs, installation costs and professional fees.

Depreciation is calculated using the straight-line method. The Company reasonably determines the useful lives and estimated net residual values of the fixed assets according to the natures and use patterns of the fixed assets as follows:

	Useful life	Estimated net residual value	Annual depreciation rate
Properties and buildings	15-35 years	1%-5%	2.7%-6.3%
Transportation vehicles	5-8 years	3%-5%	11.9%-19.0%
Computers and automatic teller machines	3-5 years	1%-5%	19.0%-33.0%
Electronic appliances	5-10 years	1%-5%	9.9%-19.8%
Owner-occupied property improvements	5-10 years	–	10.0%-20.0%

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

1.15. Construction in progress

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

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

1.16. Intangible assets

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

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

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

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

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

1.17. Long term deferred expenses

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

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

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

1.18. Impairment of assets

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

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

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The Company estimates the recoverable amount of an asset on an individual basis.

If the result of the recoverable amount calculation indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to profit or loss for the period. A provision for impairment loss of the asset is recognised accordingly.

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

1.19. Repossessed assets

Repossessed assets are initially recognised at fair value. The difference between the initial fair value and the sum of the related loan principal, interest receivable and impairment provision is taken into the income statement. At the balance sheet date, the repossessed assets are measured at the lower of their carrying value and net realisable value. When the carrying value of the repossessed assets is higher than the net realisable value, a provision for the decline in value of repossessed assets is recognised in the income statement in "Impairment losses on assets".

1.20. Recognition of income and expense

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

Interest income and interest expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available for sale and held for trading, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial instrument. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not the future credit losses.

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

Fee and commission income

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

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

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

(ii) Fee income from providing transaction services

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

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

Dividend income

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

1.21. Income tax

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

Current income tax

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

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

Deferred tax

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

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

(i) where the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or deductible loss;

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled enterprises, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

1.22. Employee benefits

Short term employee benefits

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

Defined contribution plans

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

Supplementary retirement benefits

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

Share-based payment transactions

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

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

1.23. Definition of cash equivalents

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

1.24. Related parties

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

(1) the enterprise's parents;

(2) the enterprise's subsidiaries;

(3) other enterprises which are controlled by the enterprise's parents;

(4) an investor who has joint control over the enterprise;

(5) an investor who can exercise significant influence over the enterprise;

(6) a joint venture in which the enterprise is a venturer;

(7) an associate of the enterprise;

(8) principal individual investors of the enterprise, and close family members of such individuals;

(9) key management personnel of the enterprise or its parent, and close family members of such individuals;

(10) other enterprises that are controlled, jointly controlled, or significantly influenced by the enterprise's principal individual investors, key management personnel, or close family members of such individuals.

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

1.25. Fiduciary activities

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

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

1.26. Leases

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

As a lessee under operating leases

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

As a lessor under operating leases

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

1.27. Contingent liabilities

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

1.28. Provisions

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

(i) the obligation is a present obligation of the Company;

(ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and

(iii) the amount of the obligation can be measured reliably.

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

1.29. Trade date accounting

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

1.30. Offsetting

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

1.31. Dividends

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

1.32. Significant accounting judgements and estimates

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

(i) Designation of held-to-maturity investments

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

(ii) Impairment losses of loans and advances

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

(iii) Income tax

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

(iv) Fair value of financial instruments

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

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

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

2. ANALYSES OF INDIVIDUAL ITEMS IN THE PRO FORMA CONSOLIDATED PROFIT FORECAST

2.1. Interest income and interest expenses

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

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

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

In RMB million	2009 Actual			2010.1.1 to 2010.6.30 Actual			2010.7.1 to 2010.12.31 Forecast			2010 Forecast			2011 Forecast		
	Average balance (*Note 1*)	Interest	Average rate	Average balance (*Note 1*)	Interest	Average rate (*Annualised*)	Average balance (*Note 2*)	Interest	Average rate (*Annualised*)	Average balance (*Note 2*)	Interest	Average rate	Average balance (*Note 2*)	Interest	Average rate
Assets															
Loans and advances	431,571	22,428	5.20%	493,371	12,453	5.05%	525,685	13,544	5.15%	509,607	25,997	5.10%	612,926	31,124	5.08%
Bond investments	123,705	3,775	3.05%	147,625	2,029	2.75%	164,347	2,337	2.84%	155,998	4,366	2.80%	188,030	5,335	2.84%
Due from the Central Bank	62,416	933	1.49%	81,832	563	1.38%	94,823	737	1.55%	88,365	1,300	1.47%	109,035	1,597	1.46%
Amounts due from other financial institutions	86,206	1,489	1.73%	110,801	1,432	2.58%	119,340	1,720	2.88%	115,172	3,152	2.74%	109,166	3,111	2.85%
Other interest-earning assets	1,815	34	1.87%	8,420	61	1.45%	9,159	81	1.77%	8,793	142	1.61%	11,061	175	1.58%
Total interest-earning assets	705,713	28,659	4.06%	842,049	16,538	3.93%	913,354	18,419	4.03%	877,935	34,957	3.98%	1,030,218	41,342	4.01%
Liabilities															
Customer deposits	545,775	9,541	1.75%	635,858	4,855	1.53%	703,185	5,390	1.53%	669,733	10,245	1.53%	802,391	12,055	1.50%
Amounts due to other financial institutions	118,047	2,118	1.79%	152,799	1,481	1.94%	141,823	1,496	2.11%	147,281	2,977	2.02%	151,841	3,046	2.01%
Bonds payable	10,368	582	5.61%	12,456	336	5.39%	12,456	339	5.44%	12,456	675	5.42%	12,456	673	5.40%
Other interest-bearing liabilities	1,515	8	0.53%	1,988	11	1.11%	2,357	50	4.24%	2,174	61	2.81%	2,826	93	3.29%
Total interest-bearing liabilities	675,705	12,249	1.81%	803,101	6,683	1.66%	859,821	7,275	1.69%	831,644	13,958	1.68%	969,514	15,867	1.64%
Net interest income		16,410			9,855			11,144			20,999			25,475	
Net interest spread (*Note 3*)			2.25%			2.27%			2.34%			2.30%			2.37%
Net interest margin (*Note 4*)			2.33%			2.34%			2.44%			2.39%			2.47%

Note 1: Average daily balance of relevant periods

Note 2: Projected average balance of relevant periods

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

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

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

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

2.1.1 Interest income

2.1.1.1 Loans and advances

(1) Average balance

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

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

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

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

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

(2) Average yield

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

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

(1) Assuming that the Central Bank does not adjust any benchmark interest rates and statutory reserve ratios during the profit forecast period.

(2) Assuming that there are no significant differences in the composition of the loan portfolio by product type and maturity between 2011 and 2010.

2.1.1.2 Bond investments

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

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

(1) Average balance

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

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

(2) Average yield

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

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

2.1.1.3 Due from the Central Bank

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

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

(1) Average balance

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

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

(2) Average yield

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

2.1.1.4 Amounts due from other financial institutions

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

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

(1) Average balance

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

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

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

(2) Average yield

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

2.1.2 Interest expenses

2.1.2.1 Customer deposits

(1) Average balance

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

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

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

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

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

(2) Average interest rate

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

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

(1) Assuming that the Central Bank does not adjust any benchmark interest rates during the forecast period.

(2) Assuming that there are no significant changes in the structure of customer deposits during the forecast period.

2.1.2.2 Amounts due to other financial institutions

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

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

(1) Average balance

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

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

(2) Average interest rate

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

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

2.1.2.3 Bonds payable

(1) Average balance

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

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

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

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

(2) Average interest rate

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

2.2. Net fee and commission income

2.2.1 Fee and commission income

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

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

2.2.1.1 Settlement fee income

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

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

2.2.1.2 Agency business and wealth management products related fee income

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

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

2.2.1.3 Bank card fee income

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

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

2.2.1.4 Advisory and consulting fee income

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

2.2.2 Fee and commission expenses

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

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

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

2.3. Other operating income

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

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

2.3.1 Investment income

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

2.3.2 Net foreign exchange difference

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

2.3.3 Others

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

2.4. Operating costs

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

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

2.4.1 Business tax and surcharges

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

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

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

2.4.2 Staff expenses

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

2.4.3 General and administrative expenses

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

2.4.4 Depreciation and amortisation

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

2.5. Impairment losses on assets

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

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

2.5.1 Impairment provisions for loans and advances

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

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

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

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

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

(1) The loan migration rates are mainly estimated based on the historical data.

(2) It is assumed that there would be no disposals of non-performing loans during 2010 and 2011.

(3) It is assumed that there are no significant changes in the overall economic environment between 30 June 2010 and the year ends of 2010 and 2011. Therefore, the assumptions used in collective impairment assessment at the year ends of 2010 and 2011 are in line with those of 30 June 2010.

(4) In view of the monitoring of the loans to urban development investment corporations (UDIC) and related policies issued by the Central Government and regulators, it is expected that potential risk of the loans to UDIC will emerge in a progressive manner. Consequently, the projected impairment provisions for UDIC will slightly increase during the second half of 2010 and 2011.

2.6. Income tax expense

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

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

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

3. KEY ISSUES THAT MAY AFFECT PROFIT FORECAST RESULTS AND PROPOSED MEASURES

3.1. Key issues that may affect profit forecast results

3.1.1 Effect of movements in market interest rate

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

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

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

3.1.2 Effect of movements in market currency rate

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

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

3.1.3 Effect of changes in loan quality

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

3.2. Proposed measures

3.2.1 Market interest rate risk management

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

3.2.2 Market currency risk management

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

3.2.3 Credit risk management

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

APPENDIX: Summary of pro forma consolidated profit forecast KPI

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

Note: Credit cost = Credit provision for the current period/Average loan balance (including discounted bills) for the period
Net interest spread = Yield of IEA – Cost of funding of IBL
Net interest margin = Net interest income/Average IEA balance

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular (except Appendices VIII and IX) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the LPD, the interests and short positions of the Directors, supervisors or senior management (including chief executive) of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules, were as follows:

Long positions in Shares

Name of Director/ Supervisor		H/A Shares	Capacity	No. of H/A Shares	Nature of interest	Percentage of total number of H/A Shares in issue (%)	Percentage of total Shares in issue (%)
Cheung Chi Yan Louis	Executive Director	H	Beneficial owner	248,000	Long position	0.00868	0.00324
Chow Wing Kin Anthony	Independent non-executive Director	H	Interest held jointly with another person*	7,500	Long position	0.00026	0.00009
Yao Jason Bo	Executive Director	H	Beneficial owner	12,000	Long position	0.00042	0.00016

* Chow Wing Kin Anthony jointly held these H Shares with Chow Suk Han Anna.

Save as disclosed above, as at the LPD, none of the Directors (including those Directors who were also directors or employees of the Company's substantial shareholders (within the meaning of the SFO)), supervisors or senior management (including chief executive) of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules.

3. DIRECTORS' COMPETING INTEREST

As at the LPD, none of the Directors or supervisors of the Company nor their respective associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

4. DIRECTORS' MATERIAL INTERESTS

As at the LPD, none of the Directors or supervisors of the Company had any direct or indirect interests in any assets which have since 31 December 2009 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the LPD, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement which is significant in relation to the business of the Enlarged Group.

5. LITIGATION AND CLAIMS

As at the LPD, neither the Company nor any other member of the Enlarged Group is engaged in any litigation or claims of material importance pending and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

6. MATERIAL CONTRACTS

The following contracts have been entered into by the Enlarged Group (not being contracts entered into in the ordinary course of business) within the two years preceding the LPD:

(i) the Share Subscription Agreement;

(ii) the Supplemental Share Subscription Agreement;

(iii) the Profit Forecast Compensation Agreement;

(iv) the share subscription agreement entered into between Ping An Life, a non wholly-owned subsidiary of the Company, and SDB on 12 June 2009, pursuant to which Ping An Life conditionally agreed to subscribe for not less than 370,000,000 but not more than 585,000,000 SDB Shares at a subscription price of RMB18.26; and

(v) the share purchase agreement entered into between the Company and Newbridge in relation to the acquisition of 520,414,439 SDB Shares by the Company from Newbridge. The consideration for the acquisition is consisted of a cash consideration of RMB11,449,117,658 or 299,088,758 new H Shares.

7. SERVICE CONTRACTS

As at the LPD, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensations (other than statutory compensation)).

8. EXPERTS

The following are the qualifications of the experts who have given their opinions or advice contained in this circular:

Name	Qualification
Ernst & Young	Certified Public Accountants
CICCHKS	a corporation licensed in Hong Kong to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO

As at the LPD, Ernst & Young and CICCHKS (i) did not have any beneficial interests in the share capital of any member of the Enlarged Group; (ii) did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Enlarged Group; and (iii) did not have any direct or indirect interests in any assets which have since 31 December 31 2009 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Each of Ernst & Young and CICCHKS has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name in the form and context in which it appears.

9. MISCELLANEOUS

(a) The registered office of the Company is at 15, 16, 17 and 18 Floors, Galaxy Development Center, Fu Hua No. 3 Road, Futian District, Shenzhen, Guangdong Province, China and the principal place of business of the Company in Hong Kong is at 17th Floor, Allied Kajima Building, 138 Gloucester Road, Wan Chai, Hong Kong.

(b) The H Share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The company secretary of the Company is Mr. Yao Jun, the Chief Legal Officer of the Company, qualified to practice law in the PRC.

(d) In case of any inconsistency, the English text of this circular shall prevail, except for Appendices II, IV, V, VI, VIII and IX to this circular, of which the Chinese text shall prevail.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's head office and principal place of business in Hong Kong at 17th Floor, Allied Kajima Building, 138 Gloucester Road, Wan Chai, Hong Kong on any Business Day from the date of this circular up to and including the date of the EGM:

(a) the articles of association of the Company;

(b) the articles of association of SDB;

(c) the annual reports of the Company for each of the three financial years ended 31 December 2009 and the interim report of the Company for the six months ended 30 June 2010;

(d) the accountants' report of SDB prepared by Ernst & Young, the text of which is set out in Appendix II to this circular;

(e) the letter from Ernst & Young in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(f) the valuation report of PAB prepared by 中聯資產評估有限公司 (China United Assets Appraisal Company Limited), the text of which is set out in Appendix VI to this circular;

(g) the comfort letters from Ernst & Young and CICCHKS relating to the profit forecasts and valuation report of PAB, the texts of which are set out in Appendix VII to this circular;

(h) the written consents referred to in the paragraph headed "Experts" in this appendix;

(i) the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and

(j) this circular.