

**Ping An Bank Company Limited
2012 Half-Year Report**

(If there is any discrepancy, please refer to the Chinese Version.)

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Chapter 1 Important Notes

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

The eighteenth meeting of the eighth Board of Directors of the Bank discussed the full text and abstract of 2012 Half-Year Report. There were 18 directors present at the meeting. The Board of the Bank approved the Report unanimously at the meeting.

Ernst & Young Hua Ming has audited the 2012 half-year financial statements of the Bank, and has produced standard unqualified auditing report.

Xiao Suining, the Bank's Chairman of the Board of Directors, Richard Jackson, President, Chen Wei, Vice President and Chief Financial Officer, and Wang Lan, head of the Accounting Department, guarantee the authenticity, accuracy and completeness of the financial report in 2012 Half-Year Report.

Chapter 2 Basic Facts of the Company

(I) Corporate Information

Stock Code for A Share	000001
Abbreviated name of A share	Pang An Bank
Stock exchange with which the shares of the Bank are listed	Shenzhen Stock Exchange
Legal name in Chinese	平安银行股份有限公司
Legal name in English	Ping An Bank Co., Ltd.
Legal representative	Xiao Suining
Registered address	5047 East Shennan Road, Shenzhen City, Luohu District, Guangdong Province, China
Zip code for registered address	518001
Business address	Shenzhen Development Bank, Shenzhen Development Bank Building, 5047 East Shennan Road, Shenzhen City, Guangdong Province, China
Zip code for business address	518001
Website	http://www.bank.pingan.com
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(II) Contact Persons and Means of Contact

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(III) Information Disclosure and Place for Maintenance

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

(IV) Definition

Definition item	Explanation of definition
Ping An Bank, the Bank	The bank derived upon the integration of the former Shenzhen Bank Development Company Limited (“former Shenzhen Development Bank” or “former SDB”) with the former PAB Company Limited (“former PAB”) in merger through absorption and after renaming.
Former Shenzhen Development Bank, former SDB	A national joint stock commercial bank established on December 22, 1987. The bank is renamed to Ping An

	Bank after the merger of the former PAB through absorption.
Former PAB	A joint stock commercial bank established in June 1995 with operations across regions, and was deregistered on June 12, 2012.
Ping An China	Ping An Insurance (Group) Company of China, Ltd., the controlling shareholder of the Bank.

(V) Explanation on the basis of data of financial statements

In July 2011, the Bank acquired 90.75% equity interests in the former PAB held by Ping An China via non-public offering of shares, and the former PAB became the controlling subsidiary of the Bank. Since the acquisition of the former PAB by the Bank, the Bank has prepared its consolidated financial statements in accordance with the Accounting Principles for Business Enterprises. The Bank completed the merger with the former PAB through absorption in June 2012, and became a single legal entity. According to the requirements of accounting standards, the financial statements for the period include the concepts of both “consolidated financial statements” and “company financial statements”. Meanwhile, the implications for the “consolidated financial statements” from January to June 2012 and as of June 30, 2012 and for the “consolidated financial statements” from January to December 2011 and as of December 31, 2011 are not the same. The former represents the consolidated financial statements after the merger through absorption where minority interests no longer exist, while the latter represents the consolidated financial statements before the merger through absorption with minority interests. Relevant basis is stated below for investors’ understanding:

Data in financial statements	Period/point of time	Items reflected
Consolidated balance sheet	June 30, 2012	Data of the bank after the merger through absorption where minority interests no longer exist
	December 31, 2011	Consolidated data for the former SDB and the former PAB with minority interests
Company balance sheet	June 30, 2012	Data of the bank after the merger through absorption
	December 31, 2011	Individual data for the former Shenzhen Development Bank
Consolidated income statement	January to June 2012	Net profit attributable to shareholders of the parent = net profit of the former SDB for January to June + 90.75% of net profit of the former PAB for January to May + 100% of net profit of the former PAB for June
	January to June 2011	Individual data for the former Shenzhen Development Bank
Company income statement	January to June 2012	Net profit = net profit of the former SDB for January to June +100% of net profit

		of the former PAB for June + investment gain arising from the investment in the former PAB by the former SDB during the holding period from July 2011 (the acquisition date) to May 2012 (as required by accounting standards without any actual meaning for analysis)
	January to June 2011	Individual data for the former Shenzhen Development Bank

Unless otherwise stated, relevant analysis and discussion in this report are the data from consolidated financial statements.

(VI) Income statement of the former PAB for January to June 2011

For investors' convenience in making analysis and comparison, the income statement of the former PAB for January to June 2011 is shown below for investors' reference:

In RMB thousand

Item	January – June 2011
I. Operating income	
Interest income	6,336,064
Interest expense	3,057,786
Net interest income	3,278,278
Fee and commission income	886,587
Fee and commission expense	92,619
Net fee and commission income	793,968
Investment gain/loss	(61,751)
Including: Share of profits of associates	-
Gain from changes in fair values of financial instruments	20,418
Net foreign exchange differences	14,953
Other operating income	4,634
Total operating income	4,050,500
II. Operating costs	
Business tax and subcharge	284,808
Business and administrative expenses	1,841,614
Total operating costs	2,126,422
III. Operating profit before impairment losses on assets	1,924,078
Impairment losses on assets	299,494
IV. Operating profit	1,624,584
Add: Non-operating income	4,800
Less: Non-operating expenses	93
V. Profit before tax	1,629,291
Less: Income tax expense	363,181
VI. Profit for the period	1,266,110
VII. Other comprehensive income for the period, net of tax	(71,128)
VIII. Total comprehensive income for the period, net of tax	1,194,982

Note: For convenience in making comparison, the above table has been adjusted in accordance with the presentation basis for the Bank.

(VII) Pursuant to *SDB Announcement on Accounting Policy Changes and Retroactive Adjustment Items* announced by the Bank on August 18 2011, the Bank has made retroactive adjustments on the comparable data for the same period of previous year.

Chapter 3 Key Financial and Operation Highlights

I. Operating results

(In RMB thousand)

Item	January – June 2012	January – June 2011	January – December 2011	Change from the same period of previous year (%)
Operating income	19,625,534	12,137,267	29,643,061	61.70%
Operating profit before asset impairment loss	10,407,134	6,777,886	15,281,275	53.55%
Asset impairment loss	1,570,234	730,678	2,148,574	114.90%
Operating profit	8,836,900	6,047,208	13,132,701	46.13%
Pre-tax profit	8,878,649	6,063,160	13,257,489	46.44%
Net profit	6,869,564	4,731,138	10,390,491	45.20%
Net profit attributed to shareholders of the parent	6,761,485	4,731,138	10,278,631	42.91%
Net profit attributed to shareholders of the parent after deducting non-recurring gains/losses	6,729,261	4,717,466	10,179,272	42.65%
Per share:				
Basic EPS(in RMB)	1.32	1.36	2.47	(2.94%)
Diluted EPS(in RMB)	1.32	1.36	2.47	(2.94%)
Basic EPS after deducting non-recurring gains/losses(in RMB)	1.31	1.35	2.44	(2.96%)
Cash flow:				
Net cash flows from operating activities	144,029,780	31,613,008	(14,439,373)	355.60%
Per share net cash flows from operating activities(in RMB)	28.11	9.07	(2.82)	209.92%

Items and amount of non-recurring gains/losses for the previous three years

(In RMB thousand)

Non-recurring gains/losses item	January – June 2012	January – June 2011	January – December 2011
Gains/losses on disposal of non-current assets (gain/loss on disposal of fixed assets, repossessed assets and long-term equity investment)	16,200	28,176	131,180
Gains/losses on contingency (predicted liabilities)	17,180	(17,729)	(29,278)
Other non-operating income and expense	8,369	7,074	24,454
Impact of income tax	(9,447)	(3,849)	(27,120)
Amounts attributed to minority shareholders	(78)	-	123
Total	32,224	13,672	99,359

II. Profitability indicators

(Unit :%)

Item	January – June 2012	January – June 2011	January – December 2011	Change from the same period of previous year
Return on total assets (unannualized)	0.45	0.56	0.82	-0.11 percenta ge point
Return on total assets (annualized)	0.91	1.11	0.82	-0.20 percenta ge point
Average return on total assets (unannualized)	0.49	0.60	1.04	-0.11 percentage point
Average return on total assets (annualized)	0.98	1.20	1.04	-0.22 percentage point
Return on equity (fully diluted, unannualized)	8.47	12.51	14.02	-4.04 percentage point
Return on equity (fully diluted, annualized)	15.62	22.23	14.02	-6.61 percentage point
Return on equity (fully diluted, deducting non- recurring gains/losses, unannualized)	8.43	12.47	13.89	-4.04 percentage point
Return on equity (fully diluted, deducting non- recurring gains/losses, annualized)	15.54	22.17	13.89	-6.63 percentage point
Weighted average return on equity (unannualized)	8.82	13.30	20.32	-4.48 percentage point
Weighted average return on equity (annualized)	16.89	24.95	20.32	-8.06 percentage point
Weighted average return on Equity (deducting non- recurring gains/losses, unannualized)	8.77	13.27	20.12	-4.50 percentage point
Weighted average return on Equity (deducting non- recurring gains/losses, annualized)	16.81	24.88	20.12	-8.07 percentage point
Cost/income ratio	38.13	36.30	39.99	+1.83 percentage point
Credit cost	0.46	0.34	0.41	+0.12 percentage point
Net interest spread (NIS)	2.22	2.50	2.37	-0.28 percentage point
Net interest margin (NIM)	2.42	2.63	2.53	-0.21 percentage point

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

The decrease in net return on assets (including fully diluted and weighted average) as compared with the same period of last year was due to the issuance of 1.638 billion shares by the Bank via non-public offering in July 2011, which has increased net asset by RMB 29.4 billion and diluted the net return on assets.

III. Assets and liabilities

(In RMB thousand)

Item	June 30, 2012	December 31, 2011	December 31, 2010	Change from the end of previous year (%)
1. Total assets	1,490,622,851	1,258,176,944	727,207,076	18.47%
Including: financial assets and derivative financial assets at fair value through profit	6,262,586	3,418,479	371,734	83.20%
Held-to-maturity investments	108,223,947	107,683,080	61,379,837	0.50%
Loans and receivables	1,090,343,349	884,305,432	550,580,227	23.30%
Available-for-sale financial assets	80,229,512	78,383,526	31,534,183	2.36%
Goodwill	7,568,304	7,568,304	-	-
Others	197,995,153	176,818,123	83,341,095	11.98%
2. Total liabilities	1,410,800,241	1,182,796,360	694,009,541	19.28%
Including: financial liabilities and derivative financial liabilities at fair value through profit or loss in the current period	1,130,187	732,418	311,805	54.31%
Placement from banks and other institutions	7,197,324	25,279,349	6,200,174	(71.53%)
Deposits	949,577,975	850,845,147	562,912,342	11.60%
Others	452,894,755	305,939,446	124,585,220	48.03%
3. Shareholders' equity	79,822,610	75,380,584	33,197,535	5.89%
Including: equity attributed to shareholders of the parent	79,822,610	73,310,837	33,197,535	8.87%

Net asset per share attributed to shareholders of the parent (in RMB)	15.58	14.31	9.53	8.87%
4. Total deposits	949,577,975	850,845,147	562,912,342	11.60%
Including: Corporate deposits	772,966,531	698,564,967	477,741,629	10.65%
Retail deposits	176,611,444	152,280,180	85,170,713	15.98%
5. Total loans	682,905,530	620,641,817	407,391,135	10.03%
Including: Corporate loans	485,227,709	430,702,072	287,295,541	12.66%
General corporate loans	449,563,875	413,019,170	268,648,981	8.85%
Discounted bills	35,663,835	17,682,902	18,646,560	101.69%
Retail loans	167,049,225	165,226,483	113,750,877	1.10%
Receivables	30,628,596	24,713,262	6,344,717	23.94%
Provision for	(11,830,022)	(10,566,481)	(6,425,060)	11.96%
Net loans and	671,075,508	610,075,336	400,966,075	10.00%

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

(Unit: %)

Financial indicators		Standard level of indicators	June 30, 2012		December 31, 2011		December 31, 2010	
			Period-end	Monthly Average	Year-end	Monthly Average	Year-end	Monthly Average
Liquidity ratio	RMB	≥25	59.74	64.85	55.72	Not applicable	52.52	46.81
	Foreign currency	≥25	74.45	76.11	62.89	Not applicable	49.94	54.06
	RMB and foreign currency	≥25	59.38	64.59	55.43	Not applicable	52.35	46.58
Loan/deposit ratio (including discounted bills)	RMB and foreign currency	≤75	71.69	72.01	72.88	Not applicable	72.61	75.67
Loan/deposit ratio (excluding discounted bills)	RMB and foreign currency	Not applicable	67.89	69.38	70.75	Not applicable	69.23	70.53
Non-performing loan (NPL) rate		≤5	0.73	0.71	0.53	Not applicable	0.58	0.60
Capital adequacy ratio		≥8	11.40	11.52	11.51	Not applicable	10.19	9.83
Core capital adequacy ratio		≥4	8.44	8.54	8.46	Not applicable	7.10	6.69

					cable		
Ratio of loans to the single largest client to net capital	≤10	3.25	3.70	3.71	Not applicable	5.29	5.99
Ratio of loans to top 10 clients to net capital	Not applicable	18.90	19.26	19.24	Not applicable	26.86	30.49
Ratio of accumulated foreign exchange exposure position to net capital	≤20	1.45	Not applicable	2.80	Not applicable	0.84	Not applicable
Pass loans flow rate	Not applicable	0.73	Not applicable	0.67	Not applicable	0.73	Not applicable
Special Mention loans flow rate	Not applicable	39.62	Not applicable	9.35	Not applicable	39.17	Not applicable
Substandard loans flow rate	Not applicable	24.50	Not applicable	39.40	Not applicable	23.15	Not applicable
Doubtful loans flow rate	Not applicable	50.46	Not applicable	13.01	Not applicable	9.23	Not applicable
Cost/income ratio (excluding business tax)	Not applicable	38.13	Not applicable	39.99	Not applicable	40.95	Not applicable
Provision coverage	Not applicable	237.96	Not applicable	320.66	Not applicable	271.50	Not applicable
Provision to loan ratio	Not applicable	1.73	Not applicable	1.70	Not applicable	1.58	Not applicable

Chapter 4 Management Discussion and Analysis

I. Business scope

The Bank mainly engages in various commercial banking businesses approved by relevant regulators, mainly including RMB deposits, loans, settlement, remittance and cashing business; RMB bill acceptance and discounting; various trust businesses; issuance or trading of RMB securities as approved by regulators; foreign currency deposits and remittance; onshore and offshore loans; issuance or agency issuance of foreign currency securities at home or abroad; trade and non-trade settlement; foreign currency bill acceptance and discounting; foreign currency loans; agency trading of foreign exchange and foreign currency securities, proprietary foreign exchange trading; credit investigation, advisory and attestation services; concurrent insurance agency business; gold import business, and other businesses as approved or permitted by relevant regulators.

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

II. Analysis of business performance in the first half of 2012

(I) Overview

During the first half of 2012, inflation has been eased in China, and a stable monetary policy was continued under national macro-economic control. Under the influence of the macro-economy and decline in credit demand, and alongside with the decrease in benchmark interest rate and the trend of implementing market-based interest rate, interest spreads charged by banks narrowed and the pressure on increasing deposit grew. Meanwhile, under the influence of the new capital management method, various risk regulatory indicators and requirements in China has become more stringent, pressing the banking industry to enhance risk management.

Under the complicated and ever-changing macro-economic situation and the increasingly competitive operating condition in the market, the Bank steadily implemented its business development strategy and the integration plan of SDB and PAB on the basis of expanding deposits to promote cross-selling, strengthen portfolio management, improve asset and liability management capabilities as well as optimize risk management system, and thus achieved a relatively satisfactory operating results.

During the reporting period, integration of SDB and PAB was undergone in accordance with laws and regulations in a stable and orderly manner, making a substantial progress. On April 2011,

the Bank obtained the Approval of China Banking Regulatory Commission on the Merger and Consolidation of Shenzhen Development Bank with Ping An Bank (Yin Jian Fu [2012] No.192) to approve the former Shenzhen Development Bank to merge with the former PAB through absorption. On June 12, 2012, Market Supervision Administration of Shenzhen Municipality approved the deregistration of the former PAB, and SDB and PAB were officially combined as one individual bank in accordance with laws.

1. Steady growth in scale and strategic business grew healthily

As of the end of the reporting period, total assets of the Bank amounted to RMB1,490.623 billion, a growth of 18.47% compared with the beginning of the year; total loans (including discount) amounted to RMB682.906 billion, an increase of 10.03% compared with the beginning of the year; total deposits amounted to RMB949.578 billion, a growth of 11.60% compared with the beginning of the year. NPL ratio was 0.73%, and was still under control and maintained at low level.

Among the business structure, strategic businesses including trade finance business, micro finance, retail business and credit card business saw a healthy growth with effective channel building, increased promotion of online supply chain finance and steady expansion in customer base. As of the end of the reporting period, balance of trade financing facilities amounted to RMB277.5 billion, increasing by 18.89% compared with the beginning of the year; balance of micro loans amounted to RMB53.549 billion, representing an increase of 11.57% from the beginning of the year; retail deposit growth rate was apparently higher than that of total deposits; total credit cards in force amounted to 9.89 million.

2. Stable profitability with improvement in income structure

In the first half of 2012, the Bank recorded operating income of RMB19.626 billion, representing a period-on-period increase of 61.70%. Net profit attributable to the parent company amounted to RMB6.761 billion, representing a period-on-period increase of 42.91%. Profitability remained stable.

Among the operating income, non-interest income amounted to RMB3.469 billion, increasing by 98.79% compared with the same period of last year. Net non-interest income as a percentage in operating income continued to rise to 17.68% from 14.38% of the same period of last year. Income structure had further improved.

3. Capital adequacy ratio meeting regulatory standards

The Bank's capital adequacy ratio and core capital adequacy ratio were 11.40% and 8.44% respectively as of the end of the reporting period, which met regulatory standards.

(II) Analysis of income statement items

1. Composition of and changes in operating income

(In RMB million)

Item	January – June 2012		January – June 2011		Increase/decrease for the period compared with the same period of last year (%)
	Amount	%	Amount	%	
Net interest income	16,157	82.32%	10,392	85.62%	55.48%
Interest income from placement at central bank	1,320	3.55%	611	3.13%	116.04%
Interest income from transactions with financial institutions	4,084	10.97%	4,096	20.96%	(0.29%)
Interest income from loans and advances	22,111	59.39%	12,332	63.11%	79.30%
Interest income from securities investment	4,710	12.65%	2,151	11.01%	118.97%
Other interest income	5,003	13.44%	350	1.79%	1329.43%
Subtotal of interest income	37,228	100.00%	19,540	100.00%	90.52%
Rediscount interest expense	12	0.06%	27	0.30%	(55.56%)
Interest expense from transactions with financial institutions	7,438	35.30%	3,204	35.02%	132.18%
Deposit interest expense	11,434	54.26%	5,429	59.35%	110.61%
Payable bond interest expense	501	2.38%	329	3.60%	52.28%
Other interest expense	1,685	8.00%	159	1.73%	959.75%
Subtotal of interest expense	21,070	100.00%	9,148	100.00%	130.33%
Net fee and commission income	2,779	14.16%	1,188	9.79%	133.92%
Other net operating income	690	3.52%	557	4.59%	23.88%
Total operating income	19,626	100.00%	12,137	100.00%	61.70%

Net interest income

In the first half of 2012, the Bank realized net interest income of RMB16.157 billion, increasing by 55.48% compared with the same period of last year and accounting for 82.32% of operating income, which decreased by 3.30 percentage points compared with 85.62% of the same period of last year. The growth in net interest income mainly credited to the growth of the scale of interest-earning assets and structure improvement.

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

(In RMB million)

Item	January – June 2012			January – June 2011		
	Daily average balance	Interest income/expense	Average yield/ cost (%)	Daily average balance	Interest income/expense	Average yield/ cost (%)
Assets						
Customer loans and advances (excluding discount)	625,025	21,821	7.02%	412,153	12,110	5.93%

Bond investment	195,062	3,907	4.03%	106,201	1,791	3.40%
Due from Central Bank	174,294	1,320	1.52%	81,809	611	1.50%
Bills discount and inter-bank business	196,049	5,176	5.31%	179,238	4,678	5.26%
Others	154,896	5,003	6.50%	18,881	350	3.74%
Total of interest-earning assets	1,345,326	37,227	5.56%	798,283	19,540	4.94%
Liabilities						
Customer deposits	891,512	11,434	2.58%	584,906	5,429	1.87%
Bonds issued	16,126	501	6.24%	10,744	329	6.18%
Inter-bank business	312,384	7,450	4.80%	153,807	3,231	4.23%
Others	48,643	1,685	6.97%	7,296	159	4.41%
Total of interest-bearing liabilities	1,268,665	21,070	3.34%	756,751	9,148	2.44%
Net interest income		16,157			10,392	
Deposit-loan spread			4.44%			4.06%
Net interest spread (NIS)			2.22%			2.50%
Net interest margin (NIM)			2.42%			2.63%

On a period-on-period basis, the average interest rates of all assets and liabilities during the period were higher than that in the same period of last year under the lagging influence of the interest rate increase policy of the Central Bank in 2011. Meanwhile, under the guidance of portfolio management and pricing strategy, deposit-loan spread recorded a better growth, but net interest spread and net interest margin were lowered due to the expansion of the scale of inter-bank business.

Item	April – June 2012			January – March 2012		
	Daily average balance	Interest income/expense	Average yield/ cost (%)	Daily average balance	Interest income/expense	Average yield/ cost (%)
Assets						
Customer loans and advances (excluding discount)	631,899	11,038	7.03%	618,152	10,783	7.02%
Bond investment	195,482	1,954	4.02%	194,641	1,953	4.04%
Due from Central Bank	179,020	676	1.52%	169,569	644	1.53%
Bills discount and inter-bank business	252,888	3,069	4.88%	139,210	2,107	6.09%
Others	138,180	2,124	6.18%	171,612	2,879	6.75%
Total of interest-earning assets	1,397,468	18,861	5.43%	1,293,184	18,366	5.71%
Liabilities						
Customer deposits	918,665	5,961	2.61%	864,359	5,473	2.55%
Bonds issued	16,127	250	6.23%	16,126	251	6.25%

Inter-bank business	350,102	3,904	4.48%	274,666	3,546	5.19%
Others	34,227	544	6.39%	63,059	1,141	7.27%
Total of interest-bearing liabilities	1,319,121	10,659	3.25%	1,218,210	10,411	3.44%
Net interest income		8,202			7,955	
Deposit-loan spread			4.42%			4.47%
Net interest spread (NIS)			2.18%			2.27%
Net interest margin (NIM)			2.36%			2.47%

In the second quarter of 2012, the Central Bank announced the downward adjustment on interest rate and expanded the margin for fluctuations for deposit and loan interest rate, yet the overall influence on the second quarter was insignificant for the second quarter due to the fact that the policy was launched in June. On a quarter-on-quarter basis, interest rates of deposits rose in the second quarter under the influence of market factors. Interest rates of bonds, inter-bank and other businesses dropped, whilst deposit-loan spread, net interest spread and net interest margin also decreased.

Daily average balance of customer loans and advances and yield

(In RMB million)

Item	January – June 2012			January – June 2011		
	Daily average balance	Interest income	Average yield (%)	Daily average balance	Interest income	Average yield (%)
Corporate loans (excluding discount)	424,778	14,740	6.98%	286,213	8,475	5.97%
Retail loans	200,247	7,081	7.11%	125,940	3,635	5.82%
Customer loans and advances (excluding discount)	625,025	21,821	7.02%	412,153	12,110	5.93%

Item	April – June 2012			January – March 2012		
	Daily average balance	Interest income	Average yield (%)	Daily average balance	Interest income	Average yield (%)
Corporate loans (excluding discount)	430,426	7,465	6.98%	419,131	7,275	6.98%
Retail loans	201,473	3,573	7.13%	199,021	3,508	7.09%
Customer loans and advances (excluding discount)	631,899	11,038	7.03%	618,152	10,783	7.02%

Daily average balance of customer deposits and cost rate

(In RMB million)

Item	January – June 2012			January – June 2012		
	Daily average balance	Interest income	Average cost rate (%)	Daily average balance	Interest income	Average cost rate (%)
Corporate deposits	518,782	6,628	2.57%	340,030	3,208	1.90%
Including: Demand deposits	197,594	771	0.78%	144,562	512	0.71%
Time deposits	321,188	5,857	3.67%	195,468	2,696	2.78%
Including: Ministry of Finance and negotiated deposits	55,967	1,529	5.49%	37,859	908	4.84%
Corporate margin deposits	211,611	2,664	2.53%	154,465	1,372	1.79%
Retail deposits	161,119	2,142	2.67%	90,411	849	1.89%
Including: Demand deposits	54,504	137	0.51%	29,654	69	0.47%
Time deposits	106,615	2,005	3.78%	60,757	780	2.59%
Total deposits	891,512	11,434	2.58%	584,906	5,429	1.87%

Item	April – June 2012			January – March 2012		
	Daily average balance	Interest expense	Average cost rate (%)	Daily average balance	Interest expense	Average cost rate (%)
Corporate deposits	533,091	3,412	2.57%	504,473	3,216	2.56%
Including: Demand deposits	200,329	383	0.77%	194,859	388	0.80%
Time deposits	332,762	3,029	3.66%	309,614	2,828	3.67%
Including: Ministry of Finance and negotiated deposits	54,831	751	5.51%	57,104	778	5.48%
Corporate margin deposits	219,682	1,466	2.68%	203,540	1,198	2.37%
Retail deposits	165,892	1,083	2.63%	156,346	1,059	2.72%
Including: Demand deposits	55,347	66	0.48%	53,661	71	0.53%
Time deposits	110,545	1,017	3.70%	102,685	988	3.87%
Total deposits	918,665	5,961	2.61%	864,359	5,473	2.55%

3. Net fee and commission income

In the first half of 2012, the net non-interest income of the Bank was RMB3.469 billion with an increase of 98.79% over the same period of last year. Among which, net fee and commission income was RMB2.779 billion, increasing by 133.92%. The growth of net fee and commission income was as follows:

(In RMB million)

Item	January – June 2012	January – June 2011	Increase/decrease for the period compared with the same period

			of last year (%)
Settlement fee income	450	316	42.41%
Wealth management business fee income	326	95	243.16%
Agency and entrustment business fee income	500	155	222.58%
Bank card business fee income	1,037	301	244.52%
Consulting and advisory fee income	177	275	(35.64%)
Account management fee income	227	23	886.96%
Others	382	165	132.12%
Subtotal of fee income	3,099	1,330	133.08%
Agency business fee outlay	56	42	33.33%
Bank card fee outlay	216	88	145.45%
Others	48	12	300.00%
Subtotal of fee outlay	320	142	125.35%
Net fee and commission income	2,779	1,188	133.92%

During the reporting period, the Bank's consulting and advisory fee income dropped significantly under the influence of "seven prohibitions". However, under the influence of factors on the merger and the expansion of the Bank's size and customer base as well as factors such as the rapid development of bank card business, innovation in wealth management products and increase in service quality emerged, the Bank's net fee income showed a good overall growth trend..

4. Other net operating income

Other net operating income includes investment income, gains/losses from changes in fair value, foreign exchange gains/losses and other business income. In the first half of 2012, other net operating income of the Bank was RMB690 million, representing a period-on-period increase of 23.88%, primarily due to price difference gains from bonds and discounted bills.

5. Operating expense

In the first half of 2012, operating expense of the Bank surged by 69.82% over the same period of last year to RMB7.483 billion, primarily due to the influence of consolidation basis, headcount and business scale growth, the resources pooled for integrating the policies, procedures and systems of SDB and PAB after the merger, and continued investment in upgrading the management process and IT system. Cost to income ratio (excluding business tax) was 38.13%, representing an increase of 1.83 percentage points from 36.30% over the same period of last year. Operating expense includes staff expense of RMB4.034 billion with an increase of 62.07% over the same period of last year, business expense of RMB2.314 billion with an increase of 74.25% over the same period of last year, and depreciation, amortization and rentals of RMB1.135 billion with an increase of 92.37% over the same period of last year.

6. Asset impairment loss

(In RMB million)

	Provision for January – June 2012	Provision for January – June 2011	Increase/decrease for the period compared with the same period of last year (%)
Due from banks and other financial institutions	-	10	(100.00%)
Placement with banks and other financial institutions	-	4	(100.00%)
Load disbursements and advances	1,539	715	115.24%
Held-to-maturity bond investments	-	5	(100.00%)
Long-term equity investments	-	(3)	100.00%
Repossessed assets	2	9	(77.78%)
Other assets	29	(9)	422.22%
Total	1,570	731	114.90%

7. Income tax expense

In the first half of 2012, income tax rate of the Bank was 22.62%, up 0.67 percentage point over the same period of last year. According to the Enterprise Income Tax Law of the People's Republic of China and Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax, starting from January 1, 2008, the applicable tax rate for enterprises which originally enjoy preferential income tax rates will be gradually shifted to the statutory tax rate of 25% over five years after the enforcement of the new income tax law.

(In RMB million)

	January to June 2012	January to June 2011	Increase/decrease for the period compared with the same period of last year (%)
Profit before tax	8,879	6,063	46.44%
Income tax expense	2,009	1,331	50.94%
Actual income tax rate	22.62%	21.95%	0.67 percentage point

8. Profit by periods during the reporting period

(In RMB million)

Item	Q1	Q2	January to June Total
Operating income	9,724	9,902	19,626
Net interest income	7,955	8,202	16,157
Net fee and commission income	1,448	1,331	2,779
Other net operating income	321	369	690
Operating expense	4,573	4,646	9,219
Business taxes and surcharges	860	876	1,736
Business and administrative expense	3,713	3,770	7,483

Operating profit before asset impairment loss	5,151	5,256	10,407
Asset impairment loss	686	884	1,570
Operating profit	4,465	4,372	8,837
Net non-operating income and expense	12	30	42
Profit before tax	4,477	4,402	8,879
Income tax	982	1,027	2,009
Net profit	3,495	3,375	6,870

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

January to June 2012

(In RMB million)

Region	Operating income	Operating expense	Operating profit before asset impairment loss	Percentage of operating profit before asset impairment loss by region
East region	5,713	2,125	3,588	34.48%
South region	3,620	2,293	1,327	12.75%
West region	1,552	504	1,048	10.07%
North region	2,294	1,134	1,160	11.15%
Headquarters	6,447	3,163	3,284	31.55%
Total	19,626	9,219	10,407	100.00%

January to June 2011

(In RMB million)

Region	Operating income	Operating expense	Operating profit before asset impairment loss	Percentage of operating profit before asset impairment loss by region
East region	3,734	1,426	2,308	34.05%
South region	2,778	1,230	1,548	22.84%
West region	1,060	384	676	9.97%
North region	1,784	894	890	13.13%
Headquarters	2,781	1,425	1,356	20.01%
Total	12,137	5,359	6,778	100.00%

Description: The resultant bank after the merger through absorption conducts management by region, which is divided into four regions, namely the East region, South region, West region and North region. In the table, the corresponding branches for the regions and the headquarters are:

East region: Shanghai, Wenzhou, Hangzhou, Ningbo, Nanjing, Wuxi, Fuzhou, Quanzhou, Xiamen

South region: Shenzhen, Guangzhou, Foshan, Zhuhai, Dongguan, Huizhou, Zhongshan,

Operation Department at Headquarters

West region: Wuhan, Chongqing, Chengdu, Haikou, Kunming

North region: Beijing, Dalian, Tianjin, Qingdao, Jinan

Headquarters: Departments at Headquarters (including credit card and offshore department, etc.)

(3) Analysis of balance sheet items

1. Asset composition and changes

(In RMB million)

Item	June 30, 2012		December 31, 2011		Increase or decrease for the end of the period compared with the end of last year (%)
	Amount	%	Amount	%	
Loans and advances	682,906	45.81%	620,642	49.33%	10.03%
Provision for impairment of loans	(11,830)	(0.79%)	(10,567)	(0.84%)	11.96%
Net loans and advances	671,076	45.02%	610,075	48.49%	10.00%
Investment	232,357	15.59%	203,757	16.19%	14.04%
Cash and due from the central bank	180,414	12.10%	160,635	12.77%	12.31%
Due from banks and other financial institutions	106,987	7.18%	39,884	3.17%	168.25%
Lendings to banks and other financial institutions and reverse repurchase agreements	143,515	9.63%	42,751	3.40%	235.70%
Account receivables	123,110	8.26%	170,589	13.56%	(27.83%)
Interest receivables	8,552	0.57%	7,274	0.58%	17.57%
Fixed assets	3,247	0.22%	3,524	0.28%	(7.86%)
Intangible assets	5,785	0.39%	5,990	0.48%	(3.42%)
Goodwill	7,568	0.50%	7,568	0.60%	-
Properties for investment purposes	254	0.02%	263	0.02%	(3.42%)
Deferred income tax assets	2,964	0.20%	2,890	0.23%	2.56%
Other assets	4,794	0.32%	2,977	0.23%	61.00%
Total assets	1,490,623	100.00%	1,258,177	100.00%	18.47%

(1) Loans and advances

Loan structure by product

(In RMB million)

Item	June 30, 2012		December 31, 2011	
	Amount	%	Amount	%
Corporate loans	485,228	71.05%	430,702	69.40%
Including: General loans	449,564	65.83%	413,019	66.55%
Discounts	35,664	5.22%	17,683	2.85%
Retail loans	167,049	24.46%	165,227	26.62%
Including: Housing mortgage loans	70,513	10.33%	75,373	12.14%
Entrepreneur loans	48,453	7.09 %	43,353	6.99%
Auto loans	14,093	2.06%	12,705	2.05%
Others	33,990	4.98%	33,796	5.44%
Account receivables of credit cards	30,629	4.49%	24,713	3.98%
Total loans	682,906	100.00%	620,642	100.00%

Loans by region

(In RMB million)

Region	June 30, 2012		December 31, 2011	
	Amount	%	Amount	%
East region	238,439	34.92%	228,038	36.74%
South region	223,017	32.65%	200,329	32.28%
West region	55,033	8.06%	47,852	7.71%
North region	127,783	18.71%	110,995	17.88%
Headquarters	38,634	5.66%	33,428	5.39%
Total	682,906	100.00%	620,642	100.00%

From the perspective of loan structure by region, the incremental loans of the Bank in the first half of 2012 mainly concentrated in South and North regions, increasing by RMB22.7 billion and RMB16.8 billion respectively as compared with the beginning of the year and accounting for 36% and 27% of the incremental loans for the year.

Loans by industry

(In RMB million)

Industry	June 30, 2012		December 31, 2011	
	Amount	%	Amount	%
Agriculture, husbandry and fishery	2,035	0.30%	1,695	0.27%
Mining (heavy industry)	11,009	1.61%	6,619	1.07%
Manufacturing (light industry)	148,652	21.77%	134,197	21.62%
Energy	15,490	2.27%	14,644	2.36%

Transportation, postal and telecommunications	29,879	4.38%	29,259	4.71%
Commerce	122,815	17.98%	106,970	17.24%
Real estate	39,487	5.78%	36,633	5.90%
Social service, technology, culture and health care	47,802	7.00%	51,689	8.33%
Construction	28,017	4.10%	27,570	4.44%
Others (mainly personal loans)	202,056	29.59%	193,683	31.21%
Discounts	35,664	5.22%	17,683	2.85%
Total loans	682,906	100.00%	620,642	100.00%

Loans by guarantee type

(In RMB million)

Item	June 30, 2012	
	Amount	%
Credit loans	133,735	19.58%
Guarantee loans	144,774	21.20%
Mortgage loans	280,563	41.09%
Pledge loans	88,170	12.91%
Discounts	35,664	5.22%
Total	682,906	100.00%

Loan balance and percentage as of total loans of top 10 borrowers

As of the end of the reporting period, balance of the top 10 borrowers of the Bank was RMB18.225 billion, accounting for 2.67% of the loan balance as of the end of the period. Specifically, these customers are: Zhuhai Zhenrong Company, Shenzhen Metro Co., Ltd., Wuhan Urban Construction Investment & Development (Group) Co., Ltd., Shaanxi Coal and Chemical Industry Group Co., Ltd., PKU Founder Commodities Group Co., Ltd., Guangzhou Panyu Southern Star Co., Ltd., Southernpec Corporation, Transport Department of Shanxi Province, China ZhenHuaOil Co., Ltd. and Suning Appliance (Group) Co., Ltd.

(2) Investment

Asset mix

(In RMB million)

Type	June 30, 2012		December 31, 2012	
	Amount	%	Amount	%
Trading financial assets	5,460	2.35%	2,608	1.28%
Derivative financial assets	803	0.34%	811	0.40%
Available-for-sale financial assets	80,230	34.53%	78,384	38.47%
Held-to-maturity investment	108,224	46.58%	107,683	52.85%

Receivables investment	37,104	15.97%	13,732	6.74%
Long-term equity investment	536	0.23%	539	0.26%
Investment	232,357	100.00%	203,757	100.00%

Information on bonds held

As of the end of the reporting period, face value of the treasury bonds and financial bonds (including Central Bank bills, policy bank debts, various ordinary financial bonds, and subordinated financial debts, and excluding corporate debts) held by the Bank was RMB172.3 billion. Bonds with material amount are stated as follows:

(In RMB million)

Bond name	Face value	Nominal annual interest rate (%)	Maturity date
11 financial bonds	42,480	3.55~4.9	2012/7/5~2021/10/26
10 financial bonds	32,550	2.9~4.81	2012/11/2~2020/11/4
09 financial bonds	17,580	1.95~4.97	2012/8/25~2019/9/23
08 financial bonds	13,650	2.04~5.5	2013/2/26~2018/12/16
PBOC notes	9,350	0~3.97	2012/11/16~2014/10/21
10 T-bonds	8,472	2.23~4.6	2013/3/18~2040/6/21
07 financial bonds	7,570	3.77~5.2	2012/7/2~2017/11/29
12 financial bonds	6,400	3.39~4.44	2013/4/20~2022/6/18
11 T-bonds	5,558	3.03~6.15	2012/7/14~2041/6/23
03 financial bonds	4,452	3.14~4.55	2013/2/18~2013/11/13

Information on holding of derivative financial instruments

Table of derivatives investment

<p>Risk analysis on derivatives position-holding during the reporting period and explanations on controlling measures (including but not limited to market risk, liquidity risk, credit risk, operational risk and legal risk)</p>	<ol style="list-style-type: none"> 1. Market risk. Market risk of derivatives refers to the risk of loss on on-balance-sheet and off-balance-sheet business due to change of market prices (interest rate, exchange rate, stock price and commodity price). Market risk control in the Bank is exercised via risk limit management from various perspectives such as exposure, risk level and profit/loss. 2. Liquidity risk. Liquidity risk of derivatives refers to the risk that a bank has the solvency but cannot obtain sufficient fund in a timely manner or cannot obtain sufficient fund in time with reasonable cost to deal with asset growth or pay off due debts. For derivatives delivered in full amount, the Bank adopted the measure of integrated position closing to ensure sufficient fund for settlement while delivering; for derivatives delivered in net amount, there was no major impact as the cash flow would have minor impact on current assets of the Bank. 3. Operational risk. Operational risk of derivatives is the risk of incurring loss resulting from imperfect or defective internal procedures, people, systems or external events, including the risks caused by people, processes, systems and external factors. The Bank strictly observed the <i>China Banking Regulatory Commission (CBRC) Guidance on Operational Risk Management of Commercial Banks</i>, staffed full-time traders, adopted professional front-middle-back office integrated monitoring system, set complete business operational process and authorization
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	<p>management system and improved internal monitoring and auditing mechanism, to avoid operational risk to the utmost.</p> <p>4. Legal risk. Legal risk refers to the possibility of risk exposure caused by business activity incompliant with legal rules or external legal events. The Bank attached a lot of importance to legal documentation related to derivative transactions, and signed legal agreements including ISDA, CSA, MAFMII with other banks to avoid legal disputes and regulate dispute resolving methods. Pursuant to regulatory requirements and transaction management requirements, the Bank also drafted out customer transaction agreement referring to the above inter-bank legal agreements, thus largely avoiding potential legal disputes.</p> <p>5. Force majeure risk. Force majeure refers to unforeseeable, unavoidable or insurmountable objective circumstances, including but not limited to fire, earthquake, flood or other natural disasters, war, military act, strike, pandemic, failure of IT system, telephone service or electricity, financial crisis, halt of related market transaction, or change of national legal rules or policy that prevents the derivative trading to be implemented normally after the contract comes into effect. The Bank has concluded agreements with all the individual and institutional customers as well as banks and financial institutions, and set out terms and conditions about force majeure risk to exempt from obligations upon contract breaching in case of force majeure.</p>
<p>Changes of market price or product fair value of invested derivatives during the reporting period. The methods adopted in determining the fair value of derivatives as well as the relevant assumptions and parameters should be disclosed together with the analysis result</p>	<p>In the first half of 2012, the fair value of derivatives invested by the Bank did not have material change. The Bank adopts evaluation techniques to determine the fair value. The evaluation technique includes reference to the price used by all voluntary stakeholders familiar with relevant circumstances in latest market trading, and reference to the current fair value and discounted cash flow technique of other financial instruments of essentially same nature. Market parameters are used in evaluation techniques as much as feasible. However, the management team has to evaluate in light of credit risk, market fluctuation rate and correlation of itself and the trading counterparties when market parameters are not available.</p>
<p>Explanation on whether there were material changes in accounting policies or accounting settlement principles related to derivatives during the reporting period compared with that of last reporting period</p>	<p>The Bank set out accounting policies and accounting settlement principles for derivatives in line with the <i>Accounting Standards for Business Enterprises</i>. There was no major change in the relevant policy during the reporting period.</p>
<p>Specific comments from independent directors, sponsors or financial advisors on derivative investments and risk control</p>	<p>Independent directors believed that the Bank's derivative trading business was a commercial banking business approved by regulators. The derivative investment business currently engaged by the Bank is relatively simple, which includes forward foreign exchange/foreign exchange swap, interest rate exchange as well as deferred/forward precious metals, etc. The Bank has established a relatively comprehensive risk management structure, and set up a specialized risk management entity to effectively manage the risks of derivative investment business via means such as establishment of system, limited authorization, daily supervision and control, internal training and recognition of qualifications of business personnel.</p>

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

(In RMB million)

Contract type	Beginning-of-period contract amount (Nominal)	End-of-period contract amount (Nominal)	Changes in fair value in the reporting period	End-of-period contract amount (nominal) as a percentage of the net assets at the end of the reporting period attributable to shareholders of the parent company (%)
Foreign exchange forward contract	109,552	176,606	2	221.25%
Interest rate swap contract	13,256	26,937	(9)	33.75%
Stock option contract	-	-	-	-
Equity swap contract	-	-	-	-
Others		10	-	0.01%
Total	122,808	203,553	(7)	255.01%

Note: The amount of derivatives contracts of the Bank increased at the end of the reporting period, but the actual risk exposure of swap contracts business was minimal. The limited management of the forward fair value of swap contracts business by the Bank had little impact on actual risk exposure.

(3) Other assets
Repossessed assets

(In RMB million)

Item	Balance
Land, properties and buildings	538
Others	35
Sub-total	573
Provision for impairment of repossessed assets	(230)
Net value of repossessed assets	343

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

(In RMB million)

Interest receivables	Amount
Beginning-of-period balance	7,274
Increment in the reporting period	36,012
Recovery in the reporting period	34,734
End-of-period balance	8,552

(In RMB million)

Type	Amount	Bad debt provision
Interest receivables	8,552	-

As of the end of the reporting period, interest receivables of the Bank increased by RMB1.278 billion or 17.57% compared with the beginning of the year, which was mainly due to the growth in scale of interest-earning assets and interest rate hike. Interest receivables from interest-earning assets including loans would offset interest income of the current period and be put off balance sheet if they are overdue for 90 days, with no provision being made.

(4) Goodwill

The Bank acquired the former PAB in July 2011, which resulted in the following changes in goodwill during the reporting period:

(In RMB million) Goodwill	Amount
Beginning-of-period balance	7,568
Increment in the period	-
Decrement in the period	-
End-of-period balance	7,568
Provision for impairment in goodwill	-

2. Liability structure and the changes

(In RMB million)

Item	June 30, 2012		December 31, 2011		Increase or decrease for the end of the period compared with the end of last year (%)
	Amount	%	Amount	%	
Deposit taking	949,578	67.31%	850,845	71.94%	11.60%
Due to banks and other financial institutions	323,726	22.95%	155,410	13.14%	108.30%
Borrowings from banks and other financial institutions	7,197	0.51%	25,279	2.14%	(71.53%)
Financial liabilities measured at fair value with changes recognized in current profit and loss account	398	0.03%	-	-	-

Derivative financial liabilities	732	0.05%	732	0.06%	-
Repurchase agreements	36,674	2.60%	39,197	3.31%	(6.44%)
Employee compensation payables	3,610	0.26%	3,600	0.30%	0.28%
Tax payables	1,766	0.12%	2,536	0.21%	(30.36%)
Interest payables	10,440	0.74%	9,914	0.84%	5.31%
Bond payables	16,068	1.14%	16,054	1.36%	0.09%
Deferred income tax liabilities	1,454	0.10%	1,351	0.11%	7.62%
Other liabilities	59,157	4.19%	77,878	6.59%	(24.04%)
Total liabilities	1,410,800	100.00%	1,182,796	100.00%	19.28%

Deposits by product

(In RMB million)

Item	June 30, 2012	December 31, 2011	Increase or decrease for the end of the period compared with the end of last year (%)
Corporate deposits	772,967	698,565	10.65%
Retail deposits	176,611	152,280	15.98%
Total deposits	949,578	850,845	11.60%

Deposits by region

(In RMB million)

Region	June 30, 2012		December 31, 2011	
	Amount	%	Amount	%
East region	271,704	28.61%	246,885	29.02%
South region	360,546	37.97%	339,441	39.90%
West region	73,363	7.73%	56,782	6.67%
North region	175,505	18.48%	161,944	19.03%
Headquarters	68,460	7.21%	45,793	5.38%
Total	949,578	100.00%	850,845	100.00%

3. Changes of shareholders' equity

(In RMB million)

Item	Beginning-of-period balance	Increase in the period	Decrease in the period	End-of-period balance
Share capital	5,123	-	-	5,123
Capital reserve	41,538	244	(494)	41,288
Surplus reserve	2,830	-	-	2,830
General reserve	7,955	3,844	-	11,799

Undistributed profit	15,865	6,761	(3,844)	18,782
Including: Dividend proposed for distribution	-	512	-	512
Total shareholders' equity of the parent company	73,311	10,849	(4,338)	79,822
Minority shareholders' equity	2,070	126	(2,196)	-
Total shareholders' equity	75,381	10,975	(6,534)	79,822

4. Information on foreign currency financial assets held

Foreign currency financial assets held by the Bank are mainly loans, due from other banks and a small amount of bond investment. Among the above, due from other banks are in short term and purchased or deposited in other banks with low risk. The Bank has always acted in a careful manner towards overseas securities investment, and mainly invests in general bonds with high credit rating, shore term and simple structure. The credit rating of the bonds currently held is stable, and foreign currency bond investment only has minimal impact of the Bank's profit. Foreign currency loans are mainly placed in domestic enterprises, and respective risk is basically under control.

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

(In RMB million)

Item	Beginning-of-period balance	Profit/loss from changes in fair value during the period	Accumulated fair value changes recognized in equity	Impairment provision during the period	End-of-period balance
Financial assets:					
Cash and due from the Central Bank	1,686	-	-	-	3,115
Due from other banks	8,278	-	-	-	37,732
Financial assets and derivative financial assets measured at fair value with changes recognized in current profit and loss account	95	(1)	-	-	471
Accounts receivables	8,743	-	-	-	10,938
Loans and advances	17,085	-	-	158	32,406
Available-for-sale financial assets	671	-	2	-	2
Held-to-maturity investments	823	-	-	-	561
Long-term equity investments	1	-	-	-	1
Other assets	266	-	-	-	515
Total	37,648	(1)	2	158	85,741
Due to and	1,839	-	-	-	7,150

borrowings from banks and other financial institutions					
Financial liabilities and derivative financial liabilities measured at fair value with changes recognized in current profit and loss account		(2)	-	-	410
Deposits taking	28,771	-	-	-	68,000
Account payables	2,565	-	-	-	2,104
Other liabilities	216	-	-	-	602
Total	33,391	(2)	-	-	78,266

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

(In RMB million)

Item	Amount
Issuance of bills of acceptance	342,307
Issuance of letters of credit	17,310
Issuance of letters of guarantee	25,048
Unused credit line of credit card and irrevocable loan commitment	44,142
Lease commitment	4,220
Capital expenditure commitment	368

(IV) Analysis of asset quality

In the first half of 2012, the economy of China performed well in general, but still faced considerable uncertainties. The Bank's credit assets quality was affected to a certain extent in face of external factors including the European debt crisis and domestic economic slowdown, coupled with lower debt repayment ability due to operating difficulties experienced by some small and medium private enterprises in Yangtze River Delta and Pearl River Delta as well as significant signs of risk as seen in different regions and industries. With regard to this, the Bank responded proactively. In accordance with the requirements of the "Best Bank Strategy", the Bank further improved the credit risk management system, raised the standard of credit risk management and ensured a steady, healthy and sustainable development of its credit business, thereby achieving a stable and faster growth of the credit business and effective control of newly added NPL balance and NPL ratio.

As of the end of the reporting period, NPL balance of the Bank was RMB4.971 billion, representing an increase of RMB1.677 billion as compared with the beginning of the year. NPL ratio was 0.73%, up 0.2 percentage point from the beginning of the year. Provision coverage for loans was

237.96%, down 82.70 percentage points over the beginning of the year.

The Bank achieved good recovery results in the first half of 2012. It recovered non-performing assets of RMB896 million in aggregate throughout the year, including credit assets (loan principal) of RMB804 million. Of the recovered principal amount of loans, loans of RMB195 million were written off and non-performing loans of RMB609 million were not written off. Over 99.7% of loans were recovered in cash while the rest was in the form of repossessed assets.

1. 5-tier loan classification

(In RMB million)

5-tier classification	June 30, 2012		December 31, 2011		Increase or decrease for the end of the period compared with the beginning of the year (%)
	Amount	%	Amount	%	
Pass	673,011	98.55%	612,937	98.76%	9.80%
Special mention	4,924	0.72%	4,410	0.71%	11.66%
NPL	4,971	0.73%	3,295	0.53%	50.90%
Including: Substandard	3,388	0.50%	1,744	0.28%	94.32%
Doubtful	824	0.12%	893	0.14%	(7.73%)
Loss	759	0.11%	658	0.11%	15.35%
Total loans	682,906	100.00%	620,642	100.00%	10.03%
Balance of loan loss provision	(11,830)		(10,566)		11.96%
Provision for impairment of loans	0.73%		0.53%		+0.20 percentage point
Provision coverage ratio	237.96%		320.66%		-82.70 percentage point

2. Restructured loans and overdue loans

(In RMB million)

Item	Beginning-of-period balance	End-of-period balance	%
Restructured loans	992	929	0.14%
Loans with principals and interest overdue within 90 days	2,515	3,090	0.45%
Loans with principals and interest overdue over 90 days	2,771	6,118	0.89%

(1) As of the end of the reporting period, restructured loan balance of the Bank was RMB929 million, representing a decrease of RMB63 million or 6.35% compared with the beginning of the year, primarily due to further improvement of disposal efficiency of non-performing assets by the Bank through reinforcing management of restructured loans and strengthening recovery and disposal

of restructured loans in respect of non-performing assets.

(2) As of the end of the reporting period, overdue loan balance of the Bank within 90 days was RMB3.090 billion, representing an increase of RMB575 million or 22.86 % compared with the beginning of the year, while overdue loan balance of the Bank over 90 days was RMB6.118 billion, representing an increase of RMB3.347 billion or 120.79% compared with the beginning of the year, primarily due to external factors such as the European debt crisis and significant signs of systematic risk in different regions and industries. Certain enterprises, in particular small and medium-sized private enterprises in the Yangtze River Delta and Pearl River Delta regions, also had insufficient liquidity and lower debt repayment ability due to operating difficulties triggered by weak overseas demand and export, rising operating costs and lack of capital supply. However, the loans were mostly secured by collaterals, and the Bank had adopted appropriate risk mitigation and recovery measures timely, so the overall risk was still controllable.

3. Loan quality by industry

(In RMB million)

Industry	June 30, 2012		December 31, 2011	
	Amount	NPL ratio	Amount	NPL ratio
Agriculture, husbandry and fishery	2,035	0.49%	1,695	-
Mining (heavy industry)	11,009	-	6,619	-
Manufacturing (light industry)	148,652	1.50%	134,197	0.78%
Energy	15,490	-	14,644	-
Transportation, postal and telecommunications	29,879	0.50%	29,259	0.40%
Commerce	122,815	1.15%	106,970	0.99%
Real estate	39,487	0.06%	36,633	0.54%
Social service, technology, culture and health care	47,802	0.31%	51,689	0.27%
Construction	28,017	0.22%	27,570	0.09%
Others (mainly retail loans)	202,056	0.47%	193,683	0.36%
Discounts	35,664	-	17,683	0.07%
Total loans	682,906	0.73%	620,642	0.53%

As of the end of the reporting period, the loans of the Bank mainly concentrated in other loans (mainly personal loans), manufacturing and commerce, and the loan balances were RMB 202.056

billion, RMB 148.652 billion and RMB 122.815 billion respectively, accounting for 29.59%, 21.77% and 17.98% of total loans. The Bank's NPLs mainly concentrated in manufacturing and commerce, and NPL ratios for other industries accounted for less than 1%.

4. Loan quality by region

(In RMB million)

Region	June 30, 2012		December 31, 2011	
	Amount	NPL ratio	Amount	NPL ratio
East region	238,439	1.16%	228,038	0.56%
South region	223,017	0.47%	200,329	0.46%
West region	55,033	0.19%	47,852	0.22%
North region	127,783	0.54%	110,995	0.49%
Headquarters	38,634	0.96%	33,428	1.32%
Total	682,906	0.73%	620,642	0.53%

From the perspective of loan structure by region, the newly added non-performance loan of the Bank mainly concentrated in the East region in the first half of 2012, in particular our Wenzhou branch, and its NPL balance for the end of the period accounted for 27.61% of the total NPL balance. Since September 2011, under the influence of macro-economic and financial trend and borrowing crisis in the society, some small and medium enterprises in Wenzhou experienced the breakdown of capital chain and the fleeing of enterprise owners, which led to the deterioration of asset quality of Wenzhou branch and a relatively great pressure on the Bank's asset quality. However, as the total amount of loan of Wenzhou branch represented only a relatively small proportion of 2.69% to the whole bank, and most of the non-performance loans were secured by pledges, the overall risk was under control and the impact on the normal operation of the Bank was relatively minimal.

5. Loan quality by product

(In RMB million)

Item	June 30, 2012		December 31, 2011		NPL ratio change
	Amount	NPL ratio	Amount	NPL ratio	
Corporate loans	485,228	0.83%	430,702	0.60%	0.23 percentage point
Including: General loans	449,564	0.90%	413,019	0.63%	0.27 percentage point
Discounts	35,664	-	17,683	0.07%	-0.07 percentage point
Retail loans	167,049	0.36%	165,227	0.25%	0.11 percentage point
Including: Housing mortgage loans	70,513	0.21%	75,373	0.19%	0.02 percentage point

Entrepreneur loans	48,453	0.55%	43,353	0.31%	0.24 percentage point
Auto loans	14,093	0.19%	12,705	0.23%	-0.04 percentage point
Others	33,990	0.49%	33,796	0.32%	0.17 percentage point
Account receivables of credit cards	30,629	1.09%	24,713	1.10%	-0.01 percentage point
Total loans	682,906	0.73%	620,642	0.53%	0.20 percentage point

6. Government financing platform loans

Through opening-up package and one-by-one review of government financing platform loans in the whole year of 2010 and the special clearing up and standardizing work in 2011, the Bank has gradually realized effective control on the government financing platform loans based on the established working plan. In the first half of 2012, the Bank, on the foundation of management via “listed system”, continued to foster the resolving of platform loan risks via measures such as credit classification and management, strict control on total amount as well as rectification on newly added and deepened deposit amount.

According to the list of government financing platform newly published by China Bank Regulatory Commission (CBRC) on June 30, 2012, as of June 30, 2012, the balance of the Bank’s loans to government financing platform (including general corporate loans and loans still managed as platforms after rectification) was RMB 43.623 billion, representing a decrease of RMB 7.313 billion or 14.36% from the beginning of the year and accounting for 6.39% of various loan balances.

Among which: in terms of loan type, the balance of the Bank’s loans corrected to general corporate loans was RMB18.682 billion, accounting for 2.74% of total loan balance; the balance of loans still managed as platform loans was RMB24.941 billion, accounting for 3.65% of total loan balance.

In terms of loan quality, the platform loan quality of the Bank remained good with no non-performing loan.

7. Loan impairment provision accrual and write-offs during the report period

On the basis of a number of factors including the borrowers’ repayment ability, principal and interest repayment status, fair value of collaterals and pledges, the guarantors’ actual guarantee capacity and loan management status of the Bank the Bank made appropriate loan impairment provision charged to the income statement individually or collectively according to the 5-tier classification as well as the risk level, recoverability of loans and the discounted present value of the anticipated future cash flow.

(In RMB million)

Item	Amount
Period-beginning balance	10,566
Add: Accrual for the current period (including non-credit impairment provision)	1,570
Less: Interest offset of impaired loans	85
Less: Non-credit impairment provision	31
Net accruals in the current period	1,454
Add: Recovery of written-off loans in the current period	195
Add: Other changes	2
Less: Written-off in the period	387
Period-end balance	11,830

The fully provisioned non-performing loans satisfying write-off conditions will be submitted to the Board of Directors for approval and then written-off. The written-off loans will be transferred to off-balance sheet record and left to the Assets Protection Department for follow-up recovery and disposal. For the collection of written-off loans, litigation fee which is paid by the Bank and should have been assumed by the borrower will be deducted first and the remainder will be used to first offset the loan principal and then the overdue interest. The collected loan principal will increase the loan impairment provision of the Bank and the recovered interest and fees will increase the interest income and bad debts reserves in the current period.

8. Details of discounted loan as of the end of reporting period

As of the end of the reporting period, the Group has no discounted loan accounting for over 20% of its total loan amount.

9. Green Credit

The Bank strictly complied with the national policy of industrial adjustment, formulated strict guidance policy of loan disbursement for enterprises in the industries with “high energy consumption, high pollution and resources consumption”, while strived to gradually foster and comprehensively establish green credit policies in line with the Bank’s development strategies. The Bank emphasized on environmental protection and implemented a one-vote-down policy according to environmental problems, bringing compliance with environment protection indicators, energy conservation and emission reduction into the basic criteria for granting and approving credit to customers. Involvement with enterprises or projects polluting limited approval river regions or environmentally sensitive regions announced by the Ministry of Environmental Protection was strictly prohibited.

The Bank has established the list management system, which is implemented towards industries of high pollution and energy consumption level nature. Credit is strictly prohibited to be granted to those enterprises or projects which are not in compliance with the environment protection standards as well as energy conservation and emission reduction requirements as announced by the National Development and Reform Commission and environment protection authorities. For those industries of high pollution and high energy consumption level nature highly concerned by the Central Bank and CBRC, subject to upholding the bottom line of environment protection policies and risks, attention is paid to differentiated treatment as well as providing support to good enterprises and projects while suppressing bad ones. Based on the common practice on implementing the Equator Principles by internationally leading banks, the Bank actively shows supports by granting credit to enterprises' energy saving and emission reduction projects as well as low-carbon economic development projects.

In view of the requirements of national and regional environment protection departments and regulatory departments, the Bank has imposed strict requirements on environment protection, and has placed priorities on considering different aspects such as the level of advancement of production facilities, environment protection in terms of products and industries as well as measures on environment protection for enterprises on renewing and applying credit. With stringent approval process, the Bank firmly declines any dealing with enterprises with problems on environment protection and not passing the examination of relevant departments.

The Bank steps away from granting credit to those industries with laggard production capacity and processes in a serious manner, including steel, coal, electricity, petroleum, chemicals, construction materials, electrolytic aluminum, iron alloy, carbide, coke and paper making, so as to prevent newly added loans from being used in aimless investment as well as low quality and repeated construction.

(V) Capital Management

As of the end of the reporting period, the Bank's capital adequacy ratio and core capital adequacy ratio were 11.40% and 8.44% respectively.

1. Change of capital in the past three years

(In RMB million)

Item	June 30, 2012	December 31, 2011	December 31, 2010	Increase or decrease for the end of the period compared with the end of last year (%)
Net capital	96,425	91,491	47,272	5.39%
Including: Net core capital	71,375	67,244	32,919	6.14%

Supplementary capital	25,547	24,664	14,662	3.58%
Total risk-weighted assets	845,914	794,702	463,691	6.44%
Capital adequacy ratio	11.40%	11.51%	10.19%	-0.11 percentage point
Core capital adequacy ratio	8.44%	8.46%	7.10%	-0.02 percentage point

2. Table of capital mix and capital adequacy ratio calculation

(In RMB million)

Item	June 30, 2012	December 31, 2011	December 31, 2010
Core capital adequacy ratio	8.44%	8.46%	7.10%
Capital adequacy ratio	11.40%	11.51%	10.19%
Composition of capital base			
Core capital	79,309	75,099	33,228
Share capital	5,123	5,123	3,485
Capital reserve	40,840	41,326	13,341
Surplus reserve	2,830	2,830	1,912
General risk reserve	11,799	7,955	5,978
Retained earnings	18,717	15,795	8,512
Minority shareholders' equity	-	2,070	-
Amount deducted from core capital	7,934	7,855	309
Net core capital	71,375	67,244	32,919
Supplementary capital	25,547	24,664	14,662
General loan loss provisions	9,190	8,395	5,016
Revaluation reserve ¹	289	175	177
Long-term subordinated debts	10,956	10,952	7,979
Hybrid capital bonds	5,112	5,142	1,490
Total capital	104,856	99,763	47,890
Less: Goodwill	7,568	7,568	-
Unconsolidated equity investment	479	361	369
Others	384	343	250
Net capital	96,425	91,491	47,272
Total risk-weighted assets	845,914	794,702	463,691
On-balance sheet weighted risk assets	665,927	638,099	368,289
Off-balance sheet weighted risk assets	179,987	156,603	95,402

Note 1: Revaluation reserve included revaluation reserves for available-for-sale financial assets and held-for-trading financial assets.

(VI) Business review

1. Corporate banking business

As of the end of the reporting period, the corporate deposit balance of the Bank increased by 10.7% from the beginning of the year; corporate loan balance increased by 12.7% from the beginning of the year; and the trade finance credit balance amounted to RMB277.5 billion, representing an increase of 18.9% as compared to the end of the last year.

Trade finance business maintained its sound and fast growth momentum

In the first half of 2012, the trade finance business of the Bank still maintained a stable and

rapid growth. As of the end of the reporting period, the number of customers of trade finance business was 9,751. The decrease in the number of trade finance customers was mainly due to the optimization of the Bank's customer structure by taking the initiatives to step out from involvement with customers of a higher risk. In the future, the Bank will increase its efforts on business innovation and expansion into new industries to expand its customer base. Trade finance credit balance of the whole bank amounted to RMB 277.5 billion, representing an increase of 18.9% from the beginning of the year; NPL ratio was 0.29%, which was kept at a relatively low level.

The Bank actively facilitated the launching and implementation of the leading trade finance products of the former Shenzhen Development Bank in the network of the former PAB, which has enabled customers of the former PAB enjoy a more extensive trade finance products and services. Meanwhile, the process of implementing online supply chain finance was also accelerated to enhance service efficiency and improve customer experiences.

Development of the trade finance business in the first half of 2012:

(In RMB million)

Item	June 30, 2012	%	December 31, 2011	%	Increase or decrease for the end of the period compared with the end of last year (%)
Domestic trade finance	277,527	100.0%	233,356	100.0%	18.9%
Including: East region	68,895	24.8%	56,438	24.2%	22.1%
South region	99,536	35.9%	89,561	38.4%	11.1%
West region	29,029	10.5%	20,914	9.0%	38.8%
North region	80,067	28.8%	66,443	28.4%	20.5%
Domestic/international:					
Domestic	238,858	86.1%	202,463	86.8%	18.0%
International (including off-shore)	38,669	13.9%	30,893	13.2%	25.2%
Export	3,594	1.3%	2,013	0.8%	78.5%
Import	35,075	12.6%	28,880	12.4%	21.4%

Continuous upgrading of online supply chain finance services

In the first half of 2012, the Bank, being the first bank to realize co-operation with China Commodity Marketplace nationwide, launched out online enquiry service for commodity price information, which provides active price data on hundreds of commodities in 15 industries. Enterprises could create active price tracking tables based on types of commodities, regions and cities on their own, while synchronous comparison and analysis functions on the price trend of relevant industries are also available. Such service has offered effective value-added information service for enterprises in production and operation.

Rapid development of and innovation in cash management and electronic settlement

products

In the first half of 2012, the Bank placed customers on its priority and oriented to the market during the research and development of its cash management business. Through the establishment of phase 2 of the system platform, dozens of functions were newly added or optimized, which have effectively enhanced the cash management products and capabilities of the Bank. The e-government business continued to stand strong. “Bank-Court Connection” (银法通), the first custody of court funds launched by bank, was gradually applied in courts of different regions, and has gradually established its core competitiveness; “New Bank-Customs Connection” was approved by the General Administration of Customs, and the Bank was permitted to act as the first joint stock banks to go online and commence tax electronic payment business.

International business and offshore business developed steadily

As of the end of the reporting period, international trade finance balance amounted to RMB38.67 billion, representing an increase of 25.2% from the beginning of the year; accumulated international and offshore settlement volume for the period recorded a significant growth as compared to that in the same period of last year.

Custody business maintained rapid development

In the first half of 2012, the asset custody business of the whole bank realized a rapid growth. Leveraging on the Group’s comprehensive financial strengths and utilizing the synergy of three main channels (the Group, the Bank and other channels), the whole bank placed focus on the deployment for the custody business segment, such as trust, wealth management by bank, PE equity investment and private equity funds. As of the end of the reporting period, net custody scale has exceeded RMB 250 billion, which was doubled from the beginning of the year; custody fee income increased by 102% from the same period of last year, which was steadily moving on the track of achieving the objective of “becoming an important component on fee-based business income contribution of the bank”.

Sustained growth in corporate wealth management, support of policies and continuous improvement on product structure

In the first half of 2012, the whole bank has designed and launched out two new products for corporate wealth management, namely “structural deposit product” and “one-basket wealth management product”. The accumulated number of products issued and established amounted to approximately 1,200, and the sales volume was over RMB 90 billion.

2. Retail banking business

As of the end of the reporting period, the Bank's retail deposit balance increased by 16% from the beginning of the year, and retail loan has grown slightly. In the first half of 2012, the retail fee-based business recorded a growth of 221.80% from the same period of the year.

Expanded liability growth channels which exceeded the average growth rate among industry players

The Bank leveraged on the integrated finance platform of Ping An Group to commence cross-selling business, consolidating the original results of cross-selling while adding Beijing and Tianjin branches to pilot points for new mode; cross-selling was launched via micro finance channels, auto loan channels, personal loan channels and credit cards with a view to raise the settlement of saving deposits; wealth management products and portfolios were developed and enriched so as to strengthen the inflow of saving deposits via selling wealth management products; through expanding the application channels of payment, settlement and agency service for payment and collection as well as third-party custody service, the frequency of using fundamental products and the growth in deposits was fuelled.

Active adjustment on business structure to raise return on assets

The Bank responded to the requirements under national policies on adjustment and control on real estates, and actively adjusted the development direction of retail loan business, placing focus on personal credit loans, auto loans and micro business loans with better returns, while optimizing loan structure to raise the level of return. Currently, personal credit loan has become a major driving force for the growth of loan business; in respect of auto loans, channels of automobile dealers and automobile brands was continuously expanded; micro business achieved growth in a steady manner, and the overall return has shown a trend of growth.

Strengthen the development of wealth management products within the Bank to ramp up the cross-selling platform for investment and wealth management for Ping An Group

The Bank actively expanded the varieties of its wealth management products and strengthened innovations on wealth management products, placing focus on developing banking and credit co-operation products and increasing structural securities, structural bonds and products on beneficial rights in trust; developed customized wealth management products targeted at different channels to boost sales; precious metal business concentrated on research and development of new products and exploration of the substances of products; strengthened co-operation with subsidiaries within the Group to ramp up sales platform. In the first half of 2012, wealth management products of RMB 500 billion were launched out, and cross-selling of Ping An life insurance and Ping An trust within the Group amounted to approximately RMB 520 million and RMB 3.57 billion respectively.

Optimize the service structure after merger of SDB and PAB and consolidate resources to increase customer sources

The Bank has been striving to establish a detailed customer management system which put customers on its priority, while construct the “macro-retail synergy and operation” mechanism. During the merger of SDB and PAB, development and integration of numerous systems for retail business have been completed, which have unified product policies and service price to ensure that customer experiences were not affected. In respect of customer operation, the levels of customers were re-defined and re-classified, while catering for the value and ideas of different customers. At the same time, nurturing plans for new customers as well as penetration standards and flows for various products were also formulated to increase customer loyalty via product penetration rate and active management; through long-term exchange mechanism opened by the credit card and retail platform, the joint operation of customers of credit card and Ping An Group was realized to provide upgrade for valued customers as well as exchange of platinum card customers. In the first half of 2012, total number of retail customers of the Bank amounted to 24.43 million, of which, the number of VIP customers at platinum level or above reached 100,000, representing an increase of 15.1% from the beginning of the year.

Consolidate fundamental platforms and unify IT system and structure after merger of SDB and PAB

The Bank has increased efforts on integrating the system after the merger of SDB and PAB, including the creation of a unified overall credit flow system and platform for macro-retail; establishment of core system to install a strong “heart” for retail business; construction of a strong CRM system; establishment of a comprehensively functioned E sales system and performance-based management system, etc.

Continuous fostering of transformation of sales mode and establish performance-based culture with production capacity as core

On the foundation of pilot points, in the first half of 2012, basic rules for sales personnel based on mode and production capacity were fully launched and implemented with a view to establish a uniform and direct assessment and motivation standard and foster the construction of performance-based culture.

Table on personal loan business

(In RMB million)

Item	June 30, 2012	%	December 31, 2011	%
I. Personal loans excluding credit cards				
East region	69,804	41.79%	68,845	41.67%
South region	58,948	35.29%	58,979	35.69%

West region	11,230	6.72%	10,294	6.23%
North region	27,067	16.20%	27,107	16.41%
Headquarters	-	-	1	-
Total balance of personal loans excluding credit cards	167,049	100.00%	165,226	100.00%
Including: Total NPL	609	0.36%	419	0.25%
II. Mortgage loans in personal loans				
Balance of mortgage loans	74,446	44.57%	79,749	48.28%
Including: Housing mortgage loans	70,463	42.18%	75,373	45.63%
Mortgage NPL	177	0.24%	165	0.21%
Including: Housing mortgage NPL	151	0.21%	146	0.19%

Personal loan balance (excluding credit card) of the Bank increased by RMB 1.82 billion from the beginning of the year, of which, growth mainly concentrated in the East and West regions

3. Treasury and Inter-bank business

In the first half of 2012, the Bank continued to expand and strengthen its treasury and inter-bank business, while expanding the co-operation within the industry on customer groups and exploring product sales channels with a view to improve its transaction capability and accelerate the establishment of systems such as inter-bank platform. Leveraging on the resources of the Group, the Bank actively created a comprehensive financial service platform to optimize the inter-bank asset and liability structure and realize growth in both size and benefits.

Rapid growth in business size and significant achievements in channel expansion

In the first half of 2012, the size of inter-bank assets and liabilities of the Bank recorded sustainable and rapid growth, while the scale of assets and liabilities as well as operating revenue recorded new high, and thus became an important profit source of the Bank.

Inter-bank co-operation achieved a relatively significant development, and the number of inter-bank partners for third party custody, bank and security partners for third party custody guarantee and inter-bank partners for Hang E-Tong (Inter-bank E-Express) also achieved new breakthroughs.

Product manager team was established to realize rapid growth in the income from sales of capital products in branches via the expansion of customer base and enhancement on services by product managers, which has effectively supported the growth of the Bank's fee-based business income.

With enhanced transaction capability, opportunities were captured under the market environment of decreasing interest rate, while growth in profit of tradable assets such as bonds and notes was realized on the condition that risk was put under control.

Significant improvement in research, development and management of wealth management business

Wealth management business continued to maintain rapid growth. In the first half of the year, self-developed wealth management products ranked fourth among all joint stock banks nationwide (wind data), and both of the market position and competitiveness have shown significant improvement.

In the first half of 2012, numerous unfavorable factors appeared in the external environment: the increase in difficulties in treasury and inter-bank placement of assets; slowdown in appreciation of the exchange rate of Renminbi and fluctuation of gold price have brought problems of weaker demand on foreign exchange and gold business as well as increase in transaction risks. Facing the above challenges, the Bank adopted the mismatch of term to guarantee return; actively conducted product innovation and identified the needs of customers on different aspects such as risk aversion, and assisted customers in avoiding foreign exchange risks by using special products such as interest swap and foreign exchange options, etc; placed great efforts on establishing a professional product manager team to raise customer loyalty and identify customer needs via familiarizing with customers, professional support and door-to-door services; leveraged on channels such as inter-bank co-operation platform to maintain good business relationship with peers while effectively broadened the financing channel; strengthened researches and analysis, and accurately rode on market trend while adopting an active portfolio trading strategies; increased awareness of risks and enhanced risk management.

4. Financial service to micro enterprises

During the reporting period, as the economy has turned downwards and demand for corporate financing decreased, under the strategic guidance of the Chinese government and our own, the Bank still continued to place great efforts on expanding financial service to micro enterprises, and increased investment in such area, such as establishment of entities, deployment of personnel, risk control structure and complementary resources.

As of the end of the reporting period, the balance of micro loans of the whole bank increased by 11.50% to RMB 53.549 billion from the beginning of the year. The NPL ratio under five-tiering was 0.72%, of which, the newly issued amount for the first half of 2012 reached RMB 21.989 billion. As the repayment for the deposit portion was relatively large, the growth in the overall loan scale was rather insignificant. From the perspective of region, the East region has granted RMB 10.845 billion, accounting for 49%, which was the highest among all regions; the South region has granted RMB 6.913 billion, accounting for 31% of all regions. All of the Bank's micro loans were loans with higher rate of upward fluctuation.

Description on operation for the first half of 2012

(In RMB million)

Item	June 30, 2012		December 31, 2011		Increase or decrease for the end of the period compared with the end of last year	
	Amount	%	Amount	%	Amount	Rate (%)
Loan to micro enterprises	53,549	100.00%	48,028	100.00%	5,521	11.50%
Including: East region	23,338	43.58%	23,894	49.75%	(556)	(2.33%)
South region	17,911	33.45%	14,464	30.12%	3,447	23.83%
West region	4,508	8.42%	2,964	6.17%	1,544	52.09%
North region	7,792	14.55%	6,706	13.96%	1,086	16.19%

5. Credit card business

In the first half of 2012, credit card business continued to realize rapid and steady growth while maintaining stable profitability and the quality of new customers has also improved in a steady manner with a further enhancement on asset quality. The number of newly issued card increased steadily, while the customer structure also showed continuous optimization. In the first half of the year, the number of newly issued cards reached 1.85 million, representing a growth of 247.65% from the same period of last year, of which, the effect of comprehensive financial cross-selling was significant. As of the end of the reporting period, the number of new cards issued through the Group's cross-selling accounted for 56.01%. Accumulated number of effective credit card reached 9.89 million, representing a growth of 9.39% from the beginning of the year; total transaction amount reached RMB 87.6 billion, representing a growth of 404.14% from the same period of last year; loan balance reached RMB 30.6 billion, representing a growth of 23.94% from the beginning of the year. Customers' activeness has shown a significant improvement, and as of June 2012, average consumption for each account increased by RMB 933 from the same period of last year. Profitability remained stable, net profit before tax increased by 402.05% from the same period of last year, and fee-based business income also grew by 300.57% from the same period of last year, which accounted for 28.54% of fee-based income of the whole bank, as compared to the growth rate to the whole bank of 43.10% in the same period of last year. Among which, the installment business recorded a significant growth, and the transaction amount for installment grew by 337.81% from the same period of last year, making a significant contribution to the fee-based business income. Asset quality continued to improve, and as of the end of the reporting period, NPL ratio for credit cards reached 1.09%, down by 1BP from the beginning of last year.

On May 2, 2012, the Bank successfully completed the upgrading of the core system for credit card. Such system operated steadily and the efficiency has been greatly enhanced, which in turn

offered our customers with better and more convenient services. The Bank also integrated the advantageous resources of businesses of SDB and PAB, while unified the business strategies, service standards, charging standards and product pricing standards of both banks. The Bank continuously reinforced its brand image of “safe, economical and functional” credit cards, and placed focus on customers’ card using experience with a view to optimize the establishment of customer services and operation support platform, as well as unified the customer service hotline and gradually realized one-stop customer services. For marketing, the Bank continuously launched various extensive marketing activities, including “Win prize with credit card” , “Love to use credit card every day” , “\$10 rebate for every \$199 spending in supermarket” and “Watch movie from \$10” , with coverage on 4 key industries and operation items, namely petrol, film, supermarket and business trip, which has initiated the marketing model for four cards of two banks and was well received by customers.

6. Auto financial service

As of the end of the reporting period, balance of loans for automobile consumption amounted to approximately RMB 14.0 billion with market share ranking the third among all banks nationwide, while the NPL ratio was lower than 0.3%. In this decade, strategic co-operation with various middle to high-end automobile brands, including BMW, Mercedes-Benz, Jaguar, Land Rover and Porsche, was established. With over 3,000 contracted distributors in China, the marketing network has coverage in major and key cities. Under the leading centralized operation mode and strong support on operation system, swift booking and manufacturing of products as well as streamline production could be attained.

7. Implementation and Profit and loss of wealth management business and agency business

Wealth management business: The Bank actively expanded the varieties of its wealth management products and strengthened innovations on wealth management products, placing focus on developing banking and credit co-operation products and increasing structural securities, structural bonds and products on beneficial rights in trust; developed customized wealth management products targeted at different channels to boost sales; precious metal business concentrated on research and development of new products and exploration of the substances of products; strengthened co-operation with subsidiaries within the Group to ramp up sales platform. In the first half of 2012, the accumulated issuance scale of the Bank’s wealth management products reached approximately RMB 600.0 billion, representing an increase of 291% from the same period

of last year; fee income for wealth management business of RMB 326 million was realized, representing an increase of 243.16% from the same period of last year.

Agency business: In the first half of 2012, fund sales of the whole bank amounted to RMB 3.6 billion, representing an increase of 92% from the same period of last year; trust sales amounted to RMB 5.2 billion, representing an increase of 190% from the same period of last year; and the new premium for insurance agency business amounted to RMB 580 million. The above business has realized fee income of RMB 43 million.

The Bank has formulated a relatively comprehensive custody business series, and the types of products available for custody include over 20 products of seven major categories, including public equity funds, wealth management by securities dealers, trusts, wealth management by banks, PE funds, social security funds and supervision on tradable funds. As of the end of the reporting period, the Bank has established stable business co-operation with 130 financial and corporate customers. In the first half of 2012, the Bank realized accumulated custody fee income of RMB 93.55 million, representing an increase of 102% from the same period of last year; net value of custody amounted to RMB 263.4 billion, representing an increase of 154% from the same period of last year.

(VII) Risk Management

1. Credit risk

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

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

In the first half of 2012, in view of the extremely complicated international and domestic economic and financial situations as well as the deteriorating credit environment, the Bank mainly adopted the following measures to control and prevent credit risk:

(1) The Bank optimized management of its organization and improved its work flow. The Bank further optimized its management organization and structure on credit risk, which included

the establishment of the credit policy committee under uniform management of SDB and PAB and a supervisory team on credit upon approval, as well as the expansion of the functions of regional credit management departments to fully perform the management and supervision on asset quality. The Bank also established the system of regular meeting on monthly credit review to review the management and problems on aspects such as bank-wide credit operation, portfolio management, industry benchmark and control on non-performing loans on a regular basis and to supervise the effective implementation of various risk management and control measures. The Bank has thoroughly rationalized its credit policy system and flow, and has greatly enhanced the strictness of management flow and work quality.

(2) The Bank strengthened its credit portfolio management and continued to optimize its credit structure. Based on in-depth research, the Bank formulated its credit policy guidelines for 2012 in view of the change of the economic and financial situation and the macro regulatory policies and in accordance with the regulatory requirements of regulatory departments, so as to guide its subordinate institutions to keep on optimizing their credit structure. Meanwhile, the Bank continued to emphasize on the “Green Credit” culture, and actively supported lending to enterprises’ energy saving and emission reduction projects as well as low-carbon economic development projects and strictly controlled lending to high energy consumption, high pollution and excessive capacity industries.

(3) The Bank strengthened its compliance supervision to ensure strict implementation of the credit operating regulations. Through thorough implementation of the *Three Methods and One Guideline*, the Bank conducted quarterly examination of the related implementation to ensure the operations such as loan disbursement and payment are in compliance with the related regulations. The Bank continued to carry out rolling inspection in key business areas and various special credit examinations and followed up the completion of rectification and improvement. The Bank also strengthened its credit compliance supervision and continued to follow up non-compliant items and urge relevant units to make rectification. The Bank also promoted the implementation of internal control and examination system and internal control evaluation within departments to ensure strict and effective implementation of credit system and process requirements.

(4) The Bank strengthened credit risk monitoring and early warning to enhance its alertness against risks at an early stage and make rapid response. The Bank also further enhanced its credit risk monitoring and early warning management system in order to improve its credit risk monitoring. The Bank actively responded to the change of the credit environment by conducting regular analysis on credit risk situation and matters and taking precautionary risk control measures with a forward-looking vision. The Bank also set up a problematic loan optimization mechanism to speed up the

problematic loan optimization process and preventing them from deteriorating to non-performing loans. Emergent credit risk events were promptly controlled and resolved through early intervention on asset protection and with joint efforts of the headquarters and branches.

(5) The Bank strengthened its risk prevention in key areas to prevent substantial credit risk. Under strict implementation of risk regulatory requirements on government financing platform loans issued by regulatory departments, the Bank continued to foster the resolving of platform loan risks via measures such as classification and management of borrowings, strict control on total amount as well as rectification on newly added and deepened deposit amount. For real estate loans, the Bank continued to carefully and thoroughly execute its differentiated housing loan policy. The Bank dealt with property developers in accordance with the “name list policy” and strengthened risk monitoring and risk inspection to reinforce the management of real estate loan risks. The Bank maintained its customer credit concentration below the limit and strengthened integrated credit management of group customers, so as to effectively prevent credit concentration risk.

(6) The Bank increased efforts on recovery and disposal of non-performing loans, and put an emphasis on accountability in respect of non-performing assets. The Bank passed non-performing loans to Asset Protection Department on a timely basis for centralization and handling in a professional way. The Bank actively monitored and classified non-performing assets, formulated recovery strategy account by account and actively explored innovative disposal methods or ways to enhance the efficiency of recovering non-performing assets. The Bank further optimized the "Red/Yellow/Blue Card" penalty system and held the persons accountable for non-performing credit assets so as to identify the accountability for non-performing credit assets and impose penalties for non-compliant actions or non-due-diligent actions, and therefore established a credit culture of integrity, compliance and due diligence.

(7) The Bank strived to build up its credit teams and enhance the credit management level. In accordance with business development and management needs, the Bank adopted different measures to continuously enrich its credit management principles, and gradually established professional credit management team. The Bank implemented management of credit risk by grade in its branches to further enhance the assessment and evaluation of risk management at branch level, which was also linked with deposit-to-loan ratio, authorization and staff deployment. Through multi-channel means of training combining online self-study, video and on-site training, a new credit training system was formulated to enhance the recognition of training tests and qualifications of credit personnel at each level, and thus raised up risk management level.

2. Market risk

The principal market risk faced by the Bank comes from interest rate and the position of exchange rate products. The target of market risk management is to avoid uncontrollable loss of revenue or equity caused by market risk, and to offset the impact of volatility risk of financial instruments on the Bank. The Board of Directors of the Bank is responsible for approving policies of market risk management, and authorizes the Asset and Liability Management Committee to specifically approve the credit limit on market risk for capital investment business, while conducting regular supervision on market risks. The specialized department under the Asset and Liability Management Committee undertakes regular functions of market risk monitoring, including determining a reasonable level of market risk exposure, monitoring daily operation of treasury business, giving advice to adjust maturity structure and interest rate structure of assets and liabilities, etc

The transaction account interest rate risk comes from the change in interest rate and product price of transaction account resulted from the change in market interest rate, which in turn affects the profit or loss of the bank for the period. The Bank mainly manages the transaction account interest rate risk by adopting measures such as interest rate sensitive limit and daily and monthly stop-loss limit to ensure that the fluctuations of interest rate and market value of product are within the affordable scope of the Bank.

Bank account interest rate risk comes from mismatch of maturity date or contract re-pricing date between interest-earning assets and interest-bearing liabilities. Interest-earning assets and interest-bearing liabilities of the Bank are primarily priced in RMB. The People's Bank of China has specified the lower rate limit for basic RMB loans and upper rate limit for basic RMB deposits. The Bank manages interest rate risk primarily by adjusting asset/liability pricing structure, regularly monitoring sensitive gaps of interest rate, analyzing characteristics of asset/liability re-pricing, and using asset/liability management system to conduct scenario analysis on interest risk. The Bank regularly convenes Asset and Liability Management Committee meetings to adjust asset/liability structure timely and appropriately and manage interest rate risk by predicting future macro-economic trends and analyzing base rate policies of Peoples' Bank of China.

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. Exchange rate risk faced by the Bank primarily derives from loans, advances, investment and deposits held by the Bank which are not priced in RMB. The Bank sets limits for each currency position, monitored scale of currency position daily and controls the position within a settled limit by hedging strategy.

3. Liquidity risk

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

The Bank pays great attention to liquidity risk management, and has built a complete liquidity risk management system putting in use multiple management methods, aiming to effectively identify, measure, monitor, and control liquidity risks and keep sufficient liquidity to satisfy various fund demands and deal with adverse market situations.

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

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

4. Operational risk

Operational risk refers to the risk incurring losses resulting from imperfect or defective internal procedures, staff and information technology systems as well as external events.

In the first half of 2012, the whole bank actively learned from the success on operational risk management from SDB and PAB, and fully implemented the construction of the best risk management and control mode for the new bank in respect of raising its bank-wide operational risk management capability and implementation of the new capital requirements in line with standards, so as to gradually realized professional and detailed management. Details are shown as below:

(1) The Bank determined respective positions and duties, and constructed a bank-wide operational risk management structure of "two tier full-time and two tier part-time positions". With implementation of three defense lines of "before the event, during the event, and after the event",

the comprehensiveness of operational risk management of entities at all level was further strengthened. (2) The Bank accelerated the standardized management of system and procedures, established review and approval mechanism and standards for operational risk of new products, and implemented advanced control on the operational risk of system and procedures. (3) The Bank facilitated activities on “enhancement on Departmental Control Function Checklist (DCFC)” to check on the reasonableness of the list and improvement on implementation within the whole bank and strengthen the implementation of internal control measures. (4) The Bank facilitated the establishment of the general ledger proofing mechanism, and based on fundamental methods of “proofing, reconciliation and analysis on reasonableness”, strengthened the resolving of ordinary audit, supervision and problems on account with a view to enhance prevention and control on accounting risk. (5) The Bank strengthened daily control on the information system and emergency handling capability for sudden events, while edged up its management and control capability on information system risk. (6) The Bank fostered the collection and reporting mechanism for operational risk, and fully revealed and disclosed the potential and events of operational risk with an aim to understand the status of operational risk and its characteristics of distribution on a timely basis and to improve its capabilities on anticipating and preventing operational risk. (7) The Bank facilitated and commenced the implementation of operational risk items under the new capital agreement in order to lay a foundation for professional management of operation risk and raised its operational risk management capabilities. (8) The Bank fully implemented regulatory requirements in the *Notice on Enhancing Efforts with Preventing Operational Risk (13 Rules)*, while commenced various control and audit and further raised up its capabilities on case prevention, including: implementation of mechanisms for rolling inspection on deposit business, rotation of positions and compulsory leave, “inspection on suspected behaviors of suspected persons” as well as “Flying Pigeon” and “Woodpecker” reporting mechanisms. (9) The Bank firmly strengthened its construction on audit, and continuously optimized its audit system and structure, while has enriched the functions of audit and increased the level of training for audit team. At the same time, more efforts were also put into audit with the commencement of sudden audit and rolling check, thereby deepening the management and control capabilities for operational risk in the third defense line. (10) The Bank commenced training and promotion in various manner to deeply create the culture of managing operational risk, which aimed to gradually root the concept of “taking operational risk management as everyone’s duties” in people’s minds. (11) The Bank upgraded the “Red/Yellow/Blue Card” accountability mechanism, while standardized and strictly implemented the liabilities towards the case. As such, the awareness on compliance among all staff of the Bank would be firmly established, and the level of operation in compliance

with rules as well as the control and implementation of operational risk would be effectively enhanced.

5. Other risks

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

In the first half of 2012, the Bank focused on its best bank strategy and year plan, while optimized the management structure for case prevention and compliance management and further standardized the working structure of the Case Prevention and Compliance Committee of the head office and branches. The Bank also added regional case prevention and compliance supervisors as well as adjustment and supplementary compliance staff for all branches in order to enrich its case prevention and compliance management teams. The compliance department has regularly reported to the Board of Directors, Board of Supervisors and senior management on case prevention and compliance works based on the system and management requirements. The continuous and effective operation of the Bank's case prevention and compliance management mechanism ensured the prevention and control of compliance risk and cases (risks).

During the reporting period, the Bank continued to deeply implement the Best Bank Strategy projects such as the "Red/Yellow/Blue Card" penalty system, self assessment of internal control project (C-SOX), bank-wide rolling inspection on risks in key business scopes and risk heat map, fully sorted out the cases of key business scopes and compliance risk, and enhanced case and compliance risk prevention before the event, risk monitoring during the event and accountability for non-compliance after the event. As a result, the compliance and internal control management level and risk prevention capability were enhanced within the Bank. Meanwhile, the Bank continued to commence various compliance and risk management activities, such as tracking and implementation of new policies and regulations, compliance risk assessment on new products and new business, case prevention and compliance supervision at region and branch level, specific treatment on non-compliant operation, inspection and standardization on usage of bank premises, "Woodpecker" action and anti-money laundering, and thus integrated compliance risk management into the entire process of every operation and management activities. The Bank put great emphasis on the compliance culture publicity and education and carried out education and training in various forms with high level of participation and interaction, such as the compliance culture building activity named "10 thousand people's compliance in 1 thousand days", which had created the culture and atmosphere of "integrity-oriented and putting compliance on priority", and greatly raised up the compliance awareness among all staff.

In respect of legal risk control, the Bank formulated a comprehensive legal risk management system applicable for the new bank after the merger, while strengthened various functions such as

legal review, case management, related party transaction management, legal affair management for branches, legal business training and legal affair check. Such measures standardized the authorization of legal affairs of branches as well as the reporting mechanism for legal affairs of branches. For operating activities, the Bank focused on legal review in business, standardized the formats as well as terms and conditions of contracts, provided timely and effective legal support in terms of formulation of various management systems, new product R&D, new business development and material projects, and provided comprehensive, systemic, timely and effective legal services for various businesses, while providing professional opinions on material legal affairs and establishing proper handling mechanism for litigations and legal disputes without litigations, thereby maintaining effective control on the legal risk for all kinds of businesses.

(VIII) Institution establishment and employee management

1. Institution establishment status

As of the end of the reporting period, the Bank had 404 outlets in total (the closed outlets included). Below is a list of branches of the Bank (excluding headquarters) at the end of the reporting period:

Name of branch	Address	Number of outlets	Asset scale (in RMB million)	Staff number
Shenzhen Branch (including Headquarter Outlet)	No.7008, Shennan Road, Futian District, Shenzhen	125	259,844	4,259
Shanghai Branch	No. 1351, South Pudong Road, Pudong, Shanghai	41	170,664	1,928
Guangzhou Branch	No. 66, Huacheng Avenue, Zhujiang New Town, Tianhe District, Guangzhou	25	124,894	1,381
Beijing Branch	No. 158 Fuxingmennei Street, Beijing	27	115,935	1,281
Hangzhou Branch	No. 36, Qingchun Road, Hangzhou	17	68,149	1,206
Nanjing Branch	No. 128, Shanxi Road, Gulou District, Nanjing	15	45,559	804
Tianjin Branch	No. 349, Nanjing Road, Nankai District, Tianjin	16	42,873	696
Chengdu Branch	No. 206, Shuncheng Street, Chengdu	10	39,701	479
Jinan Branch	13777 Jingshi Road, Lixia District, Jinan	9	35,525	436
Foshan Branch	5th Area, Foshan Media Center, Yuhe Road, Dongping New City, Foshan	13	32,968	609
Dalian Branch	No. 130, Youhao Road, Zhongshan District, Dalian	10	29,611	559
Ningbo Branch	No. 138, North Jiangdong Road, Jiangdong District, Ningbo	10	29,565	602
Chongqing Branch	No. 1, Xuetianwan Main Street,	12	27,690	472

	Yuzhong District, Chongqing			
Qingdao Branch	No. 6, Hong Kong Road C., Qingdao	9	27,323	451
Kunming Branch	No. 450, Qingnian Road, Kunming	10	19,798	395
Fuzhou Branch	Donghuang Mansion, No. 109, Wusi Road, Gulou District, Fuzhou	7	19,583	417
Wenzhou Branch	Guoxin Building, East Renmin Road, Wenzhou	7	18,903	493
Wuhan Branch	No. 54, Zhongbei Road, Wuchang District, Wuhan	6	15,681	332
Haikou Branch	No. 22, Jinlong Road, Haikou	8	13,872	328
Zhuhai Branch	No. 288, Hongshan Road, Xiangzhou District, Zhuhai	7	11,471	257
Yiwu Branch	No. 223, Binwang Road, Yiwu	5	10,481	221
Dongguan Branch	Block A, Fortune Plaza, intersection of Hongfu Road and Yuan Mei Road, Nancheng District, Dongguan	1	10,406	235
Xiamen Branch	No. 159, Hubin Road North, Siming District, Xiamen	5	8,014	266
Wuxi Branch	No. 20, Beida Street, Beitong District, Wuxi	1	6,665	121
Quanzhou Branch	No. 311 Fengze Road, Quanzhou, Fujian	4	5,937	242
Huizhou Branch	A1A2, Podium, Green Lake New Estate, No. 8, Maidi Road East, Huizhou	1	3,335	174
Zhongshan Branch	G/F, Block 1, Central Plaza, No. 1, Xingzheng Road, East District, Zhongshan	1	2,559	126
Special Asset Management Department	5F, Hubei Baofeng Building, No.1054, Baoan Road S., Luohu District, Shenzhen	1	353	66
SME Finance Department	Shenzhen Development Bank Building, No. 5047, East Shennan Road, Luohu District, Shenzhen	1	Included in branches	
Total		404	1,197,359	18,836

Note: The basis for branches includes 21 branches of the former SDB and 6 unduplicated branches of the former PAB (Fuzhou, Quanzhou, Xiamen, Dongguan, Huozhou and Zhongshan). The corresponding data of 4 duplicated branches of the former PAB (Shenzhen, Shanghai, Guangzhou and Hangzhou) are included in the corresponding branches of the former SDB.

2. Information on employees

As of June 30, 2012, the Bank had 21,417 official employees, among which 13,516 were in business lines, 5,514 in financial and operation lines, 1,463 in management and operation support functions and 924 in administrative and other functions. Among the Bank's official employees, 73.9% of them had bachelor's degree or above, and 96.9% of them had associate degree or above. In addition, the Bank had 5,326 dispatched employees.

(X) Others

1. Determination of fair value

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

The following methods and items are used in calculating the fair value by the Bank:

(1) Financial assets/financial liabilities measured at fair value with changes accrued into current-period profit and loss (including derivative financial assets/derivative financial liabilities) are measured at fair value by reference to mark-to-market price when available. If quoted mark-to-market price is not available, fair value is estimated on the basis of discounted cash flows or by reference to the quotes provided by the counterparties. The book value of these items is equal to their fair value.

(2) The fair value of the held-to-maturity investments is determined with reference to the available mark-to-market price. If quoted mark-to-market price is not available, fair value is estimated on the basis of discounted cash flows. The fair value of receivable-bonds assets is determined by the cost.

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

(4) The fair value of the fixed rate loans is estimated by comparing the market interest rates when the loans are granted on current market rates offered to similar loans. Changes in credit quality of loans within the portfolio are not taken into account in determining gross fair value as the impact of credit risk is recognized separately as impairment provision and deducted from both the book value and the fair value.

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

2. Items measured by fair value

(In RMB million)

Item	Beginning-of-period	End-of-period balance	Profit/loss from	Accumulated fair value	Impairment provision
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	balance		changes in fair values of the period	change booked in equity	of the period
1. Assets					
Financial assets measured at fair value with changes calculated into loss/profit in the period	2,608	5,460	(17)	-	-
Derivative financial assets	811	803	(7)	-	-
Available-for-sale financial assets	78,383	80,229	-	606	-
Total assets	81,802	86,492	(24)	606	
2. Financial liabilities					
Financial liabilities measured at fair value with changes calculated into loss/profit in the period	-	(399)	14	-	-
Derivative financial liabilities	(732)	(731)	1	-	-
Total liabilities	(732)	(1,130)	15	-	-

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

Item	Change	Cause of change
Due from banks and other financial institutions	168.25%	Expansion of Inter-bank business scale
Lendings to banks and other financial institutions	211.60%	Expansion of Inter-bank business scale
Held-for-trading financial assets	109.35%	Investment structure adjustment
Reverse repurchase agreements	241.64%	Expansion of Inter-bank business scale
Bond investment receivables	170.20%	Investment structure adjustment
Other assets	61.05%	Increase in clearing of fund in transit at the end of period
Due to PBOC	2220.34%	Low base number
Due to banks and other financial institutions	108.30%	Inter-bank business structure adjustment
Funds borrowed from other financial institutions	(71.53%)	Inter-bank business structure adjustment
Tax payable	(30.36%)	Settlement of tax by the former PAB in June 2012
Payables	(62.71%)	Decrease in agency payment
Interest income	90.52%	Increase in scale of interest-earning assets and period-on-period interest rate hike
Interest expense	130.33%	Increase in scale of interest-bearing liabilities

		and period-on-period interest rate hike
Fee and commission income	133.08%	Increase in fee income for settlement, wealth management, agency, banking card, etc.
Fee and commission expense	125.35%	Increase in fee income for banking card, etc.
Gain from change in fair value	(44.41%)	Decrease in fair value of interest-bearing derivative financial instruments
Business tax and surcharge	82.11%	Increase in taxable operating revenue
Business and management fee	69.82%	Increase in labor and business scale, and input on integration of policy, procedure and system for the merger of SDB and PAB
Asset impairment loss	114.90%	Increase in provision
Income tax expense	50.94%	Increase in taxable income and increase in effective tax rate

Note: The data for profit or loss items in the period as shown in the table is the consolidated data of SDB and PAB, while the comparable data for the previous period was the individual data of the former SDB. Therefore, the reason for the material change also includes the impact of increase in scale after the merger with the former PAB.

(XI) Outlook

In the second half of 2012, the Bank will continue to uphold a stable and active operation concept and place customers on its priority. The Bank will fully utilize the traditional advantages of the role of the bank as a payment and settlement platform between enterprises and individuals, and leverage on the differentiated competitiveness of the Group's comprehensive financial platform. With the opportunities arising from the integration between SDB and PAB, the Bank will further improve the level of all kinds of financial services and provide its customers with all-round and customized financial services with a view to ensure a sustainable and steady growth on customer deposits.

Meanwhile, the Bank will still put great emphasis on the personal consumption and demand for financing among small and medium enterprises in the second half of 2012, and will satisfy capital needs of entities and the economy through professional management, product innovation and optimization on business flow. On the condition that risks are controllable, the Bank will further optimize its asset and liability structure to ensure that its annual results could maintain a continuous, steady and healthy growth to continuously provide shareholders with long-term and steady returns.

1. Corporate business

Strengthen the sales process management, identify target markets and target customers, promote the customer tiering strategy. For trade finance business and products, expand upstream and downstream business of the supply chain finance, focus on the development of new channels and new customer base, and consolidate the customer base for the building of online supply chain finance. For corporate products, develop optimized and application products, improve customer experience, develop good industry solutions, and increase effective customers and effective business. Actively promote cross-selling in the three levels of corporate business, corporate and retail, bank and other subsidiaries of Ping An Group. Leverage on Ping An Group's integrated financial advantages and focus on enhancing co-operation with Ping An Group's subsidiaries such as property & casualty, annuity, trust, fund, and asset management, based on the combination of "cross-selling + investment bank + custody + bank business with competitive advantage", promote income growth of bank corporate finance, custody, deposit and fee-based business.

2. Retail business

Leverage on centralized promotion resources upon the merger of SDB and PAB, and conduct promotion targeting at retail services and products to raise brand awareness and image. Based on the established "macro-retail synergy operation" strategy, further deepen the substances and extension of the synergy to consolidate them into the practices and habits of all internal business centers, and in turn realize the relocation of internal credit card, fundamental retail, micro loan and auto loan customers, while raising customer loyalty and putting the comprehensive value of customers into full play at the same time.

Continue to utilize Ping An Group's comprehensive financial competitiveness, learn from the experience in pilot points of the new mode in Beijing and Tianjin to foster the development and growth of cross-selling business in the whole bank. Deepen detailed customer management structure oriented to customers, foster standardized services and sales procedures, launch out value-added service structure to high-end customers with characteristics of Ping An, optimize the value and ideas of customers at different tiers. Expand the introduction of product resources of all subsidiaries under the Group, continue to foster cross-selling within the Group; act in line with the trend of implementing market-oriented interest rate, formulate differentiated pricing strategy; consolidate and increase market shares for key business such as micro finance, auto finance, personal credit loans and credit cards; suitably loosen real estate loan business. Deepen multi-channel operation, establish multi-business center mode for different customer groups, and further implement basic rules in the whole bank, standardize sales operation mode and increase production capacity.

3. Treasury and Inter-bank business

Closely look at changes on international and domestic economic environment and markets, strengthen the construction of inter-bank channels, enhance transaction capabilities, asset management level and capabilities for selling products and serving, expand business scale while realize synchronous development of asset quality. Major measures include: continue to greatly conduct product innovation to satisfy various needs of the market, and enhance market competitiveness; continue to expand product manager teams at branches, put the advantages on channels of the Bank and the Group into full play, establish diversified sales and service channel structure; deepen co-operation with inter-bank customers to identify inter-bank potential; further enhance research analysis, understand market trend, and improve profitability for transactions. At the same time, closely look at the trend of changes of domestic economy and policies as well as make advance anticipation on risk factors such as liquidity risk and credit risk to guarantee stable business development.

4. Micro finance

Through the establishment of excellent product structure, marketing structure, risk structure and system structure, the construction and optimization of the new mode of micro finance business are basically completed; utilize basic rules for micro finance to lead the micro finance business of the whole bank to realize established targets; continuously enrich micro finance products by being closely oriented to target customer groups; implement multi-channel market development strategy; leverage on differentiated and professional risk management strategies to put “price coverage risk” mechanism into practice; fully deploy and utilize various resources to strive to achieve “high efficiency, numerous products, excellent services” as well as a better consolidated revenue for micro finance business.

5. Credit card business

Credit card continues to leverage on the Group’s comprehensive financing platform, optimizes the construction of cross-selling channel, and enhances profitability of business on the basis of providing better credit card products and services to customers.

6. Auto finance

Along with complementary development of the market and optimization of laws and regulations, the Bank will continuously expand co-operation channels and strive to ramp up the level of operation service as well as risk management and control. Meanwhile, the Bank will fully put the Group’s comprehensive financial advantage into play and strive to foster product and service innovation to provide customers with better products.

7. Risk management

(1) The Bank will mainly control and prevent credit risk via the following measures:

For credit approval, the Bank will rationalize and clearly determine the approval procedures in the three levels of headquarters, region and branches as well as the respective responsibilities; establish and implement management methods for credit approval officers, and standardize the management of approval teams; establish and implement the supervision and evaluation mechanism after approval of credit, and strengthen the appraisal and management of audit teams.

For public risk management, the Bank will strengthen and improve its supervision and early warning work, and place particular emphasis on the supervision of special mention loans; promote and establish a uniform portfolio management and control mechanism for the whole bank; establish and optimize an effective management system on granting credit to customers for the Group.

For retail risk management, the Bank will enhance risk management for the micro finance business while supporting business development and consolidating business foundation; establish a uniform retail risk management system and structure, as well as foster and implement reform of centralization for retail back office and establish the retail flow banking.

For asset protection, the Bank will enhance its efforts on recovery and disposal of non-performing assets, while continuously strengthen the pace of intervention and efforts on handling non-performing assets. The Bank will also do better on advance asset protection service, and guide all branches on actively commencing asset protection works.

For credit culture, the Bank will establish a bank-wide risk information platform, and strive to create the credit culture of “good faith compliance, due diligence”; optimize credit staff qualification management and be strict with credit staff qualification acceptance and exit management.

(2) Asset protection work will be conducted based on the three-dimensional working concept of “risk control, risk resolving and recovery of non-performing assets”, while continuously optimize the long-term working mechanism on rapid intervention into problematic credit for asset protection, and thus resolve problematic asset risk and enhance risk warnings; put professional advantages into full play, greatly foster the advance asset protection service, and work together on controlling potential risk; optimize non-performing asset management structure and functions, implement active management on non-performing assets, increase efforts on recovery of non-performing assets, facilitate bank-wide implementation of plans and indicators on recovery, disposal and write-off for non-performing loans; optimize the joint action mechanism of headquarters for contingencies, raise up the level of rapid intervention; handle challenges brought by changes in operation environment, while explore and implement the advance asset protection service. Meanwhile, the Bank will strengthen internal control and management, team building and

business training with a view to provide support on the optimization of bank-wide asset protection.

Chapter 5 Changes in Share Capital and Particulars of Shareholders

I. Changes in share capital

(Unit: Shares)

Share Type	Before Change		Change (+,-)				After Change	
	Quantity	%	Restricted Shares released from restriction	Change in lock-up shares held by senior management	Equity transfer and NPO	Sub-total	Quantity	%
I. Restricted shares	2,017,991,744	39.39	-	-	-	-	2,017,991,744	39.39
1)Held by the state	-	-	-	-	-	-	-	-
2)Held by state legal entities	-	-	-	-	-	-	-	-
3)Held by other domestic bodies	2,017,991,744	39.39	-	-	-	-	2,017,991,744	39.39
Including: held by domestic non-state legal entities	2,017,973,130	39.39	-	-	-	-	2,017,973,130	39.39
Held by domestic natural person	18,614	Approximately 0.00	-	-	-	-	18,614	Approximately 0.00
4) Held by foreign institutions	-	-	-	-	-	-	-	-
Including: Held by foreign legal entities	-	-	-	-	-	-	-	-
Held by foreign natural person	-	-	-	-	-	-	-	-
II. Unrestricted shares	3,105,358,672	60.61	-	-	-	-	3,105,358,672	60.61
1) Ordinary RMB shares	3,105,358,672	60.61	-	-	-	-	3,105,358,672	60.61
2) Foreign shares listed domestically	-	-	-	-	-	-	-	-

3) Foreign shares listed overseas	-	-	-	-	-	-	-	-
4) Others	-	-	-	-	-	-	-	-
III. Total	5,123,350,416	100.00	-	-	-	-	5,123,350,416	100.00

II. Number of shareholders, shareholding of top ten shareholders and particulars of top ten shareholders without restriction conditions

(Unit: Shares)

Total number of shareholders as at the end of reporting period	283,377						
Shareholding of top 10 shareholders							
Name of shareholder	Nature of shareholder	Shareholding (%)	Total shares held	Increase/d decrease during the reporting period	Restricted shares held	Shares collateralized or frozen	
Ping An Insurance (Group) Company of China, Ltd. - Group level - Self-owned fund	Domestic legal person	42.16	2,159,807,516	-	1,638,336,654	-	
Ping An Life Insurance Company of China, Ltd.- Proprietary fund	Domestic legal person	7.41	379,580,000	-	379,580,000	-	
Ping An Life Insurance Company of China, LTD. - Tradition - Ordinary insurance products	Domestic legal person	2.75	140,963,528	-	-	-	
Shenzhen Zhongdian Investment Co., Ltd.	Domestic legal person	1.71	87,382,302	-	-	-	
China Life Insurance Co., Ltd-Dividend-Individual Dividend-005L-FH002 Shenzhen	Domestic legal person	0.95	48,661,762	(14,842,654)	-	-	
BOC-E-fund Shenzhen 100 Trading Open-end Securities Investment Fund	Domestic legal person	0.88	45,228,499	4,253,752	-	-	
Client credit trading guarantee securities account of Orient Securities Company Limited	Domestic legal person	0.88	44,898,304	44,898,304	-	-	
National Social Security Fund-10 portfolio	Domestic legal person	0.78	39,841,497	2,999,987	-	-	
Haitong Securities Co., Ltd.	Domestic legal person	0.73	37,458,896	(10,168,911)	-	-	
ICBC – Rongtong Shenzhen Stock Exchange 100 Index Securities Investment Fund	Domestic legal person	0.60	30,504,294	2,213,349	-	-	

Shareholding of top 10 shareholders without restriction conditions		
Name of the shareholder	Number of unrestricted shares held	Share nature
Ping An Insurance (Group) Company of China, Ltd. - Group level - Self-owned fund	521,470,862	RMB ordinary shares
Ping An Life Insurance Company of China, LTD. - Tradition - Ordinary insurance products	140,963,528	RMB ordinary shares
Shenzhen Zhongdian Investment Co., Ltd.	87,382,302	RMB ordinary shares
China Life Insurance Company Limited - dividend - individual dividend - 005L-FH002 Shenzhen	48,661,762	RMB ordinary shares
BOC- E-fund Shenzhen Stock Exchange 100 Transactional Open Index Securities Investment Fund	45,228,499	RMB ordinary shares
Client credit trading guarantee securities account of Orient Securities Company Limited	44,898,304	RMB ordinary shares
National Social Security Fund-10 portfolio	39,841,497	RMB ordinary shares
Haitong Securities Co., Ltd.	37,458,896	RMB ordinary shares
ICBC – Rongtong Shenzhen Stock Exchange 100 Index Securities Investment Fund	30,504,294	RMB ordinary shares
ICBC – China Southern Component Selected Equity Securities Investment Fund	27,135,463	RMB ordinary shares
Explanation on the related relationship and concerted action between the above shareholders	<p>1. Ping An Life Insurance Company of China, Ltd. is PAG’s controlling subsidiary and its person acting in concert. “Ping An Insurance (Group) Company of China, Ltd. - Group level - Self-owned fund” has related relation with “Ping An Insurance (Group) Company of China, Ltd- the Group – Proprietary fund” and “Ping An Life Insurance Company of China, Ltd. - Tradition -Ordinary insurance products”.</p> <p>2. The Bank is not aware of the related relationship between any of the other shareholders or aware of whether they are persons acting in concert or not.</p>	

III. Change of the controlling shareholders of the Bank during the reporting period

During the reporting period, the controlling shareholders of the Bank did not change. Ping An Life Insurance Company of China, Ltd. is the controlling shareholders of the Bank.

Chapter 6 Directors, Supervisors and Senior Management

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

(Unit: Shares)

Name	Title	Shares held at beginning of the period	Increase	Decrease	Shares held at end of the period	Including: number of restricted shares held	Number of share options held at end of the period	Reason for the change
Hu Yuefei	Director, VP	1,484	-	-	1,484	194	-	-
Wang Lan	Employee Supervisor	215	-	-	215	-	-	-
Wang Yi	Employee Supervisor	24,560	-	-	24,560	18,420	-	-

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

(I) Engagement and dismissal of directors

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

(II) Engagement and dismissal of supervisors

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

(III) Engagement and dismissal of senior management

On July 17, 2012, Mr. Ye Wangchun was engaged as the vice president of the Bank; Mr. Xie Yonglin was engaged as the vice president of the Bank; Mr. Li Nanqing was engaged as the secretary of the Board of Directors of the Bank on the sixteenth meeting of the 8th Board of Directors of the Bank.

The above appointments are subject to the approval by banking regulatory authorities.

Mr. Xu Jin resigned as the secretary of the Board of Directors of the Bank with effect from July 17, 2012 due to work arrangement. Mr. Xu Jin will continue to assume other administrative duties of the Bank.

Chapter 7 Report of the Board of Directors

I. Corporate Governance

In the reporting period, the Bank committed itself to further improve corporate governance mechanism and corporate governance structure in accordance with relevant laws and regulations such as Company Law, Securities Law, Commercial Bank Law, as well as regulatory requirements of the China Securities Regulatory Commission (CSRC) and CBRC. The board of directors, board of supervisors and management of operation seriously performed their duties, and standardized operation in an active, conscious and continuous manner, while during the period of integration of SDB and PAB, placing emphasis and strengthening the internal control so as to safeguard the interests of the Bank and all shareholders. In the reporting period, the Bank was fully independent from the controlling shareholder in terms of staff, assets and finance, and there was no appropriation of company fund for non-business purposes by the major shareholder or its related parties, or embezzlement of company fund through unfair related party transaction. The Bank seriously managed information disclosure and investor relationship to make sure investors may obtain relevant information in a true, accurate, complete and timely manner. Currently, the eighth Board of Directors of the Bank has a total of 18 directors, of which 8 are independent directors. The composition of the Board of Directors complies with the relevant regulations and requirements of regulatory authorities.

II. Formulation and Implementation of Cash Dividend Policy of the Bank

Along with its growth and development, the Bank is responsible and obligated for providing reasonable returns to its shareholders, while allowing shareholders to enjoy the results of the growth on economy and the Bank. According to the requirements of *Notice on Further Implementation of Matters Related to Cash Dividend of Listed Companies* promulgated by CSRC and “Notice on Serious and Thorough Implementation of Relevant Requirements of the *Notice on Further Implementation of Matters Related to Cash Dividend of Listed Companies*” (Shen Zheng Ju Gong Si Zi [2012] No. 43) promulgated by Shenzhen Securities Regulatory Commission, the Bank convened the sixteenth meeting of the 8th Board of Directors on July 17, 2012, and deliberated and passed *Resolution on Amendment of Constitution of SDB and SDB Planning on Return to Shareholders in Coming Three Years (2012-2014)*, which will be presented to the extraordinary general meeting of the Bank for deliberation before August 31, 2012.

The Bank has formulated the cash dividend policy, and further enhanced the transparency of cash dividend to enable investors to formulate a stable return expectation. Through the resolution on the amendment of constitution, the Bank has clearly determined the principles, plans and forms of profit distribution and intervals, conditions and proportion of cash profit distribution as well as the

conditions and procedures for the adjustment on profit distribution policy. In *SDB Planning on Return to Shareholders in Coming Three Years (2012-2014)*, the Bank has clearly stated that the profit to be distributed in cash for each of the coming three years (2012-2014) ranges from 10% to 30% of the distributable profit for the year, and committed that the Board of Directors will propose the interim cash dividend proposal for midyear 2012.

The cash dividend policy formulated by the Bank complies with the provisions of the Articles and the requirements of the resolution of the general meeting with specific and clear standards and proportion for dividend. The Board of Directors of the Bank has conducted specific researches on returns to shareholders, and listened to the opinions of shareholders (especially minority and medium shareholders) , independent directors and the Board of Supervisors via various channels. The relevant decision making procedures and mechanism have been completely formulated, and independent directors have conducted due diligence and played their due roles, while the legal interests of minority and medium shareholders were adequately safeguarded.

The conditions and procedures for adjusting and changing the Bank's cash dividend policy are in compliance with regulations and transparent.

During the reporting period, the Bank strictly implemented the cash dividend policy formulated by SDB. The Board of Directors has proposed the interim cash dividend proposal for midyear 2012, which will be presented to the extraordinary general meeting of the Bank for deliberation.

III. Formulation and Implementation of the Administrative System for Persons with Inside Information

The Bank has formulated the *Administrative System for Inside Information and Persons with Inside Information*. During the reporting period, the Bank placed emphasis on the administration of inside information, and strictly controlled the scope of persons with inside information in accordance with the relevant system. The Bank registered the list of persons with inside information of SDB and their personal information on a timely basis, while organized self-inspection on the dealings of SDB shares of those persons with inside information. The Bank did not find any person with existing inside information utilize such inside information on trading SDB shares prior to the disclosure of material and sensitive information which affect the price of SDB shares, and there was no regulatory measures or administrative penalties taken by regulatory authorities for suspected inside transaction in breach of the administrative system for inside information and persons with inside information. The *SDB Administrative System for Inside Information and Persons with Inside Information* regulates external information users. During the reporting period, no external information user was found to trade SDB shares, suggest others to trade such shares or leak out such information by utilizing inside information.

During the reporting period, directors, supervisors and senior management of the Bank did not trade SDB shares in breach of any requirements.

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

V. Interim Profit Distribution Proposal for Midyear 2012 for the Bank

In the first half of 2012, the profit as per the Bank's statutory financial statements (audited by PRC certified accountant, Ernst & Young Hua Ming) included: net profit attributable to shareholders of the parent of RMB 6,761,485,000 and distributable profit of RMB 22,625,864,000.

Pursuant to the above profit and relevant requirements of China, the Bank made the following profit distribution in the first half of 2012:

1. As the statutory surplus reserve of the Bank has exceeded 50% of its paid-in capital, no statutory surplus reserve was withdrawn.

2. Withdrawal of general risk provision of RMB 3,844,248,000.

Upon the above profit distribution, as of June 30, 2012, the Bank's surplus reserve was RMB 2,830,459,000; general risk provision was RMB 11,799,151,000, remaining undistributed profit was RMB 18,781,616,000.

3. Apart from the above statutory profit distribution, the Board of Directors recommended the Bank to include the following profit distribution proposal for the interim period of 2012:

Based on the total capital of 5,123,350,000 shares of the Bank as of June 30, 2012, cash of RMB 0.10 per share (inclusive of tax) would be distributed. Actual amount of profit used for the distribution was RMB 512,335,000 in aggregate and the remaining undistributed profit amounted to RMB 18,269,281,000, which would be carried forward to be distributed in subsequent years.

The above proposal is subject to the deliberation and approval by the general meeting.

VI. The Bank's accumulated undistributed profit for the end of 2011 is positive, but no cash dividend proposal is proposed.

Accumulated undistributed profit for the end of 2011	RMB 14,766,945,000
Use of relevant undistributed capital retained by the Bank	For replenishing fund
Return generated	Yes
Reason for discrepancy between actual return and anticipated return	Not applicable
Description of other situation	Not applicable

VII. Investments

(I) Overall use of raised funds

(In RMB thousand)

Net raised funds			2,690,052.30		Total raised funds invested in the period			2,297,297.31		
Total raised funds with purpose changed in the reporting period			-		Total accumulated raised funds invested			2,297,297.31		
Total raised funds with purpose changed			-							
Percentage of total raised funds with purpose changed			-							
Promised investment projects and flow of surplus funds raised	Project changed or not (incl. partial change)	Promised investment amount from raised funds	Total investment amount after adjustment (1)	Invested amount during the period	Accumulative invested amount as of the end of the period (2)	Investment progress as of the end of the period (%) (3) = (2)/(1)	Date when the item reaches predetermined purpose status	Benefit realized during the period	In line with predicted benefit or not	Any material changes of feasibility of the project
Promised investment projects										
Promised investment projects	No	2,690,052.30	2,690,052.30	2,297,297.31	2,297,297.31	85%	-	-	-	No
Integrate the former PAB/capital replenishment		2,690,052.30	2,690,052.30	2,297,297.31	2,297,297.31	85%	-	-	-	-
Subtotal of promised investment projects										
Flows of surplus funds raised	-	-	-	-	-	-	-	-	-	-
Repayment of bank loans	-	-	-	-	-	-	-	-	-	-
Replenishment of working capital	-	-	-	-	-	-	-	-	-	-
Subtotal of flows of surplus funds raised	-	2,690,052.30	2,690,052.30	2,297,297.31	2,297,297.31	85%	-	-	-	-
Total										
Failure to reach planned progress or expected earnings and reasons (by specific projects)										
Notes on material changes of project feasibility										
Amount, purpose and application progress of surplus funds raised										
Changes of implementation locations of projects										

invested with raised funds	
Changes of implementation approaches of projects invested with raised funds	-
Initial input and replacement of projects invested with raised funds	-
Temporary supplementation of working capital with spare raised funds	-
Surplus fund amount in the project implementation and reasons	The unutilized funds raised are deposited in a special account for the fundraising and such funds will continued to be used for the outstanding consideration to be paid to minority shareholders of the former PAB and replenishing capital as originally planned.
Purpose and flows of unused funds raised	No

(II) Changes in the use of raised funds in projects

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

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

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

VII. Explanations on the progress of the implementation of C-SOX Project

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

During the reporting period, in order to solidly conduct good assessment on internal control, the Bank has established a regular meeting mechanism for projects, work mechanism for departments' contact persons, weekly work progress tracking and reporting mechanism, as well as regular communication mechanism for the working groups for the integration of SDB and PAB, etc., so as to ensure the quality of internal control evaluation works and effectively facilitate the work progress. At the same time, through distinguishing between management, contact persons of departments, project execution staff and staff at the branch level, training were organized at each level, so as to ensure that

the methodology and standards of internal control evaluation works were properly implemented, to facilitate the integration of internal control into the business and flow, and to further improve risk management and control standards across the bank.

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

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

By observing relevant provisions of *Commercial Bank Law of PRC*, *Guidance on Internal Control of Commercial Banks* and *Guidance on Internal Control of Listed Companies of SZSE*, as well as and the relevant requirements under the *Notice on Works Related to Internal Control Standardization Pilot Scheme for Listed Companies in Shenzhen* promulgated by Shenzhen Securities Regulatory Commission, in the first half of 2012, the Bank fully launched self-assessment and evaluation on internal control, and implemented *Basic Standardization on Internal Control for Business Enterprises* promulgated by five Ministries, including the Ministry of Finance, as well as relevant complementary guidelines with the aim of risk aversion and prudential operation. The Bank gradually established and improved a series of risk aversion policies, procedures and methods, and formulated full, cautious, effective and independent internal control systems, which have played an effective role in maintaining the stable development of each kind of business and preventing financial risks.

In the first half of 2012, the management of the Bank operated effectively under the guidance of the Board of Directors and its specialized committees. Risk Aversion and Control Committee continued to exert the functions of co-ordination and handling in terms of establishing the prevention and control of compliance risk, operation risk and related risks. Through convening regular monthly meetings to specifically discuss and formulate risk aversion measures, the Committee continued to optimize internal control mechanism and ramp up the inspection and prevention of risks. Pursuant to *Basic Standardization on Internal Control for Business Enterprises* and *Complementary Guidelines on Internal Control for Business Enterprises* jointly promulgated by five Ministries and Commissions, the Bank, as a domestically listed company, shall duly implement *Basic Standardization on Internal Control for Business Enterprises* in 2012. Meanwhile, as 2012 also represents a critical year for the merger between SDB and PAB, integration and optimization on different aspects such as structures, establishment of departments, positions and duties as well as business flow were conducted for SDB and PAB based on the experience and results of internal control establishment gained in the previous year with a view to further enhance the comprehensiveness and effectiveness of internal control of the Bank. Currently, the Bank aims to establish internal control and integrates the respective competitive edges of SDB and PAB in accordance with the business development needs and changes in external operation environment, while fully reviews all rules and systems related to internal control, and re-formulates various

business policies, administrative methods, operation rules and workflow in accordance with the needs for optimizing the establishment of internal control. In the first half of 2012, the Bank's internal audit department raised up the efforts on the implementation of internal control system in accordance with the year plan. The Bank's internal control system covers various business flow and operation, as well as the control and management of the existing administration departments and branches. Although there are still rooms for further optimization and improvement in certain aspects for the Bank, the management of the Bank places a high degree of concern on such areas and determines measures for making improvement. Generally, the Bank's internal system is comprehensive, rational and effective, while the structure of internal control is complete and does not contain any material deficiencies on internal control.

(II) BOS comments on explanation on internal control made by the Board of Directors

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

X. Social responsibility report

During the reporting period, the Bank actively commenced various activities in respect of social responsibility, while continuously optimized the management of social responsibility work. Pursuant to the new organizational structure upon the integration of SDB and PAB, the Bank established a specialized function office under the brand and public relation administration department to take charge of the administration of social responsibility work; continued to strengthen the approval and supervision functions of head office in the area of social responsibility, while organized and coordinated all functions, departments and branches in the performance of corporate social responsibility

1. Safeguard the interests of shareholders. Pursuant to the requirements of relevant laws and regulations such as *Company Law*, *Securities Law* and *Commercial Bank Law* as well as the regulatory requirements of People's Bank of China, CSRC and CBRC, the Bank strived to improve its corporate governance mechanism and optimize corporate governance structure, safeguarding the interests of shareholders while realizing growth in shareholders' value. In the process of the integration of SDB and PAB, an integration and communication unit was specifically established to organize and coordinate thorough communication between the whole bank and its stakeholders with an aim to complete the critical step of the integration of SDB and PAB in a stable manner.

2. Enhance the level of customer services. With the objectives of creating the “Best Bank in China”, various process reengineering projects were implemented. The *Year of Improvement for DCFC* campaign was launched to optimize customer service quality and internal control system. The implementation of online supply chain finance system was accelerated to continuously enrich business model and comprehensive service functions, thereby improving customer experience and creating an innovative financial service platform. With active launching of *Promotion Month for Small and Micro Business Financial Service* campaign, the development of small and micro business was facilitated to solve credit difficulties for small and medium enterprises as well as individual industrial and commercial customers.

3. Care for staff. The Bank provided a fair and just development environment for staff via scientific performance appraisal methods; utilized its advantages in terms of resources of Ping An Financial Institute of the Group to provide quality training to staff and helped them to enhance comprehensive qualities, occupational skills and performance; regularly published electronic magazine named *Direct Line on Performance* to thoroughly communicate on issues under concern; cared about staff’s physical and psychological health via organizing various activities such as athletic meet and parent-child outing.

4. Focus on green credit work. The Bank is among the first domestic financial institutions to sign the *Natural Capital Declaration* advocated by international institutions such as the United Nations Environment Programme and Financial Action Task Force, and committed to include the consideration of natural capital into its operation and decision making. The Bank stably enhanced the level of green credit disclosure, and was well recognized among NGO and media. Continued efforts were placed on enhancing the support to key energy saving and pollutant reduction engineering and projects to incorporate environment assessment mechanism into management flow for credit business, while strict control was imposed on the lending to “high energy consumption, high pollution and excessive capacity industries”.

5. Energy conservation, pollutant reduction and environmental protection. “Low carbon 100” activity was commenced to promote green operation initiatives in respect of saving water, electricity and paper via promoting the use of video conference system to lower energy and resources consumption in full efforts and advocate all staff to travel in a low carbon manner; actively participated in environment protection campaign such as “Earth Hour”.

6. Active commencement of charitable campaigns. In the first half of the year, the Bank re-commenced the charitable project, “Student Aid with Love”, and organized visits to “teaching camp” in Shenzhen for 44 Tibetan teachers from Yushu of Qinghai in three phrases. The activity was conferred the most satisfactory project among citizens of the 9th Shenzhen Love Action. The Bank continued to implement the donation and construction of 4 computer teaching rooms in 4 schools in Yushu, which will directly benefit over 7500 students and about 500 teachers. The Bank also signed an

agreement with Shenzhen Yuanping Special School and donated RMB 600,000 for setting up a new 5-year scholarship programme to award outstanding students and teachers for the support of special education for disabled children.

Chapter 8 Significant Events

I. Material lawsuits and arbitrations

During the reporting period, there were no lawsuits or arbitrations that had material impact on the operation of the Bank. As of June 30, 2012, the Bank, as defendant, was involved in 92 outstanding lawsuits with a total amount of RMB 245 million.

II. Investments of the Bank in other listed companies, financial companies and companies which plans to go public

(I.) Shareholding in other listed companies

(in RMB thousand)

Stock code	Name	Initial investment	Percentage of total shareholding at the end of the period	Book value at the end of the period	Gains/Losses in the reporting period	Change of owners' equity during the reporting period	Accounting entry	Origination
000150	Yihua Real Estate	5,895	1.36%	17,722	-	3,138	Available-for-sale	Repossessed equity
600094	Great Town	4,248	0.07%	5,009	-	519	Available-for-sale	Repossessed equity
000034	Shenxin Taifeng	5,553	0.18%	2,969	-	456	Available-for-sale	Repossessed equity
000030	ST ShengrunA	2,916	0.12%	3,146	-	345	Available-for-sale	Repossessed equity
	Visa Inc.	0.00	0.01%	1,742	10	325	Available-for-sale	Legacy investment
Total		18,612		30,588	10	4,783		

(II.) Shareholding in other unlisted financial institutions and companies which plans to go public

(in RMB thousand)

Name of Investee Company	Investment Amount	Impairment Provision	Net value at the end of the period
China Unionpay Co. Ltd.	74,220	-	74,220
SWIFT	1,586	-	1,586
Clearing Center for City Commercial Banks	600	-	600
Total	76,406	-	76,406

III. Acquisition, merger through absorption and disposal of assets during the reporting period

On January 19, 2012, the eleventh meeting of the 8th Board of Directors of SDB deliberated and passed *Proposal of SDB on the Scheme of Merger of the Controlling Subsidiary PAB Co., Ltd. through Absorption*, *Proposal of SDB on Signing the Absorption Merger Agreement with Ping An Bank Co., Ltd.* and *Proposal of SDB on Renaming*. The proposal on merger through absorption has been

deliberated and passed in the first extraordinary general meeting of the Bank in 2012 and the first extraordinary general meeting of the former PAB in 2012 on February 9, 2012.

CBRC approved the merger through absorption on April 24, 2012 with *CBRC Approval for Merger of PAB by SDB through Absorption (CBRC [2012] No. 192)*.

On June 13, 2012, the former PAB received *Notice about Company Deregistration* from Shenzhen Market Supervision and Management Bureau, which approved the former PAB to be deregistered on June 12, 2012. After the former PAB's deregistration, its branches/outlets will become the former SDB's branches/outlets, its assets, liabilities, licenses, permissions, businesses and employees will be legally carried on by the former SDB, and all the rights and obligations attached to its assets will legally be enjoyed and assumed by the former SDB.

The general meeting of the Bank has deliberated and passed the resolution on the change in name of SDB into “平安银行股份有限公司”. The Bank has received *CBRC's Approval on Change in Name of Shenzhen Development Bank (Yin Jian Fu (2012) No. 397)*. CBRC agreed on the change of name of 深圳发展银行股份有限公司 into “平安银行股份有限公司”, and the change of English name into “Ping An Bank Company Limited”. On July 27, 2012, the Bank has completed relevant procedures on changes with the Market Supervision Administration of Shenzhen Municipality and received the new business license for legal entities. The stock abbreviation of the Bank has been changed to “平安银行” since August 2, 2012, and its stock code 000001 remains unchanged.

For details, please refer to relevant announcements published by the Bank in China Securities Times, Securities Times, Shanghai Securities Post, Securities Daily and www.cnifo.com.cn.

IV. Important related party transactions

1. The Bank had the following transactions with Ping An China and its subsidiaries:

(In RMB thousand)

Balance at the end of the period	June 30, 2012	December 31, 2011
Investment in receivables	100,000	100,000
Interest receivable	1,059	3,167
Other assets	135,846	4,365
Amounts due to banks and other financial institutions	5,213,261	3,772,574
Deposits from clients	31,143,880	25,147,518
Debentures payable	397,357	500,637
Interest payable	765,183	725,592
Other liabilities	108,940	47,174
Issuance of letter of credit	-	500,000
Factoring credit facilities	2,000,000	2,000,000

Credit facilities with peers	4,900,000	1,500,000
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Transactions during the period	January – June 2012	January – June 2011
Interest income from bonds receivable	2,091	2,080
Agency fee income	18,742	8,167
Custody fee income	6,669	544
Interest expenses on amounts due to banks and other financial institutions	41,277	74
Interest expenses on deposits from customers	620,993	91,417
Interest expenses on bonds payable	11,346	3,505
Expenses on premium	26,725	1,360
Operating lease expense	8,305	-
Service fee expenses	243,687	-

The above-mentioned transactions have been entered into on normal commercial terms, at prevailing market rates and in the ordinary course of business.

2. As of June 30, 2012, the Bank approved to grant credit facilities of RMB3.05 billion to the connected legal entities and associates of the companies in which the Bank's key management members served (December 31, 2011: RMB 3.55 billion), actual loan balance of RMB440 million (December 31, 2011: RMB 520 million) and off-balance sheet credit facilities of RMB58 million (December 31, 2011: RMB 67 million).

3. *Implementation of SDB's Resolution on Continuing Day-to-Day Connected Transactions with Related Parties such as Ping An Group*

On April 26, 2012, 2011 annual general meeting of the Bank deliberated and passed the *SDB's Resolution on Continuing Day-to-Day Connected Transactions with Related Parties such as Ping An Group*, which regulated the caps for continuing day-to-day connected transactions with Ping An Group, Bank of Communications, HSBC and BEA from 2012 to 2014. It was agreed that, subject to the caps, the management of the Bank was authorized to approve and execute various kinds of day-to-day connected transactions based on the day-to-day business approval authorization as well as handle other related matters in accordance with the transaction principles for continuing day-to-day connected transactions,

(1) Continuing day-to-day connected transactions with Ping An Group

In the first half of 2012, credit day-to-day connected transactions with Ping An Group did not exceed the caps as required under the *Administrative Method on Connected Transactions between Commercial Banks and Insiders and Shareholders* issued by CBRC.

In the first half of 2012, the transactions balance for indirect day-to-day connected transactions with Ping An Group such as minimal consumption loan under insurance and credit under credit insurance did not exceed RMB 7.0 billion.

In the first half of 2012, interest expenses arising from introducing the agreed deposits with Ping An Group did not exceed RMB 2.0 billion.

In the first half of 2012, interest income arising from the investment in wealth management products (including directional asset management plan) with Ping An Group did not exceed RMB 1.2 billion.

In the first half of 2012, interest income arising from inter-bank deposits, inter-bank lending and other inter-bank products with Ping An Group did not exceed RMB 480 million.

In the first half of 2012, interest expenses arising from structural deposit business with Ping An Group did not exceed RMB 600 million.

(2) Day-to-day connected transactions with Bank of Communications

The maximum deposit balance for any day in the first half of 2012 with Bank of Communication did not exceed RMB 5 billion.

Gains and costs arising from non-deposit continuing day-to-day connected transactions with Bank of Communication in the first half of 2012 did not exceed RMB 1.786 billion.

(3) Day-to-day connected transactions with HSBC

The maximum deposit balance for any day in the first half of 2012 with HSBC did not exceed RMB 1.26 billion.

Gains and costs arising from non-deposit continuing day-to-day connected transactions with HSBC in the first half of 2012 did not exceed RMB 129 million.

(4) Day-to-day connected transactions with BEA

The maximum deposit balance for any day in the first half of 2012 with BEA did not exceed RMB 300 million.

Gains and costs arising from non-deposit continuing day-to-day connected transactions with BEA in the first half of 2012 did not exceed RMB 60 million.

The above-mentioned related party transactions have been entered into in accordance with the Bank's approval procedures for related party transactions.

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

VI. Fund utilization by related parties

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

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

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

Guarantee business conducted by the Bank is a regular banking business approved by the People's

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

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

Commitments	Promiser	Contents	Performance
Commitments in Share Reform	-	-	-
Commitments made in Acquisition Report or Equity Change Report	Ping An Insurance (Group) Company of China, Ltd., Ping An Life	PAG and Ping An Life committed in <i>SDB's Long Form Equity Change Report</i> published on June 16, 2009 to: Take legal and feasible measures to integrate SDB and Ping An Bank in the manner of, including but not limited to, merger within 3 years after the completion of this deal by strictly following relevant rules, laws and regulatory requirements, so as to avoid substantial peer competition.	Performance has been completed on June 12, 2012
		PAG committed in <i>SDB's Acquisition Report</i> published on June 30, 2011: As to SDB shares owned by the Offeror and its affiliated institutions as of the day when all SDB shares subscribed by the Offerors through the deal are registered, PAG and its affiliated institutions will not transfer any of them within thirty-six months after the newly-subscribed shares are registered under the Offeror, and after the lock-up period, the shares will be dealt with in accordance with relevant regulations of CSRC and Shenzhen Stock Exchange. However, under the permission of applicable laws, transfer among PAG's affiliated institutions will not be restricted.	Performance is being carried out now
Commitments made upon Material Asset Restructuring	Ping An Insurance (Group) Company of China, Ltd., the Bank	I. PAG made the following commitments when planning to subscribe for 1,638,336,654 NPO shares of SDB (this Material Asset Restructuring) with its holding of 90.75% of Ping An Bank's shares and RMB 2.6900523 billion cash: 1. PAG will act strictly in compliance with relevant rules and regulatory requirements to quickly launch the integration of Ping An Bank and SDB, implement necessary internal decision-making procedures and filing to regulatory authorities for their review and approval in order to complete the integration of two banks within one year. Due to uncertainties of regulatory approval, the specific time of the completion of the integration depends on factors such as the approval progress of regulatory authorities. PAG will actively communicate with relevant regulatory authorities to seek their approval and complete the integration as soon as possible. 2. PAG and its affiliated institutions shall not transfer all the shares owned by PAG and its affiliated institutions within 36 months from the date of the completion of this NPO. However, under the permission of applicable laws, the transfer among PAG's affiliated institutions (i.e. any party that has direct or	The commitment on integration of PAB and SDB has been performed on June 12, 2012. Other performance is being carried now

	<p>indirect control over PAG, is directly or indirectly controlled by PAG and is jointly controlled by other parties together with PAG) will not be restricted. After the expiration of the said duration, PAG can dispose such newly issued shares in accordance with relevant regulations of CSRC and Shenzhen Stock Exchange.</p> <p>3. In accordance with <i>Profit Forecast Compensation Agreement</i> signed between PAG and the Bank on September 14, 2010, PAG shall, within 3 years after this deal of asset purchase by share issue (“the compensation period”), prepare Ping An Bank’s pro forma net profit data (“realized profit”) within 4 months after each accounting year pursuant to PRC Accounting Standards for Business Enterprises and procure the accounting firm engaged by PAG to present special auditing opinions (the “special auditing opinions”) with regard to such realized profit as well as the difference between such realized profit and the corresponding forecast amount (the “difference amount”). According to such special auditing opinions, if the actual profit amount achieved in any year within the compensation period is lower than the corresponding profit forecast, PAG shall pay 90.75% of the difference between the said actual profit and the corresponding forecast amount (the “compensation amount”) to the Bank in terms of cash. PAG shall, within 20 business days after submission of the special auditing opinions for the current year, pay such amount in full to the Bank’s designated account.</p> <p>4. As to the two properties without ownership certification by Ping An Bank, PAG issued the <i>PAG Commitment Letter on Providing Compensation for Potential Dispute about Ownership of Ping An Bank’s Properties</i>. According to the commitment letter, PAG committed that if there is any dispute about the ownership of the above properties of Ping An Bank in the future, PAG will try its best to coordinate all parties, strive to settle disputes and avoid any adverse impact to normal operations of the bank. If the dispute of the property ownership causes additional cost to the abovementioned subordinate institutions or have their income declined, PAG promised to compensate the Bank by cash for the loss of profit derived as a result of handling the dispute of property ownership by PAB.</p> <p>On the basis of the above commitment letter, PAG makes the <i>Commitment letter of Ping An Insurance (Group) Company of China, Ltd. regarding the solutions to the properties with ownership defects of Ping An Bank Co., Ltd.</i>, which undertakes that: within three years after the completion of this transaction, if the Bank cannot process real estate certificate for the two properties and cannot properly dispose of those properties, then PAG will purchase at a fair and reasonable price, or designate a third party to purchase, those properties within three months upon the expiry of the three year period.</p> <p>5. After the completion of this Material Asset Restructuring and during the period when PAG acts as the controlling shareholder of SDB, in respect of similar businesses or business</p>	
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	<p>opportunities as SDB that are intended to be engaged by or substantially obtained by PAG and other companies controlled by PAG in the future, and that the assets and businesses formed by those businesses or business opportunities may cause potential peer competition with SDB, PAG and other companies controlled by PAG will not engage in businesses that are the same or similar to SDB, so as not to involve in direct or indirect competition in relation to SDB's business operations.</p> <p>6. After the completion of this Material Asset Restructuring, with regard to the related party transactions between PAG and other companies controlled by PAG and SDB, PAG will carry out the transactions with SDB under the principles of openness, fairness and justice of market transactions and in accordance with fair and reasonable market price, as well as implement decision-making procedures based on requirements of relevant laws, regulations and regulatory documents so as to fulfill its obligation of information disclosure according to the laws. PAG guarantees that PAG and other companies controlled by PAG would not acquire any illegal interests or make SDB assume any improper obligations through the transactions with SDB.</p> <p>7. After the completion of this Material Asset Restructuring and during the period when PAG acts as SDB's controlling shareholder, SDB's independence will be maintained so as to make sure SDB is independent to PAG and other companies controlled by PAG in terms of personnel, asset, finance, institution and business.</p> <p>II. Regarding the said two properties without ownership certificate of Ping An Bank, the Bank promises that after the completion of the deal:</p> <ol style="list-style-type: none"> 1. The Bank will proactively communicate with property ownership administrative authorities and relevant parties and try its best to get ownership certificate of the above two properties; 2. If there is substantial obstruction in obtaining the property ownership certificate, the Bank will dispose the above two properties through methods including but not limited to selling them within three years after the completion of the deal; 3. If the Bank fails to dispose the properties in the way mentioned in (2) within three years after the completion of the deal due to any reason, the Bank will sell the properties to PAG or a designated third party at a fair and reasonable price within three months after expiration of the time limit of three years; and 4. If there is any dispute about ownership before the properties are disposed, the Bank will ask PAG to compensate the Bank according to the <i>PAG Commitment Letter on Providing Compensation for Potential Dispute about Ownership of Ping</i> 	
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		<i>An Bank's Properties</i> issued by PAG.	
Commitments made upon share issuance	Ping An Life	Ping An Life made commitments not to transfer the 379,580,000 new shares acquired from SDB in NPO within 36 months from the completion of this subscription of shares (September 17, 2010), however, under the permission of the laws and approval of relevant regulatory authorities, the transfer between Ping An Life and its related parties (including the controlling shareholder, actual controller of Ping An Life and different subjects controlled by the same controller of Ping An Life) will not be restricted. If there are any selling deals against the said commitment, the Clearing Company-Shenzhen Branch will be delegated to transfer all the money from selling of the subscribed shares to SDB's listed company account and the money will be owned by all SDB shareholders.	Performance is being carried out now
Other commitments (including retrospective commitments)	-	-	-

IX. The Bank did not issue any bond during the reporting period.

X. Engagement of accounting firms

During the reporting period, the Bank engaged Ernst & Young Hua Ming for the auditing assignment of the Bank. In the first half of 2012, the Bank paid RMB 3.00 million to Ernst & Young Hua Ming as financial audit fees. In addition, RMB 550,000 agreed-upon procedures fees for the 1st quarter were paid. Travel expenses of the accounting firm were not reimbursed by the Bank.

Ernst & Young Hua Ming has provided services for the Bank for 5.5 years.

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

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

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

In the reporting period, the Bank conducted communication with institutions for many times in the manner of performance press conference, analyst meeting and investor investigation in respect of performance, financial status and other issues. The Bank also accepts inquiry by phone from individual investors. The contents mainly include: company operations and strategies, periodic report, interim announcements with illustration, and other business and management information and material events that could be disclosed legally. According to the requirement of *SSE Guidelines on Fair Information Disclosure of Listed Company*, the Bank and relevant information disclosure obligors strictly observe the principle of fair information disclosure, and there is no situation in violation of it.

Date	Location	Mode	Target Audience	Major Content and Information Disclosed
January 11, 2012	Shanghai	Investment bank meeting	UBS	Company Operations and Strategies
January 17, 2012	Shenzhen	Investor meeting	Bosera Funds	Company Operations and Strategies

January 20, 2012	Shenzhen	Telephone conference	Analysts and Investors	Merger through Absorption between SDB and PAB
March 9, 2012	Shenzhen	Investor meeting, telephone conference	Analysts and Investors	2011 Company Performance
March 19, 2012	Shenzhen, Shanghai	Roadshow	Analysts and Investors	2011 Annual Report Roadshow
March 20, 2012	Guangzhou, Beijing	Roadshow	Analysts and Investors	2011 Annual Report Roadshow
March 26, 2012	Shenzhen	Investor meeting	Credit Suisse Securities	Company Operations and Strategies
April 26, 2012	Shenzhen	Telephone conference	Analysts and Investors	2012 1Q Company Performance
May 3, 2012	Shenzhen	Investor meeting	CPIC Asset	Company Operations and Strategies
May 7, 2012	Shenzhen	Investor meeting	JP Morgan	Company Operations and Strategies
May 7, 2012	Shenzhen	Investor meeting	AshmoreEMM	Company Operations and Strategies
May 11, 2012	Shenzhen	Investor meeting	Haitong Securities, etc	Company Operations and Strategies
May 11, 2012	Anhui	Investment bank meeting	Changcheng Securities	Company Operations and Strategies
May 15, 2012	Shenzhen	Investor meeting	Zheshang Securities, Galaxy Securities	Company Operations and Strategies
May 15, 2012	Shenzhen	Investor meeting	Ping An Securities	Company Operations and Strategies
May 16, 2012	Shenzhen	Investor meeting	China Merchants Securities	Company Operations and Strategies
May 22, 2012	Shenzhen	Investor meeting	Shenyin & Wanguo, etc	Company Operations and Strategies
May 22, 2012	Shenzhen	Telephone conference	Falcon Edge	Company Operations and Strategies
May 24, 2012	Shenzhen	Investment bank meeting	Orient Securities, Citibank	Company Operations and Strategies
May 25, 2012	Shenzhen	Investor meeting	Changsheng Fund	Company Operations and Strategies
June 6, 2012	Hangzhou	Investment bank meeting	Credit Suisse	Company Operations and Strategies
June 8, 2012	Shenzhen	Investor meeting	Long Oar	Company Operations and Strategies
June 14, 2012	Zhengzhou	Investment bank meeting	Haitong Securities	Company Operations and Strategies
June 18, 2012	London	Investment bank meeting	HSBC	Company Operations and Strategies
June 21, 2012	Shenzhen	Investor meeting	Mizuho	Company Operations and Strategies
June 26, 2012	Shenzhen	Investor meeting	Founder Securities	Company Operations and Strategies

XIII. Index: Other Important Information for Disclosure

Events	Publication Date	Publication Media
Announcement of SDB on stock trading suspension due to	January 11, 2012	Securities Times, China

absorption merger deal		Securities Journal, Shanghai Securities Journal and Securities Daily as well as CN Info Net (www.cninfo.com.cn)
SDB Announcement on Progress of Absorption Merger	January 17, 2012	Same as above
Resolutions of the 11th Meeting of the 8th Board of Directors of SDB	January 20, 2012	Same as above
SDB Announcement on the Absorption Merger with the Controlling Subsidiary Ping An Bank Co., Ltd.	January 20, 2012	Same as above
SDB Documents for the first Extraordinary General Meeting in 2012	January 20, 2012	Same as above
SDB Preliminary Results Announcement for 2011	January 30, 2012	Same as above
SDB Reminding Announcement about Holding 2012 1st EGM	February 2, 2012	Same as above
Resolution Announcement of the 1st EGM in 2012 of SDB	February 10, 2012	Same as above
SDB Announcement to Creditors on Absorption Merger of the Controlled Subsidiary Ping An Bank Co., Ltd.	February 10, 2012	Same as above
Resolution Announcement of SDB 8th BoD 12th Session	March 9, 2012	Same as above
SDB Announcement about the Resolution of Board of Supervisors	March 9, 2012	Same as above
SDB 2011 Annual Report Summary	March 9, 2012	Same as above
Resolution Announcement of SDB 8th BoD 13th Session	March 21, 2012	Same as above
Resolution Announcement of SDB BoD 14th Session	April 26, 2012	Same as above
2012 First Quarter Report of Shenzhen Development Bank	April 26, 2012	Same as above
SDB Notice about Holding 2011 Annual Shareholders' Meeting	April 26, 2012	Same as above
Announcement about Proposal on ongoing day-to-day RPTs with PAG and other related parties	April 26, 2012	Same as above
SDB Announcement about the Resolution of Board of Supervisors	April 26, 2012	Same as above
SDB Announcement About CBRC Approval For Merger With PAB	April 27, 2012	Same as above
SDB Announcement on the Claim of PAB Shareholders to Stock Consideration and the Payment of Stock and Cash Consideration	May 5, 2012	Same as above
SDB Announcement on Issuance of the Appraisal Right of Dissenters for the Merger of PAB through Absorption	May 9, 2012	Same as above
SDB Announcement on Exercising the Appraisal Right of Dissenters for the Merger of PAB through Absorption	May 16, 2012	Same as above
SDB Reminder Announcement on Exercising the Appraisal Right of Dissenters for the Merger of PAB through Absorption	May 21, 2012	Same as above
SDB Reminder Announcement on Exercising the Appraisal Right of Dissenters for the Merger of PAB through Absorption	May 22, 2012	Same as above
SDB Reminder Announcement on Exercising the Appraisal Right of Dissenters for the Merger of PAB through Absorption	May 23, 2012	Same as above
SDB Announcement of the Resolutions Passed at 2011 Annual General Meeting of Shareholders	May 24, 2012	Same as above
SDB Reminder Announcement on Exercising the Appraisal Right of Dissenters for the Merger of PAB through Absorption	May 24, 2012	Same as above

SDB Reminder Announcement on Exercising the Appraisal Right of Dissenters for the Merger of PAB through Absorption	May 25, 2012	Same as above
SDB Announcement on Results of Exercising the Appraisal Right of Dissenters for the Merger of PAB through Absorption	May 29, 2012	Same as above
SDB Announcement about Resolution of 15th BoD Meeting	June 15, 2012	Same as above
Announcement about the progress of SDB Absorption of PAB	June 15, 2012	Same as above

XIV. Other Significant Events

On August 17, 2011, the seventh meeting of the 8th session of the Board of the Bank deliberated and approved relevant resolutions, including *SDB Resolution of Non-public Offering of Shares*.

On September 2, 2011, the Bank has deliberated and passed relevant resolutions such as *SDB Resolution of Non-public Offering of Shares*.

On August 15, 2012, the eighteen meeting of the 8th Board of the Bank has deliberated and passed relevant resolutions such as *PAB Resolution of Extension of the Effective Period for the Proposal on the Company's Non-public Offering of Shares*.

Such non-public offering resolution is pending to the approval by regulatory bodies, such as China Banking Regulatory Commission and China Securities Regulatory Commission.

For details, please refer to relevant announcements published by the Bank in Securities Times, China Securities Times, Shanghai Securities Post, Securities Daily and www.cnifo.com.cn.

Chapter 9 Financial Statements

Auditors' Report

Ernst & Young Hua Ming (2012) Shenzi No. 60438538_H03

To the shareholders of Ping An Bank Co., Limited

We have audited the accompanying financial statements of Ping An Bank Co., Ltd. (Formerly known as Shenzhen Development Bank Co., Ltd.), which comprise the consolidated and company balance sheets as at 30 June 2012, and the consolidated and company income statements, statements of changes in shareholders' equity and cash flow statements for the six-month period then ended and notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Auditors' Report (continued)

Ernst & Young Hua Ming (2012) Shenzi No. 60438538_H03

Opinion

In our opinion, the financial statements of Ping An Bank Co., Ltd. (Formerly known as Shenzhen Development Bank Co., Ltd.), have been prepared, in all material aspects, in accordance with Accounting Standards for Business Enterprises, and present fairly the consolidated and company financial position of Ping An Bank Co., Ltd. as of 30 June 2012 and the results of its operations and its cash flows for the six-month period then ended.

Ernst & Young Hua Ming (chop)

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

Beijing, the People's Republic of China

Chinese Certified Public Accountant: Chen Liquan
(signature and personal chop)

15 August 2012

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
CONSOLIDATED BALANCE SHEET
30 June 2012
(Expressed in thousands of Renminbi, unless otherwise stated)

	<u>Note IV</u>	<u>2012-6-30</u>	<u>2011-12-31</u>
ASSETS:			
Cash on hand and due from the Central Bank	1	180,414,435	160,635,236
Placements of deposits with other financial institutions	2	106,987,239	39,884,342
Funds loaned to other financial institutions	3	26,319,620	8,446,567
Financial assets at fair value through profit or loss	4	5,459,603	2,607,902
Derivative financial assets	5	802,983	810,577
Reverse repurchase agreements	6	117,195,402	34,303,887
Accounts receivable	7	123,109,583	170,589,011
Interest receivable	8	8,552,297	7,274,189
Loans and advances	9	671,075,508	610,075,336
Available-for-sale financial assets	10	80,229,512	78,383,526
Held-to-maturity investments	11	108,223,947	107,683,080
Receivables	12	37,103,700	13,732,100
Long term equity investments	13	535,796	539,294
Investment properties	14	253,732	262,791
Fixed assets	15	3,247,386	3,524,265
Intangible assets	16	5,785,049	5,989,731
Goodwill	17	7,568,304	7,568,304
Deferred tax assets	18	2,964,350	2,889,762
Other assets	19	4,794,405	2,977,044
TOTAL ASSETS		<u>1,490,622,851</u>	<u>1,258,176,944</u>

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
CONSOLIDATED BALANCE SHEET (continued)
30 June 2012
(Expressed in thousands of Renminbi, unless otherwise stated)

	<u>Note IV</u>	<u>2012-6-30</u>	<u>2011-12-31</u>
LIABILITIES:			
Due to the Central Bank		26,240,178	1,130,876
Placements of deposits from other financial institutions	21	323,726,121	155,409,777
Funds borrowed from other financial institutions	22	7,197,324	25,279,349
Financial liabilities at fair value through profit or loss		398,598	-
Derivative financial liabilities	5	731,589	732,418
Repurchase agreements	23	36,674,334	39,197,371
Customer deposits	24	949,577,975	850,845,147
Employee benefits payable	25	3,609,746	3,600,345
Tax payable	26	1,765,605	2,535,814
Accounts payable	27	26,310,276	70,560,734
Interest payable	28	10,439,829	9,913,661
Bonds payable	29	16,068,072	16,054,486
Provisions	30	86,597	112,246
Deferred tax liabilities	18	1,453,659	1,351,062
Other liabilities	31	6,520,338	6,073,074
TOTAL LIABILITIES		<u>1,410,800,241</u>	<u>1,182,796,360</u>
SHAREHOLDERS' EQUITY:			
Share capital	32	5,123,350	5,123,350
Capital reserve	33	41,288,034	41,537,746
Surplus reserve	34	2,830,459	2,830,459
General reserve	35	11,799,151	7,954,903
Unappropriated profit	36	18,781,616	15,864,379
Shareholders' equity attributable to the parent company		<u>79,822,610</u>	<u>73,310,837</u>
Non-controlling shareholders' equity		<u>-</u>	<u>2,069,747</u>
TOTAL SHAREHOLDERS' EQUITY		<u>79,822,610</u>	<u>75,380,584</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>1,490,622,851</u>	<u>1,258,176,944</u>

The financial statements have been signed by:

Legal representative	_____	President	_____	Chief financial officer	_____	Accounting manager	_____
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Company chop _____

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2012
(Expressed in thousands of Renminbi, unless otherwise stated)

	NoteIV	Jan-Jun 2012	Jan-Jun 2011 (Restated)
I. Operating income			
Interest income	37	37,226,844	19,540,461
Interest expense	37	(21,070,247)	(9,148,239)
Net interest income	37	<u>16,156,597</u>	<u>10,392,222</u>
Fee and commission income	38	3,099,716	1,330,035
Fee and commission expense	38	(320,426)	(142,398)
Net fee and commission income	38	<u>2,779,290</u>	<u>1,187,637</u>
Investment income	39	451,878	352,460
of which: Share of profits of associates		15,000	29,000
Gains or losses from changes in fair values of financial instruments	40	(11,358)	(7,865)
Net foreign exchange differences	41	183,621	151,671
Other operating income	42	<u>65,506</u>	<u>61,142</u>
Total operating income		<u>19,625,534</u>	<u>12,137,267</u>
II. Operating costs			
Business tax and surcharge	43	(1,735,666)	(953,092)
Business and administrative expenses	44	<u>(7,482,734)</u>	<u>(4,406,289)</u>
Total operating costs		<u>(9,218,400)</u>	<u>(5,359,381)</u>
III. Operating profit before impairment losses on assets		10,407,134	6,777,886
Impairment losses on assets	45	<u>(1,570,234)</u>	<u>(730,678)</u>
IV. Operating profit		8,836,900	6,047,208
Add: Non-operating income		58,738	39,257
Less: Non-operating expenses		<u>(16,989)</u>	<u>(23,305)</u>
V. Profit before tax		8,878,649	6,063,160
Less: Income tax expense	46	<u>(2,009,085)</u>	<u>(1,332,022)</u>
VI. Profit for the period		<u>6,869,564</u>	<u>4,731,138</u>
Net profit attributable to the parent company		6,761,485	4,731,138
Net profit attributable to non-controlling shareholders		108,079	-
VII. Earnings per share			
Basic earnings per share (Renminbi Yuan)	47	1.32	1.36
Diluted earnings per share (Renminbi Yuan)	47	1.32	1.36
VIII. Other comprehensive income for the period, net of tax	48	<u>262,515</u>	<u>(102,329)</u>
IX. Total comprehensive income for the period, net of tax		<u>7,132,079</u>	<u>4,628,809</u>
Total comprehensive income attributable to the parent company		7,005,732	4,628,809
Total comprehensive income attributable to non-controlling shareholders		126,347	-

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the six months ended 30 June 2012
(Expressed in thousands of Renminbi, unless otherwise stated)

		Shareholders' equity attributed to parent company									
	Note IV	Share capital	Capital reserve	Of which: Cumulative changes in fair value of available-for- sale financial assets	Of which: Revaluation surplus on owner-occupied properties transferred to investment properties	Surplus reserve	General reserve	Unappropriated profit	Subtotal	Non- controlling interest	Total equity
I.	As at 1 January 2012	5,123,350	41,537,746	204,151	-	2,830,459	7,954,903	15,864,379	73,310,837	2,069,747	75,380,584
II.	Movements in the period										
	(i) Profit for the period	-	-	-	-	-	-	6,761,485	6,761,485	108,079	6,869,564
	(ii) Other comprehensive income	48	244,247	244,247	-	-	-	-	244,247	18,268	262,515
	Subtotal of (i) and (ii)	-	244,247	244,247	-	-	-	6,761,485	7,005,732	126,347	7,132,079
	(iii) Capital injection from shareholders	-	-	-	-	-	-	-	-	-	-
	(iv) Acquisition of the subsidiary's non- controlling shareholders' equity	-	(493,959)	-	-	-	-	-	(493,959)	(2,196,094)	(2,690,053)
	(v) Profit appropriation										
	1. Appropriation to surplus reserve	36	-	-	-	-	-	-	-	-	-
	2. Appropriation to general reserve	36	-	-	-	-	3,844,248	(3,844,248)	-	-	-
III.	At 30 June 2012	<u>5,123,350</u>	<u>41,288,034</u>	<u>448,398</u>	<u>-</u>	<u>2,830,459</u>	<u>11,799,151</u>	<u>18,781,616</u>	<u>79,822,610</u>	<u>-</u>	<u>79,822,610</u>
I.	At 1 January 2011 (restated)	3,485,014	13,341,411	(132,761)	-	1,912,339	5,977,782	8,480,989	33,197,535	-	33,197,535
II.	Movements in the year										
	(i) Profit for the year	-	-	-	-	-	-	10,278,631	10,278,631	111,860	10,390,491
	(ii) Other comprehensive income	-	442,912	336,912	-	-	-	-	442,912	7,650	450,562
	Subtotal of (i) and (ii)	-	442,912	336,912	-	-	-	10,278,631	10,721,543	119,510	10,841,053
	(iii) Capital injection from shareholders	1,638,336	27,753,423	-	-	-	-	-	29,391,759	-	29,391,759
	(iv) Acquisition of a subsidiary	-	-	-	-	-	-	-	-	1,950,237	1,950,237
	(v) Profit appropriation										
	1. Appropriation to surplus reserve	36	-	-	-	918,120	-	(918,120)	-	-	-
	2. Appropriation to general reserve	36	-	-	-	-	1,977,121	(1,977,121)	-	-	-
III.	At 31 December 2011	<u>5,123,350</u>	<u>41,537,746</u>	<u>204,151</u>	<u>-</u>	<u>2,830,459</u>	<u>7,954,903</u>	<u>15,864,379</u>	<u>73,310,837</u>	<u>2,069,747</u>	<u>75,380,584</u>

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 June 2012
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note IV	Jan-Jun 2012	Jan-Jun 2011
I. CASH FLOWS FROM OPERATING ACTIVITIES			
Net increase in amounts due to the Central Bank		25,098,681	-
Net increase in customer deposits and placements of deposits from other financial institutions		267,049,171	108,033,842
Net increase in accounts payable		-	7,397,489
Net decrease in accounts receivable		47,479,429	-
Net decrease in funds loaned to other financial institutions		-	4,183
Cash receipts from interest and fee and commission income		32,258,776	14,272,630
Cash receipts relating to other operating activities	50	1,564,553	1,602,186
Subtotal of cash inflows from operating activities		<u>373,450,610</u>	<u>131,310,330</u>
Net increase in amounts due from the Central Bank and placements of deposits with other financial institutions		48,031,445	15,794,044
Net increase in funds loaned to other financial institutions		394,688	-
Net increase in reverse repurchase agreements		20,041,254	9,719,731
Net increase in accounts receivable		-	14,592,808
Net increase in loans and advances		60,889,908	40,384,311
Net decrease in amounts due to the Central Bank		-	739,006
Net decrease in funds loaned from other financial institutions		18,082,025	864,468
Net decrease in repurchase agreements		2,590,473	2,800,582
Net decrease in accounts payable		44,250,458	-
Cash payments for interest and fee and commission expenses		19,714,553	7,850,360
Cash payments for salaries and staff expenses		4,024,159	2,510,804
Cash payments for taxes		4,609,946	2,119,850
Cash payments relating to other operating activities	51	6,791,921	2,321,358
Subtotal of cash outflows from operating activities		<u>229,420,830</u>	<u>99,697,322</u>
Net cash flows generated from operating activities		<u>144,029,780</u>	<u>31,613,008</u>
II. CASH FLOWS FROM INVESTING ACTIVITIES			
Cash receipts from investments upon disposal/maturity		95,831,205	44,385,598
Cash receipts from investment income		5,235,395	1,657,190
Cash receipts from disposal of fixed assets		-	1,536
Subtotal of cash inflows from investing activities		<u>101,066,600</u>	<u>46,044,324</u>
Cash payments for investments		122,715,061	67,617,881
Cash payments for acquisition of subsidiary's non-controlling shareholders' equity		2,297,297	-
Cash payments for fixed assets, intangible assets, construction in progress and leasehold improvements		195,653	95,378
Subtotal of cash outflows from investing activities		<u>125,208,011</u>	<u>67,713,259</u>
Net cash flows used in investing activities		<u>(24,141,411)</u>	<u>(21,668,935)</u>

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
CONSOLIDATED CASH FLOW STATEMENT (continued)
For the six months ended 30 June 2012
(Expressed in thousands of Renminbi, unless otherwise stated)

	<u>Note IV</u>	<u>Jan-Jun 2012</u>	<u>Jan-Jun 2011</u>
III. CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from bond issue		-	3,650,000
Subtotal of cash inflows from financing activities		-	3,650,000
Cash payments for bond interest		883,063	465,075
Subtotal of cash outflows from financing activities		883,063	465,075
Net cash flows (used in)/generated from financing activities		(883,063)	3,184,925
IV. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		142,670	(39,109)
V. NET INCREASE IN CASH AND CASH EQUIVALENTS		119,147,976	13,089,889
Add: Cash and cash equivalents at beginning of the period		67,906,367	68,147,808
VI. CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	49	<u>187,054,343</u>	<u>81,237,697</u>

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
CONSOLIDATED CASH FLOW STATEMENT (continued)
For the six months ended 30 June 2012
(Expressed in thousands of Renminbi, unless otherwise stated)

SUPPLEMENTARY INFORMATION

	<u>Note IV</u>	<u>Jan-Jun 2012</u>	<u>Jan-Jun 2011</u>
1. Adjustment of profit for the period to cash flows generated from operating activities:			
Profit for the period		6,869,564	4,731,138
Impairment losses on assets		1,570,234	730,678
Interests related to unwinding of discounts of provisions for impaired financial assets		(84,680)	(37,043)
Depreciation of investment properties		7,073	3,323
Depreciation of fixed assets		259,767	177,115
Amortisation of intangible assets		220,409	31,196
Amortisation of long term deferred expenses		103,380	63,294
Losses on disposal of fixed assets		-	838
Losses from changes in fair values of financial instruments		11,358	7,865
Gains from changes in fair values foreign exchange derivative financial instruments		(1,776)	(30,359)
Interest on investment securities and investment income		(4,761,690)	(2,125,371)
Increase in deferred tax assets		(74,588)	(80,807)
Increase in deferred tax liabilities		8,971	6,083
Interest paid on bonds		500,702	329,456
Increase in operating receivables		(87,592,350)	(85,475,036)
Increase in operating payables		227,010,586	113,262,909
Charge/(reversal) in provisions		(17,180)	17,729
Net cash flows generated from operating activities		<u>144,029,780</u>	<u>31,613,008</u>
2. Net increase in cash and cash equivalents:			
Cash at end of the period	49	2,268,767	1,189,116
Less: Cash at beginning of the period		2,235,565	836,549
Add: Cash equivalents at end of the period	49	184,785,576	80,048,581
Less: Cash equivalents at beginning of the period		65,670,802	67,311,259
Net increase in cash and cash equivalents		<u>119,147,976</u>	<u>13,089,889</u>

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
 BALANCE SHEET
 30 June 2012
 (Expressed in thousands of Renminbi, unless otherwise stated)

	<u>Note V</u>	<u>2012-6-30</u>	<u>2011-12-31</u>
ASSETS:			
Cash on hand and due from the Central Bank	1	180,414,435	119,945,894
Placements of deposits with other financial institutions	2	106,987,239	15,346,333
Funds loaned to other financial institutions	3	26,319,620	6,017,091
Financial assets at fair value through profit or loss	4	5,459,603	2,512,660
Derivative financial assets	5	802,983	786,739
Reverse repurchase agreements	6	117,195,402	28,916,930
Accounts receivable	7	123,109,583	166,620,120
Interest receivable	8	8,552,297	5,563,972
Loans and advances	9	671,075,508	460,982,960
Available-for-sale financial assets	10	80,229,512	48,292,746
Held-to-maturity investments	11	108,223,947	83,640,331
Receivables	IV 12	37,103,700	13,732,100
Long term equity investments	12	535,796	27,216,181
Investment properties		253,732	212,523
Fixed assets		3,247,386	2,563,163
Intangible assets		5,785,049	261,016
Goodwill		7,568,304	-
Deferred tax assets		2,964,350	2,606,163
Other assets		4,794,405	2,583,553
TOTAL ASSETS		<u>1,490,622,851</u>	<u>987,800,475</u>

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
 BALANCE SHEET (continued)
 30 June 2012
 (Expressed in thousands of Renminbi, unless otherwise stated)

	<u>Note V</u>	<u>2012-6-30</u>	<u>2011-12-31</u>
LIABILITIES:			
Due to the Central Bank		26,240,178	861,233
Placements of deposits from other financial institutions	13	323,726,121	125,309,018
Funds borrowed from other financial institutions	14	7,197,324	24,470,000
Financial liabilities at fair value through profit or loss		398,598	-
Derivative financial liabilities	5	731,589	715,472
Repurchase agreements	15	36,674,334	27,707,200
Customer deposits	16	949,577,975	640,585,112
Employee benefits payable		3,609,746	2,972,260
Tax payable		1,765,605	2,085,106
Accounts payable	17	26,310,276	67,258,052
Interest payable		10,439,829	7,769,337
Bonds payable		16,068,072	13,130,234
Provisions		86,597	22,020
Deferred tax liabilities		1,453,659	65,737
Other liabilities		6,520,338	2,711,340
TOTAL LIABILITIES		<u>1,410,800,241</u>	<u>915,662,121</u>
SHAREHOLDERS' EQUITY:			
Share capital	IV 32	5,123,350	5,123,350
Capital reserve		41,033,760	41,462,697
Surplus reserve	IV 34	2,830,459	2,830,459
General reserve	IV 35	11,799,151	7,954,903
Unappropriated profit		19,035,890	14,766,945
TOTAL SHAREHOLDERS' EQUITY		<u>79,822,610</u>	<u>72,138,354</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>1,490,622,851</u>	<u>987,800,475</u>

The financial statements have been signed by:

Legal representative _____	President _____	Chief financial officer _____	Accounting manager _____
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Company chop _____

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
INCOME STATEMENT
For the six months ended 30 June 2012
(Expressed in thousands of Renminbi, unless otherwise stated)

	<u>Note V</u>	<u>Jan-Jun 2012</u>	<u>Jan-Jun 2011</u> (Restated)
I. Operating income			
Interest income	18	30,426,396	19,540,461
Interest expense	18	(17,554,043)	(9,148,239)
Net interest income	18	<u>12,872,353</u>	<u>10,392,222</u>
Fee and commission income	19	2,268,381	1,330,035
Fee and commission expense	19	(224,624)	(142,398)
Net fee and commission income	19	<u>2,043,757</u>	<u>1,187,637</u>
Investment income	20	2,861,292	352,460
of which: Share of profits of associates		15,000	29,000
Gains or losses from changes in fair values of financial instruments		(14,223)	(7,865)
Net foreign exchange differences		164,546	151,671
Other operating income		<u>60,971</u>	<u>61,142</u>
Total operating income		<u>17,988,696</u>	<u>12,137,267</u>
II. Operating costs			
Business tax and surcharge		(1,380,869)	(953,092)
Business and administrative expenses	21	<u>(5,587,288)</u>	<u>(4,406,289)</u>
Total operating costs		<u>(6,968,157)</u>	<u>(5,359,381)</u>
III. Operating profit before impairment losses on assets			
		11,020,539	6,777,886
Impairment losses on assets	22	<u>(1,326,841)</u>	<u>(730,678)</u>
IV. Operating profit			
		9,693,698	6,047,208
Add: Non-operating income		49,731	39,257
Less: Non-operating expenses		<u>(9,074)</u>	<u>(23,305)</u>
V. Profit before tax			
		9,734,355	6,063,160
Less: Income tax expense		<u>(1,621,162)</u>	<u>(1,332,022)</u>
VI. Profit for the period			
		<u>8,113,193</u>	<u>4,731,138</u>
VII. Other comprehensive income for the period, net of tax			
		<u>65,022</u>	<u>(102,329)</u>
VIII. Total comprehensive income for the period, net of tax			
		<u>8,178,215</u>	<u>4,628,809</u>

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 For the six months ended 30 June 2012
 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note IV	Share capital	Capital reserve	Of which: Cumulative changes in fair value of available- for-sale financial assets	Of which: Revaluation surplus on owner-occupied properties transferred to investment properties	Surplus reserve	General reserve	Unappropriated profit	Total
I. At 1 January 2012		5,123,350	41,462,697	129,102	-	2,830,459	7,954,903	14,766,945	72,138,354
II. Movements in the period									
(i) Profit for the period		-	-	-	-	-	-	8,113,193	8,113,193
(ii) Other comprehensive income		-	65,022	65,022	-	-	-	-	65,022
Subtotal of (i) and (ii)		-	65,022	65,022	-	-	-	8,113,193	8,178,215
(iii) Capital injection from shareholders		-	-	-	-	-	-	-	-
(iv) Absorption and merger of Former Ping An Bank and related deregistration		-	(493,959)	-	-	-	-	-	(493,959)
(v) Profit appropriation									
1. Appropriation to surplus reserve	36	-	-	-	-	-	-	-	-
2. Appropriation to general reserve	36	-	-	-	-	-	3,844,248	(3,844,248)	-
III. At 30 June 2012		5,123,350	41,033,760	194,124	-	2,830,459	11,799,151	19,035,890	79,822,610
I. At 1 January 2011(restated)		3,485,014	13,341,411	(132,761)	-	1,912,339	5,977,782	8,480,989	33,197,535
II. Movements in the year									
(i) Profit for the year		-	-	-	-	-	-	9,181,197	9,181,197
(ii) Other comprehensive income		-	367,863	261,863	-	-	-	-	367,863
Subtotal of (i) and (ii)		-	367,863	261,863	-	-	-	9,181,197	9,549,060
(iii) Capital injection from shareholders		1,638,336	27,753,423	-	-	-	-	-	29,391,759
(iv) Profit appropriation									
1. Appropriation to surplus reserve	36	-	-	-	-	918,120	-	(918,120)	-
2. Appropriation to general reserve	36	-	-	-	-	-	1,977,121	(1,977,121)	-
III. At 31 December 2011		5,123,350	41,462,697	129,102	-	2,830,459	7,954,903	14,766,945	72,138,354

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
CASH FLOW STATEMENT
For the six months ended 30 June 2012
(Expressed in thousands of Renminbi, unless otherwise stated)

	<u>Jan-Jun 2012</u>	<u>Jan-Jun 2011</u>
I. CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in amounts due to the Central Bank	25,368,345	-
Net increase in customer deposits and placements of deposits from other financial institutions	233,066,828	108,033,842
Net increase in repurchase agreements	7,429,698	-
Net increase in accounts payable	-	7,397,489
Net decrease in accounts receivable	47,456,894	-
Net decrease in funds loaned to other financial institutions	-	4,183
Cash receipts from interest and fee and commission income	25,983,642	14,272,630
Cash receipts relating to other operating activities	1,504,915	1,602,186
Subtotal of cash inflows from operating activities	<u>340,810,322</u>	<u>131,310,330</u>
Net increase in amounts due from the Central Bank and placements of deposits with other financial institutions	42,540,620	15,794,044
Net increase in funds loaned to other financial institutions	454,688	-
Net increase in reverse repurchase agreements	20,056,395	9,719,731
Net increase in accounts receivable	-	14,592,808
Net increase in loans and advances	53,456,443	40,384,311
Net decrease in amounts due to the Central Bank	-	739,006
Net decrease in funds borrowed from other financial institutions	17,695,772	864,468
Net decrease in repurchase agreements	-	2,800,582
Net decrease in accounts payable	41,451,231	-
Cash payments for interest and fee and commission expenses	16,475,528	7,850,360
Cash payments for salaries and staff expenses	3,113,991	2,510,804
Cash payments for taxes	3,679,054	2,119,850
Cash payments relating to other operating activities	3,195,220	2,321,358
Subtotal of cash outflows from operating activities	<u>202,118,942</u>	<u>99,697,322</u>
Net cash flows generated from operating activities	<u>138,691,380</u>	<u>31,613,008</u>
II. CASH FLOWS FROM INVESTING ACTIVITIES		
Cash receipts from investments upon disposal/maturity	94,599,933	44,385,598
Cash receipts from investment income	4,281,218	1,657,190
Cash receipts from disposal of fixed assets	-	1,536
Cash and cash equivalents of subsidiary receipts upon a acquisition	37,854,809	-
Subtotal of cash inflows from investing activities	<u>136,735,960</u>	<u>46,044,324</u>
Cash payments for investments	121,800,961	67,617,881
Cash payments for acquisition of subsidiary's non-controlling shareholders' equity	2,297,297	-
Cash payments for fixed assets, intangible assets, construction in progress and leasehold improvements	188,177	95,378
Subtotal of cash outflows from investing activities	<u>124,286,435</u>	<u>67,713,259</u>
Net cash flows generated from/(used in) investing activities	<u>12,449,525</u>	<u>(21,668,935)</u>

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
 CASH FLOW STATEMENT (continued)
 For the six months ended 30 June 2012
 (Expressed in thousands of Renminbi, unless otherwise stated)

	<u>Jan-Jun 2012</u>	<u>Jan-Jun 2011</u>
III. CASH FLOWS FROM FINANCING ACTIVITIES		
Cash receipts from bond issue	-	3,650,000
Subtotal of cash inflows from financing activities	<u>-</u>	<u>3,650,000</u>
Cash payments for bond interest	883,063	465,075
Subtotal of cash outflows from financing activities	<u>883,063</u>	<u>465,075</u>
Net cash flows (used in)/generated from financing activities	<u>(883,063)</u>	<u>3,184,925</u>
IV. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>124,772</u>	<u>(39,109)</u>
V. NET INCREASE IN CASH AND CASH EQUIVALENTS	150,382,614	13,089,889
Add: Cash and cash equivalents at beginning of the period	<u>36,671,729</u>	<u>68,147,808</u>
VI. CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>187,054,343</u></u>	<u><u>81,237,697</u></u>

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
 CASH FLOW STATEMENT (continued)
 For the six months ended 30 June 2012
 (Expressed in thousands of Renminbi, unless otherwise stated)

SUPPLEMENTARY INFORMATION

	<u>Jan-Jun 2012</u>	<u>Jan-Jun 2011</u>
1. Adjustment of profit for the period to cash flows generated from operating activities:		
Profit for the period	8,113,193	4,731,138
Impairment losses on assets	1,326,841	730,678
Interests related to unwinding of discounts of provisions for impaired financial assets	(83,232)	(37,043)
Depreciation of investment properties	6,855	3,323
Depreciation of fixed assets	195,323	177,115
Amortisation of intangible assets	68,931	31,196
Amortisation of long term deferred expenses	75,612	63,294
Losses on disposal of fixed assets	-	838
Losses from changes in fair values of financial instruments	14,223	7,865
Gains from changes in fair values foreign exchange derivative financial instruments	(1,776)	(30,359)
Interest on investment securities and investment income	(6,193,501)	(2,125,371)
Increase in deferred tax assets	(103,342)	(80,807)
Increase in deferred tax liabilities	8,971	6,083
Interest paid on bonds	434,343	329,456
Increase in operating receivables	(74,024,321)	(85,475,036)
Increase in operating payables	208,870,440	113,262,909
Charge/(reversal) in provisions	(17,180)	17,729
Net cash flows generated from operating activities	<u>138,691,380</u>	<u>31,613,008</u>
2. Net increase in cash and cash equivalents:		
Cash at end of the period	2,268,767	1,189,116
Less: Cash at beginning of the period	1,320,700	836,549
Add: Cash equivalents at end of the period	184,785,576	80,048,581
Less: Cash equivalents at beginning of the period	35,351,029	67,311,259
Net increase in cash and cash equivalents	<u>150,382,614</u>	<u>13,089,889</u>

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
NOTES TO THE FINANCIAL STATEMENTS
30 June 2012
(Expressed in thousands of Renminbi, unless otherwise stated)

I. GENERAL INFORMATION

Ping An Bank Co., Ltd. (Formerly known as Shenzhen Development Bank Co., Ltd.) (hereafter referred to as 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.

Board resolutions on the absorption and merger of Former Ping An Bank Company Limited (hereafter referred to as “Former Ping An Bank”) by the Company and the absorption and merger agreement be signed between the Company and Former Ping An Bank were approved during the first extraordinary general meeting held on 9 February 2012. The absorption and merger plan had been approved by the China Banking and Regulatory Commission in accordance with “China Banking and Regulatory Commission's Approval of absorption of Ping An Bank Co., Ltd by Shenzhen Development Bank Co., Ltd” (Yin Jian Fu [2012] No.192). On 12 June 2012 Shenzhen Market Supervision and Management Bureau approved the Former Ping An Bank’s deregistration application. After deregistration of Former Ping An Bank, its branches have become the Company’s branches. The Company is the surviving company and shall in accordance with laws inherit all assets, liabilities, certificates, licenses, businesses, personnel and all rights and obligations of Former Ping An Bank.

The registered office of the Company is located at No. 5047, Shennan Road East, Luohu District, Shenzhen, Guangdong Province, the PRC. Headquartered in Shenzhen, the Company operates its business in Mainland China. The institution number of the Company on the 00386413 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 and its subsidiary (collectively the “Group”) are principally engaged in authorised commercial and retail banking activities in Mainland China.

The financial statements were approved and authorised for issue by the board of directors on 15 August 2012.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Basis of preparation

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

The financial statements are prepared on a going concern basis.

2. Statement of compliance

The financial statements have been prepared in accordance with ASBEs and present fairly the financial position of the Group and the Company as at 30 June 2012 and the results of its operation and its cash flows for the six-month period ended 30 June 2012.

3. Accounting year

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

4. Functional currency

The Group’s functional and presentation currency is Renminbi (“RMB”). Unless otherwise stated, the values are rounded to the nearest thousand of Renminbi.

5. Basis of accounting and measurement

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

6. Business combination and goodwill

Business combination refers to a transaction or event bringing together two or more separate enterprises into one reporting entity. Business combinations are classified into the business combination under common control and the business combination not under common control.

Business combination under common control

Business combination under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or the same parties both before and after the business combination and on which the control is not temporary. In a business combination under common control, the party which obtains control of other combining enterprise(s) on the combining date is the combining party, the other combining enterprise(s) is (are) the combined party. The "combining date" refers to the date on which the combining party actually obtains control on the combined party.

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

6. Business combination and goodwill (continued)

The assets and liabilities that the combining party obtains in a business combination shall be measured on the basis of their carrying amount in the combined party on the combining date. As for the balance between the carrying amount of the net assets obtained by the combining party and the carrying amount of the consideration paid by it (or the total par value of the shares issued), the additional paid-in capital shall be adjusted. If the additional paid-in capital is not sufficient to be offset, the retained earnings shall be adjusted.

Business combination not under common control

Business combination not under common control is a business combination in which the combining enterprises are not ultimately controlled by the same party or the same parties both before and after the business combination. In a business combination not under common control, the party which obtains the control on other combining enterprise(s) on the acquisition date is the acquirer, and other combining enterprise(s) is (are) the acquiree. The "acquisition date" refers to the date on which the acquirer actually obtains the control on the acquiree.

For the business combination not under common control, the acquirer shall, on the acquisition date, measure the identifiable assets, liabilities and contingent liabilities it obtain from the acquirer in light of their fair values.

The acquirer shall recognise the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as goodwill. The goodwill upon initial measurement shall be measured on the basis of its costs minus the accumulative impairment provisions. The acquirer shall, pursuant to the following provisions, treat the balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree: (a) It shall re-examine the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities it obtains from the acquiree as well as the combination costs; (b) If, after the re-examination, the combination costs are still less than the fair value of the identifiable net assets it obtains from the acquiree, it shall record the balance into profit or loss for the current period.

7. Consolidated financial statements

Consolidated financial statements are prepared on the basis of control existence. The scope of consolidated financial statements shall include financial statements of the Company and all its subsidiaries by 30 June 2012. A subsidiary is an enterprise or a special vehicle, that is controlled by the Company.

A subsidiary shall adopt the uniform accounting year and accounting policies with the Company when preparing the consolidated financial statements. Profits and losses, balances and dividends resulting from intra-group transactions that are recognised in assets are eliminated in full.

Non-controlling interests are debited by the excess, if any, of the loss attributable to non-controlling shareholders over their share of the net fair value of the subsidiary's identifiable assets and liabilities where they are able and obliged to contribute to the excess; the excess is otherwise attributable to the Company.

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

7. Consolidated financial statements (continued)

For a subsidiary acquired from business combination not under common control, the operating results and cash flows of the acquiree should be consolidated from the date that the company's control takes place to the date that the control is terminated. It shall adjust the subsidiary's financial statements on the basis of the fair values, at the acquisition date, of its identifiable assets, liabilities and contingent liabilities, when consolidated financial statements are prepared.

For a subsidiary acquired from business combination under common control, the operating results and cash flows of the acquiree shall be consolidated from the beginning of the period. When preparing for the comparative financial figures, the prior year's financial statements are adjusted so that the acquiree is deemed as the reporting entity has been in existence to the ultimate acquiree in a business combination.

8. Separate financial statements of the parent company

The parent company acquires assets and liabilities (including intangible assets and goodwill) of its subsidiary through absorption and merger. The carrying amounts of the assets and liabilities recorded at the consolidated financial statements of the Group and the related carrying amounts at the date of absorption and merger are recorded in the parent company's separate financial statements. The difference between the original long term equity investment recorded in the parent company and assets and liabilities acquired from the subsidiary is recognised in profit and loss in the parent company's separate financial statements.

9. Foreign currency translation

The Group 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".

10. Reverse repurchase and repurchase agreements

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

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

10. Reverse repurchase and repurchase agreements (continued)

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

11. Financial assets

The Group 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 as 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 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 are managed and their performance is evaluated on a fair value basis, and the information about the group is reported on that basis to the Group’s key management personnel. Formal documentation has been prepared with respect to such risk management or investment strategy.
- (iii) a hybrid instrument embedded with derivatives, unless the embedded derivative does not significantly modify the cash flows of the hybrid instrument, or it is clear that a separation of the hybrid instrument from the embedded derivative is prohibited.
- (iv) the hybrid instrument is embedded with derivatives which are required to be separately accounted for but where it is impossible to make an independent measurement when it is obtained or subsequently on the balance sheet date.

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

11. Financial assets (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity date that the Group 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 Group has, during the current financial period, sold or reclassified (to available-for-sale financial assets) items of held-to-maturity investments, whose amount is significant in relation to the total amount of the held-to-maturity investments before the sale or reclassification, the Group shall reclassify the remaining portion of the held-to-maturity investments as available-for-sale investments, and the Group 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 Group 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 Group's control and is non-recurring and could not have been reasonably anticipated by the Group.

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 Group 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.

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

11. Financial assets (continued)

Available-for-sale financial assets

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

12. 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 occurred after the initial recognition of those assets (an incurred "loss event") and whether that loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and the situation where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

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

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

12. Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

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

Financial assets carried at cost

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

According to the Accounting Standards for Business Enterprises No.2 – Long term Equity Investments, the impairment of a long term equity investment which is measured by employing the cost method as prescribed in these standards, for which there is no offer in the active market and of which the fair value cannot be reliably measured, its impairment shall be disposed of in accordance with the above principle.

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 losses that is removed from owners' equity shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement.

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

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

13. Financial liabilities

The Group 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 Group 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 Group 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 Group’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.

14. Recognition and derecognition of financial instruments

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

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

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

Transfer of financial assets

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

- (i) the Group transfers the contractual rights to receive the cash flows of the financial asset to another party; or

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

14. Recognition and derecognition of financial instruments (continued)

Transfer of financial assets (continued)

- (ii) the Group 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 Group'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 Group 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 Group 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 Group has an obligation to remit any cash flows it collects on behalf of the eventual recipient(s) without material delay. In addition, the Group 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 Group transfers substantially all the risks and rewards of ownership of a financial asset to the transferee, the financial asset is derecognised. When the Group retains substantially all the risks and rewards of ownership of a financial asset, the financial asset is not derecognised.

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

Financial liabilities

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

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

15. 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 Group'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.

16. Long term equity investments

Long term equity investments include the investments in subsidiaries and associates, which also include those equity investments in investees whereas there are no control, joint control, and significant influences as well as there are no active market price quotes and their fair values cannot be reliably measured.

A long term equity investment is measured initially at its investment cost. For the business combination under common control, it shall, on the date of merger, regard the share of the carrying value of the shareholders' equity of the acquiree as the initial cost of the long-term equity investment. For the business combination under common control, the acquiree shall, on the date of merger, regard the merger costs ascertained as the initial cost of the long term equity investment. Besides the long term equity investments formed by the merger of enterprises, the initial cost of a long term equity investment obtained by other means shall be ascertained in accordance with the provisions as follows: (1) The initial cost of a long term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid. The initial cost consists of the expenses directly relevant to the obtainment of the long term equity investment, taxes and other necessary expenses. (2) The initial cost of a long term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued. (3) The initial cost of a long term equity investment of an investor shall be the value stipulated in the investment contract or agreement except the unfair value stipulated in the contract or agreement.

A long term equity investment shall be measured by employing the cost method that the Group does not have joint control or does not have significant influences on the invested entity, and which has no quoted price in the active market and its fair value cannot be reliably measured. A long term equity investment shall be measured by employing the cost method that the Company is able to control the invested enterprise. The term "control" refers to the power to determine the financial and operating policies of an enterprise and obtain benefits from its operating activities of the enterprise.

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

16. Long term equity investments (continued)

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

When the Group can exercise joint control or significant influence over the investee, a long term equity investment is accounted for using the equity method. Joint control refers to the control over an economic activity in accordance with the contracts and agreements, which does not exist unless the investing parties unanimously agree to share the power upon the important financial and operating strategies pertaining to a particular economic activity. Significant control refers to the power to participate in the decision making of the financial and operating strategies of the enterprise, but cannot control or jointly control the implementation of these strategies.

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. After an investing enterprise obtains a long term equity investment, it shall, in accordance with the attributable share of the net profits or losses of the invested entity, recognise the investment profits or losses and adjust the book value of the long term equity investment. The investing enterprise shall, in the light of the profits or cash dividends declared to distribute by the invested entity, calculate the proportion it shall obtain, and shall reduce the book value of the long term equity investment correspondingly. 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 shareholders' equity.

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, is transferred to the income statement in "Investment income" on a pro-rata basis according to the proportion disposed of.

For the method of long term equity investments in subsidiaries and associates impairment test and impairment provision, please refer to Note II.22. For the method of impairment test and impairment provision which there is no offer in the active market and of which the fair value cannot be reliably measured, refer to Note II.12.

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

17. Investment properties

Investment properties are properties held to earn rentals or for capital appreciation or both. The investment properties of the Group are buildings that are leased out. No investment properties shall be recognised, unless the economic benefits pertinent to these investment properties are likely to flow into the Group and the cost of them can be reliably measured.

The initial measurement of the investment properties shall be made at cost, and shall make a follow-up measurement to the investment properties through the cost pattern on the date of the balance sheet. Depreciation of investment properties is calculated using the straight-line method.

	Useful life	Estimated net residual value	Annual depreciation rate
Properties and buildings	15-35 years	1%-5%	2.7%-6.6%

18. Fixed assets and accumulated depreciation

(i) Recognition of fixed assets

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

Subsequent expenditures incurred for a fixed asset that meet the above conditions are included in the cost of the fixed asset and the carrying amount of the parts that are replaced is derecognised. Otherwise, subsequent expenditures are recognised in the income statement in the period in which they are incurred.

(ii) Measurement and depreciation of fixed assets

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

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

18. Fixed assets and accumulated depreciation (continued)

(ii) Measurement and depreciation of fixed assets (continued)

Depreciation is calculated using the straight-line method. The Group 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			
Including: Properties and buildings	15-35 years	1%-5%	2.7%-6.6%
Including: Owner-occupied property improvements	5 or 10 years	-	20.0% or 10.0%
Transportation vehicles	5-8 years	3%-5%	11.8%-19.4%
Office facilities	3-10 years	1%-5%	9.5% -33.0%

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

19. Construction in progress

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

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

20. Intangible assets

Intangible asset refers to the identifiable non-monetary assets possessed or controlled by the Group which have no physical shape.

An intangible asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. As for any intangible asset acquired in a combination, if its fair value can be measured reliably, it shall be separately recognised as an intangible asset and shall be measured in light of its fair value. The Group 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 Group.

An intangible asset with definite useful life is amortised over its useful life with the straight-line method.

	Useful life	Annual depreciation rate
Software and others	3-5 years	20%-33%
Core deposits	20 years	5%

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

20. Intangible assets (continued)

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.

Expenditure incurred for an internal research and development project is recorded as expenditure on the research phase and development phase by the Group, respectively. Expenditure on the research phase is recognized in profit or loss in the period in which it is incurred. Expenditure on the development phase is recognised as an intangible asset only when the Group can demonstrate all of the following:

- (i) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (ii) The intention to complete the intangible asset and use or sell it;
- (iii) How the intangible asset will generate economic benefits. Among other things, the enterprise can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- (iv) The availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset;
- (v) Its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Expenditure on the development phase which does not meet all of the above conditions is recognised in profit or loss in the period in which it is incurred.

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

21. 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 include 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 or loss for the period.

22. Impairment of assets

For assets excluding financial assets, long-term equity investment for which there is no quoted price in the active market and whose fair value cannot be reliably measured, and repossessed assets, the Group assesses impairment of assets as follows:

At each balance sheet date, the Group 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. No matter whether there is any sign of possible assets impairment, the goodwill formed by the business combination and intangible assets with uncertain service lives 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. The Group estimates the recoverable amount of an asset on an individual basis.

Where the measurement result of the recoverable amount indicates that an asset's recoverable amount is lower than its carrying value, the carrying value of the asset shall be recorded down to the recoverable amount, and the reduced amount shall be recognised as the loss of asset impairment and be recorded as profit or loss for the current period. Simultaneously, a provision for asset impairment shall be made accordingly.

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

22. Impairment of assets (continued)

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is so allocated shall not be larger than an operating segment as defined by the Group.

When making an impairment test on the relevant asset groups or combination of asset groups including goodwill, whenever there is an indication that the unit may be impaired, impairment loss shall be recognized by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount. Then the Group shall make an impairment test of the asset groups or combinations of asset groups by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount is lower than its carrying value, the amount of the impairment loss shall be allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

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

23. 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".

24. Recognition of income and expense

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

Interest income and interest expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available for sale and held for trading, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial instrument. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not the future credit losses.

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

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

24. Recognition of income and expense (continued)

Fee and commission income

The Group 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:

(vi) 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.

(vii) 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 Group 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 shareholders' right to receive the payment is established.

25. Income tax

Income tax comprises current and deferred income tax. Except for 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.

Current income tax

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

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

Deferred tax

Deferred tax is provided using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts, as well as on temporary difference arising from the tax bases and carrying amount that have not recognised as an asset or liability on the balance sheet but can be determined as the tax calculation basis.

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

25. Income tax (continued)

Deferred tax (continued)

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

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

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

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

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

At the balance sheet date, the Group reviews the carrying amount of a deferred tax asset. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available in future periods to allow the benefit of the deferred tax asset to be utilised. At the balance sheet date, deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow part or full of the deferred tax assets to be recovered.

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

26. 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 Group.

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

26. Employee benefits (continued)

Defined contribution plans

According to the statutory requirements in Mainland China, the Group is required to make contributions to the pension and insurance schemes that are separately administered by the local government authorities which are recognized in profit or loss for the period as incurred. In addition, the Group 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 Group, and contributions paid by the Group are recognized in profit or loss for the period as incurred.

Retirement welfare plan

Certain employees of the Group in Mainland China can enjoy the retirement welfare plan. 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 Group 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.

27. Definition of cash equivalents

Cash equivalents are short term, highly liquid monetary assets held by the Group 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.

28. Related parties

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

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

29. Fiduciary activities

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

Entrusted loans granted by the Group on behalf of third-party lenders are recorded as off-balance sheet items. The Group acts as an agent and grants such entrusted loans to borrowers under the direction of the third-party lenders who fund these loans. The Group 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 Group 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.

30. 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 recognised 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.

31. 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.

32. 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 Group;

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

32. Provisions (continued)

- (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 Group 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.

33. 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 Group 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.

34. Offsetting

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

35. 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.

36. Debts restructuring

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

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

36. Debts restructuring (continued)

As a creditor

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

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

37. Significant accounting judgements and estimates

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

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

37. Significant accounting judgements and estimates (continued)

(ii) Impairment losses of loans and advances

The Group 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 Group 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 Group to estimate the future tax treatment of certain transactions. The Group 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 Group 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 Group'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 Group 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.

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

37. Significant accounting judgements and estimates (continued)

(vi) Impairment of goodwill

The goodwill shall be subject to an impairment test at least at each year end. When an enterprise makes an impairment test of assets, it shall, as of the purchasing day, apportion the carrying value of the goodwill formed by merger of enterprises to the relevant asset groups by a reasonable method.

38. Taxes

Major taxes and related tax rates applicable to the Group are as follows:

<u>Tax</u>	<u>Basis of tax assessment</u>	<u>Tax rate</u>
Business Tax	Business income (not including interest income from transactions with financial institutions)	5%
City Maintenance and Construction Tax	Amount of business tax	1% to 7%
Corporate Income Tax	Amount of taxable income	25%

PING AN BANK CO., LTD. (FORMERLY KNOWN AS SHENZHEN DEVELOPMENT BANK CO., LTD.)
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 30 June 2012
 (Expressed in thousands of Renminbi, unless otherwise stated)

III. THE SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

1. Subsidiary situation

The following subsidiary has been included within the scope of the consolidated financial statements of the Group:

	Registered capital	Company investment	Place of registration	Legal representative	Nature of business	Organisation code
Subsidiary acquired through business combinations not under common control						
Former Ping An Bank	RMB8.6 billion	RMB8.6 billion	Shenzhen	Jianyi Sun	Banking	19236558-0

Note: During the current period, the Company purchased 9.25% share capital held by the non-controlling shareholders of Former Ping An Bank in the forms of cash and shares of the company purchased from the secondary market. On 12 June 2012, the Company held 100% shareholding and voting rights of Former Ping An Bank (31 December 2011: 90.75%). Former Ping An Bank was merged into the Company on 12 June 2012 and completed its deregistration application.

2. The absorption and merger during the current period

Key assets merged		Key liabilities merged	
Items	Amount	Items	Amount
Cash on hand and due from the Central Bank	45,974,705	Amounts due to other financial institutions	53,571,003
Amounts due from other financial institutions and Funds loaned to other financial institutions	37,422,417	Funds borrowed from other financial institutions	423,095
Loans and advances	156,372,478	Assets sold under agreements to repurchase	1,470,000
Available-for-sale financial assets	30,375,622	Customer deposits	220,802,290
Held-to-maturity investments	23,823,465	Accounts payable	503,455
Intangible assets	5,583,625	Bonds payable	2,961,950
Other assets	9,683,484	Other liabilities	5,762,460
Total assets	<u>309,235,796</u>	Total liabilities	<u>285,494,253</u>

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IV. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash on hand and due from the Central Bank

	2012-6-30	2011-12-31
Cash on hand	2,268,767	2,235,565
Statutory reserve with the Central Bank - RMB	152,759,703	136,225,688
Statutory reserve with the Central Bank - foreign currency	1,697,125	651,457
Unrestricted balance with the Central Bank	22,624,839	21,335,563
Other deposits with the Central Bank - fiscal deposits	1,064,001	186,963
Total	180,414,435	160,635,236

Based on the related RMB and foreign currency deposits, the Group 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 Group's daily operations.

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

2. Placements of deposits with other financial institutions

Analysed by location and counterparty

	2012-6-30	2011-12-31
Domestic banks	100,849,424	36,361,505
Other domestic financial institutions	151,343	66,963
Overseas banks	6,027,455	3,496,787
Subtotal	107,028,222	39,925,255
Less: Impairment provision (Note IV.20)	(40,983)	(40,913)
Total	106,987,239	39,884,342

As at 30 June 2012, included in this total amount of placements of deposits with other financial institutions was an amount of RMB31,520 thousand (31 December 2011: RMB31,520 thousand) of impaired assets.

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

3. Funds loaned to other financial institutions

Analysed by location and counterparty

	2012-6-30	2011-12-31
Domestic banks	7,478,236	4,436,806
Other domestic financial institutions	1,827,190	1,373,997
Overseas banks	17,038,619	2,660,022
Subtotal	26,344,045	8,470,825
Less: Impairment provision (Note IV.20)	(24,425)	(24,258)
Total	26,319,620	8,446,567

As at 30 June 2012, included in this total amount of loans funded to other financial institutions was an amount of RMB27,190 thousand (31 December 2011: RMB26,997 thousand) impaired assets.

4. Financial assets at fair value through profit or loss

	2012-6-30	2011-12-31
Bonds held for trading (bond investments analysed by issuer)		
Governments	-	102,038
The Central Bank	555,745	187,197
Policy banks	2,148,921	1,965,852
Other banks and non-bank financial institutions	60,874	57,603
Corporations	2,295,465	295,212
Total Bonds held for trading	5,061,005	2,607,902
Precious metals	398,598	-
Total	5,459,603	2,607,902

As at 30 June 2012, no bond investments that had been pledged for repurchase agreements(31 December 2011: RMB370,587).

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5. Derivative financial instruments

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

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group 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 balance sheet date, the Group has positions in the following types of derivatives:

	Notional amounts with remaining lives of				Fair value	
	Up to 3 months	3 months to 1 year	1 to 5 years	Total	Assets	Liabilities
<u>2012-6-30</u>						
Foreign exchange derivative instruments:						
Forward foreign exchange contracts	81,791,664	91,322,855	3,491,009	176,605,528	615,352	(535,136)
Interest rate derivative instruments:						
Interest rate swap contracts	3,140,000	10,232,372	13,564,373	26,936,745	187,529	(196,437)
Others	9,727	-	-	9,727	102	(16)
Total	<u>84,941,391</u>	<u>101,555,227</u>	<u>17,055,382</u>	<u>203,552,000</u>	<u>802,983</u>	<u>(731,589)</u>

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5. Derivative financial instruments (continued)

2011-12-31	Notional amounts with remaining lives of				Fair value	
	Up to 3 months	3 months to 1 year	1 to 5 years	Total	Assets	Liabilities
Foreign exchange derivative instruments:						
Forward foreign exchange contracts	53,345,202	55,451,436	755,184	109,551,822	660,960	(582,520)
Interest rate derivative instruments:						
Interest rate swap contracts	127,600	4,984,780	8,143,660	13,256,040	149,617	(149,898)
Total	53,472,802	60,436,216	8,898,844	122,807,862	810,577	(732,418)

As at 30 June 2012 and 31 December 2011, no derivatives were designated as hedging instruments.

6. Reverse repurchase agreements

(a) Analysed by counterparty

	2012-6-30	2011-12-31
Banks	114,191,719	30,730,464
Non-bank financial institutions	3,038,683	3,608,423
Subtotal	117,230,402	34,338,887
Less: Impairment provision (Note IV.20)	(35,000)	(35,000)
Total	117,195,402	34,303,887

As at 30 June 2012, included in this total amount of reverse repurchase agreements was an amount of RMB47,046 thousand (31 December 2011: RMB47,046 thousand) of impaired assets.

(b) Analysed by collateral

	2012-6-30	2011-12-31
Securities	1,937,046	5,230,046
Bills	80,141,534	27,962,678
Beneficial right of trust	35,012,975	-
Receivables under finance leases	138,847	1,146,163
Subtotal	117,230,402	34,338,887
Less: Impairment provision (Note IV.20)	(35,000)	(35,000)
Total	117,195,402	34,303,887

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6. Reverse repurchase agreements (continued)

(c) Fair value of collateral

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

	2012-6-30		2011-12-31	
	Amount of reverse repurchase agreements	Fair value of Collateral	Amount of reverse repurchase agreements	Fair value of Collateral
Bills	56,930,050	56,930,050	25,730,474	25,730,474

As at 30 June 2012, included in the above fair value of collateral were bills of RMB 3,374,530 thousand (31 December 2011: RMB400,007 thousand) that had been re-pledged and the Group had an obligation to return such collateral.

7. Accounts receivable

	2012-6-30	2011-12-31
Receivables with respect to making payments on behalf of customers (Note)	31,204,316	74,126,195
Receivables under factoring	7,114,329	7,758,628
Receivables with respect to making payments on behalf of other banks	84,646,109	88,481,105
Others	144,829	223,083
Total	123,109,583	170,589,011

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 Group or other banks in accordance with the terms of agreements signed with the customers. In connection with this, the payments made by other banks are correspondingly recorded in "Accounts payable".

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8. Interest receivable

<u>Jan-Jun 2012</u>	Balance at beginning of the period	Increase during the period	Collection during the period	Balance at end of the period	
Interest receivable on bond investments and wealth management products	2,695,571	6,445,241	(5,606,401)	3,534,411	
Interest receivable on loans and amounts due from other financial institutions	4,578,618	29,566,626	(29,127,358)	5,017,886	
Total	7,274,189	36,011,867	(34,733,759)	8,552,297	
<u>Jan-Dec 2011</u>	Balance at beginning of the year	Acquisition of a subsidiary	Increase during the year	Collection during the year	Balance at end of the year
Interest receivable on bond investments and wealth management products	1,230,980	770,632	7,819,218	(7,125,259)	2,695,571
Interest receivable on loans and amounts due from other financial institutions	890,507	646,302	38,304,390	(35,262,581)	4,578,618
Total	2,121,487	1,416,934	46,123,608	(42,387,840)	7,274,189

As at 30 June 2012, included in the interest receivable was an amount of RMB78,109 thousand (31 December 2011: RMB51,368 thousand) that is past due. Such interest receivable is related to interest income on loans and is aged within 90 days.

9. Loans and advances

9.1 Analysed by corporation and individual

	<u>2012-6-30</u>	<u>2011-12-31</u>
Loans and advances to corporations:		
Loans	449,564,249	413,022,705
Discounted bills	35,663,835	17,682,902
Subtotal	485,228,084	430,705,607
Loans and advances to individuals:		
Credit cards	30,628,221	24,709,727
Property mortgages	133,752,212	140,782,827
Others	33,297,013	24,443,656
Subtotal	197,677,446	189,936,210
Total loans and advances	682,905,530	620,641,817
Less: Loan impairment provision (Note IV.9.6)	(11,830,022)	(10,566,481)
Loans and advances, net	671,075,508	610,075,336

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9. Loans and advances (continued)

9.1 Analysed by corporation and individual (continued)

As at 30 June 2012, there were RMB384,779 thousand discounted bills (31 December 2011: RMB715,656 thousand) that had been pledged for amounts due to the Central Bank.

In addition, as at 30 June 2012, the Group transferred out (without recourse) discounted bills amounting to RMB172,684,747 thousand (31 December 2011: RMB23,382,911 thousand) that had not yet matured at period end.

9.2 Analysed by industry

	2012-6-30	2011-12-31
Agriculture, husbandry and fisheries	2,035,448	1,695,473
Extraction (Heavy industry)	11,009,292	6,619,201
Manufacturing (Light industry)	148,652,229	134,197,288
Energy	15,489,687	14,643,938
Transportation, storage and communication	29,879,169	29,259,438
Commercial	122,814,198	106,969,803
Real estate	39,486,512	36,632,582
Service, technology, culture and sanitary industries	47,802,192	51,688,604
Construction	28,017,056	27,569,898
Discounted bills	35,663,835	17,682,902
Loans and advances to individuals	197,677,446	189,936,210
Others	4,378,466	3,746,480
Total loans and advances	682,905,530	620,641,817
Less: Loan impairment provision (Note IV.9.6)	(11,830,022)	(10,566,481)
Loans and advances, net	671,075,508	610,075,336

9.3 Analysed by type of collateral held or other credit enhancements

	2012-6-30	2011-12-31
Unsecured	133,735,303	114,800,698
Guaranteed	144,773,550	131,758,073
Secured by collateral	368,732,842	356,400,144
Of which: secured by mortgages	280,563,013	277,764,450
secured by monetary assets	88,169,829	78,635,694
Subtotal	647,241,695	602,958,915
Discounted bills	35,663,835	17,682,902
Total loans and advances	682,905,530	620,641,817
Less: Loan impairment provision (Note IV.9.6)	(11,830,022)	(10,566,481)
Loans and advances, net	671,075,508	610,075,336

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9. Loans and advances (continued)

9.4 Aging analysis of past due loans

	2012-6-30				Total
	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	
Unsecured	877,806	784,322	19,258	151,672	1,833,058
Guaranteed	696,970	575,735	82,818	135,209	1,490,732
Secured by collateral	4,999,918	3,485,433	585,333	370,346	9,441,030
Of which:					
secured by mortgages	4,765,911	3,126,067	584,767	220,312	8,697,057
secured by monetary assets	234,007	359,366	566	150,034	743,973
Total	6,574,694	4,845,490	687,409	657,227	12,764,820
	2011-12-31				Total
	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	
Unsecured	820,012	274,594	25,395	129,467	1,249,468
Guaranteed	418,822	61,809	259,684	80,088	820,403
Secured by collateral	4,485,565	818,443	549,634	547,607	6,401,249
Of which:					
secured by mortgages	4,146,085	792,382	539,856	371,492	5,849,815
secured by monetary assets	339,480	26,061	9,778	176,115	551,434
Total	5,724,399	1,154,846	834,713	757,162	8,471,120

Overdue loans refer to the loans with either principal or interest being overdue by one day or more. For the overdue loans presented above, loans and advances to customers repayable by installments, the total amount of loans is deemed overdue if part of the installments is overdue.

For loans repaid on an installment basis, only the amount which is not repaid upon maturity (not the total amount of loans and advances) is deemed overdue. As at 30 June 2012, there were RMB9,207,447 thousand loans (31 December 2011: RMB5,285,666 thousand) that had been deemed overdue according to this criterion.

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9. Loans and advances (continued)

9.5 Analysed by geographical region

	2012-6-30	2011-12-31
Eastern District	238,438,936	228,038,476
Southern District	223,016,116	200,328,583
Western District	55,033,076	47,852,179
Northern District	127,783,216	110,994,884
Head office	38,634,186	33,427,695
Total loans and advances	682,905,530	620,641,817
Less: Loan impairment provision (Note IV.9.6)	(11,830,022)	(10,566,481)
Loans and advances, net	671,075,508	610,075,336

9.6 Movements in impairment provision for loans and advances

	Jan-June 2012			Jan-Dec 2011		
	Individual	Collective	Total	Individual	Collective	Total
Balance at beginning of the period/year	1,414,132	9,152,349	10,566,481	1,126,471	5,298,589	6,425,060
Acquisition of a subsidiary	-	-	-	100,016	1,214,941	1,314,957
Charge/(reversal) for the period/year	370,741	1,168,273	1,539,014	(538,065)	2,673,726	2,135,661
Amounts written off	(241,885)	(145,678)	(387,563)	(22,438)	(213,719)	(236,157)
Recovery of loans written off previously	148,980	45,951	194,931	834,323	178,800	1,013,123
Interest accrued on impaired loans and advances	(84,680)	-	(84,680)	(77,791)	-	(77,791)
Other changes for the period/year	4,921	(3,082)	1,839	(8,384)	12	(8,372)
Balance at end of the period/year (Note IV.20)	1,612,209	10,217,813	11,830,022	1,414,132	9,152,349	10,566,481

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10. Available-for-sale financial assets

	2012-6-30	2011-12-31
Bond investments analysed by issuer:		
Governments	3,901,991	5,953,913
Central Bank	642,974	684,203
Policy banks	65,897,206	65,346,309
Other banks and non-bank financial institutions	2,654,165	2,014,326
Corporations	7,140,730	4,396,799
Subtotal	80,237,066	78,395,550
Less: Impairment provisions (Note IV.20)	(38,143)	(37,830)
Total bond investments	80,198,923	78,357,720
Equity investments	30,589	25,806
Total	80,229,512	78,383,526

As at 30 June 2012, included in the bond investments was an amount of RMB1,817,011 thousand (31 December 2011: RMB10,943,222 thousand) that had been pledged for repurchase agreements.

As at 30 June 2012, included in this total amount of available-for-sale financial assets was an amount of RMB38,143 thousand (31 December 2011: RMB37,830 thousand) of impaired assets.

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11. Held-to-maturity investments

	2012-6-30	2011-12-31
Bond investments analysed by issuer:		
Governments	21,990,766	22,444,724
The Central Bank	8,148,203	8,071,093
Policy banks	63,767,525	61,407,084
Other banks and non-bank financial institutions	2,209,263	2,672,188
Corporations	12,113,036	13,092,792
Subtotal	108,228,793	107,687,881
Less: Impairment provision (Note IV.20)	(4,846)	(4,801)
Total	108,223,947	107,683,080

As at 30 June 2012, no bond investments that had been pledged for agreements of time deposits from the PBOC(31 December 2011: RMB6,969,737 thousand).

As at 30 June 2012, included in the bond investments was RMB33,179,536 thousand (31 December 2011: RMB28,501,524 thousand) that had been pledged for repurchase agreements.

As at 30 June 2012, included in the bond investments was RMB25,012,814 thousand (31 December 2011: Nil) that had been pledged for amounts due to the central bank agreements.

12. Receivables

	2012-6-30	2011-12-31
Subordinated bonds issued by financial institutions	500,000	500,000
Principal guaranteed wealth management products issued by banks	36,603,700	13,232,100
Total	37,103,700	13,732,100

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13. Long term equity investments

Name of investee					Jan-Jun 2012		Provision transferred out during the period	Impairment provision at end of the period (Note IV.20)	Net balance at end of the period
	Cost of investment	Balance at beginning of the period	Movements	Balance at end of the period	Percentage of equity held by the Company (%)	Percentage of voting right held by the Company (%)			
Cost method:									
China UnionPay Co., Ltd.	74,220	74,220	-	74,220	2.20%	2.20%	-	-	74,220
Gintian Industry (Group) Co., Ltd.	9,662	9,662	-	9,662	2.03%	2.03%	-	(9,662)	-
Hainan Pearl River Holdings Co., Ltd.	9,650	9,650	-	9,650	0.27%	0.27%	-	(9,650)	-
Hainan Wuzhou Travel Co., Ltd.	5,220	5,220	-	5,220	3.70%	3.70%	-	(5,220)	-
Meizhou Polyester (Group) Co.	1,100	1,100	-	1,100	0.41%	0.41%	-	(1,100)	-
Shenzhen Zoto Investment Co.,Ltd.	2,500	2,500	-	2,500	4.10%	4.10%	-	-	2,500
Guangdong Sanxing Enterprises (Group) Co., Ltd.	500	500	-	500	0.05%	0.05%	-	(500)	-
Hainan Baiyunshan Co., Ltd.	1,000	1,000	-	1,000	0.91%	0.91%	-	(1,000)	-
Hainan Saige Co., Ltd.	1,000	1,000	-	1,000	0.56%	0.56%	-	(1,000)	-
Hainan Zhonghailian Real Estate Co., Ltd.	1,000	1,000	-	1,000	0.74%	0.74%	-	(1,000)	-
Shenzhen Jiafeng Textile Industrial Co., Ltd	16,725	16,725	-	16,725	13.82%	13.82%	-	(16,725)	-
SWIFT	1,586	684	902	1,586	0.03%	0.00%	-	-	1,586
Yong An Property Insurance Co., Ltd.	67,000	67,000	-	67,000	4.03%	4.03%	-	(67,000)	-
Wuhan Steel Electricity Co., Ltd.	32,175	32,175	-	32,175	3.37%	3.37%	-	-	32,175
Clearing Center for City Commercial Banks	600	600	-	600	1.99%	1.99%	-	-	600
Subtotal	223,938	223,036	902	223,938			-	(112,857)	111,081
Equity method:									
Associates									
Chengdu Gongtuo Assets Management Co., Ltd..	259,836	449,115	(4,400)	444,715	33.20%	33.20%	-	(20,000)	424,715
Total	483,774	672,151	(3,498)	668,653			-	(132,857)	535,796

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13. Long term equity investments (continued)

Name of investee	Jan-Dec 2011									
	Cost of investment	Balance at beginning of the year	Acquisition of a subsidiary	Movements	Balance at end of the year	Percentage of equity held by the Company (%)	Percentage of voting right held by the Company (%)	Provision transferred out during the year	Impairment provision at end of the year (Note IV.20)	Net balance at end of the year
Cost method:										
China UnionPay Co., Ltd.	74,220	50,000	24,220	-	74,220	2.20%	2.20%	-	-	74,220
Gintian Industry (Group) Co., Ltd.	9,662	9,662	-	-	9,662	2.03%	2.03%	-	(9,662)	-
Hainan Pearl River Holdings Co., Ltd.	9,650	9,650	-	-	9,650	0.27%	0.27%	-	(9,650)	-
Hainan Wuzhou Travel Co., Ltd.	5,220	5,220	-	-	5,220	3.70%	3.70%	-	(5,220)	-
Meizhou Polyester (Group) Co.	1,100	1,100	-	-	1,100	0.41%	0.41%	-	(1,100)	-
Shenzhen Zoto Investment Co., Ltd.	2,500	2,500	-	-	2,500	4.10%	4.10%	-	-	2,500
Guangdong Sanxing Enterprises (Group) Co., Ltd.	500	500	-	-	500	0.05%	0.05%	-	(500)	-
Hainan Baiyunshan Co., Ltd.	1,000	1,000	-	-	1,000	0.91%	0.91%	-	(1,000)	-
Hainan Saige Co., Ltd.	1,000	1,000	-	-	1,000	0.56%	0.56%	-	(1,000)	-
Hainan Zhonghailian Real Estate Co., Ltd.	1,000	1,000	-	-	1,000	0.74%	0.74%	-	(1,000)	-
Shenzhen Jiafeng Textile Industrial Co., Ltd.	16,725	16,725	-	-	16,725	13.82%	13.82%	-	(16,725)	-
SWIFT	684	684	-	-	684	0.03%	0.00%	-	-	684
Yong An Property Insurance Co., Ltd.	67,000	67,000	-	-	67,000	4.03%	4.03%	-	(67,000)	-
Wuhan Steel Electricity Co., Ltd.	32,175	32,175	-	-	32,175	3.37%	3.37%	-	-	32,175
Clearing Center for City Commercial Banks	600	-	600	-	600	1.99%	1.99%	-	-	600
Subtotal	223,036	198,216	24,820	-	223,036			-	(112,857)	110,179
Equity method:										
Associates										
Chengdu Gongtuo Assets Management Co., Ltd.	259,836	313,054	-	136,061	449,115	33.20%	33.20%	-	(20,000)	429,115
Shandong Xinkaiyuan Real Estate Co., Ltd.	30,607	29,038	-	(29,038)	-	0.00%	0.00%	3,061	-	-
Subtotal	290,443	342,092	-	107,023	449,115			3,061	(20,000)	429,115
Total	513,479	540,308	24,820	107,023	672,151			3,061	(132,857)	539,294

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13. Long term equity investments (continued)

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

<u>Jan-Jun 2012</u>	Balance at beginning of the period	Charge for the period	Amounts transferred out during the period	Balance at end of the period
Chengdu Gongtuo Assets Management Co., Ltd.	20,000	-	-	20,000
Yong An Property Insurance Co., Ltd.	67,000	-	-	67,000
Others	45,857	-	-	45,857
Total	132,857	-	-	132,857

<u>Jan-Dec 2011</u>	Balance at beginning of the year	Acquisition of a subsidiary	Charge for the year	Amounts transferred out during the year	Balance at end of the year
Chengdu Gongtuo Assets Management Co., Ltd.	20,000	-	-	-	20,000
Yong An Property Insurance Co., Ltd.	67,000	-	-	-	67,000
Others	48,918	-	-	(3,061)	45,857
Total	135,918	-	-	(3,061)	132,857

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

<u>Jan-Jun 2012</u>	Cost of investment	Balance at beginning of the period	Movements in equity				Impairment provision		Balance at end of the period
			Movements of profit for the period	Movement in other comprehensive income	Cash dividend received	Amounts transferred out	Amounts transferred out	Accumulated balance	
Chengdu Gongtuo Assets Management Co., Ltd. (Note 1)	259,836	429,115	15,000	-	(19,400)	-	-	(20,000)	424,715

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13. Long term equity investments (continued)

Jan-Dec 2011	Cost of investment	Balance at beginning of the year	Movements in equity				Impairment provision		Balance at end of the year
			Movements of profit for the year	Movement in other comprehensive income	Cash dividend received	Amounts transferred out	Amounts transferred out	Accumulated balance	
Chengdu Gongtuo Assets Management Co., Ltd. (Note 1)	259,836	293,054	45,000	106,000	(14,939)	-	-	(20,000)	429,115
Shandong Xinkaiyuan Real Estate Co., Ltd. (Note 2)	30,607	25,977	-	-	-	(29,038)	3,061	-	-
Total	290,443	319,031	45,000	106,000	(14,939)	(29,038)	3,061	(20,000)	429,115

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

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

The key financial information of the associate is as follows:

	Place of registration	Nature of business	Registered capital
Chengdu Gongtuo Assets Management Co., Ltd.	Chengdu	Asset management	518,700
	2012-6-30		Jan-Jun 2012
	Total assets	Total liabilities	Operating income
Chengdu Gongtuo Assets Management Co., Ltd.	2,636,263	1,269,994	Net profit(Note) 97,616
	2011-12-31		Jan-Jun 2011
	Total assets	Total liabilities	Operating income
Chengdu Gongtuo Assets Management Co., Ltd.	2,490,750	1,077,630	Net profit(Note) 47,730

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

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14. Investment properties

	2012-6-30	2011-12-31
At cost:		
Balance at beginning of the period/year	403,411	332,410
Transfer in/(out) from fixed assets during the period/year, net	(3,940)	13,343
Acquisition of a subsidiary	-	57,658
Balance at end of the period/year	399,471	403,411
Accumulated depreciation:		
Balance at beginning of the period/year	140,620	117,839
Accrual of the period/year	7,073	10,578
Acquisition of a subsidiary	-	5,977
Transfer in/(out) from fixed assets during the period/year, net	(1,954)	6,226
Balance at end of the period/year	145,739	140,620
Book value:		
Balance at end of the period/year	253,732	262,791
Balance at beginning of the period/year	262,791	214,571

As at 30 June 2012, included in the investment properties was an amount of RMB8,470 thousand (31 December 2011: RMB8,780 thousand) that did not have the corresponding registration certificates of property rights.

The gross rental income earned from the investment properties during the period amounted to RMB22,601 thousand (Jan-Jun 2011: RMB20,466 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 RMB1,035 thousand (Jan-Jun 2011: RMB972 thousand).

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15. Fixed assets

	Properties and buildings	Transportation vehicles	Offices facilities and computers	Total
<u>Jan-Jun 2012</u>				
At cost:				
Balance at beginning of the period	3,555,810	99,403	2,614,349	6,269,562
Additions	3,821	550	84,404	88,775
Transfer from investment properties	3,940	-	-	3,940
Transfer from construction in progress	3,497	-	4,532	8,029
Subtraction	-	(538)	(224,859)	(225,397)
Balance at end of the period	<u>3,567,068</u>	<u>99,415</u>	<u>2,478,426</u>	<u>6,144,909</u>
Accumulated depreciation:				
Balance at beginning of the period	1,164,482	56,817	1,517,709	2,739,008
Additions	80,471	5,806	173,490	259,767
Transfer from investment properties	1,954	-	-	1,954
Subtraction	-	(523)	(108,972)	(109,495)
Balance at end of the period	<u>1,246,907</u>	<u>62,100</u>	<u>1,582,227</u>	<u>2,891,234</u>
Less: Impairment provision (Note IV.20)	<u>(6,289)</u>			<u>(6,289)</u>
Net book value:				
30-Jun-2012	<u>2,313,872</u>	<u>37,315</u>	<u>896,199</u>	<u>3,247,386</u>
31-Dec-2011	<u>2,385,039</u>	<u>42,586</u>	<u>1,096,640</u>	<u>3,524,265</u>
<u>2011</u>				
At cost:				
Balance at beginning of the year	2,660,437	83,552	1,569,187	4,313,176
Additions	20,127	9,772	356,208	386,107
Transfer from construction in progress	217,843	-	42,122	259,965
Acquisition of a subsidiary	680,800	13,579	796,957	1,491,336
Subtraction	(23,397)	(7,500)	(150,125)	(181,022)
Balance at end of the year	<u>3,555,810</u>	<u>99,403</u>	<u>2,614,349</u>	<u>6,269,562</u>
Accumulated depreciation:				
Balance at beginning of the year	918,488	47,030	949,076	1,914,594
Additions	136,939	12,050	308,032	457,021
Acquisition of a subsidiary	120,585	4,997	408,436	534,018
Subtraction	(11,530)	(7,260)	(147,835)	(166,625)
Balance at end of the year	<u>1,164,482</u>	<u>56,817</u>	<u>1,517,709</u>	<u>2,739,008</u>
Less: Impairment provision (Note IV.20)	<u>(6,289)</u>			<u>(6,289)</u>
Net book value:				
31-Dec-2011	<u>2,385,039</u>	<u>42,586</u>	<u>1,096,640</u>	<u>3,524,265</u>
31-Dec-2010	<u>1,735,660</u>	<u>36,522</u>	<u>620,111</u>	<u>2,392,293</u>

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15. Fixed assets (continued)

As at 30 Jun 2012, the original cost and net book value of properties and buildings amounting to RMB166,961 thousand (31 December 2011: RMB370,566 thousand) and RMB97,456 thousand (31 December 2011: RMB295,212 thousand) respectively, are in use by the Group without having the registration certificates of property rights.

16. Intangible assets

<u>Jan-Jun 2012</u>	<u>Core deposits</u>	<u>Software</u>	<u>Others</u>	<u>Total</u>
Cost/valuation:				
At 1 January 2012	5,756,685	912,631	1,375	6,670,691
Addition	-	31,521	-	31,521
Subtraction	-	(26,682)	-	(26,682)
At 30 June 2012	<u>5,756,685</u>	<u>917,470</u>	<u>1,375</u>	<u>6,675,530</u>
Amortisation:				
At 1 January 2012	143,917	536,739	304	680,960
Amortisation during the period	143,917	76,325	167	220,409
Subtraction	-	(10,888)	-	(10,888)
At 30 June 2012	<u>287,834</u>	<u>602,176</u>	<u>471</u>	<u>890,481</u>
Net book value:				
As at 30 June 2012	<u>5,468,851</u>	<u>315,294</u>	<u>904</u>	<u>5,785,049</u>
As at 31 December 2011	<u>5,612,768</u>	<u>375,892</u>	<u>1,071</u>	<u>5,989,731</u>
<u>2011</u>	<u>Core deposits</u>	<u>Software</u>	<u>Others</u>	<u>Total</u>
Cost/valuation:				
At 1 January 2011	-	312,231	375	312,606
Addition	-	210,233	1,000	211,233
Acquisition of a subsidiary	5,756,685	390,556	-	6,147,241
Subtraction	-	(389)	-	(389)
At 31 December 2011	<u>5,756,685</u>	<u>912,631</u>	<u>1,375</u>	<u>6,670,691</u>
Amortisation:				
At 1 January 2011	-	120,833	193	121,026
Amortisation during the year	143,917	142,862	111	286,890
Acquisition of a subsidiary	-	273,271	-	273,271
Subtraction	-	(227)	-	(227)
At 31 December 2011	<u>143,917</u>	<u>536,739</u>	<u>304</u>	<u>680,960</u>
Net book value:				
As at 31 December 2011	<u>5,612,768</u>	<u>375,892</u>	<u>1,071</u>	<u>5,989,731</u>
As at 31 December 2010	<u>-</u>	<u>191,398</u>	<u>182</u>	<u>191,580</u>

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16. Intangible assets (continued)

Note: Core deposits are accounts that a financial institution expects to maintain for an extended period of time due to ongoing business relationships. The intangible asset value associated with core deposits reflects the use of the deposits at a lower cost alternative source of funding.

17. Goodwill

Jan-Jun 2012

	Balance at beginning of the period	Additions	Subtraction	Balance at end of the period	Impairment provision
Former Ping An Bank	7,568,304	-	-	7,568,304	-

2011

	Balance at beginning of the year	Additions	Subtraction	Balance at end of the year	Impairment provision
Former Ping An Bank	-	7,568,304	-	7,568,304	-

Former Ping An Bank was acquired by the Group in July, 2011 and goodwill acquired from this business combination amounted to RMB7,568,304 thousand.

Goodwill acquired from the business combination has been allocated to eastern district, southern district, western district, northern district, credit card center and former Ping An Bank cash-generating units for impairment test.

The recoverable amounts of cash-generating units were determined based on the present value of the expected future cash flows of the cash-generating units. The future expected cash flows were determined based on the basis of the expected cash flows from the 5 years budget plan as approved by management. The cash flows beyond the 5 years period were extrapolated based on the growth rate of the long-term average growth rates arose within the operating geographic locations and industries of the cash-generating units. The pre-tax discounted rate used to discount the cash flows reflected the specific risk associated with the cash-generating units.

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18. Deferred tax assets/liabilities

Jan-Jun 2012

<u>Deferred tax assets</u>	Balance at beginning of the period	Recognised in profit or loss (Note IV.46)	Recognised in other comprehensive income (Note IV.48)	Balance at end of the period
Impairment provision	1,983,933	4,022	-	1,987,955
Salaries and bonuses	729,108	(11,412)	-	717,696
Others	176,721	81,978	-	258,699
Subtotal	<u>2,889,762</u>	<u>74,588</u>	<u>-</u>	<u>2,964,350</u>
<u>Deferred tax liabilities</u>				
Changes in fair values of financial instruments at fair value through profit or loss and derivative financial instruments	(22,703)	808	-	(21,895)
Changes in fair values of available-for-sale financial assets	(64,480)	-	(93,626)	(158,106)
Fair value assessment of the subsidiary	(1,263,879)	(9,779)	-	(1,273,658)
Subtotal	<u>(1,351,062)</u>	<u>(8,971)</u>	<u>(93,626)</u>	<u>(1,453,659)</u>
Net amount	<u>1,538,700</u>	<u>65,617</u>	<u>(93,626)</u>	<u>1,510,691</u>

2011

<u>Deferred tax assets</u>	Balance at beginning of the year	Acquisition of a subsidiary	Recognised in profit or loss (Note IV.46)	Recognised in other comprehensive income (Note IV.48)	Balance at end of the year
Impairment provision	1,517,492	51,920	414,521	-	1,983,933
Salaries and bonuses	352,216	82,392	294,500	-	729,108
Changes in fair values of available-for-sale financial assets	42,565	-	-	(42,565)	-
Others	42,295	74,477	59,949	-	176,721
Subtotal	<u>1,954,568</u>	<u>208,789</u>	<u>768,970</u>	<u>(42,565)</u>	<u>2,889,762</u>
<u>Deferred tax liabilities</u>					
Changes in fair values of financial instruments at fair value through profit or loss and derivative financial instruments	(15,425)	-	(7,278)	-	(22,703)
Changes in fair values of available-for-sale financial assets	-	-	-	(64,480)	(64,480)
Fair value assessment of the subsidiary	-	(1,244,858)	(19,021)	-	(1,263,879)
Subtotal	<u>(15,425)</u>	<u>(1,244,858)</u>	<u>(26,299)</u>	<u>(64,480)</u>	<u>(1,351,062)</u>
Net amount	<u>1,939,143</u>	<u>(1,036,069)</u>	<u>742,671</u>	<u>(107,045)</u>	<u>1,538,700</u>

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19. Other assets

(a) Analyzed by nature

	2012-6-30	2011-12-31
Prepayments (Note IV.19b)	164,767	1,041,015
Prepaid legal expenses (Note IV.19c)	85,393	66,865
Repossessed assets (Note IV.19d)	573,249	602,474
Construction in progress (Note IV.19e)	211,831	161,240
Receivable of bills due from other banks	1,375,933	-
Receivable of deferred consumption payments	1,274,117	515,757
Long term deferred expenses (Note IV.19f)	562,509	647,072
Others (Note IV.19g)	972,302	353,769
Total other assets	5,220,101	3,388,192
Less: Impairment provision:		
Prepaid legal expenses (Note IV.19c)	(57,670)	(55,467)
Repossessed assets (Note IV.19d)	(229,514)	(247,668)
Others (Note IV.19g)	(138,512)	(108,013)
Total impairment provision	(425,696)	(411,148)
Other assets, net	4,794,405	2,977,044

(b) Aging analysis of prepayments

	2012-6-30		2011-12-31	
	Amount	Percentage	Amount	Percentage
Less than 1 year	160,542	97.44%	986,190	94.73%
1 to 2 years	2,312	1.40%	8,433	0.81%
2 to 3 years	1,913	1.16%	11,207	1.08%
Over 3 years	-	0.00%	35,185	3.38%
Total	164,767	100.00%	1,041,015	100.00%

As at 30 June 2012 and 31 December 2011, the Group has not made any provision for prepayments.

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19. Other assets (continued)

(c) Prepaid legal expenses

	2012-6-30				2011-12-31			
	Carrying amount		Impairment provision		Carrying amount		Impairment provision	
	Amount	Percentage	Amount	Coverage	Amount	Percentage	Amount	Coverage
Individual assessment	70,755	82.86%	(51,819)	73.24%	61,086	91.36%	(52,236)	85.51%
Collective assessment:								
Aging less than 1 year	11,715	13.72%	(2,941)	25.10%	3,385	5.06%	(877)	25.91%
Aging between 1 and 2 years	890	1.04%	(877)	98.54%	889	1.33%	(849)	95.50%
Aging between 2 and 3 years	923	1.08%	(923)	100.00%	679	1.01%	(679)	100.00%
Aging over 3 years	1,110	1.30%	(1,110)	100.00%	826	1.24%	(826)	100.00%
Subtotal	14,638	17.14%	(5,851)	39.97%	5,779	8.64%	(3,231)	55.91%
Total	85,393	100.00%	(57,670)	67.53%	66,865	100.00%	(55,467)	82.95%

(d) Repossessed assets

	2012-6-30	2011-12-31
Land, properties and buildings	538,076	566,835
Others	35,173	35,639
Total	573,249	602,474
Less: Provision for decline in value (Note IV.20)	(229,514)	(247,668)
Repossessed assets, net	343,735	354,806

During the period, the Group took possession of collateral held as security with a carrying amount of RMB11,277 thousand (2011: RMB177,227 thousand). The collateral mainly comprises buildings. During the period, the Group disposed of repossessed assets with their gross carrying value amounting to RMB40,502 thousand (2011: RMB267,724 thousand). The Group plans to dispose of the repossessed assets through auctions, bidding or transfers in the future.

(e) Construction in progress

	2012-6-30	2011-12-31
Balance at beginning of the period/year	161,240	194,586
Acquisition of a subsidiary	-	117,734
Additions during the period/year	80,498	261,571
Transfer to fixed assets	(8,029)	(259,965)
Transfer to intangible assets	(10,127)	(58,996)
Transfer to long term deferred expenses	(11,751)	(93,690)
Balance at end of the period/year	211,831	161,240

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19. Other assets (continued)

(e) Construction in progress (continued)

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

Jan-Jun 2012

Project name	Budget amount	Balance at beginning of the period	Additions	Transfer out to long term deferred expenses	Balance at end of the period	Percentage of budget incurred	Progress of project
Renovation for Bank premises of Wenzhou Branch	25,039	-	8,441	-	8,441	34%	70%
Relocation for Bank premises of Wenzhou Branch	21,740	-	8,824	-	8,824	41%	70%

2011

Project name	Budget amount	Balance at beginning of the year	Additions	Transfer out to fixed assets	Balance at end of the year	Percentage of budget incurred	Progress of project
Bank premises of Jinan Branch	210,000	175,330	24,721	(200,051)	-	95%	100%

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

(f) Long term deferred expenses

	<u>2012-6-30</u>	<u>2011-12-31</u>
Balance at beginning of the period/year	647,072	489,385
Acquisition of a subsidiary	-	181,592
Additions during the period/year	24,214	146,634
Amortisation during the period/year	(103,380)	(165,949)
Others	(5,397)	(4,590)
Balance at end of the period/year	<u>562,509</u>	<u>647,072</u>

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19. Other assets (continued)

(g) Others

	2012-6-30				2011-12-31			
	Carrying amount		Impairment provision		Carrying amount		Impairment provision	
	Amount	Percentage	Amount	Coverage	Amount	Percentage	Amount	Coverage
Individual assessment	279,203	28.72%	(113,476)	40.64%	173,628	49.08%	(91,371)	52.62%
Collective assessment:								
Aging less than 1 year	679,887	69.92%	(15,872)	2.33%	170,790	48.28%	(8,545)	5.00%
Aging between 1 and 2 years	7,925	0.82%	(6,775)	85.49%	3,466	0.98%	(3,354)	96.77%
Aging between 2 and 3 years	873	0.09%	(183)	20.96%	-	-	-	-
Aging over 3 years	4,414	0.45%	(2,206)	49.98%	5,885	1.66%	(4,743)	80.59%
Subtotal	693,099	71.28%	(25,036)	3.61%	180,141	50.92%	(16,642)	9.24%
Total	972,302	100.00%	(138,512)	14.25%	353,769	100.00%	(108,013)	30.53%

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20. Impairment losses on assets

Jan-Jun 2012	Note IV	Balance at beginning of the period	Charge/ (reversal) for the period (Note IV.45)	Amounts written off	Recovery of assets written off previously	Amounts released upon disposal of assets	Interest accrued on impaired loans and advances	Other movements	Balance at end of the period
Impairment provision for placements of deposits with other financial institutions	2	40,913	-	-	-	-	-	70	40,983
Impairment provision for funds loaned to other financial institutions	3	24,258	-	-	-	-	-	167	24,425
Impairment provision for reverse repurchase agreements	6	35,000	-	-	-	-	-	-	35,000
Impairment provision for loans and advances	9.6	10,566,481	1,539,014	(387,563)	194,931	-	(84,680)	1,839	11,830,022
Impairment provision for available-for-sale financial assets	10	37,830	-	-	-	-	-	313	38,143
Impairment provision for held-to-maturity investments	11	4,801	-	-	-	-	-	45	4,846
Impairment provision for long term equity investments	13	132,857	-	-	-	-	-	-	132,857
Provision for decline in value of repossessed assets	19d	247,668	2,318	-	-	(20,472)	-	-	229,514
Impairment provision for fixed assets	15	6,289	-	-	-	-	-	-	6,289
Impairment provision for other assets	19c&g	163,480	28,902	(22)	3,618	-	-	204	196,182
Total		11,259,577	1,570,234	(387,585)	198,549	(20,472)	(84,680)	2,638	12,538,261

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

20. Impairment losses on assets (continued)

Jan-Dec 2011	Note IV	Balance at beginning of the year	Acquisition of a subsidiary	Charge/ (reversal) for the year	Amounts written off	Recovery of assets written off previously	Amounts released upon disposal of assets	Interest accrued on impaired loans and advances	Other movements	Balance at end of the year
Impairment provision for placements of deposits with other financial institutions	2	30,695	-	10,282	-	-	-	-	(64)	40,913
Impairment provision for funds loaned to other financial institutions	3	29,330	-	409	(4,773)	-	-	-	(708)	24,258
Impairment provision for reverse repurchase agreements	6	35,000	-	-	-	-	-	-	-	35,000
Impairment provision for loans and advances	9.6	6,425,060	1,314,957	2,135,661	(236,157)	1,013,123	-	(77,791)	(8,372)	10,566,481
Impairment provision for available-for-sale financial assets	10	-	103,571	-	(63,009)	-	-	-	(2,732)	37,830
Impairment provision for held-to-maturity investments	11	-	-	4,801	-	-	-	-	-	4,801
Impairment provision for long term equity investments	13	135,918	-	(3,061)	-	-	-	-	-	132,857
Provision for decline in value of repossessed assets	19d	258,185	45,505	6,431	-	-	(62,453)	-	-	247,668
Impairment provision for fixed assets	15	6,289	-	-	-	-	-	-	-	6,289
Impairment provision for other assets	19c&g	159,394	9,583	(5,949)	(433)	1,839	-	-	(954)	163,480
Total		7,079,871	1,473,616	2,148,574	(304,372)	1,014,962	(62,453)	(77,791)	(12,830)	11,259,577

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21. Placements of deposits from other financial institutions

	2012-6-30	2011-12-31
Domestic banks	234,365,403	78,380,040
Domestic non-bank financial institutions	88,435,520	77,007,971
Overseas banks	925,198	21,766
Total	323,726,121	155,409,777

22. Funds borrowed from other financial institutions

	2012-6-30	2011-12-31
Domestic banks	7,197,324	25,159,349
Domestic non-bank financial institutions	-	120,000
Total	7,197,324	25,279,349

23. Repurchase agreements

	2012-6-30	2011-12-31
(a) Analysed by collateral		
Securities	34,130,800	39,197,371
Bills	2,543,534	-
Total	36,674,334	39,197,371
(b) Analysed by counterparty		
Banks	35,095,534	37,529,171
Non-bank financial institutions	1,578,800	1,668,200
Total	36,674,334	39,197,371

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24. Customer deposits

	2012-6-30	2011-12-31
Current deposits:		
Corporate customers	218,386,937	204,743,627
Personal customers	87,604,946	69,075,202
Subtotal	305,991,883	273,818,829
Fixed deposits:		
Corporate customers	309,042,198	276,087,203
Personal customers	87,033,144	70,410,312
Subtotal	396,075,342	346,497,515
Guarantee deposits	227,064,855	205,702,638
Fiscal deposits	15,688,472	16,029,463
Time deposits from PBOC	110,000	5,800,000
Inward and outward remittances	4,647,423	2,996,702
Total	949,577,975	850,845,147

25. Employee benefits payable

	Balance at beginning of the period	Increase during the period	Payment made during the period	Balance at end of the period
<u>Jan-Jun 2012</u>				
Salaries, bonuses, allowances and subsidies	3,034,449	3,224,166	(3,269,814)	2,988,801
including: Deferred bonus accrual (Note)	111,510	30,351	(36,825)	105,036
Social insurance, supplementary pension contributions and staff welfare	525,627	569,655	(535,277)	560,005
Housing funds	-	153,886	(153,886)	-
Labour union and training expenses	40,269	81,341	(60,670)	60,940
Others	-	4,512	(4,512)	-
Total	3,600,345	4,033,560	(4,024,159)	3,609,746

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25. Employee benefits payable (continued)

<u>2011</u>	Balance at beginning of the year	Acquisition of a subsidiary	Increase during the year	Payment made during the year	Balance at end of the year
Salaries, bonuses, allowances and subsidies	1,547,270	350,135	5,156,562	(4,019,518)	3,034,449
including: Deferred bonus accrual (Note)	68,817	-	69,303	(26,610)	111,510
Social insurance, supplementary pension contributions and staff welfare	327,028	79,670	964,558	(845,629)	525,627
Housing funds	-	-	255,643	(255,643)	-
Labour union and training expenses	4,305	40,272	143,002	(147,310)	40,269
Others	-	-	19,165	(19,165)	-
Total	1,878,603	470,077	6,538,930	(5,287,265)	3,600,345

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.

26. Tax payable

	<u>2012-6-30</u>	<u>2011-12-31</u>
Corporate income tax	812,544	1,431,004
Business tax and surcharges	867,895	959,725
Others	85,166	145,085
Total	1,765,605	2,535,814

27. Accounts payable

	<u>2012-6-30</u>	<u>2011-12-31</u>
Payables with respect to making payments on behalf of customers	25,211,999	69,478,001
Payables under factoring	978,706	968,108
Payables under discounted bills	119,571	114,625
Total	26,310,276	70,560,734

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28. Interest payable

<u>Jan-Jun 2012</u>	<u>Balance at beginning of the period</u>	<u>Increase during the period</u>	<u>Payment made during the period</u>	<u>Balance at end of the period</u>
Interest payable for deposits from customers and financial institutions	9,304,587	20,316,241	(19,394,126)	10,226,702
Interest payable for bonds	609,074	487,116	(883,063)	213,127
Total	<u>9,913,661</u>	<u>20,803,357</u>	<u>(20,277,189)</u>	<u>10,439,829</u>

<u>2011</u>	<u>Balance at beginning of the year</u>	<u>Acquisition of a subsidiary</u>	<u>Increase during the year</u>	<u>Payment made during the year</u>	<u>Balance at end of the year</u>
Interest payable for deposits from customers and financial institutions	3,566,797	1,913,652	24,304,042	(20,479,904)	9,304,587
Interest payable for bonds	353,276	772	817,811	(562,785)	609,074
Total	<u>3,920,073</u>	<u>1,914,424</u>	<u>25,121,853</u>	<u>(21,042,689)</u>	<u>9,913,661</u>

29. Bonds payable

	<u>2012-6-30</u>	<u>2011-12-31</u>
Subordinated bonds (Note 1)	10,955,620	10,942,684
Hybrid capital debt instrument (Note 2)	5,112,452	5,111,802
Total	<u>16,068,072</u>	<u>16,054,486</u>

During at 30 June 2012 and 31 December 2011, the Group did not have any defaults of principal, interest or other breaches with respect to the subordinated bonds and the hybrid capital debt instrument.

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

29. Bonds payable (continued)

Note 1: As approved by the PBOC and the 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 notional values of RMB6 billion and RMB1.5 billion respectively; and one set of floating-rate bonds with a notional value of RMB0.5 billion. The term of the bonds is of 10 years with a call option at the end of the fifth year. The coupon rates for the first five years are 6.10% and 5.30% for the two sets of fixed-rate bonds; and 3-month SHIBOR+1.40% for the floating-rate bonds. If the Company does not exercise the call option at the end of the fifth year, both the fixed and floating coupon rates will increase by 3%.

Upon the approval of the PBOC and the CBRC, Former Ping An Bank issued subordinated debts of RMB3 billion through open market bidding during the period from 26 June 2009 to 29 June 2009. The debts are unsecured and have a maturity period of 10 years. Among which, RMB1.15 billion are fixed interest rate debts bearing interest at a rate of 4.4% per annum in the first five years and 7.4% in the remaining years; RMB1.85 billion are floating interest rate debts bearing interest at a rate of one year time deposit interest rate plus 165BP per annum in the first five years and one year time deposit interest rate plus 465BP per annum in the remaining years. Former Ping An Bank has the option to redeem the subordinated debts at the end of the first five years.

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

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

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30. Provisions

	2012-6-30	2011-12-31
Balance at beginning of the period/year	112,246	3,047
Acquisition of a subsidiary	-	89,592
Charge/(reversal) for the period/year	(17,180)	29,278
Amounts paid or released	(8,469)	(9,671)
Balance at end of the period/year	86,597	112,246

31. Other liabilities

	2012-6-30	2011-12-31
Amounts pending for settlement and clearing	3,167,857	4,194,274
Financial guarantee contracts	131,718	109,829
Amounts payable for bond redemption as intermediaries	42,161	28,435
Accrued expenses	739,089	372,636
Account payable for purchase bonds	657,891	-
Inactive deposit account balances	100,418	110,075
Others	1,681,204	1,257,825
Total	6,520,338	6,073,074

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32. Share capital

As at 30 June 2012, the number of the Company's ordinary shares issued and fully paid was 5,123,350 thousand, with a price of RMB1 Yuan each. The nature and the structure of the share capital are as follows:

	2011-12-31	Percentage	Movement in the period	2012-6-30	Percentage
I. Restricted tradable shares:					
Domestic non-state-owned corporation shares	2,017,972	39.39%	-	2,017,972	39.39%
Domestic individual shares	19	0.00%	-	19	0.00%
Total restricted tradable shares	<u>2,017,991</u>	<u>39.39%</u>	<u>-</u>	<u>2,017,991</u>	<u>39.39%</u>
II. Unrestricted tradable shares:					
RMB ordinary shares	<u>3,105,359</u>	<u>60.61%</u>	<u>-</u>	<u>3,105,359</u>	<u>60.61%</u>
III. Total shares	<u>5,123,350</u>	<u>100.00%</u>	<u>-</u>	<u>5,123,350</u>	<u>100.00%</u>

33. Capital reserve

	2012-6-30	2011-12-31
Share premium	40,760,582	41,254,541
Cumulative changes in fair value of available-for-sale financial assets	448,398	204,151
Share of the changes in owners' equity of an associate	<u>79,054</u>	<u>79,054</u>
Total	<u>41,288,034</u>	<u>41,537,746</u>

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

34. Surplus reserve

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

As at 30 June 2012 and 31 December 2011, the amount of the surplus reserve represented the statutory surplus reserve.

35. General reserve

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

36. Unappropriated profit

Pursuant to a board resolution on 15 August 2012, based on the audited profit for the period from January to June as reported in the statutory financial statements for the period ended 30 June 2012, the Company appropriated RMB3,844,248 thousand to the general reserve. The Company's cumulative statutory surplus reserve had exceeded 50% of registered capital as at 30 June, 2012. The Company has not appropriated statutory surplus reserve for the period ended 30 June 2012. The aforesaid proposal is pending for approval from the shareholders' meeting.

Pursuant to a board resolution on 8 March 2012, based on the audited profit for the year as reported in the statutory financial statements for the year ended 31 December 2011, the Company appropriated RMB918,120 thousand to the statutory surplus reserve based on 10% of the net profit and RMB1,977,121 thousand to the general reserve for the year of 2011. The above proposed appropriations were approved at the shareholders' meeting of the Company on 23 May 2012.

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37. Net interest income

	Jan-Jun 2012	Jan-Jun 2011
Interest income:		
Due from the Central Bank	1,319,824	610,507
Due from financial institutions	4,083,671	4,096,142
Of which: Rediscounted bills and reverse repurchase agreements collateralised by bills	2,007,138	3,631,838
Loans and advances		
Corporate loans and advances	15,075,157	8,474,867
Individual loans and advances	6,745,587	3,635,560
Discounted bills	289,809	221,436
Interest income on investment securities (excluding financial assets at fair value through profit or loss)	4,623,219	2,116,978
Others	5,003,066	350,458
Subtotal	37,140,333	19,505,948
Interest income on financial assets at fair value through profit or loss	86,511	34,513
Total	37,226,844	19,540,461
Including: Interest income accrued on impaired financial assets	84,680	37,043
Interest expense:		
Due to the Central Bank	11,597	26,644
Due to financial institutions	7,438,679	3,204,133
Of which: Rediscounted bills and repurchase agreements collateralised by bills	479,564	201,323
Customer deposits	11,433,854	5,428,699
Bonds payable	500,702	329,456
Others	1,685,415	159,307
Total	21,070,247	9,148,239
Net interest income	16,156,597	10,392,222

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38. Net fee and commission income

	Jan-Jun 2012	Jan-Jun 2011
Fee and commission income:		
Settlement fee income	450,118	315,566
Wealth management products related fee income	326,472	95,474
Agency business fee income	499,921	154,704
Bank card fee income	1,037,124	301,186
Advisory and consulting fee income	177,481	274,661
Account management fee income	227,031	22,892
Others	381,569	165,552
Subtotal	3,099,716	1,330,035
Fee and commission expenses:		
Agency business fee expenses	56,389	42,022
Bank card fee	215,602	87,761
Others	48,435	12,615
Subtotal	320,426	142,398
Net fee and commission income	2,779,290	1,187,637

39. Investment income

	Jan-Jun 2012	Jan-Jun 2011
Net gain/(loss) on financial assets at fair value through profit or loss	25,029	(6,528)
Net gain/(loss) on disposal of available-for-sale bond investments	123,461	(22,224)
Net gain on disposal of held-to-maturity bond investments	-	46
Net gain on disposal of long term equity investments	-	1,569
Share of profits of associates under equity method of accounting	15,000	29,000
Dividend income	10	2
Net realised gain on derivative financial instruments (excluding foreign exchange derivative financial instruments)	16,025	4,399
Gain on disposal of bills	272,353	344,208
Net gain on disposal of debt instruments being underwritten	-	1,988
Total	451,878	352,460

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

	Jan-Jun 2012	Jan-Jun 2011
Financial instruments held for trading	(2,817)	(4,790)
Derivative financial instruments (excluding foreign exchange derivative financial instruments)	(8,541)	(3,075)
Total	(11,358)	(7,865)

41. Net foreign exchange difference

	Jan-Jun 2012	Jan-Jun 2011
Gain from changes in fair values of foreign exchange derivative financial instruments	1,776	30,359
Others	181,845	121,312
Total	183,621	151,671

42. Other operating income

	Jan-Jun 2012	Jan-Jun 2011 (Restated)
Rental income	37,778	35,826
Others	27,728	25,316
Total	65,506	61,142

43. Business tax and surcharge

	Jan-Jun 2012	Jan-Jun 2011
Business tax	1,540,699	847,414
City maintenance and construction tax	107,475	59,319
Education surcharge	76,041	37,572
Others	11,451	8,787
Total	1,735,666	953,092

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44. Business and administrative expenses

	Jan-Jun 2012	Jan-Jun 2011 (Restated)
Staff expenses:		
Salaries, bonuses, allowances and subsidies	3,224,166	1,990,285
Social insurance, supplementary pension contributions and staff welfare	569,655	348,806
Housing funds	153,886	97,585
Labor union and training expenses	81,341	45,750
Others	4,512	7,058
Subtotal	4,033,560	2,489,484
Depreciation, amortisation and rental expenses:		
Depreciation of fixed assets	259,767	177,115
Amortisation of leasehold improvements	95,919	58,060
Amortisation of intangible assets	220,409	31,196
Rental expenses	559,237	322,060
Subtotal	1,135,332	588,431
General business and administrative expenses	2,313,842	1,328,374
Total	7,482,734	4,406,289

45. Impairment losses on assets

	Jan-Jun 2012	Jan-Jun 2011
Charge/(reversal) of impairment losses on:		
Placements of deposits with other financial institutions	-	10,091
Funds loaned to other financial institutions	-	4,076
Loans and advances	1,539,014	715,041
Held-to-maturity investments	-	4,935
Long term equity investments	-	(3,061)
Repossessed assets	2,318	8,590
Other assets	28,902	(8,994)
Total	1,570,234	730,678

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46. Income tax expense

	<u>Jan-Jun 2012</u>	<u>Jan-Jun 2011</u> (Restated)
Current tax:		
Charge for the period	2,074,293	1,493,336
Adjustments in respect of current income tax for prior years	409	(86,590)
Subtotal	<u>2,074,702</u>	<u>1,406,746</u>
Deferred income tax (Note IV.18)	<u>(65,617)</u>	<u>(74,724)</u>
Total	<u><u>2,009,085</u></u>	<u><u>1,332,022</u></u>

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

	<u>Jan-Jun 2012</u>	<u>Jan-Jun 2011</u> (Restated)
Profit before tax	<u>8,878,649</u>	<u>6,063,160</u>
Income tax at the statutory rate of 25%	2,219,662	1,515,790
Effects of 24% tax rate applicable to the regions of Shenzhen, Zhuhai and Haikou during the year of 2011	-	(39,577)
Adjustments in respect of current income tax for prior years (Note)	(6,353)	(75,198)
Non-taxable income	(105,577)	(70,548)
Non-deductible expenses and other adjustments	<u>(98,647)</u>	<u>1,555</u>
Income tax expense	<u><u>2,009,085</u></u>	<u><u>1,332,022</u></u>

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

47. Earnings per share

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

	<u>Jan-Jun 2012</u>	<u>Jan-Jun 2011</u> (Restated)
Net profit attributable to ordinary shareholders of the parent company	6,761,485	4,731,138
Weighted average number of ordinary shares outstanding (in thousands)	5,123,350	3,485,014
Basic earnings per share (Renminbi Yuan)	<u>1.32</u>	<u>1.36</u>

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47. Earnings per share (continued)

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

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

48. Other comprehensive income

	Jan-Jun 2012	Jan-Jun 2011 (Restated)
Net gain or loss on available-for-sale financial assets	469,157	(171,219)
Less: income tax effect	(123,320)	44,375
Net gain or loss previously recognised in other comprehensive income transferred to profit or loss during the period	(113,016)	33,092
Less: income tax effect	29,694	(8,577)
Total	262,515	(102,329)

49. Cash and cash equivalents

	Jan-Jun 2012	Jan-Jun 2011
Cash on hand	2,268,767	1,189,116
Cash equivalents:		
Within three months before original maturity date		
- Placements of deposits with other financial institutions	67,093,662	16,962,067
- Funds loaned to other financial institutions	24,308,030	5,784,517
- Reverse repurchase agreements	69,789,514	44,234,245
Unrestricted balance with the Central Bank	22,624,839	12,629,529
Bond investments (with maturity of less than three months when acquired)	969,531	438,223
Subtotal	184,785,576	80,048,581
Total	187,054,343	81,237,697

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50. Cash receipts relating to other operating activities

	Jan-Jun 2012	Jan-Jun 2011
Collections of amounts already written off	198,549	516,221
Cash receipts from disposal of repossessed assets	34,722	116,778
Derivative financial instruments	16,025	-
Amounts pending for settlement and clearing	-	385,017
Others	1,315,257	545,061
Total	1,564,553	1,563,077

51. Cash payments relating to other operating activities

	Jan-Jun 2012	Jan-Jun 2011
Financial instruments held for trading	2,086,840	1,060,931
Derivative financial instruments	-	4,399
Amounts pending for settlement and clearing	1,026,417	-
Administrative expenses such as marketing and public relation expenses, rental expenses and others	3,678,664	1,256,028
Total	6,791,921	2,321,358

V. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS

1. Cash on hand and due from the Central Bank

	2012-6-30	2011-12-31
Cash on hand	2,268,767	1,320,700
Statutory reserve with the Central Bank - RMB	152,759,703	101,420,520
Statutory reserve with the Central Bank - foreign currency	1,697,125	581,906
Unrestricted balance with the Central Bank	22,624,839	16,436,531
Other deposits with the Central Bank - fiscal deposits	1,064,001	186,237
Total	180,414,435	119,945,894

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

2. Placements of deposits with other financial institutions

Analysed by location and counterparty

	2012-6-30	2011-12-31
Domestic banks	100,849,424	12,351,164
Other domestic financial institutions	151,343	61,559
Overseas banks	6,027,455	2,972,206
Subtotal	107,028,222	15,384,929
Less: Impairment provision	(40,983)	(38,596)
Total	106,987,239	15,346,333

As at 30 June 2012, included in this total amount of placements of deposits with other financial institutions was an amount of RMB31,520 thousand (31 December 2011: RMB31,520 thousand) of impaired assets.

3. Funds loaned to other financial institutions

Analysed by location and counterparty

	2012-6-30	2011-12-31
Domestic banks	7,478,236	2,007,330
Other domestic financial institutions	1,827,190	1,373,997
Overseas banks	17,038,619	2,660,022
Subtotal	26,344,045	6,041,349
Less: Impairment provision	(24,425)	(24,258)
Total	26,319,620	6,017,091

As at 30 June 2012, included in this total amount of loans funded to other financial institutions was an amount of RMB27,190 thousand (31 December 2011: RMB26,997 thousand) of impaired assets.

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

4. Financial assets at fair value through profit or loss

	2012-6-30	2011-12-31
Bonds held for trading (bond investments analysed by issuer)		
Government	-	102,038
The Central Bank	555,745	187,197
Policy banks	2,148,921	1,965,852
Other banks and non-bank financial institutions	60,874	-
Corporations	2,295,465	257,573
Total Bonds held for trading	5,061,005	2,512,660
Precious metals	398,598	-
Total	5,459,603	2,512,660

As at 30 June 2012, no bond investments that had been pledged for repurchase agreements (31 December 2011: 334,414).

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

5. Derivative financial instruments

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

	Notional amounts with remaining lives of				Fair value	
	Up to 3 months	3 months to 1 year	1 to 5 years	Total	Assets	Liabilities
<u>2012-6-30</u>						
Foreign exchange derivative instruments:						
Forward foreign exchange contracts	81,791,664	91,322,855	3,491,009	176,605,528	615,352	(535,136)
Interest rate derivative instruments:						
Interest rate swap contracts	3,140,000	10,232,372	13,564,373	26,936,745	187,529	(196,437)
Others	9,727	-	-	9,727	102	(16)
Total	84,941,391	101,555,227	17,055,382	203,552,000	802,983	(731,589)
<u>2011-12-31</u>						
Foreign exchange derivative instruments:						
Forward foreign exchange contracts	52,240,025	54,570,011	755,184	107,565,220	647,666	(575,395)
Interest rate derivative instruments:						
Interest rate swap contracts	100,000	4,890,000	7,460,000	12,450,000	139,073	(140,077)
Total	52,340,025	59,460,011	8,215,184	120,015,220	786,739	(715,472)

As at 30 June 2012 and 31 December 2011, no derivatives were designated as hedging instruments.

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

6. Reverse repurchase agreements

(a) Analysed by counterparty

	2012-6-30	2011-12-31
Banks	114,191,719	25,343,507
Non-bank financial institutions	3,038,683	3,608,423
Subtotal	117,230,402	28,951,930
Less: Impairment provision	(35,000)	(35,000)
Total	117,195,402	28,916,930

As at 30 June 2012, included in this total amount of reverse repurchase agreements was an amount of RMB47,076 thousand (31 December 2011: RMB47,076 thousand) of impaired assets.

(b) Analysed by collateral

	2012-6-30	2011-12-31
Securities	1,937,046	343,046
Bills	80,141,534	27,462,721
Beneficial right of trust	35,012,975	-
Receivables under finance leases	138,847	1,146,163
Subtotal	117,230,402	28,951,930
Less: Impairment provision	(35,000)	(35,000)
Total	117,195,402	28,916,930

(c) Fair value of collateral

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

	2012-6-30		2011-12-31	
	Amount of reverse repurchase agreements	Fair value of collateral	Amount of reverse repurchase agreements	Fair value of collateral
Bills	56,930,050	56,930,050	25,730,474	25,730,474

As at 30 June 2012, included in the above fair value of collateral were bills of RMB3,374,530 thousand (31 December 2011: RMB400,007 thousand) that had been re-pledged and the Company had an obligation to return such collateral.

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

7. Accounts receivable

	2012-6-30	2011-12-31
Receivables with respect to making payments on behalf of customers	31,204,316	70,849,204
Receivables under factoring	7,114,329	7,732,938
Receivables with respect to making payments on behalf of other banks	84,646,109	87,814,895
Others	144,829	223,083
Total	123,109,583	166,620,120

8. Interest receivable

	Balance at beginning of the period	Increase during the period	Absorption and merger of a subsidiary transfer in	Collection during the period	Balance at end of the period
<u>Jan-Jun 2012</u>					
Interest receivable on bond investments and wealth management products	1,862,628	5,565,607	744,531	(4,638,355)	3,534,411
Interest receivable on loans and amounts due from other financial institutions	3,701,344	23,976,610	1,028,190	(23,688,258)	5,017,886
Total	5,563,972	29,542,217	1,772,721	(28,326,613)	8,552,297
	Balance at beginning of the year	Increase during the year	Collection during the year	Balance at end of the year	
<u>Jan-Dec 2011</u>					
Interest receivable on bond investments and wealth management products	1,230,980	6,759,049	(6,127,401)	1,862,628	
Interest receivable on loans and amounts due from other financial institutions	890,507	31,888,685	(29,077,848)	3,701,344	
Total	2,121,487	38,647,734	(35,205,249)	5,563,972	

As at 30 June 2012, included in the interest receivable was an amount of RMB78,109 thousand (31 December 2011: RMB38,857 thousand) that is past due. Such interest receivable is related to interest income on loans and is aged within 90 days.

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

9. Loans and advances

9.1 Analysed by corporation and individual

	2012-6-30	2011-12-31
Loans and advances to corporations:		
Loans	449,564,249	314,183,151
Discounted bills	35,663,835	16,712,346
Subtotal	485,228,084	330,895,497
Loans and advances to individuals:		
Credit cards	30,628,221	9,617,165
Property mortgages	133,752,212	113,319,175
Others	33,297,013	16,070,083
Subtotal	197,677,446	139,006,423
Total loans and advances	682,905,530	469,901,920
Less: Loan impairment provision (Note V.9.6)	(11,830,022)	(8,918,960)
Loans and advances, net	671,075,508	460,982,960

As at 30 June 2012, there were RMB384,779 thousand of discounted bills (31 December 2011: RMB446,013 thousand) that had been pledged for amounts due to the Central Bank.

In addition, as at 30 June 2012, the Company transferred out (without recourse) discounted bills amounting to RMB172,684,747 thousand (31 December 2011: RMB21,533,109 thousand) that had not yet matured at the period end.

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

9. Loans and advances (continued)

9.2 Analysed by industry

	2012-6-30	2011-12-31
Agriculture, husbandry and fisheries	2,035,448	1,092,348
Extraction (Heavy industry)	11,009,292	5,753,741
Manufacturing (Light industry)	148,652,229	107,970,759
Energy	15,489,687	10,862,344
Transportation, storage and communication	29,879,169	18,946,616
Commercial	122,814,198	89,162,245
Real estate	39,486,512	22,933,798
Service, technology, culture and sanitary industries	47,802,192	34,972,585
Construction	28,017,056	18,742,235
Discounted bills	35,663,835	16,712,346
Loans and advances to individuals	197,677,446	139,006,423
Others	4,378,466	3,746,480
Total loans and advances	682,905,530	469,901,920
Less: Loan impairment provision (Note V.9.6)	(11,830,022)	(8,918,960)
Loans and advances, net	671,075,508	460,982,960

9.3 Analysed by type of collateral held or other credit enhancements

	2012-6-30	2011-12-31
Unsecured	133,735,303	69,725,177
Guaranteed	144,773,550	97,272,997
Secured by collateral	368,732,842	286,191,400
Of which: secured by mortgages	280,563,013	220,904,866
secured by monetary assets	88,169,829	65,286,534
Subtotal	647,241,695	453,189,574
Discounted bills	35,663,835	16,712,346
Total loans and advances	682,905,530	469,901,920
Less: Loan impairment provision (Note V.9.6)	(11,830,022)	(8,918,960)
Loans and advances, net	671,075,508	460,982,960

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

9. Loans and advances (continued)

9.4 Aging analysis of past due loans

	2012-6-30				Total
	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	
Unsecured	877,806	784,322	19,258	151,672	1,833,058
Guaranteed	696,970	575,735	82,818	135,209	1,490,732
Secured by collateral	4,999,918	3,485,433	585,333	370,346	9,441,030
Of which:					
secured by mortgages	4,765,911	3,126,067	584,767	220,312	8,697,057
secured by monetary assets	234,007	359,366	566	150,034	743,973
Total	6,574,694	4,845,490	687,409	657,227	12,764,820
	2011-12-31				
	Overdue by 1 to 90 days, inclusive	Overdue by 90 days to 1 year, inclusive	Overdue by 1 to 3 years, inclusive	Overdue by more than 3 years	Total
Unsecured	534,045	61,492	19,195	105,160	719,892
Guaranteed	271,909	59,760	199,701	79,325	610,695
Secured by collateral	3,850,642	691,204	484,874	525,185	5,551,905
Of which:					
secured by mortgages	3,594,429	668,796	475,096	349,070	5,087,391
secured by monetary assets	256,213	22,408	9,778	176,115	464,514
Total	4,656,596	812,456	703,770	709,670	6,882,492

Overdue loans refer to the loans with either principal or interest being overdue by one day or more. For the overdue loans presented above, loans and advances to customers repayable by installments, the total amount of loans is deemed overdue if part of the installments is overdue.

For loans repaid on an installment basis, only the amount which is not repaid upon maturity (not the total amount of loans and advances) is deemed overdue. As at 30 June 2012, there were RMB9,207,447 thousand loans (31 December 2011: RMB5,285,666 thousand) that had been deemed overdue according to this criterion.

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9. Loans and advances (continued)

9.5 Analysed by geographical region

	2012-6-30	2011-12-31
Eastern China	238,438,936	166,309,428
Southern China	223,016,116	126,410,296
Western China	55,033,076	47,852,179
Northern China	127,783,216	110,994,884
Head office	38,634,186	18,335,133
Total loans and advances	682,905,530	469,901,920
Less: Loan impairment provision (Note V.9.6)	(11,830,022)	(8,918,960)
Loans and advances, net	671,075,508	460,982,960

9.6 Movements in impairment provision for loans and advances

	Jan-Jun 2012			Jan-Dec 2011		
	Individual	Collective	Total	Individual	Collective	Total
Balance at beginning of the period/year	1,297,800	7,621,160	8,918,960	1,126,471	5,298,589	6,425,060
Absorption and merger of a subsidiary	123,574	1,769,191	1,892,765	-	-	-
Charge/(reversal) for the period/year	362,185	941,208	1,303,393	(559,690)	2,368,068	1,808,378
Amounts written off	(241,885)	(145,678)	(387,563)	(22,438)	(213,719)	(236,157)
Recovery of loans written off previously	148,980	34,115	183,095	834,323	168,222	1,002,545
Interest accrued on impaired loans and advances	(83,232)	-	(83,232)	(75,050)	-	(75,050)
Other changes for the period/year	4,787	(2,183)	2,604	(5,816)	-	(5,816)
Balance at end of the period/year	1,612,209	10,217,813	11,830,022	1,297,800	7,621,160	8,918,960

10. Available-for-sale financial assets

	2012-6-30	2011-12-31
Bond investments analysed by issuer:		
Governments	3,901,991	5,250,392
The Central Bank	642,974	684,203
Policy banks	65,897,206	40,069,688
Other banks and non-bank financial institutions	2,654,165	1,002,414
Corporations	7,140,730	1,260,243
Subtotal	80,237,066	48,266,940
Less: impairment provision	(38,143)	-
Total bond investments	80,198,923	48,266,940
Equity investments	30,589	25,806
Total	80,229,512	48,292,746

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

10. Available-for-sale financial assets (continued)

As at 30 June 2012, included in the bond investments was an amount of RMB1,817,011 thousand (31 December 2011: RMB7,662,987 thousand) that had been pledged for repurchase agreements.

As at 30 June 2012, included in this total amount of available-for-sale financial assets was an amount of RMB38,143 thousand (31 December 2011: Nil) of impaired assets.

11. Held-to-maturity investments

	2012-6-30	2011-12-31
Bond investments analysed by issuer:		
Governments	21,990,766	14,887,314
The Central Bank	8,148,203	7,677,764
Policy banks	63,767,525	50,859,703
Other banks and non-bank financial institutions	2,209,263	2,234,083
Corporations	12,113,036	7,986,268
Subtotal	108,228,793	83,645,132
Less: Impairment provision	(4,846)	(4,801)
Total	108,223,947	83,640,331

As at 30 June 2012, no bond investments that had been pledged for agreements of time deposit from the PBOC(31 December 2011: RMB6,969,737 thousand).

As at 30 June 2012, included in the bond investments was an amount of RMB 33,179,536 thousand (31 December 2011: RMB20,193,209 thousand) that had been pledged for repurchase agreements.

As at 30 June 2012, included in the bond investments was RMB25,012,814 thousand (31 December 2011: Nil) that had been pledged for amounts due to the central bank agreements.

12. Long term equity investments

<u>Name of investee</u>	2012-6-30	2011-12-31
Cost method:		
Former Ping An Bank	-	26,701,707
Other investments	111,081	85,359
Subtotal	111,081	26,787,066
Equity method:		
<u>Associates</u>		
Chengdu Gongtou Assets Management Co., Ltd.	424,715	429,115
Total	535,796	27,216,181

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13. Placements of deposits from other financial institutions

	2012-6-30	2011-12-31
Domestic banks	234,365,403	61,867,983
Domestic non-bank financial institutions	88,435,520	63,419,269
Overseas banks	925,198	21,766
Total	323,726,121	125,309,018

14. Funds borrowed from other financial institutions

	2012-6-30	2011-12-31
Domestic banks	7,197,324	24,350,000
Domestic non-bank financial institutions	-	120,000
Total	7,197,324	24,470,000

15. Repurchase agreements

	2012-6-30	2011-12-31
(a) Analysed by collateral		
Securities	34,130,800	27,707,200
Bills	2,543,534	-
Total	36,674,334	27,707,200
(b) Analysed by counterparty		
Banks	35,095,534	26,039,000
Non-bank financial institutions	1,578,800	1,668,200
Total	36,674,334	27,707,200

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

16. Customer deposits

	<u>2012-6-30</u>	<u>2011-12-31</u>
Current deposits:		
Corporate customers	218,386,937	142,752,179
Personal customers	87,604,946	48,849,316
Subtotal	<u>305,991,883</u>	<u>191,601,495</u>
Fixed deposits:		
Corporate customers	309,042,198	193,295,010
Personal customers	87,033,144	59,805,873
Subtotal	<u>396,075,342</u>	<u>253,100,883</u>
Guarantee deposits	227,064,855	172,202,794
Fiscal deposits	15,688,472	15,963,261
Time deposits from the PBOC	110,000	5,800,000
Inward and outward remittances	<u>4,647,423</u>	<u>1,916,679</u>
Total	<u><u>949,577,975</u></u>	<u><u>640,585,112</u></u>

17. Accounts payable

	<u>2012-6-30</u>	<u>2011-12-31</u>
Payables with respect to making payments on behalf of customers	25,211,999	66,201,009
Payables under factoring	978,706	942,418
Payables under discounted bills	<u>119,571</u>	<u>114,625</u>
Total	<u><u>26,310,276</u></u>	<u><u>67,258,052</u></u>

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

18. Net interest income

	<u>Jan-Jun 2012</u>	<u>Jan-Jun 2011</u>
Interest income:		
Due from the Central Bank	1,045,279	610,507
Due from financial institutions	3,328,829	4,096,142
Of which: Rediscounted bills and reverse repurchase agreements collateralised by bills	1,799,024	3,631,838
Loans and advances:		
Corporate loans and advances	12,071,781	8,474,867
Individual loans and advances	5,177,249	3,635,560
Discounted bills	224,148	221,436
Interest income on investment securities (excluding financial assets at fair value through profit or loss)	3,645,147	2,116,978
Others	4,855,149	350,458
Subtotal	<u>30,347,582</u>	<u>19,505,948</u>
Interest income on financial assets at fair value through profit or loss	<u>78,814</u>	<u>34,513</u>
Total	<u>30,426,396</u>	<u>19,540,461</u>
Including: Interest income accrued on impaired financial assets	<u>83,232</u>	<u>37,043</u>
Interest expense:		
Due to the Central Bank	11,575	26,644
Due to financial institutions	6,296,432	3,204,133
Of which: Rediscounted bills and repurchase agreements collateralised by bills	124,507	201,323
Customer deposits	9,202,620	5,428,699
Bonds payable	434,343	329,456
Others	1,609,073	159,307
Total	<u>17,554,043</u>	<u>9,148,239</u>
Net interest income	<u><u>12,872,353</u></u>	<u><u>10,392,222</u></u>

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19. Net fee and commission income

	<u>Jan-Jun 2012</u>	<u>Jan-Jun 2011</u>
Fee and commission income:		
Settlement fee income	381,022	315,566
Wealth management products related fee income	270,858	95,474
Agency business fee income	439,443	154,704
Bank card fee income	620,281	301,186
Advisory and consulting fee income	169,254	274,661
Account management fee income	59,757	22,892
Others	327,766	165,552
Subtotal	<u>2,268,381</u>	<u>1,330,035</u>
Fee and commission expenses:		
Agency business fee expenses	56,389	42,022
Bank card fee	133,639	87,761
Others	34,596	12,615
Subtotal	<u>224,624</u>	<u>142,398</u>
Net fee and commission income	<u>2,043,757</u>	<u>1,187,637</u>

20. Investment income

	<u>Jan-Jun 2012</u>	<u>Jan-Jun 2011</u>
Net gain/(loss) on disposal of financial assets designated as at fair value through profit or loss	24,642	(6,528)
Net gain/(loss) on disposal of available-for-sale bond investments	121,297	(22,224)
Net gain on disposal of held-to-maturity bond investments	-	46
Net gain on disposal of long term equity investments	-	1,569
Share of profits of associates under equity method of accounting	15,000	29,000
Gain of absorption and merger of a subsidiary	2,412,047	-
Dividend income	10	2
Net realised gain on derivative financial instruments (excluding foreign exchange derivative financial instruments)	15,943	4,399
Gain on disposal of bills	272,353	344,208
Net gain on disposal of debt instruments being underwritten	-	1,988
Total	<u>2,861,292</u>	<u>352,460</u>

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

21. Business and administrative expenses

	Jan-Jun 2012	Jan-Jun 2011 (Restated)
Staff expenses:		
Salaries, bonuses, allowances and subsidies	2,530,270	1,990,285
Social insurance, supplementary pension contributions and staff welfare	447,100	348,806
Housing funds	119,820	97,585
Labor union and training expenses	53,868	45,750
Others	4,512	7,058
Subtotal	3,155,570	2,489,484
Depreciation, amortisation and rental expenses:		
Depreciation of fixed assets	195,323	177,115
Amortisation of leasehold improvements	69,317	58,060
Amortisation of intangible assets	68,931	31,196
Rental expenses	419,332	322,060
Subtotal	752,903	588,431
General business and administrative expenses	1,678,815	1,328,374
Total	5,587,288	4,406,289

22. Impairment losses on assets

	Jan-Jun 2012	Jan-Jun 2011
Charge/(reversal) of impairment losses on:		
Placements of deposits with other financial institutions	-	10,091
Funds loaned to other financial institutions	-	4,076
Loans and advances	1,303,393	715,041
Held-to-maturity investments	-	4,935
Long term equity investments	-	(3,061)
Repossessed assets	2,318	8,590
Other assets	21,130	(8,994)
Total	1,326,841	730,678

VI. OPERATING SEGMENT INFORMATION

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

Corporate banking

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

Retail banking

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

Interbank business

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

Other

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resources allocations and performance assessment. Segment assets and liabilities, and segment revenues and profit are calculated according to the accounting policies of the Group. 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 segments' revenues are from interest. Management primarily relies on net interest revenue, not the gross revenue and expense amounts.

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

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

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VI. OPERATING SEGMENT INFORMATION (continued)

The Group has implemented full internal transfer pricing strategy. The transfer prices among segments are calculated based on the maturity date of each transaction within a single account (contract) for the purpose of enhancement of asset and liability structure, appropriateness of product pricing and right level of comprehensive performance assessment.

	Corporate banking	Retail banking	Interbank business	Other	Total
<u>Jan-Jun 2012</u>					
Net interest income	11,518,083	3,814,426	1,846,751	(1,022,663)	16,156,597
Of which: External net interest income	7,824,276	4,921,138	1,515,898	1,895,285	16,156,597
Internal net interest income/(expense)	3,693,807	(1,106,712)	330,853	(2,917,948)	-
Net non-interest income (Note 1)	1,254,197	1,144,132	1,011,138	59,470	3,468,937
Of which: Share of profits of associates	-	-	-	15,000	15,000
Operating income	12,772,280	4,958,558	2,857,889	(963,193)	19,625,534
Operating costs (Note 2)	(5,013,264)	(3,693,731)	(239,316)	(272,089)	(9,218,400)
Of which: Depreciation, amortisation and rental expenses	(460,621)	(513,229)	(17,166)	(144,316)	(1,135,332)
Impairment losses on assets	(1,164,301)	(455,543)	-	49,610	(1,570,234)
Net non-operating income	1,347	118	-	40,284	41,749
Segment profit	6,596,062	809,402	2,618,573	(1,145,388)	8,878,649
Income tax expense					(2,009,085)
Profit for the period					<u>6,869,564</u>
<u>2012-6-30</u>					
Total assets	<u>485,176,358</u>	<u>206,272,706</u>	<u>373,894,557</u>	<u>425,279,230</u>	<u>1,490,622,851</u>
Total liabilities	<u>740,446,051</u>	<u>179,131,113</u>	<u>330,767,410</u>	<u>160,455,667</u>	<u>1,410,800,241</u>

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

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

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VI. OPERATING SEGMENT INFORMATION (continued)

	Corporate banking	Retail banking	Interbank business	Other	Subsidiary	Offset	Total
<u>Jan-June 2011</u>							
Net interest income	7,954,822	2,027,788	1,446,606	(1,036,994)	Not applicable	-	10,392,222
Of which: External net interest income	5,131,944	2,747,885	1,635,660	876,733	Not applicable	-	10,392,222
Internal net interest income/(expense)	2,822,878	(720,097)	(189,054)	(1,913,727)	Not applicable	-	-
Net non-interest income (Note 1)	993,683	308,675	411,502	31,185	Not applicable	-	1,745,045
Of which: Share of profits of associates	-	-	-	29,000	Not applicable	-	29,000
Operating income	8,948,505	2,336,463	1,858,108	(1,005,809)	Not applicable	-	12,137,267
Operating costs (Note 2)	(2,906,738)	(1,739,818)	(211,747)	(501,078)	Not applicable	-	(5,359,381)
Of which: Depreciation, amortisation and rental expenses	(299,289)	(272,114)	(17,221)	193	Not applicable	-	(588,431)
Impairment losses on assets	(914,190)	(101,825)	(14,167)	299,504	Not applicable	-	(730,678)
Net non-operating income	-	(17)	-	15,969	Not applicable	-	15,952
Segment profit	5,127,577	494,803	1,632,194	(1,191,414)	Not applicable	-	6,063,160
Income tax expense					Not applicable	-	(1,332,022)
Profit for the period					Not applicable	-	4,731,138
<u>2011-12-31</u>							
Total assets	392,860,933	139,103,955	172,757,543	283,078,044	289,581,586	(19,205,117)	1,258,176,944
Total liabilities	547,392,412	111,367,674	134,737,214	122,164,820	267,205,955	(71,715)	1,182,796,360

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

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

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VI. OPERATING SEGMENT INFORMATION (continued)

Geographical information

The Group's external operating income and non-current assets are mainly attributable to Mainland China based on the locations of the customers and assets respectively for in the current period or Jan-Jun 2011. Non-current assets for this purpose consist of investment properties, fixed assets, construction in progress, repossessed assets and intangible assets.

Information about a major customer

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in the current period or Jan-Jun 2011.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

1. Capital commitments

	2012-6-30	2011-12-31
Authorised, but not contracted for	225,579	3,939
Contracted, but not provided for	142,634	35,793
Total	368,213	39,732

2. Operating lease commitments

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

	2012-6-30	2011-12-31
Within one year, inclusive	980,044	875,609
One to two years, inclusive	717,272	695,309
Two to three years, inclusive	598,173	559,249
More than three years	1,924,642	1,764,395
Total	4,220,131	3,894,562

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VII. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

3. Credit commitments

	<u>2012-6-30</u>	<u>2011-12-31</u>
Financial guarantee contracts:		
Bank acceptances	342,307,398	276,774,879
Guarantees issued	25,048,098	25,172,388
Letters of credit issued	17,309,677	26,024,019
Subtotal	<u>384,665,173</u>	<u>327,971,286</u>
Unused limit of credit cards and undrawn irrevocable loan commitments	<u>44,142,238</u>	<u>42,457,943</u>
Total	<u>428,807,411</u>	<u>370,429,229</u>
Credit risk weighted amounts of credit commitments	<u>179,363,517</u>	<u>156,050,794</u>

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

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB 1,168.8 billion at 30 June 2012(31 December 2011: RMB954 billion) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in the respective loan agreements. The total contract amounts do not necessarily represent future cash requirements.

4. Fiduciary transactions

	<u>2012-6-30</u>	<u>2011-12-31</u>
Entrusted deposits	21,397,363	20,665,182
Entrusted loans	<u>21,397,363</u>	<u>20,665,182</u>
Entrusted funding	49,055,169	33,182,428
Entrusted investments	<u>49,055,169</u>	<u>33,182,428</u>

Entrusted deposits represent funds that depositors have instructed the Group 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 Group to third parties in accordance with the agreed investment plans. The third parties provide funding for the related investments. Income from such investment activities is collected on behalf of and paid to the third parties according to the relevant contractual terms.

VII. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

5. Contingent liabilities

5.1 Legal proceedings

As at 30 June 2012, the total claimed amount of the litigation cases of which the Group is the defendant was RMB245million (31 December 2011: RMB383 million). These litigation cases are under legal proceedings. In the opinion of management, the Group 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 Group to repay a total amount of RMB430 million. The Group had opposed all such repayment requests. At the period end, based on the legal opinion from an independent third-party lawyer, the Group had no immediate obligation to repay the monies.

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

As an underwriting agent of the MOF, the Group underwrites PRC voucher-type government bonds and savings bonds (electronic) and sells the bonds to the general public. The Group 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 notional value of the bonds plus any interest accrued up to the redemption date. As at 30 June 2012, the Group has sold voucher-type government bonds and savings bonds (electronic) with accumulated amounts of RMB2,201,452 thousand (31 December 2011: RMB2,558,355 thousand) and RMB1,096,858 thousand (31 December 2011: RMB766,947 thousand) respectively, to the general public that the Group 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 2012 and 31 December 2011, there was no unexpired underwriting commitment of the government bonds.

VIII. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements, to maximise shareholders' value and to support the continuous growth in business. The Group 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 Group on a quarterly basis.

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VIII. CAPITAL MANAGEMENT (continued)

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 Group 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.

	2012-6-30	2011-12-31
Net core capital	71,375,280	67,243,978
Supplementary capital	25,546,642	24,663,844
Net capital	96,425,803	91,491,101
Risk-weighted assets and market risk capital adjustment	845,914,644	794,701,556
Core capital adequacy ratio	8.44%	8.46%
Capital adequacy ratio	11.40%	11.51%

IX. RISK DISCLOSURE

1. Credit risk

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

The Group has established a credit policy committee under uniform management and a credit approval supervisory team, as well as expanded the functions of the regional credit management departments as so to fully perform the management and supervision on asset quality. The Group has also established the system of regular monthly credit meetings to review any management conditions and issues arising from the bank-wide credit operation, portfolio management and control on non-performing loans, ect., as well as to supervise the effective implementation of various risk management and control measures.

The Group has established an independent vertical credit risk management system where the Chief Credit Risk Officer at the Head Office is responsible for the credit risk management of the Group and branch credit officers are appointed to take care of the credit risk management of branches; branch credit officers directly report to the Chief Credit Risk Officer who is responsible for appraising the performance of branch credit officers.

IX. RISK DISCLOSURE (continued)

1. Credit risk (continued)

The Group has formulated a complete set of credit management processes and internal control mechanisms, so as to carry out whole process management of credit business. 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 Group 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 Group also further enhanced its credit risk monitoring and early warning management system in order to improve its credit risk monitoring. The Group actively responded to the change of the credit environment by conducting regular analysis on credit risk situation and matters and taking precautionary risk control measures with a forward-looking vision. The Group also set up a problematic loan optimization mechanism to speed up the problematic loan optimization process and preventing them from deteriorating to non-performing loans.

The Group 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 Group 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.

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IX. RISK DISCLOSURE (continued)

1. Credit risk (continued)

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

	<u>2012-06-30</u>	<u>2011-12-31</u>
Due from the Central Bank	178,145,668	158,399,671
Placements of deposits with other financial institutions	106,987,239	39,884,342
Funds loaned to other financial institutions	26,319,620	8,446,567
Financial assets at fair value through profit or loss	5,459,603	2,607,902
Derivative financial assets	802,983	810,577
Reverse repurchase agreements	117,195,402	34,303,887
Loans and advances	671,075,508	610,075,336
Available-for-sale financial assets (excluding equity investments)	80,198,923	78,357,720
Held-to-maturity investments	108,223,947	107,683,080
Receivables	37,103,700	13,732,100
Other assets	<u>135,141,679</u>	<u>178,632,785</u>
 Total	 <u>1,466,654,272</u>	 <u>1,232,933,967</u>
 Credit commitments	 <u>428,807,411</u>	 <u>370,429,229</u>
 Maximum exposure to credit risk	 <u><u>1,895,461,683</u></u>	 <u><u>1,603,363,196</u></u>

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 Group 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 IV.9 for an analysis of concentration of loans and advances by industry and geographical region.

Collateral and other credit enhancements

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

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IX. RISK DISCLOSURE (continued)

1. Credit risk (continued)

Collateral and other credit enhancements (continued)

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, mainly bills, beneficial right of trust, 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 Group is analysed as follows:

<u>2012-6-30</u>	<u>Neither past due nor impaired</u>	<u>Past due but not impaired</u>	<u>Impaired (Note)</u>	<u>Total</u>
Placements of deposits with other financial institutions	106,996,702	-	31,520	107,028,222
Funds loaned to other financial institutions	26,316,855	-	27,190	26,344,045
Financial assets at fair value through profit or loss	5,459,603	-	-	5,459,603
Reverse repurchase agreements	117,183,356	-	47,046	117,230,402
Accounts receivable	123,109,583	-	-	123,109,583
Loans and advances	670,048,870	7,646,783	5,209,877	682,905,530
Available-for-sale financial assets (excluding equity investments)	80,198,923	-	38,143	80,237,066
Held-to-maturity investments	108,228,793	-	-	108,228,793
Receivables	37,103,700	-	-	37,103,700
Total	1,274,646,385	7,646,783	5,353,776	1,287,646,944

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IX. RISK DISCLOSURE (continued)

1. Credit risk (continued)

Credit quality (continued)

<u>2011-12-31</u>	<u>Neither past due nor impaired</u>	<u>Past due but not impaired</u>	<u>Impaired (Note)</u>	<u>Total</u>
Placements of deposits with other financial institutions	39,893,735	-	31,520	39,925,255
Funds loaned to other financial institutions	8,443,828	-	26,997	8,470,825
Financial assets at fair value through profit or loss	2,607,902	-	-	2,607,902
Reverse repurchase agreements	34,291,841	-	47,046	34,338,887
Accounts receivable	170,589,011	-	-	170,589,011
Loans and advances	612,017,588	5,171,422	3,452,807	620,641,817
Available-for-sale financial assets (excluding equity investments)	78,357,720	-	37,830	78,395,550
Held-to-maturity investments	107,687,881	-	-	107,687,881
Receivables	13,732,100	-	-	13,732,100
Total	<u>1,067,621,606</u>	<u>5,171,422</u>	<u>3,596,200</u>	<u>1,076,389,228</u>

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 2012, impaired loans and advances comprise overdue loans of RMB5,118,037 thousand (31 December 2011: RMB3,299,698 thousand) and non-overdue loans of RMB91,840 thousand (31 December 2011: RMB153,109 thousand).

Neither past due nor impaired loans and advances

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

	<u>2012-6-30</u>	<u>2011-12-31</u>
Pass	668,665,657	609,694,452
Special Mention	1,383,213	2,323,136
Total	<u>670,048,870</u>	<u>612,017,588</u>

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IX. RISK DISCLOSURE (continued)

1. Credit risk (continued)

Credit quality (continued)

Past due but not impaired loans and advances

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

	2012-6-30				Total	Fair value of collateral
	Within 1 month	1 to 2 months	2 to 3 months	More than 3 months		
Corporate loans and advances	1,125,327	585,765	381,668	1,282,271	3,375,031	2,820,081
Personal loans	3,604,716	427,594	239,442	-	4,271,752	9,204,026
Total	4,730,043	1,013,359	621,110	1,282,271	7,646,783	12,024,107
	2011-12-31				Total	Fair value of collateral
	Within 1 month	1 to 2 months	2 to 3 months	More than 3 months		
Corporate loans and advances	686,469	503,820	167,976	12,451	1,370,716	1,150,078
Personal loans	1,206,279	2,369,981	224,446	-	3,800,706	8,768,794
Total	1,892,748	2,873,801	392,422	12,451	5,171,422	9,918,872

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 Group holds relating to corporate loans and advances individually determined to be impaired at 30 June 2012 amounted to RMB1,877 million (31 December 2011: RMB999 million).

IX. RISK DISCLOSURE (continued)

1. Credit risk (continued)

Credit quality (continued)

Impaired amounts due from other financial institutions

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

	2012-6-30	2011-12-31
Loans and advances to customers	916,703	887,311

2. Liquidity risk

Liquidity risk refers to the risk that a commercial bank has the solvency but cannot obtain sufficient fund in a timely manner or cannot obtain sufficient fund in time with reasonable cost to deal with asset growth or pay off due debts. The Group has built a complete liquidity risk management system putting in use multiple management methods, aiming to effectively identify, measure, monitor, and control liquidity risks and keep sufficient liquidity to satisfy various fund demands and deal with adverse market situations. To effectively monitor and control liquidity risks, the Group pays great attention to diversity of fund source and fund application, and has been keeping a relatively high proportion of current assets. The Group monitors fund source and application, loan and deposit size as well as quick ratio on a daily basis. Meanwhile, the Group, in applying multiple liquidity risk management indicators, incorporates the forecast results into stress test to assess future liquidity risk level, and proposes corresponding solutions in light of special circumstances.

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IX. RISK DISCLOSURE (continued)

2. Liquidity risk (continued)

As at 30 June 2012, the remaining contractual maturity analysis of the Group's financial assets and financial liabilities (based on contractual undiscounted cash flows) was as follows:

	2012-6-30							Total
	Overdue/ on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	
Non-derivative cash flows:								
<u>Financial assets:</u>								
Cash on hand and due from the Central Bank	24,962,830	-	-	-	-	-	155,520,544	180,483,374
Amounts due from other financial institutions (1)	10,493,525	116,983,155	53,634,909	59,262,610	15,155,922	-	-	255,530,121
Financial assets at fair value through profit or loss	-	672,820	580,526	3,260,060	1,212,883	-	-	5,726,289
Accounts receivable	-	18,526,619	52,204,764	55,082,436	2,369,128	-	-	128,182,947
Loans and advances	10,585,541	47,361,132	114,492,049	322,429,815	150,034,959	125,766,595	-	770,670,091
Available-for-sale financial assets	-	2,283,238	1,809,807	8,317,886	55,528,674	26,374,686	30,589	94,344,880
Held-to-maturity investments	-	1,640,403	2,724,113	17,710,499	72,333,807	31,599,926	-	126,008,748
Receivables	-	4,347,776	5,595,073	27,902,222	824,105	-	-	38,669,176
Long term equity investments	-	-	-	-	-	-	535,796	535,796
Other financial assets	348,464	1,395,343	1,510,118	232,055	-	5,100	-	3,491,080
Total financial assets	46,390,360	193,210,486	232,551,359	494,197,583	297,459,478	183,746,307	156,086,929	1,603,642,502
<u>Financial liabilities:</u>								
Due to the Central Bank	-	25,040,274	778,071	468,101	-	-	-	26,286,446
Amounts due to other financial institutions (2)	18,800,807	177,344,797	115,846,562	57,954,807	2,724,634	-	-	372,671,607
Financial liabilities at fair value through profit or loss	-	-	-	398,598	-	-	-	398,598
Accounts payable	-	3,301,660	12,585,480	10,438,263	843,594	-	-	27,168,997
Customer deposits	400,764,625	113,638,004	147,606,519	213,113,121	101,683,420	-	-	976,805,689
Bonds payable	-	-	6,800	7,459,600	6,157,750	6,386,000	-	20,010,150
Other financial liabilities	4,799,299	1,157,695	120,572	2,754,279	928,736	2,444	-	9,763,025
Total financial liabilities	424,364,731	320,482,430	276,944,004	292,586,769	112,338,134	6,388,444	-	1,433,104,512
Derivative cash flows:								
Derivative financial instruments settled on a net basis	-	(1,014)	1,852	7,561	10,378	-	-	18,777
Derivative financial instruments settled on a gross basis	-	-	-	-	-	-	-	-
Of which: Cash inflow	-	37,444,898	44,407,772	91,555,653	3,556,204	-	-	176,964,527
Cash outflow	-	(37,398,435)	(44,375,909)	(91,556,702)	(3,553,265)	-	-	(176,884,311)
	-	46,463	31,863	(1,049)	2,939	-	-	80,216

(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.

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IX. RISK DISCLOSURE (continued)

2. Liquidity risk (continued)

As at 31 December 2011, the remaining contractual maturity analysis of the Group's financial assets and financial liabilities (based on contractual undiscounted cash flows) was as follows:

	2011-12-31						Undated	Total
	Overdue/ on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years		
Non-derivative cash flows:								
<u>Financial assets:</u>								
Cash on hand and due from the Central Bank	23,641,429	-	-	-	-	-	137,064,108	160,705,537
Amounts due from other financial institutions (1)	5,672,846	39,024,359	17,825,472	21,112,302	140,212	-	-	83,775,191
Financial assets at fair value through profit or loss	-	4,133	96,914	325,259	1,579,409	1,176,323	-	3,182,038
Accounts receivable	-	12,670,214	72,156,138	90,709,195	1,694,912	-	-	177,230,459
Loans and advances	3,750,267	52,106,782	82,135,764	285,568,591	150,253,866	138,335,188	-	712,150,458
Available-for-sale financial assets	-	1,040,990	1,338,442	12,950,561	54,523,395	22,081,220	25,806	91,960,414
Held-to-maturity investments	-	299,374	1,280,551	11,221,155	77,040,856	36,934,312	-	126,776,248
Receivables	-	541,123	13,549	13,370,894	534,140	-	-	14,459,706
Long term equity investments	-	-	-	-	-	-	539,294	539,294
Other financial assets	87,586	1,675	665,824	-	-	5,208	-	760,293
Total financial assets	33,152,128	105,688,650	175,512,654	435,257,957	285,766,790	198,532,251	137,629,208	1,371,539,638
<u>Financial liabilities:</u>								
Due to the Central Bank	-	224,761	161,806	749,863	-	-	-	1,136,430
Amounts due to other financial institutions (2)	16,491,655	99,428,568	55,584,634	51,775,116	-	-	-	223,279,973
Accounts payable	-	7,550,547	34,616,569	30,844,837	-	-	-	73,011,953
Customer deposits	385,145,370	96,918,690	115,182,236	189,706,633	85,822,066	2,044,136	-	874,819,131
Bonds payable	-	-	374,563	596,925	13,085,518	6,740,120	-	20,797,126
Other financial liabilities	5,096,677	197,631	2,330,791	865,481	533,535	2,543	-	9,026,658
Total financial liabilities	406,733,702	204,320,197	208,250,599	274,538,855	99,441,119	8,786,799	-	1,202,071,271
Derivative cash flows:								
Derivative financial instruments settled on a net basis	-	(6,200)	(483)	426	(5,615)	-	-	(11,872)
Derivative financial instruments settled on a gross basis	-	-	-	-	-	-	-	-
Of which: Cash inflow	-	27,769,003	26,040,712	55,995,943	843,945	-	-	110,649,603
Cash outflow	-	(27,768,666)	(26,031,750)	(55,928,527)	(843,995)	-	-	(110,572,938)
	-	337	8,962	67,416	(50)	-	-	76,665

(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.

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IX. RISK DISCLOSURE (continued)

2. Liquidity risk (continued)

Analysis of credit commitments by contractual expiry date:

	Repayable on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
<u>2012-6-30</u>								
Credit commitments	<u>59,562,217</u>	<u>58,507,544</u>	<u>136,563,902</u>	<u>165,633,748</u>	<u>8,538,450</u>	<u>1,550</u>	<u>-</u>	<u>428,807,411</u>
<u>2011-12-31</u>								
Credit commitments	<u>61,377,670</u>	<u>51,517,141</u>	<u>112,546,688</u>	<u>137,764,845</u>	<u>7,210,166</u>	<u>12,719</u>	<u>-</u>	<u>370,429,229</u>

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

IX. RISK DISCLOSURE (continued)

3. Market risk

The principal market risk faced by the Group comes from interest rate and the position of exchange rate products. The target of market risk management is to avoid uncontrollable loss of revenue or equity caused by market risk, and to offset the impact of volatility risk of financial instruments on the Group. Approval of market risk management policy is the responsibility of the board. The Board of Directors of the Group is responsible for approving policies of market risk management, and authorizes the Asset and Liability Management Committee to specifically approve the credit limit on market risk for capital investment business, while conducting regular supervision on market risks. The specialized department under the Asset and Liability Management Committee undertakes regular functions of market risk monitoring, including determining a reasonable level of market risk exposure, monitoring daily operation of treasury business, giving advice to adjust maturity structure and interest rate structure of assets and liabilities.

The transaction account interest rate risk comes from the change in interest rate and product price of transaction account resulted from the change in market interest rate, which in turn affects the profit or loss of the Group for the period. The Group mainly manages the transaction account interest rate risk by adopting measures such as interest rate sensitive limit and daily and monthly stop-loss limit to ensure that the fluctuations of interest rate and market value of product are within the affordable scope of the Group.

Bank account interest rate risk comes from mismatch of maturity date or contract re-pricing date between interest-earning assets and interest-bearing liabilities. Interest-earning assets and interest-bearing liabilities of the Group are primarily priced in RMB. The People's Bank of China has specified the lower rate limit for basic RMB loans and upper rate limit for basic RMB deposits. The Group manages interest rate risk primarily by adjusting asset/liability pricing structure, regularly monitoring sensitive gaps of interest rate, analyzing characteristics of asset/liability re-pricing, and using asset/liability management system to conduct scenario analysis on interest risk. The Group regularly convenes Asset and Liability Management Committee meetings to adjust asset/liability structure timely and appropriately and manage interest rate risk by predicting future macro-economic trends and analyzing base rate policies of Peoples' Bank of China.

In the opinion of management, as the market risk of the Group's trading business activities is not material, the Group has not separately disclosed quantitative information about exposure to market risk arising from the trading portfolio.

3.1. Currency risk

The Group'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 Group mainly arises from loans and advances, investments and deposits denominated in foreign currencies. The 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.

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IX. RISK DISCLOSURE (continued)

3. Market risk (continued)

3.1. Currency risk (continued)

As at 30 June 2012, the Group's foreign currency assets and liabilities analysed by currency were as follows:

	2012-6-30			Total
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
<u>Assets</u>				
Cash on hand and due from the Central Bank	2,698,603	398,804	17,374	3,114,781
Amounts due from other financial institutions (1)	32,114,421	1,291,095	4,326,902	37,732,418
Financial assets at fair value through profit or loss and derivative financial assets	470,822	-	-	470,822
Accounts receivable	10,797,934	76,508	64,048	10,938,490
Loans and advances	31,329,871	998,265	77,717	32,405,853
Held-to-maturity investments	560,868	-	-	560,868
Others	505,616	7,600	1,941	515,157
Total assets	78,478,135	2,772,272	4,487,982	85,738,389
<u>Liabilities</u>				
Amounts due to other financial institutions (2)	6,415,555	147,673	586,698	7,149,926
Financial liabilities at fair value through profit or loss and derivative financial liabilities	409,947	-	-	409,947
Accounts payable	2,074,387	14,484	14,721	2,103,592
Customer deposits	56,052,215	7,237,573	4,710,684	68,000,472
Others	475,836	59,056	67,785	602,677
Total liabilities	65,427,940	7,458,786	5,379,888	78,266,614
Net position of foreign currency (3)	13,050,195	(4,686,514)	(891,906)	7,471,775
Notional amount of foreign exchange derivative financial instruments	(11,107,803)	4,662,624	848,251	(5,596,928)
Total	1,942,392	(23,890)	(43,655)	1,874,847
Off-balance sheet credit commitments	11,046,180	385,820	767,991	12,199,991

- (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.

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IX. RISK DISCLOSURE (continued)

3. Market risk (continued)

3.1. Currency risk (continued)

As at 31 December 2011, the Company's foreign currency assets and liabilities analysed by currency were as follows:

	2011-12-31			Total
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
<u>Assets</u>				
Cash on hand and due from the Central Bank	1,456,457	214,974	14,967	1,686,398
Amounts due from other financial institutions (1)	5,186,010	1,158,170	1,934,204	8,278,384
Financial assets at fair value through profit or loss and derivative financial assets	95,242	-	-	95,242
Accounts receivable	8,587,984	65,362	89,322	8,742,668
Loans and advances	15,820,451	1,158,063	106,730	17,085,244
Available-for-sale financial assets	292,484	-	377,562	670,046
Held-to-maturity investments	823,180	-	-	823,180
Others	254,260	7,862	4,344	266,466
Total assets	32,516,068	2,604,431	2,527,129	37,647,628
<u>Liabilities</u>				
Amounts due to other financial institutions (2)	1,021,374	238,242	579,767	1,839,383
Accounts payable	2,436,631	52,388	75,556	2,564,575
Customer deposits	21,202,799	5,475,469	2,092,954	28,771,222
Others	174,806	33,749	7,084	215,639
Total liabilities	24,835,610	5,799,848	2,755,361	33,390,819
Net position of foreign currency (3)	7,680,458	(3,195,417)	(228,232)	4,256,809
Notional amount of foreign exchange derivative financial instruments	(4,466,765)	3,174,932	188,307	(1,103,526)
Total	3,213,693	(20,485)	(39,925)	3,153,283
Off-balance sheet credit commitments	11,405,695	632,562	556,500	12,594,757

- (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.

IX. RISK DISCLOSURE (continued)

3. Market risk (continued)

3.1. Currency risk (continued)

The table below indicates the sensitivity analysis of exchange rate changes of the currencies to which the Group 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 Group 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.

2012-6-30

Currency	Change in exchange rate in %	Effect on profit before tax (RMB equivalent)
USD	+/-5%	+/-97,120
HKD	+/-5%	-/+1,195

2011-12-31

Currency	Change in exchange rate in %	Effect on profit before tax (RMB equivalent)
USD	+/-5%	+/-160,685
HKD	+/-5%	-/+1,024

3.2. Interest rate risk

The Group'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 Group are mainly denominated in RMB. The PBOC sets a cap and a floor on interest rates on deposits and loans, respectively.

The Group 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.

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IX. RISK DISCLOSURE (continued)

3. Market risk (continued)

3.2. Interest rate risk (continued)

As at 30 June 2012, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Group's balance sheet were analysed as follows:

	2012-6-30					Total
	Within 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-interest-bearing	
Assets:						
Cash on hand and due from the Central Bank	174,392,398	-	-	-	6,022,037	180,414,435
Amounts due from other financial institutions (1)	179,962,586	56,271,175	14,268,500	-	-	250,502,261
Financial assets at fair value through profit or loss and derivative financial assets	1,423,654	2,658,429	945,498	-	1,235,005	6,262,586
Accounts receivable	69,143,708	52,520,965	1,444,910	-	-	123,109,583
Loans and advances	454,537,015	194,158,232	17,852,505	4,527,756	-	671,075,508
Available-for-sale financial assets	32,974,037	24,563,683	14,035,014	8,565,343	91,435	80,229,512
Held-to-maturity investments	21,884,624	26,103,580	44,971,088	15,264,655	-	108,223,947
Receivables	9,667,500	26,652,200	784,000	-	-	37,103,700
Long term equity investments	-	-	-	-	535,796	535,796
Fixed assets	-	-	-	-	3,247,386	3,247,386
Others	-	-	-	-	22,349,833	22,349,833
Goodwill	-	-	-	-	7,568,304	7,568,304
Total assets	943,985,522	382,928,264	94,301,515	28,357,754	41,049,796	1,490,622,851
Liabilities:						
Amounts due to the Central Bank	25,800,140	440,038	-	-	-	26,240,178
Amounts due to other financial institutions (2)	308,845,038	56,144,241	2,608,500	-	-	367,597,779
Financial liabilities at fair value through profit or loss and derivative financial liabilities	-	-	-	-	1,130,187	1,130,187
Accounts payable	16,268,164	10,032,584	9,528	-	-	26,310,276
Customer deposits	658,884,076	201,407,094	84,336,761	-	4,950,044	949,577,975
Bonds payable	499,898	7,831,241	2,624,481	5,112,452	-	16,068,072
Others	-	-	-	-	23,875,774	23,875,774
Total liabilities	1,010,297,316	275,855,198	89,579,270	5,112,452	29,956,005	1,410,800,241
Interest rate risk exposure	(66,311,794)	107,073,066	4,722,245	23,245,302	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.

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IX. RISK DISCLOSURE (continued)

3. Market risk (continued)

3.2. Interest rate risk (continued)

As at 31 December 2011, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Group's balance sheet were analysed as follows:

	2011-12-31				Non-interest-bearing	Total
	Within 3 months	3 months to 1 year	1 year to 5 years	More than 5 years		
Assets:						
Cash on hand and due from the Central Bank	157,561,807	-	-	-	3,073,429	160,635,236
Amounts due from other financial institutions (1)	62,209,226	20,425,570	-	-	-	82,634,796
Financial assets at fair value through profit or loss and derivative financial assets	1,371,479	313,333	492,743	426,922	814,002	3,418,479
Accounts receivable	86,962,940	83,596,802	29,269	-	-	170,589,011
Loans and advances	457,752,831	134,941,046	12,935,336	4,446,123	-	610,075,336
Available-for-sale financial assets	31,472,107	30,051,309	12,658,379	4,046,516	155,215	78,383,526
Held-to-maturity investments	19,899,227	21,201,606	49,858,195	16,724,052	-	107,683,080
Receivables	530,000	12,702,100	500,000	-	-	13,732,100
Long term equity investments	-	-	-	-	539,294	539,294
Fixed assets	-	-	-	-	3,524,265	3,524,265
Others	-	-	-	-	19,393,517	19,393,517
Goodwill	-	-	-	-	7,568,304	7,568,304
Total assets	817,759,617	303,231,766	76,473,922	25,643,613	35,068,026	1,258,176,944
Liabilities:						
Amounts due to the Central Bank	385,987	744,889	-	-	-	1,130,876
Amounts due to other financial institutions (2)	170,510,933	49,375,564	-	-	-	219,886,497
Derivative financial liabilities	-	-	-	-	732,418	732,418
Accounts payable	41,796,814	28,763,920	-	-	-	70,560,734
Customer deposits	603,580,760	182,483,547	61,109,982	2,034,000	1,636,858	850,845,147
Bonds payable	500,616	1,831,454	8,610,614	5,111,802	-	16,054,486
Others	-	-	-	-	23,586,202	23,586,202
Total liabilities	816,775,110	263,199,374	69,720,596	7,145,802	25,955,478	1,182,796,360
Interest rate risk exposure	984,507	40,032,392	6,753,326	18,497,811	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.

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IX. RISK DISCLOSURE (continued)

3. Market risk (continued)

3.2. Interest rate risk (continued)

The Group 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 Group arising from this portfolio is not significant. For other financial assets and liabilities, the Group mainly uses a gap analysis to measure and control the related interest rate risk.

As at 30 June 2012 and 31 December 2011, the gap analyses of the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) were as follows:

	2012-6-30		2011-12-31	
	Changes in interest rate (basis points)		Changes in interest rate (basis points)	
	-50	+50	-50	+50
Effect on the net interest income increase/(decrease)	100,565	(100,565)	(72,780)	72,780
Effect on equity increase/(decrease)	540,050	(540,050)	311,543	(311,543)

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

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

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

Regarding 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.

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IX. RISK DISCLOSURE (continued)

4. Fair value of financial instruments

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

	<u>Carrying value</u>	<u>Fair value</u>
<u>2012-6-30</u>		
Receivables	37,103,700	37,103,700
Held-to-maturity investments	108,223,947	109,034,672
Bonds payable	16,068,072	16,297,620
<u>2011-12-31</u>		
Receivables	13,732,100	13,732,100
Held-to-maturity investments	107,683,080	107,738,265
Bonds payable	16,054,486	15,843,464

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

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain financial assets and liabilities held and issued by the Group, 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 investments 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 Group'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:

<u>Assets</u>	<u>Liabilities</u>
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

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IX. RISK DISCLOSURE (continued)

4. Fair value of financial instruments (continued)

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

	Quoted market price ("Level 1")	Valuation techniques – market observable inputs ("Level 2")	Valuation techniques – non-market observable inputs ("Level 3")	Total
<u>2012-6-30</u>				
Financial assets:				
Financial assets at fair value through profit or loss	398,598	5,000,131	60,874	5,459,603
Derivative financial assets	-	802,983	-	802,983
Available-for-sale financial assets	30,589	80,198,923	-	80,229,512
Total	429,187	86,002,037	60,874	86,492,098
Financial liabilities:				
Financial liabilities at fair value through profit or loss	398,598	-	-	398,598
Derivative financial liabilities	-	731,589	-	731,589
Total	398,598	731,589	-	1,130,187
	Quoted market price ("Level 1")	Valuation techniques – market observable inputs ("Level 2")	Valuation techniques – non-market observable inputs ("Level 3")	Total
<u>2011-12-31</u>				
Financial assets:				
Financial assets at fair value through profit or loss	37,639	2,512,660	57,603	2,607,902
Derivative financial assets	-	810,577	-	810,577
Available-for-sale financial assets	475,513	77,908,013	-	78,383,526
Total	513,152	81,231,250	57,603	81,802,005
Financial liabilities:				
Derivative financial liabilities	-	732,418	-	732,418

During the period, there was no transfer of available-for-sale equity investments from Level 2 to Level 1 fair value measurements as the related tradable shares became unrestricted during the period.(2011: RMB6.98 million.)

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IX. RISK DISCLOSURE (continued)

4. Fair value of financial instruments (continued)

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial instruments which are recorded at fair value.

<u>2012-06-30</u>	<u>Balance at beginning of the period</u>	<u>Sales during the period</u>	<u>Losses from changes in fair values of the period</u>		<u>Balance at end of the period</u>
Financial assets at fair value through profit or loss	<u>57,603</u>	<u>-</u>	<u>3,271</u>		<u>60,874</u>
<u>2011</u>	<u>Balance at beginning of the year</u>	<u>Acquisition of a subsidiary</u>	<u>Sales during the year</u>	<u>Losses from changes in fair values of the year</u>	<u>Balance at end of the year</u>
Financial assets at fair value through profit or loss	<u>-</u>	<u>60,898</u>	<u>-</u>	<u>(3,295)</u>	<u>57,603</u>

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Parent company:

<u>Name</u>	<u>Place of registration</u>	<u>Percentage of equity interest held</u>	
		<u>2012-06-30</u>	<u>2011-12-31</u>
Ping An Insurance (Group) Company of China, Ltd.	Shenzhen, PRC	52.38%	52.38%

Ping An Insurance (Group) Company of China, Ltd. (hereafter referred to as "China Ping An") was established in Shenzhen, the People's Republic of China on 21 March 1988. The business scope of China Ping An includes investing in financial and insurance enterprises, supervising and managing various domestic and overseas businesses of its subsidiaries, and treasury trading.

As at 30 June 2012, 10.22% of shares (31 December 2011: 10.22%) of the Company were indirectly held by China Ping An through its subsidiary, Ping An Life Insurance Company of China, Ltd.

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

Outstanding balances at the period/year end	2012-6-30	2011-12-31
Receivables	100,000	100,000
Interest Receivable	1,059	3,167
Other Assets	135,846	4,365
Amounts due to other financial institutions	5,213,261	3,772,574
Customer deposits	31,143,880	25,147,518
Bonds payable	397,357	500,637
Interest Payable	765,183	725,592
Other Liabilities	108,940	47,174
Credit limit of factoring	2,000,000	2,000,000
Interbank credit limit	4,900,000	1,500,000
Guarantees issued	-	500,000
Transactions during the period	Jan-Jun 2012	Jan-Jun 2011
Interest income on receivables	2,091	2,080
Agency business fee income	18,742	8,167
Custodian services fee income	6,669	544
Interest expenses on amounts due to other financial institutions	41,277	74
Interest expenses on customer deposits	620,993	91,417
Interest expenses on bonds payable	11,346	3,505
Insurance premium expenses	26,725	1,360
Payment under operating leases	8,305	-
Service fees	243,687	-

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

3. Major transactions between the Group and the key management personnel during the period are listed below:

Loans	Jan-Jun 2012	Jan- Dec 2011
Balance at beginning of the period/year	5,467	959
Increase during the period/year	1,488	5,736
Decrease during the period/year	(514)	(1,228)
Balance at end of the period/year	6,441	5,467
Interest income on loans	153	133

As at 30 June 2012, the annual interest rates of these loan transactions ranged from 1.57%-6.8%.

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

3. Major transactions between the Group and the key management personnel during the period are listed below (continued):

Deposits	<u>Jan-Jun 2012</u>	<u>Jan- Dec 2011</u>
Balance at beginning of the period/year	24,794	11,728
Increase during the period/year	682,578	583,672
Decrease during the period/year	<u>(671,953)</u>	<u>(570,606)</u>
Balance at end of the period/year	<u>35,419</u>	<u>24,794</u>
 Interest expense on deposits	 <u>212</u>	 <u>658</u>

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

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

	<u>Jan-Jun 2012</u>	<u>Jan- Jun 2011</u>
Salaries and other short term employee benefits	13,245	14,658
Post-employment benefits	529	439
Deferred bonus accrual (Note)	<u>3,876</u>	<u>3,348</u>
 Total	 <u>17,650</u>	 <u>18,445</u>

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 2012, the Group has authorised a total credit facility of RMB3.05 billion (31 December 2011: RMB3.55 billion) for entities relating to the key management personnel of the Company and the associates companies, which included an outstanding loan balance amounting to RMB0.44 billion (31 December 2011: RMB0.52 billion) and the accounts receivable balance amounting to RMB0.269 billion (31 December 2011: RMB0.10 billion), and an outstanding facility of the off-balance sheet items amounting to RMB0.058 billion (31 December 2011: RMB0.067 billion). As at 30 June 2012, the Group took deposit of amounting to RMB0.663 billion from the above entities relating to the key management personnel of the Company and the associates companies (31 December 2011: RMB0.892 billion).

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XI. POST BALANCE SHEET EVENTS

As approved by the China Banking Regulatory Commission in accordance with “China Banking Regulatory Commission on the approval for renaming of Shenzhen Development Bank “(Yin Jian Fu [2012] No.397) on 20 July, 2012, the Chinese Name of the Company, being “深圳发展银行股份有限公司” has been changed to “平安银行股份有限公司”. The English name of “Shenzhen Development Bank Co., Ltd” has been changed to “Ping An Bank Co., Ltd”. On 27 July, 2012, the Company completed the relevant name change procedures with the Shenzhen Market Supervision and Management Bureau. After the change of name, the Company financial services permit number has been changed to 00386413 as approved by the China Regulatory Commission.

A board resolution on the Company’s distributed cash dividends of RMB 0.10 Yuan per share (inclusive of tax) after appropriating the general reserve has been passed on 15 August 2012 and the resolution has been reported to the shareholders’ general meetings for approval. The total dividends are RMB 512,335 thousand based on the calculation of issued shares outstanding as at 30 June, 2012. The dividends payable has not been recognized in the financial statements.

XII. COMPARATIVE FIGURES

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

XIII. OTHER SIGNIFICANT ITEMS

1. Assets and liabilities carried at fair value

Jan-Jun 2012	Balance at beginning of the period	Gains or (losses) from changes in fair values during the period	Accumulated valuation gain taken into other comprehensive income	Balance at end of the period
Assets:				
Financial assets at fair value through profit or loss	2,607,902	(16,576)	-	5,459,603
Derivative financial assets	810,577	(7,594)	-	802,983
Available-for-sale financial assets	78,383,526	-	606,504	80,229,512
Total	81,802,005	(24,170)	606,504	86,492,098
Liabilities:				
Financial liabilities at fair value through profit or loss	-	13,759	-	(398,598)
Derivative financial liabilities	(732,418)	829	-	(731,589)
Total	(732,418)	14,588	-	(1,130,187)

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XIII. OTHER SIGNIFICANT ITEMS (continued)

2. Foreign currency financial assets and foreign currency financial liabilities

<u>Jan-Jun 2012</u> (RMB equivalent)	Balance at beginning of the period	Gains or (losses) from changes in fair values during the period	Accumulated valuation gain taken into other comprehensive income	Impairment provision charged for the period	Balance at end of the period
Foreign currency financial assets:					
Cash on hand and due from the Central Bank	1,686,398	-	-	-	3,114,781
Amounts due from other financial institutions (1)	8,278,384	-	-	-	37,732,418
Financial assets at fair value through profit or loss and derivative financial assets	95,242	(556)	-	-	470,822
Accounts receivable	8,742,668	-	-	-	10,938,490
Loans and advances	17,085,244	-	-	157,789	32,405,853
Available-for-sale financial assets	671,463	-	1,742	-	1,742
Held-to-maturity investments	823,180	-	-	-	560,868
Long term equity investments	684	-	-	-	684
Other assets	266,466	-	-	(325)	515,157
Total	37,649,729	(556)	1,742	157,464	85,740,815
Foreign currency financial liabilities:					
Amounts due to other financial institutions (2)	1,839,383	-	-	-	7,149,926
Financial liabilities at fair value through profit or loss and derivative financial liabilities	-	(2,409)	-	-	409,947
Customer deposits	28,771,222	-	-	-	68,000,472
Accounts payable	2,564,575	-	-	-	2,103,592
Other liabilities	215,550	-	-	-	602,144
Total	33,390,730	(2,409)	-	-	78,266,081

(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.

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Net asset return and earnings per share

<u>Jan-Jun 2012</u>	<u>Profit for the</u>	<u>Net asset return</u>		<u>Earnings per share</u>	
	<u>period</u>			<u>(RMB)</u>	
		Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to ordinary shareholders of the parent company	6,761,485	8.47%	8.82%	1.32	1.32
Net profit attributable to ordinary shareholders of the parent company after deduction of non-recurring profit and loss	6,729,261	8.43%	8.77%	1.31	1.31

<u>Jan-Jun 2011 (Restated)</u>	<u>Profit for the</u>	<u>Net asset return</u>		<u>Earnings per share</u>	
	<u>year</u>			<u>(RMB)</u>	
		Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	4,731,138	12.51%	13.30%	1.36	1.36
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss	4,717,466	12.47%	13.27%	1.35	1.35

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

	<u>Jan-Jun 2012</u>	<u>Jan-Jun 2011</u> (Restated)
Net profit attributable to ordinary shareholders of the parent company	6,761,485	4,731,138
Add/(deduct): Non-recurring profit and loss items		
Gains/losses on disposal of fixed assets, intangible assets and repossessed assets	(16,200)	(26,607)
Gain on disposal of long term equity investments	-	(1,569)
Provision for litigation	(17,180)	17,729
Other non-operating income and expenses	(8,369)	(7,074)
Income tax effect	9,447	3,849
Net effected amount of non-recurring profit and loss attributable to non-controlling shareholders	<u>78</u>	<u>-</u>
Net profit attributable to ordinary shareholders of the parent company after deduction of non-recurring profit and loss	<u>6,729,261</u>	<u>4,717,466</u>

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

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

Chapter 10 Written Confirmation of Directors and Senior Management on 2012 Half-Year Report

In accordance with the *Securities Law* and *No. 3 Regulation on Contents and Format of Information Disclosure on Publicly Listed Companies – Contents and Format of Half-Year Report* (revised in 2007), we, as directors and senior executives of Ping An Bank Company Limited, provide the following opinions after studying and inspecting the 2012 Half-Year Report of the Bank and its abstract:

1. The Bank operates in strict accordance with Accounting Standards for Business Enterprises, Accounting Rules for Enterprises and Accounting Rules for Financial Enterprises, and the Bank's 2012 Half-Year Report and its abstract give a fair view of the financial position and business results of the Bank for the interim period of 2012.
2. Ernst & Young Hua Ming Accounting Firm has audited the financial statements of the Bank for the interim period of 2012 and has issued standard unqualified audit reports.
3. We undertake that the information disclosed in the Bank's 2012 Half-Year Report and its abstract is true, accurate and complete and contains no false record, misrepresentation or material omissions and we are severally and jointly liable for the truthfulness, accuracy and completeness thereof.

Signature of Directors and Executives::

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

Chapter 11 Reference Documents

1. Financial Statements signed and sealed by the Chairman, President, Vice President and CFO, and Representative from the Accounting Firm.
2. Original audit report with the seal of the accounting firm signed and sealed by a Certified Public Accountant.
3. All our original documents and original announcements disclosed on *China Securities Journal*, *Securities Times*, *Shanghai Securities News* and *Securities Daily* during the reporting period.

Board of Directors,
Ping An Bank Company Limited
August 16, 2012