Surmount • Surpass

Annual Report 2010

深圳发展银行
SHENZHEN DEVELOPMENT BANK

We know, we care

Contents

* This Report is published in both Chinese and English. Should there be any discrepancy between the Chinese and the English versions, the Chinese version shall prevail.
* Both "Shenzhen Development Bank" and "Shenzhen Development Bank Co., Ltd." mentioned in the report means the same entity, which is hereinafter referred to as "SDB".

About SDB

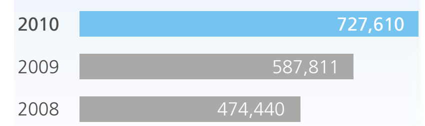
Financial Highlights

Total assets

727,610

In RMB million

In RMB million

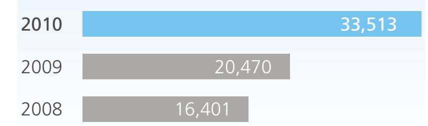


Total shareholders' equity

33,513

In RMB million

In RMB million

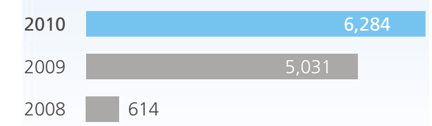


Net profit

6,284

In RMB million

In RMB million



For the year ended 31 December

In RMB million	2010FY	2009FY	Compared with January-December 2009
Operating income	18,022	15,114	19%
Net profit	6,284	5,031	25%
Basic earnings per share (Yuan)	1.91	1.62	18%
Return on average equity	23.22%	26.59%	-3.37 percentage points

At the year end

In RMB billion	31 December 2010	31 December 2009	Compared with 2009 year end
Total assets	727.6	587.8	24%
General loans (excluding bills)	388.7	359.5	24%
Total deposit	562.9	454.6	24%
Shareholders'equity	33.5	20.5	64%
Non-performing loan ratio	0.58%	0.68%	-10 basis points
Provision coverage ratio	272%	162%	110 percentage points
Core capital adequacy ratio	10.19%	8.88%	+1.31 percentage points
Capital adequacy ratio	7.10%	5.52%	+1.58 percentage points
Book value per share (Yuan)	9.62	6.59	46%

About SDB

Outlets

304

Total assets

727,610

In RMB million

Staff in total

16,450

Shenzhen Development Bank Company Limited

is a nationwide joint-stock commercial bank. Based in Shenzhen, the bank was established in 1987 and listed in Shenzhen Stock Exchange in 1991 (share abbreviation: 深发展 A and share code: 000001).

Through 304 outlets in 21 cities nationwide, SDB provides diversified financial service to its corporate, retail and public sector customers. The bank has 16,450 staff in total.

As of December 31, 2010, its total assets reached RMB727.6 billion, total deposit RMB562.9billion and total loan RMB407.4 billion. In 2010, SDB achieved net profit of RMB6.28 billion, growing 25% compared with previous year.

Currently, Ping An Insurance（Group）Company of China, Ltd. (Ping An Group) and its related subsidiaries hold 1.045bn shares of SDB, accounting for around 29.99% of total shares of Shenzhen Development Bank after the non-public offering.

Ping An Group was established in 1988 and listed in A share and H share stock market. Ping An Group relies on localized advantages and practices international standard corporate governance. Ping An Group is a leading domestic integrated financial group. Ping An Group has reached out to all developed areas in China through its uniform brand, integrated finance structure and multi-channel distribution network and provides insurance, banking and investment services to more than 60 million individual customers and 2 million corporate customers.

In the future, Shenzhen Development Bank will continue to tap key business advantages. In the mean time, the bank will expand scale, lead market, build reputation, and proceed to a new development stage by relying on the strategic resources support of nationwide sales network, quality customer resources, back office operation system and integrated finance service platform provided by Ping An Group.

For more information, visit the official website of Shenzhen Development Bank at www.sdb.com.cn.

Fruitful
Leap Forward

Xiao Suining
SDB Chairman of Board of Directors

Message from the Chairman and the President

Annual Net Profit

6.28

In RMB billion

Total Annual Income

18.02

In RMB billion

Achievements and Milestones

2010 was a year of both achievement and milestones for Shenzhen Development Bank.

Our Bank achieved record profit of RMB 6.28 Billion for the full year, Revenues grew 19% to RMB 18.02 Billion, our Capital Adequacy Ratio improved to 10.19%, our NPL ratio further declined to 0.58% and our Provision Coverage ratio increased to 272%, our Trade Finance business grew 43%, and return on asset improved to 96 bps. Our bank grew well in key areas, asset quality improved, profitability and returns increased and capital and reserves were strengthened.

During the year Ping An Group became our Bank's largest shareholder, after acquiring the shares previously held by Newbridge Asia AIV III, L.P. (Newbridge Capital), there were changes to our Board of Directors, a new Chairman and President were appointed and Shareholders agreed the acquisition of a controlling interest in Ping An Bank Co., Ltd. All these milestones were managed smoothly and did not affect the Bank's daily operation.

External Environment

Externally the world economy showed signs of stabilization after the impact of the 2008 financial crisis, but has yet to demonstrate strong and sustainable growth. Domestically the economy grew well and the Authorities are moving quickly to deal with overheating of certain asset classes, especially real estate, and the threat of inflation.

Around the world Governments and Regulators continue to consider how to change the systemic management of the financial sector, to avoid a repeat of the events of 2008, including the work done in respect of Basel III. In China a more prudent regulatory environment, and a more domestically focused industry, ensured that the Chinese financial sector emerged from the global crisis in much better condition than in many other countries. The key challenge for regulators around the world is how to improve systemic protection, without impairing the drivers of economic growth and development.

We believe that the world economy will improve in 2011, and by 2012 will demonstrate sustainable growth in key economies. In China we believe that interest rates will rise to ease inflationary pressures and domestic consumption will continue to show strong growth.

Our Strategy

During the year we developed a long term strategy for our Bank, which has the full support of our Board, our Management and our Staff. We are calling this our "Best Bank" Strategy, and have set ourselves the objective that we may gradually become recognized as one of the best banks in China by making improvements and investments in key areas.

Central to this will be the further development of our Trade Finance customer business as the engine of growth for our middle market Corporate customer business and the further development of our Credit Card business as the engine of growth for our Retail customer business, fully leveraging the opportunity to cross-sell our products and services to Ping An Group customers across China.

We will use these growth engines to build our future market position and will use a stronger market position to improve returns and growth prospects for the future.

We have already started a number of strategic projects within the bank as part of this strategy and during the course of 2011 we expect to see the results of these projects begin to have a positive impact on the Bank's development speed and direction.

Social Responsibility

The Bank continued contributing to the society featured in areas of education and environmental protection. In 2010, the Bank by setting up the e-platform, facilitated direct assistance to Yutang Primary School students in Sichuan earthquake stricken area from people from all walks; by donating promptly to Qinghai and Yunnan to provide needed support after natural disasters. The Bank also paid great efforts in environmental protection activities such as donation of environmental friendly lights and "Green Garden".

The Bank and its employees fully realize the importance of sustainability of social responsibilities and will continue to take concrete actions to provide necessary help to children and environment matters that need constant attention from the society.

Get Ready
Be Prepared

Richard Jackson
SDB Executive Director
President

"We believe that our bank is well positioned for this year and beyond."

Outlook

We believe that our bank is well positioned for this year and beyond.

We have a clear strategy in place, we have a settled long term strategic shareholder, we have adequate capital and resources to support our strategy and we have clear and detailed plans to achieve our objectives.

Our business growth momentum is good, expense management is strong, portfolio quality is excellent and returns are improving.

The market environment will continue to be competitive, and the macro policies needed to manage the economy will have some impact on the financial sector, however with the advantages and strengths of our bank we believe that 2011 will be another year of achievement.

Merger with Ping An Bank

During the year we expect to complete the acquisition and merger of Ping An Bank. This will result in many advantages for our Bank including the expansion of our network, the strengthening of our credit card business, the improvement of our infrastructure, the reduction of unit costs, and most importantly the improvement of customer products and service. The merger will give us the opportunity to accelerate some of the key aspects of our strategy.

Our objective is to complete the merger quickly and smoothly and ensure only positive impact for the customers of both banks, we will also ensure that during the process of the merger we will remain very vigilant in respect of risk management and control.

The merger is currently still under the process of approval and this gives us the opportunity to plan properly for the many detailed steps that will be required to achieve the merger.

Thanks

Finally we would like to sincerely thank the many key stakeholders who have supported our bank so well in the last twelve months, and from whom the continued support for our bank is so essential.

We thank our Shareholders for their full support for the bank during this year of change. The support, commitment and suggestions we received from shareholders during the year is very valuable.

We thank our Board of Directors, for their hard work and dedication in guiding the bank so well during this year of change and achievement. We are fortunate that our Directors are so professional and so passionate about our bank's development and success. We welcome new Directors to our Board of Directors, and we say farewell and special thanks for those Directors who retired from the Board during the year.

Our Management and Staff have done a great job during 2010 and we thank them for their hard work, their professionalism and their enthusiasm as well as their commitment to providing our customers with the best service we can provide.

As always we thank our Regulators for the guidance and support that they have shown our Bank during 2010. The development during the year in respect of the changes to our bank, and the prospective merger with Ping An Bank created additional burdens and challenges for our Regulators. However their response has been superbly professional, with clear and quick guidance as well as a continuous focus on the maintenance of stability, service, control and development.

Finally we thank all of our Customers. Without our customers our bank will not exist, we appreciate the trust you place in our bank and the business that you conduct with us. We will strive to repay your trust by continuously improving our standards of service and the value we provide to you.

Summary

In summary 2010 was a good year for the bank, and we have laid the foundation for even better performance in the future. The bank continues to develop well with strong support from all our stakeholders. Despite uncertainties in the external environment we believe our bank is very well positioned for the future.

Chairman of Board of Directors

Executive Director & President

Senior Management

From the left

Front I **Richard Jackson**
Executive Director, President

Front II **Xiao Suining**
Chairman of Board of Directors

Back I **Lin Deyun**
Special Assistant to the President

Back II **He Zhijiang**
Chief Treasury Officer

Back III **Zhang Yuanliang**
Chief Information Officer

Back IV **Chen Rong**
Chief Operation Officer

Back V **Zhou Li**
Vice Party Secretary, Assistant President and Shenzhen Branch Manager

Back VI **Zhao Na**
Chief Human Resources Officer, Secretary of Discipline Inspection Commission

Back VII **Chen Wei**
Executive Director, Vice President, Chief Financhial Officer

Back VIII **Wang Ji**
Party Secretary, Special Advisor

From the right

Front I **Qiu Wei**
Chairman of Board of Supervisors

Back VII **Hu Yuefei**
Executive Director, Vice President

Back VI **Feng Jie**
Vice President (appointed 01/24/11)

Back V **Simon Lee**
Chief Credit Officer

Back IV **Huang Shouyan**
Assistant to President, Chairman of Labor Union

Back III **Xu Jin**
Board Secretary, Chief Legal Officer

Back II **Qiu Weiping**
Assistant to President, Shanghai Branch Manager

Back I **Du Jiangyuan**
Special Assistant to the President

The information contained on this page is as of 31 December 2010

Events of SDB in 2010

Jan

In January, the Bank got approval from China Banking Regulatory Commission for launching national social security fund custody business.

Feb

In February, the new data center of the Bank was established and put into operation, providing strong support for continuous business development.

Apr

In April, the Bank took part in the "Boundless Love for Yushu" donation activity, in which the Bank donated RMB 5 million plus more than RMB 3 million donation from bank staff for earthquake-stricken Yushu area in Qinghai Province and was honored with "Outstanding Contribution Award" by China Red Cross.

In April, the Bank signed strategic cooperation agreement with 22 members of Shanghai Gold Exchange for noble metal agency business. In 2010 the Bank won "Excellent Member Honor" and "Award for Silver Transaction" from Shanghai Gold Exchange.

May

From May to June, Ping An Group and its related parties acquired the shares of Shenzhen Development Bank held by Newbridge Asia AIV III, L.P. and subscribed shares of Shenzhen Development Bank via non-public offering and became the biggest shareholder of Shenzhen Development Bank. The bank raised RMB 6.9 billion and reinforced its capital strength.

In May, the Bank organized "Year of Implementing Internal Control and Case Prevention Policies" campaign to improve the implementation of internal control and case prevention policies. In September, the Bank held "Month of Case Prevention & Compliance" activities and created the atmosphere in which "everyone pays attention to case prevention and everything is done in compliance with rules and regulations".

On May 28th, retail loan (excluding credit card) balance of the Bank exceeded RMB 100 billion. In 2010 the volume of wealth management products sold exceeded RMB 100 billion.

Sep

In September, the second "Love School Assistance - Know My Heart and Deliver Love" campaign sponsored by the Bank was successfully concluded. In the same month the Bank started "Donate Books for Energy-saving Lamps" program, which is a charity environmental protection activity with the theme of "Express Love by Donating Books and Keep the Future Green".

In September, the Bank held a media conference for online supply chain finance. The number of online supply chain finance customers exceeded 1,000. Online supply chain finance business facilitated the strong growth of trade finance business. In 2010, approved credit limit and customer number of trade finance business of the Bank grew 43% and 33% respectively.

On September 30th, the 1st Extraordinary General Meeting of Shenzhen Development Bank in 2010 passed the proposal for issuing shares to purchase assets. According to the proposal, Ping An Group would subscribe the shares issued by Shenzhen Development Bank through non-public offering with shares of Ping An Bank and some cash.

Oct

In October, the "Best Bank Strategy" was developed, which clarified the new objectives, business priorities and differentiated development approach of the Bank.

Nov

On November 28th, the Bank organized "2010 Public Education Day by Banking Sector" program with the theme of "Harmonious Finance and Beautiful Life" in order to popularize financial knowledge and improve public awareness for financial security.

Dec

On December 8th, Wuxi Branch of Shenzhen Development Bank was opened.

In December, the Bank established Investment Banking Department and Treasury Trading Center. Treasury Trading Center was established in Shanghai and treasury business stepped to a new stage of development.

In December, 15 outlets of Shenzhen Development Bank, including Headquarters Outlet and Shenzhen Jiangsu Mansion Outlet, won the honor of "One Thousand Model Units for Civilized and Standard Service in China Banking Sector in 2010".

On December 20th, the bank signed the Strategic Cooperation Agreement for Supply Chain Finance with Fudan University to plan for the future of supply chain finance business.

On December 23rd, the 2nd Extraordinary General Meeting of Shenzhen Development Bank in 2010 was held, at which the 8th Board of Directors and the 7th Board of Supervisors of the bank were elected.

Corporate Banking

As of the end of 2010, corporate deposit balance grew 24.52%; general corporate loan balance grew 24.04%; corporate net fee income grew 15.8%.

Built the online supply chain finance platform which integrates customer experience, internal process and cross-industry cooperation

- Realized full application in auto industry and extended to other industries including steel, home appliances, food and edible oil, etc. Built online business cooperation with about 60 core enterprises and online customer number exceeded 1,000.

- Successfully developed some innovative products such as cash management, financing for members of exchanges, order-backed financing, financing for dealers for store establishment, Ding Huo Tong (free conversion between time deposit and demand deposit), etc.

Trade finance business continued to achieve fast development with the highest growth rate ever

Trade finance credit balance of the Bank reached RMB 175.5 billion, growing 43.12% compared with the year beginning, while NPL rate of the business was maintained at 0.29%. Domestic trade finance business was the main source of growth, with credit balance growing 41.33% and customer number growing 32.7% compared with the end of 2009. International trade finance credit scale grew 70.69% compared with previous year.

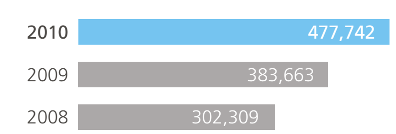
- Consolidated the strengths in traditional industries such as steel industry and auto industry.

- Actively broadened the service scope and realized fast business growth with top brand enterprises.

- Business scale in food industry grew 143% compared with the end of previous year. Trade finance business in other industries under the "HQ-to-HQ" cooperation model was rolled out gradually.

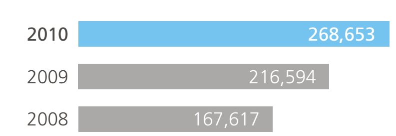
Corporate Deposits

In RMB million



General Corporate Loans

In RMB million



SME financial service developed steadily

Domestic SME loan balance reached RMB 142.2 billion, growing 25.56% compared with the year beginning and accounting for 58.64% of corporate loan. Domestic SME customer number reached 13,335, growing 21.95% compared with the end of previous year.

Implemented SME customer service upgrading plan, actively deepened long-term relationship with SME customers. Following the establishment of SME Finance Center in 2009, the Bank further extended the service network and strived for building a special organization for providing financial service to small enterprises. By the end of 2010, 11 branches of the Bank had established regional SME finance centers to provided support to small enterprise business in respect of staffing and marketing expense and encourage the development of small enterprise business through target customer group development model.

Won a number of awards

- "Award for Development of Electronic Commercial Draft" from People's Bank of China for the outstanding achievement of the Bank in promoting electronic commercial draft business.
- "Second Prize" for "Online Supply Chain Program" from 2010 Financial Innovation Award Appraisal organized by Shenzhen Municipal Government.
- "Best Supply Chain Finance Service Provider in China" in the Selection of Best Banks in China in 2010 organized by *Global Finance*.
- "Best Bank for Supply Chain Finance Service" at the 4th Summit on Development of International Logistics and Supply Chain Cooperation in China (Suzhou).
- "Best Supply Chain Finance Award" and "Best Offshore Business Award" at the award granting ceremony of the 4th Forum on Financial Innovation by Chinese Enterprises & Most Trusted Banks by CFOs in China in 2010.
- "Excellent Supply Chain Management Case Award" for the Bank's outstanding practice in supply chain finance at the 2010 China Supply Chain Management Forum & Fifth CSCMP China Annual Meeting jointly hosted by the Council of Supply Chain Management Professionals (CSCMP) and Chongqing Municipal Government.
- "Best Business Model Innovation in 21st Century" at the award granting ceremony of the Selection of Best Business Model in 21st Century hosted by *21st Century*.
- "Banks with Excellent Competitiveness in Supply Chain Finance Service in 2010" at the 2010 (the 8th) Annual Meeting on Competiveness of Chinese Enterprises jointly hosted by China Business and Institute of Industrial Economics of China Academy of Social Sciences.
- "Top Ten Commercial Banks in Supporting SME Development" at the 5th Annual Meeting of SME Entrepreneurs hosted by China Association for Small and Medium Commercial Enterprises.
- "Top Ten Influential Brands in Financial Service in China" in the 7th Survey on Customer Satisfaction for Chinese Brands jointly organized by China Union Business News and six other organizations.

Trade Finance Credit Balance

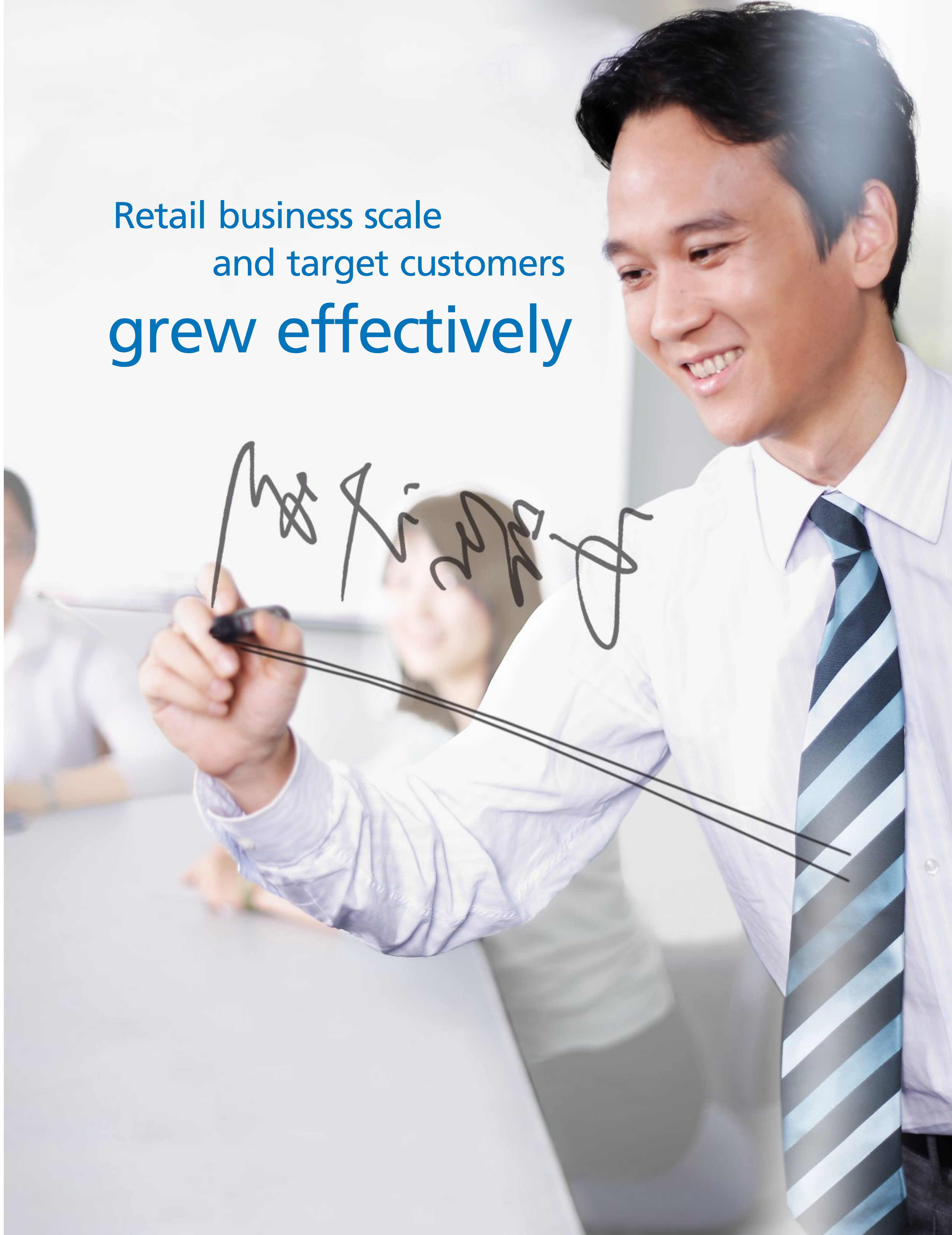
+43%

SME Loan Balance

+26%

SME Customer Number

+22%



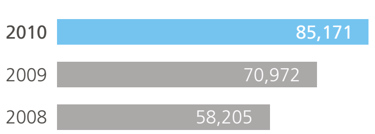
Business Review

Retail Banking

As of the end of 2010, retail deposit balance grew 20.01%; retail loan balance grew 23.00%; retail net fee income grew 70.5%.

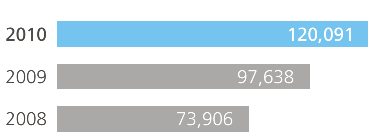
Retail Deposits

In RMB million



Retail Loans

In RMB million



Conducted customer relationship management activities and fully implemented "Outlet Leapfrog" project

Focused on managing retail customer relationship; improved retail customer relationship management and fundraising capability; rolled out frontline sales operation model; realized fast growth of retail value customers.

Completed the roll-out of the standardized frontline sales operation model - "Outlet Leapfrog" project - across the Bank, which covered 258 outlets and improved outlet retail sales capacity by 168% compared with year beginning.

Pushed retail deposit and loan business to grow rapidly and steadily

- Drove deposit growth through products like "Ritianli" and "Offset Loan"; expanded third-party custody and payroll business. Deposit scale grew steadily.

- Stuck to the personal loan development strategy of "growth with high yield"; focused on entrepreneur loans, second house mortgage loans and auto loans and increased the percentage of portfolios with higher yield.

- Improved personal loan "innovation incubator" policy and launched innovative personal loan business such as "credit-based quick loan" and "flexible time deposit".

- Sorted out personal loan business process and developed management system; improved customer service and developed customer retention policy.

Built basic platforms for retail business to facilitate the rapid growth of retail fee income

- Launched mid-and-long term wealth management products suitable for high-end customers, with sales volume of various wealth management products hitting a record high. In 2010, sales volume of retail wealth management products reached RMB100.3 billion and fee income reached RMB 116 million, growing 247% and 42% respectively.

- Custody business developed rapidly in respect of wealth management products of small and medium commercial banks, special assets of fund companies and customer asset management and custody of securities companies. Yearly custody fee income reached RMB 20.45 million. The year-end custody balance reached RMB 37.8 billion, growing 184% compared with the end of 2009.

- Served as an agency for fund and insurance products; introduced quality products and expanded cooperative brands. Sales volume of fund and insurance products grew 41% and 83% respectively compared with 2009. Fee income grew 48% compared with 2009.

Credit card business grew rapidly and steadily with stable asset quality

The number of effective credit cards reached 4.13 million, growing 13.5% compared with previous year; credit balance reached RMB 6.34 billion, growing 33.5% compared with previous year; net credit loss was RMB 76 million and net credit loss rate was 1.21%, decreasing 0.47 percentage points compared with previous year.

- Consolidated the core value position of the Bank's credit card business, i.e. "environmental friendly and fashionable".

- Launched the first credit card in the world with the Chinese name of the card holder on it; conducted research and development for mobile-phone-positioning-based real-time two-way marketing model; built industry-leading credit card communication platform.

- Credit Card Center passed ISO9001:2008 quality management system certification and ISO14001:2004 environment management system certification and became the first credit card center among the peers in China to obtain both certifications.

Won a number of awards

In 2010, the Bank won a number of awards from authoritative research institutions and media, including "Most Respectable Chinese Bank in China in 2010", "Top Ten Retail Banks in China in 2010", "Top Ten Bank Wealth Management Products in China in 2010", "Best Bank Wealth Management Brand in 2010", "Best Marketing and Service Team in 2010", etc.

Retail WM Products Sales

+247%

Custody Balance

+184%

Credit Balance

+33.5%

Treasury Inter-bank Business

In 2010, People's Bank of China adopted a moderately loose monetary policy and increased the base interest rates and the required reserve ratio at the right time. In total the base interest rate was raised by 50 bps and the required reserve ratio was raised by 3%. The central bank also restarted RMB flexible exchange rate mechanism, with local currency exchange rate growing steadily.

Under this macroeconomic policy environment, the Bank optimized asset and liability structure of inter-bank business, accelerated product and management innovation, enriched inter-bank treasury product chains, aggressively explored inter-bank sales channels, improved bank-wide liquidity risk and treasury portfolio management, launched inter-bank relationship manager policy, strengthened cross-selling, provided integrated financial solutions for inter-bank business customers, and realized high-quality growth of treasury inter-bank business.

Inter-bank business scale

Inter-bank business became one of the important profit sources of the Bank, with asset and liability scale growing continuously and rapidly and activeness and influence in the market steadily improving. Asset balance of inter-bank business grew 24% compared with previous year with good profitability.

Trading of RMB and foreign currency

Total trading volume in monetary market hit a record high, growing 17% compared with previous year.

Bond trading volume continued to increase and market ranking improved steadily.

Volume of forward foreign currency sale and settlement and volume of foreign currency trading grew 49% and 70% respectively compared with previous year.

Asset Balance Increased

+24%

Total Trading Volume

+17%

Development and management of wealth management business

A series of wealth management products were developed, including portfolio investment products, asset pool products, tiered products and structured products.

The volume of wealth management products (including corporate, retail and inter-bank) sold grew 393% and wealth management product balance grew 400% compared with previous year. The Bank ranked the 6th in respect of the competitiveness of banking wealth management products and its market position and competitiveness were remarkably improved.

Investment banking business

The Bank achieved significant growth of debt financing instruments underwriting business, with total underwriting volume and total yield both growing more than 150% compared with previous year, and was honored "Investment Banking with Best Growth Potential in China" by *Securities Times*.

Noble metal trading business

Noble metal trading volume, personal customer number and fee income grew 445%, 332% and 626% respectively compared with previous year.

The Bank obtained the approval from People's Bank of China and became the fifth commercial bank (following the Big 4 State-owned commercial banks) with the qualification for "gold import and export" business.

Gold warehousing business continued to grow and the delivery volume ranked among top 8 at the gold exchange. The Bank was honored "Excellent Member of Shanghai Gold Exchange in 2010" and "Single Award for 2010 Silver Trading of Shanghai Gold Exchange".

Inter-bank channel development

The Bank built cooperation with another 43 partner banks for inter-bank wealth management and agency business, sold 114 batches of wealth management products to 35 banks, conducted online third-party custody business with 53 securities companies, developed the agency business cooperation system, and made great efforts building an integrated financial service platform encompassing banking, insurance, trust, fund, securities and investment banking businesses so as to broaden the room for cooperation with other financial institutions in the future.

Volume of WM Products

+393%

Noble Metal Business Volume

+445%

Noble Metal Personal Customer Number

+332%

Corporate Social Responsibility

In 2010, the Bank actively launched various corporate social responsibility (CSR) activities, introduced GRI G3 standards into CSR daily management and report for the first time, established a preliminary CSR management system around all stakeholders and the Bank's overall strategy, and organized various functions and subordinate institutions to actively fulfill corporate social responsibility.

Donation for earthquake-stricken areas

The Bank donated RMB 5 million plus over RMB 3 million donation from the staff to earthquake-stricken Yushu area and RMB 200,000 to drought-stricken area in Yunnan Province through China Red Cross.

"Donate Books for Energy-saving Lamps" program

The "Donate Books for Energy-saving Lamps" program was simultaneously kicked off across over 300 outlets of the Bank. 105,032 books from 22 cities across China were collected, which would be used to build love libraries for 22 elementary schools in rural areas and would benefit over 13,000 students.

Love school

The second "Love School Assistance - Know My Heart and Deliver Love" campaign sponsored by the Bank was launched to help the children in Hope Schools to realize their desire for education.

Public education

Organized "Public Education Day by Banking Sector" program and "Deliver Financial Knowledge to Rural Areas" program to popularize financial knowledge.

Important Notes

The Board of Directors, Board of Supervisors, directors, supervisors and senior management of Shenzhen Development Bank guarantee that this report does not contain any false documentation, misleading representation or material omission, and assume joint and serveral responsibility for the authenticity, accuracy and completeness of the contents of this report.

The complete version of Shenzhen Development Bank's 2010 Annual Report, together with its abstract, were reviewed at the 2nd meeting of the Bank's 8th Board of Directors. Totally 15 directors attended this meeting, and unanimous consent on the Annual Report was reached.

Ernst & Young Hua Ming and Ernst & Young Accounting Firm had audited the Bank's 2010 financial and accounting reports in accordance with the auditing standards of the People's Republic of China and the international auditing standards, and each of them had issued their own auditor's report with standard unqualified opinion.

Xiao Suining (the Bank's Chairman), Richard Jackson (the Bank's President), Chen Wei (the Bank's Vice President and Chief Financial Officer) and Li Weiquan (Head of the Accounting Department) guarantee the authenticity and completeness of the financial report contained in the 2010 Annual Report.

Basic Facts of the Company

Legal name

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

Legal representative

Xiao Suining

Secretary of Board of Directors

Xu Jin

Representative of securities affairs

Lv Xuguang

Address: Shenzhen Development Bank Board Secretariat,
Shenzhen Development Bank Building, 5047 East Shennan Road,
Shenzhen City, Guangdong Province, China
Tel: +86 (755) 8208 0387
Fax: +86 (755) 8208 0386
Email Address: dsh@sdb.com.cn

Registered address

Shenzhen City, Guangdong Province, China

Business address: Shenzhen Development Bank Building,
5047 East Shennan Road, Shenzhen City
Zip code: 518001
Website: http://www.sdb.com.cn
Email address: dsh@sdb.com.cn

Periodicals selected by the Bank for information disclosure

China Securities Journal, Securities Times and
Shanghai Securities News
Website designated by China Securities Regulatory Commission to publish the Annual Report:
http://www.cninfo.com.cn
Place for keeping annual reports of the Bank:
Board Secretariat of the Bank

Stock exchange where the shares of the Bank are listed

Shenzhen Stock Exchange

Abbreviated Name of the Stock: 深发展A
Stock Code: 000001

Additional Related Information of the Bank

Date of initial registration: 22 December 1987
The latest date of change of registration: 4 August 2010

Business license registration No.:
440301103098545

Tax Registration No.:
National tax: 440300192185379
Local tax: 440300192185379

Domestic accounting firm appointed by the Bank:
Ernst & Young Hua Ming
Business address: 16/F, E&Y Tower, 1 Chang'an Street,
Dongcheng District, Beijing

Overseas accounting firm appointed by the Bank:
Ernst & Young Accounting Firm
Business address: 18/F, Two International Finance Centre,
8 Finance Street, Central, Hong Kong

Key Financial Data Highlights

I. Operating results

In RMB thousand	January-December 2010	January-December 2009	January-December 2008	Change from previous year (%) (2010 vs. 2009)
Operating income	18,022,278	15,114,440	14,513,119	+19.24%
Operating profit before asset impairment loss	9,337,671	7,734,215	8,137,588	+20.73%
Asset impairment provision	1,488,116	1,575,088	7,334,162	-5.52%
Operating profit	7,849,555	6,159,127	803,426	+27.45%
Total profit	7,998,021	6,190,537	792,609	+29.20%
Net profit attributed to shareholders of listed company	6,283,816	5,030,729	614,035	+24.91%
Net profit attributed to shareholders of listed company after deducting non-recurring gains/losses	6,143,737	4,939,571	623,941	+24.38%
Per share:				
Basic EPS (In RMB)	1.91	1.62	0.20	+17.90%
Diluted EPS (In RMB)	1.91	1.62	0.20	+17.90%
Basic EPS after deducting non-recurring gains/losses (In RMB)	1.86	1.59	0.20	+16.98%
Cash flow:				
Net cash flows from operating activities	21,746,295	32,193,611	24,342,611	-32.45%
Per share net cash flows from operating activities (In RMB)	6.24	10.37	7.84	-39.83%

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

In RMB thousand gains/losses item	Amount
Gains/losses on disposal of non-current assets (gain/loss on disposal of fixed assets, repossessed assets and long-term equity investment)	114,975
Gains/losses on contingency (predicted liabilities)	(1,469)
Changes in fair value of investment properties	37,071
Other non-operating income and expense	27,708
Impact of income tax	(38,206)
Total	140,079

II. Profitability indicators

Unit: %	January-December 2010	January-December 2009	January-December 2008	Change from previous year (%) (2010 vs. 2009)
Return on assets	0.86	0.86	0.13	-
Average return on assets	0.96	0.95	0.15	+0.01
Return on equity (fully diluted)	18.75	24.58	3.74	-5.83
Return on equity (fully diluted, deducting non-recurring gains/losses)	18.31	24.13	3.80	-5.82
Weighted average return on equity	23.22	26.59	4.32	-3.37
Weighted average return on equity (deducting non-recurring gains/losses)	22.70	26.11	4.39	-3.41
Cost/income ratio	40.84	41.76	35.99	-0.92
Credit cost	0.41	0.49	2.84	-0.08
Net interest spread (NIS)	2.41	2.41	2.90	-
Net interest margin (NIM)	2.49	2.47	3.02	+0.02

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

Return on equity (on both fully diluted and weighted average basis) declined compared with previous year because return on equity was diluted as net assets of the Bank increased by RMB 6,907,000,000 after issuing 379,600,000 new shares to Ping An Life Insurance Company of China, Ltd. ("Ping An Life") via non-public offering during the report period.

III. Assets and liabilities

In RMB thousand	31 December 2010	31 December 2009	31 December 2008	Change from end of previous year (2010 vs. 2009)
1. Total assets	727,610,068	587,811,034	474,440,173	+23.78%
Including: financial assets and derivative financial assets at fair value through profit or loss in the current period	371,734	1,232,044	332,192	-69.83%
Held-to-maturity investments	61,379,837	34,585,440	15,584,755	+77.47%
Loans and receivables	550,580,225	454,274,577	363,900,753	+21.20%
Available-for-sale financial assets investments	31,534,183	36,998,409	48,799,716	-14.77%
Others	83,744,089	60,720,564	45,822,757	+37.92%
2. Total liabilities	694,097,192	567,341,425	458,039,383	+22.34%
Including: financial liabilities and derivative financial liabilities at fair value through profit or loss in the current period	311,805	21,540	98,018	+1347.56%
Placement from banks and other institutions	6,200,174	7,570,118	7,380,000	-18.10%
Deposits	562,912,342	454,635,208	360,514,036	+23.82%
Others	124,672,871	105,114,559	90,047,329	+18.61%
3. Shareholders' equity	33,512,876	20,469,609	16,400,790	+63.72%
Net asset per share attributed to shareholders of listed company (In RMB)	9.62	6.59	5.28	+45.98%
4. Total deposits	562,912,342	454,635,208	360,514,036	+23.82%
Including: Corporate deposits	477,741,629	383,663,003	302,309,165	+24.52%
Retail deposits	85,170,713	70,972,205	58,204,871	+20.01%
5. Total loans	407,391,135	359,517,413	283,741,366	+13.32%
Including: Corporate loans	287,299,716	261,879,271	209,835,181	+9.71%
General corporate loans	268,653,156	216,593,743	167,617,360	+24.04%
Discounted bills	18,646,560	45,285,528	42,217,821	-58.82%
Retail loans	120,091,419	97,638,142	73,906,185	+23.00%
Loan impairment provision	(6,425,060)	(3,954,868)	(2,026,679)	+62.46%
Net loans and advances	400,966,075	355,562,545	281,714,687	+12.77%

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

Unit: %

			Data of the Bank					
			31 December 2010		31 December 2009		31 December 2008	
Indicators		Standard level of the indicators	Year-end	Monthly Average	Year-end	Monthly Average	Year-end	Monthly Average
Liquidity ratio	RMB	⩾25	52.52	46.81	38.59	27.81	41.50	41.90
	Foreign currency	⩾25	49.94	54.06	54.02	52.69	49.68	60.75
	RMB and foreign currency		52.35	46.58	39.46		41.00	
Loan/deposit ratio (including discounted bills)	RMB and foreign currency		72.61	75.67	79.14	62.02	78.85	
Loan/deposit ratio (excluding discounted bills)	RMB and foreign currency		69.23	70.53	69.12	50.91	67.01	70.20
NPL ratio		⩽5	0.58	0.60	0.68	0.50	0.68	3.70
Capital adequacy ratio		⩾8	10.19	9.83	8.88	8.66	8.58	8.59
Core capital adequacy ratio		⩾4	7.10	6.69	5.52	5.26	5.27	5.90
Ratio of loans to the single largest customer to net capital		⩽10	5.29	5.99	7.84	3.86	4.22	3.49
Ratio of loans to top 10 customers to net capital			26.86	30.49	40.85	23.52	26.90	26.58
Ratio of accumulated foreign exchange exposure position to net capital		⩽20	0.84		1.11		0.45	
Migration ratio of normal loans			0.73		1.31		2.78	
Migration ratio of special mention loans			39.17		48.99		1.90	
Migration ratio of substandard loans			23.15		23.39		-	
Migration ratio of doubtful loans			9.23		-		-	
Cost/income ratio (excluding business tax)			40.84		41.76		35.99	
Provision coverage			271.50		161.84		105.14	

Management Discussion and Analysis

I. Business scope

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

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

II. Analysis of business performance in 2010

(I) Overview

1. Steady growth in the asset and liability scale with further optimized structure

As of the end of the report period, the total assets of the Bank amounted to RMB 727.61 billion, a growth of 23.78% compared with year beginning, including total loans (including discount) of RMB 407.391 billion, an increase of 13.32% compared with year beginning. The loans included general corporate loans (excluding discount) of RMB 268.653 billion, increasing by 24.04% compared with last year and accounting for 65.94% of the end-of-period total loans; retail loans of RMB 120.091 billion, which grew by 23.00% compared with last year and accounted for 29.48% of the end-of-period total loans; and discount balance of RMB 18.647 billion, decreasing by 58.82% compared with last year and accounting for 4.58% of the end-of-period total loans.

Total liabilities amounted to RMB 694.097 billion, increasing by 22.34% compared with year beginning, including total deposits of RMB 562.912 billion, an increase of 23.82% compared with year beginning. The deposits included corporate deposit balance of RMB 477.741 billion, increasing by 24.52% compared with last year and accounting for 84.87% of the end-of-period total deposits; retail deposits of RMB 85.171 billion, increasing by 20.01% compared with last year and accounting for 15.13% of the end-of-period total deposits.

2. Diversified development of income structure with further improvement in profitability

In 2010, the Bank recorded operating income of RMB 18.022 billion, representing a year-on-year increase of 19.24%. The net interest income was RMB 15.829 billion, representing a year-on-year increase of 21.91%. The net fee and commission income which achieved good performance amounted to RMB 1.585 billion, with a year-on-year increase of 34.24% and its percentage in operating income was increased from 7.8% in last year to 8.8%. The Bank recorded net profit of RMB 6.284 billion, representing a year-on-year increase of 24.91%. Earning per share was RMB 1.91, representing a year-on-year increase of 17.90%. Weighted average return on equity was 23.22%, representing a year-on-year decrease of 3.37%. Such decrease was due to dilution of earnings per share and return on equity caused by RMB 6.9 billion increase in net assets through non-public offering of 379.6 million new shares during the report period. Average return on assets was 0.96%, increasing by 0.01% compared with last year. Net interest spread and net interest margin were improved somewhat to 2.41% and 2.49% respectively.

3. Stable asset quality with decrease in both non-performing loan amount and ratio, maintained lower non-performing loan ratio and higher provision coverage

As of 31 December 2010, the non-performing loan balance of the Bank was RMB 2.367 billion, decreasing by RMB 77 million or 3.16% compared with year beginning; and the non-performing loan ratio was 0.58%, down 0.1% compared with year beginning. Both the non-performing loan amount and ratio decreased. The provision coverage was 271.50%, up 109.66% compared with last year. The risk resistance ability of the Bank was further enhanced.

4. Capital was supplemented with capital adequacy ratio meeting regulatory standards

During the report period, the Bank's core capital increased by RMB 6.9 billion through a successfully non-public offering of 379.6 million new shares to Ping An Life Insurance Company of China, Ltd. Thus, the Bank's capital adequacy ratio and core capital adequacy ratio increased to 10.19% and 7.10% respectively in compliance with regulatory standards as of the end of the report period thanks to the increased capital and its own capital accumulation and strengthened capital management.

(II) Analysis of income statement items

1. Composition of and changes in operating income during the report period

In RMB million

	Jan-Dec 2010		Jan-Dec 2009		YoY increase /
	Amount	%	Amount	%	decrease(%)
Net interest income	15,829	87.83%	12,984	85.91%	21.91%
Interest income from placement at central bank	856	4.75%	639	4.23%	33.96%
Interest income from transactions with financial institutions	2,806	15.57%	2,454	16.23%	14.35%
Interest income from loans and advances	19,399	107.64%	16,259	107.57%	19.32%
Interest income from securities investment	3,190	17.70%	2,634	17.43%	21.14%
Subtotal of interest income	26,252	145.66%	21,986	145.46%	19.40%
Rediscount interest expense	19	0.11%	-	-	-
Interest expense from transactions with financial institutions	2,165	12.02%	1,499	9.92%	44.47%
Deposit interest expense	7,682	42.62%	6,982	46.19%	10.02%
Payable bond interest expense	556	3.08%	520	3.44%	6.84%
Subtotal of interest expense	10,423	57.83%	9,001	59.55%	15.79%
Net fee and commission income	1,585	8.80%	1,181	7.81%	34.24%
Other net operating income	608	3.37%	949	6.28%	-35.96%
Total operating income	18,022	100.00%	15,114	100.00%	19.24%

2. Net interest income

In 2010, net interest income of the Bank was RMB 15.829 billion, increasing by 21.91% over last year and accounting for 87.83% of operating income with an increase of 1.92% compared with 85.91% of last year. The growth in net interest income was mainly credited to the interest-earning asset growth, interest rate hike and structure improvement.

The following table sets out the daily average balance and daily average yield or daily average cost rate of the major assets and liabilities of the Bank during the report period.

In RMB million

	Jan-Dec 2010			Jan-Dec 2009		
	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)	354,853	18,907	5.33%	280,566	15,667	5.58%
Bond investment	91,362	2,586	2.83%	82,137	2,634	3.21%
Due from Central Bank	60,381	856	1.42%	41,769	639	1.53%
Bills discount and inter-bank business	122,382	3,702	3.02%	119,321	2,599	2.18%
Others	7,081	199	2.82%			
Total of interest-earning assets	636,059	26,251	4.13%	523,792	21,539	4.11%
Liabilities						
Customer deposits	502,816	7,712	1.53%	412,393	6,982	1.69%
Bonds issued	9,467	556	5.87%	8,844	521	5.90%
Inter-bank business	93,008	2,097	2.26%	83,510	1,052	1.26%
Others	2,232	56	2.50%			
Total of interest-bearing liabilities	607,522	10,422	1.72%	504,747	8,556	1.70%
Net interest income		15,829			12,983	
Deposit-loan spread			3.79%			3.89%
Net interest spread (NIS)			2.41%			2.41%
Net interest margin (NIM)			2.49%			2.47%

In 2010, the above assets yield and liabilities cost rate were mostly lower than those in 2009 primarily because several times of interest rate cuts happened from September to December in 2008 and their impact on interest spread in 2009 was gradually released, which was mainly reflected in the second half. In 2010, although the pricing ability of the Bank improved, the two interest rate hikes occurred in the fourth quarter and interest spread thus gradually picked up.

In RMB million

	Oct-Dec 2010			July-Sep 2010		
	Daily average balance	Interest income/ expense	Average yield/ cost (%)	Daily average balance	Interest income/ expense	Average yield/ cost (%)
Assets						
Customer loans and advances (excluding discount)	385,115	5,251	5.41%	361,681	4,811	5.28%
Bond investment	89,968	660	2.91%	90,731	668	2.92%
Due from Central Bank	68,668	253	1.46%	61,369	231	1.49%
Bills discount and inter-bank business	144,454	1,183	3.25%	110,083	873	3.15%
Others	10,203	91	3.56%	6,269	49	3.09%
Total of interest-earning assets	698,407	7,439	4.23%	630,133	6,633	4.18%
Liabilities						
Customer deposits	546,360	2,131	1.55%	516,084	2,041	1.57%
Bonds issued	9,469	141	5.90%	9,467	140	5.87%
Inter-bank business	103,379	762	2.92%	70,555	392	2.21%
Others	3,836	36	3.69%	1,107	9	3.17%
Total of interest-bearing liabilities	663,045	3,070	1.84%	597,213	2,582	1.72%
Net interest income		4,369			4,051	
Deposit-loan spread			3.86%			3.71%
Net interest spread (NIS)			2.39%			2.46%
Net interest margin (NIM)			2.48%			2.55%

On a month-on-month basis, various asset yield of the Bank was substantially improved in the fourth quarter compared with the third quarter due to the interest rate hike and the pricing strategy management. The deposit cost in the fourth quarter was lower than that in the third quarter due to the higher demand deposit percentage in the fourth quarter.

Net interest spread and net interest margin decreased compared with those in the third quarter due to bigger scale of inter-bank business which has a lower interest spread than basic banking business, and thus lowered the overall net interest spread and net interest margin. However, as inter-bank business did not directly affect the basic banking business scale, it was helpful for the growth of the overall net interest income.

Interest income from customer loans and advances

In RMB million	Jan-Dec 2010			Jan-Dec 2009		
	Daily average balance	Interest income/ expense	Average yield/ cost (%)	Daily average balance	Interest income/ expense	Average yield/ cost (%)
Corporate loans (excluding discount)	246,657	13,179	5.34%	196,005	10,818	5.52%
Personal loans	108,196	5,728	5.29%	84,561	4,849	5.73%
Customer loans and advances (excluding discount)	354,853	18,907	5.33%	280,566	15,667	5.58%

(in RMB million)	Oct-Dec 2010			Jul-Sep 2010		
	Daily average balance	Interest income/ expense	Average yield/ cost (%)	Daily average balance	Interest income/ expense	Average yield/ cost (%)
Corporate loans (excluding discount)	268,262	3,636	5.38%	251,064	3,325	5.25%
Personal loans	116,853	1,615	5.48%	110,617	1,487	5.33%
Customer loans and advances (excluding discount)	385,115	5,251	5.41%	361,681	4,811	5.28%

Customer deposit interest expense

In RMB million	Jan-Dec 2010			Jan-Dec 2009		
	Daily average balance	Interest expense	Average cost rate (%)	Daily average balance	Interest expense	Average cost rate (%)
Corporate deposits	297,050	4,738	1.59%	223,040	3,706	1.66%
Including: Demand deposits	135,415	780	0.58%	104,915	576	0.55%
Time deposits	161,635	3,958	2.45%	118,125	3,131	2.65%
Including: Ministry of Finance and negotiated deposits	36,045	1,457	4.04%	29,456	1,112	3.77%
Retail deposits	77,607	1,229	1.58%	64,796	1,257	1.94%
Including: Demand deposits	25,323	91	0.36%	20,961	73	0.35%
Time deposits	52,284	1,138	2.18%	43,835	1,185	2.70%
Corporate margin deposits	128,159	1,745	1.36%	124,556	2,018	1.62%
Total deposits	502,816	7,712	1.53%	412,393	6,982	1.69%

In RMB million	Oct-Dec 2010			Jul-Sep 2010		
	Daily average balance	Interest expense	Average cost rate (%)	Daily average balance	Interest expense	Average cost rate (%)
Corporate deposits	323,764	1,311	1.61%	305,576	1,268	1.65%
Including: Demand deposits	147,619	216	0.58%	133,256	193	0.57%
Time deposits	176,145	1,095	2.47%	172,320	1,075	2.47%
Including: Ministry of Finance and negotiated deposits	36,384	392	4.27%	39,178	404	4.09%
Retail deposits	84,073	336	1.59%	80,611	324	1.60%
Including: Demand deposits	26,865	24	0.36%	25,877	23	0.36%
Time deposits	57,208	312	2.16%	54,734	301	2.18%
Corporate margin deposits	138,523	484	1.39%	129,897	449	1.37%
Total deposits	546,360	2,131	1.55%	516,084	2,041	1.57%

3. Net fee income

In 2010, the net non-interest income of the Bank was RMB 2.193 billion with an increase of 2.96% over last year. It included net fee and commission income of RMB 1.585 billion, increasing by 34.24%. The growth of net fee and commission income is as follows:

In RMB million	Jan-Dec 2010	Jan-Dec 2009	Growth
Settlement fee income	501	387	29.47%
Wealth management business fee income	56	17	228.62%
Agency and entrustment business fee income	169	103	64.62%
Bank card business fee income	621	392	58.38%
Consulting and advisory fee income	277	301	-8.03%
Account management fee income	48	30	59.20%
Others	164	157	4.77%
Subtotal of fee income	1,836	1,387	32.40%
Agency business fee outlay	65	44	48.35%
Bank card fee outlay	157	140	12.54%
Others	29	22	+27.99%
Subtotal of fee outlay	251	206	+21.85%
Net fee and commission income	1,585	1,181	+34.24%

In 2010, settlement fee income (including domestic and overseas) recorded a year-on-year growth of 29%, which was primarily because of business volume growth and customer base expansion of the Bank.

In 2010, wealth management business fee income recorded a year-on-year growth of 229%, which was due to the growth in variety and volume of wealth management products.

In 2010, credit card business fee income recorded a year-on-year increase of 58%, which was primarily due to the growth in valid cards and transaction volume.

In 2010, the Bank's account management fee income also achieved great growth.

4. Other net operating income

Other net operating income includes investment income, gains/losses as a result of fair value changes, foreign exchange gains/losses and other business income. In 2010, other net operating income of the Bank was RMB 608 million, representing a year-on-year decrease of 35.96%, primarily due to interest spread income of RMB 440 million from successful sales of some bonds by the Bank before a hike of bond market interest rate when opportunities arose in the first half of 2009.

5. Operating expense

In 2010, operating expense rose by 16.62% to RMB 7.36 billion, primarily due to headcount and business volume growth as well as continued investment in management process streamlining and IT system upgrading. Cost to income ratio (excluding business tax) was 40.84%, representing a decrease of 0.92 percentage point from 41.76% in 2009. Operating expense includes labor cost of RMB 3.945 billion with an increase of 18% over last year, business expense of RMB 2.329 billion with an increase of 14% over last year, and depreciation, amortization and rentals of RMB 1.087 billion with an increase of 19% over last year.

6. Asset impairment loss

In RMB million

	Provision in 2010	Provision in 2009	Growth
Precious metals	-	-	-
Placement with banks and other financial institutions		-1	-
Financial assets purchased under resale agreements	-	6	-
Loan disbursements and advances	1,475	1,440	2.43%
Long-term equity investment	-	32	-
Repossessed assets	15	89	-83.15%
Other assets	-2	5	-140.00%
Financial guarantee contracts	-	4	-
Total	1,488	1,575	-5.52%

7. Income tax expense

In 2010, income tax rate of the Bank was 21.43%, up 2.69% over 2009. 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 1 January 2008, the applicable tax rate for enterprises which originally enjoyed preferential income tax rates will be gradually shifted to the statutory tax rate over five years after the enforcement of the new income tax law. Therefore, the income tax rate of enterprises in Shenzhen Special Economic Zone will be gradually increased from 15% to 20% in 2009 and 22% in 2010:

In RMB million

	2010	2009	Growth
Profit before tax	7,998	6,191	29.20%
Income tax expense	1,714	1,160	47.80%
Actual income tax rate	21.43%	18.74%	+2.69%

8. Profit by periods during the report period

In RMB million

	Q1	Q2	Jan-Jun Total	Q3	Q4	Jul-Dec Total	Full-year Total
Operating income	4,084	4,412	8,496	4,664	4,862	9,526	18,022
Net interest income	3,610	3,799	7,409	4,051	4,369	8,420	15,829
Net fee and commission income	318	432	750	400	435	835	1,585
Other net operating income	156	181	337	213	58	271	608
Operating expense	1,970	2,227	4,197	2,239	2,249	4,488	8,685
Business taxes and surcharges	285	322	607	339	379	718	1,325
Business and administrative expense	1,685	1,905	3,590	1,900	1,870	3,770	7,360
Operating profit before asset impairment loss	2,114	2,185	4,299	2,425	2,614	5,039	9,338
Asset impairment loss	119	375	494	310	684	994	1,488
Operating profit	1,995	1,810	3,805	2,115	1,930	4,045	7,850
Net non-operating income	2	65	67	27	54	81	148
Profit before tax	1,997	1,875	3,872	2,142	1,984	4,126	7,998
Income tax	419	420	839	441	434	875	1,714
Net profit	1,578	1,455	3,033	1,701	1,550	3,251	6,284

9. Main business income and main business profit of the Bank by region during the report period

In RMB million

Region segment	Year 2010 Operating income	Operating expense	Operating profit before asset impairment loss	Percentage of operating profit before asset impairment loss by region
South and Central China	8,503	4,231	4,272	45.75%
East China	5,454	2,425	3,029	32.44%
North and Northeast China	2,886	1,555	1,331	14.25%
Southwest China	1,179	474	706	7.56%
Sub-total	18,022	8,685	9,338	100.00%

In RMB million

Region segment	Year 2009 Operating income	Operating expense	Operating profit before asset impairment loss	Percentage of operating profit before asset impairment loss by region
South and Central China	7,473	3,624	3,849	49.77%
East China	4,148	2,003	2,145	27.73%
North and Northeast China	2,604	1,350	1,254	16.22%
Southwest China	889	403	486	6.28%
Sub-total	15,114	7,380	7,734	100.00%

South China segment includes Headquarters organizations. As bond and treasury trading businesses concentrate at Headquarters, the percentage of the profit before provision of South China region was higher than that of other regions.

(III) Analysis of balance sheet items

1. Asset composition and changes

In RMB million

	31 December 2010		31 December 2009		Change from the end of last year
	Amount	%	Amount	%	(2010 vs. 2009)
Loans and advances	407,391	55.99%	359,517	61.16%	13.32%
Loan impairment provision	-6,425	-0.88%	-3,955	-0.67%	62.46%
Net loans and advances	400,966	55.11%	355,562	60.49%	12.77%
Investments and other financial assets	112,192	15.42%	103,635	17.63%	8.26%
Cash and placement at central bank	76,587	10.53%	54,244	9.23%	41.19%
Due from banks and other financial institutions	8,524	1.17%	15,593	2.65%	-45.33%
Placements with banks and other financial institutions and assets purchased under resale agreements	106,739	14.67%	46,284	7.87%	130.62%
Account receivables	13,727	1.89%	4,782	0.81%	187.06%
Interest receivables	2,121	0.29%	1,626	0.28%	30.44%
Fixed assets	2,470	0.34%	1,714	0.29%	44.11%
Intangible assets	192	0.03%	157	0.03%	22.29%
Properties for investment purposes	540	0.07%	524	0.09%	3.05%
Deferred income tax assets	1,955	0.27%	1,583	0.27%	23.50%
Other assets	1,597	0.21%	2,106	0.36%	-24.17%
Total assets	727,610	100.00%	587,811	100.00%	23.78%

(1) Loans and advances

Loan structure distribution by product

In RMB million

	31 December 2010		31 December 2009	
	Balance	%	Balance	%
Corporate loans (excluding corporate credit cards)	287,296	70.52%	261,876	72.84%
Including: General loans	268,649	65.94%	216,591	60.24%
Discount	18,647	4.58%	45,285	12.60%
Retail loans (excluding personal credit cards)	113,751	27.92%	92,888	25.84%
Including: Housing mortgage loans	64,877	15.92%	59,399	16.52%
Entrepreneur loans	18,626	4.57%	11,193	3.11%
Auto loans	10,667	2.62%	6,453	1.79%
Others	19,581	4.81%	15,843	4.42%
Account receivables of credit cards	6,344	1.56%	4,753	1.32%
Total loans	407,391	100.00%	359,517	100.00%

Loans by region

In RMB million

	31 December 2010		31 December 2009	
Region segments	Balance	%	Balance	%
South and Central China	127,304	31.25%	112,690	31.34%
East China	149,627	36.73%	128,155	35.65%
North and Northeast China	97,821	24.01%	91,588	25.48%
Southwest China	32,639	8.01%	27,084	7.53%
Total	407,391	100.00%	359,517	100.00%

Loans by industry

In RMB million

	31 December 2010		31 December 2009	
Industries	Balance	%	Balance	%
Agriculture, husbandry and fishery	829	0.20%	590	0.16%
Mining (Heavy industry)	4,206	1.03%	3,523	0.98%
Manufacturing (Light industry)	83,681	20.54%	59,974	16.68%
Energy	12,574	3.09%	8,001	2.23%
Transportation, posts and telecommunications	20,288	4.98%	17,405	4.84%
Commercial	55,196	13.55%	36,070	10.03%
Real estate	22,527	5.53%	23,255	6.47%
Social service, technology, culture and sanitary industries	48,328	11.86%	52,517	14.61%
Construction	18,277	4.49%	13,405	3.73%
Others (mainly personal loans)	122,838	30.15%	99,491	27.67%
Discount	18,647	4.58%	45,286	12.60%
Total loans and advances	407,391	100.00%	359,517	100.00%

Note: From the perspective of loan flows by industry, the loans of the Bank mainly concentrate in manufacturing, commercial and other loans (mainly personal loans). As of the end of 2010, the balance of the above three types of loans amounted to RMB 83.681 billion, RMB 55.196 billion and RMB 122.838 billion respectively, accounting for 20.54%, 13.55% and 30.15% of total loans, or all together accounting for over 60% of the total loans in aggregate.

In 2010, the incremental loans (including discount) of the Bank by industry also concentrate in manufacturing, commercial and other loans (mainly personal loans), accounting for 49.52%, 39.95% and 48.77% of total incremental loans respectively. Discount dropped dramatically by 58.82% in comparison with year-beginning level as a result of the Bank's strategy to adjust loan structure and improve the return on loans.

Loans by guarantee type

In RMB million

	Balance	%
Unsecured loans	73,940	18.15%
Guaranteed loans	84,903	20.84%
Loans secured by collaterals	185,886	45.63%
Loans secured by Pledges	44,015	10.80%
Discount	18,647	4.58%
Total	407,391	100.00%

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

As of the end of the report period, the balance of the top 10 borrowers of the Bank was RMB 12.698 billion, accounting for 3.12% of the loan balance as of the end of the year. Specifically, these customers are: Wuhan Urban Construction Investment & Development (Group) Co., Ltd., Zhuhai Zhenrong Company, Transport Department of Shanxi Province, Shougang Group, CITIC South China (Group) Co., Ltd., Beijing Gonglian Highway Connect Line Co., Ltd, Shanxi Coal Transportation and Sales Group Co., Ltd., Beijing Municipal Bureau of Land and Resources Chaoyang Center, Shenzhen Municipal Fiscal and Finance Service Center and Nanjing Metro Co., Ltd.

(2) Investment and other financial assets

Asset mix

In RMB million

	31 December 2010		31 December 2009	
Asset Class	Amount	%	Amount	%
Trading financial assets	0	0	1,132	1.09%
Derivative financial assets	372	0.33%	100	0.10%
Available-for-sale financial assets	31,534	28.11%	36,998	35.70%
Held-to-maturity investments	61,380	54.71%	34,585	33.37%
Investment in receivables	18,502	16.49%	30,427	29.36%
Long-term equity investments	404	0.36%	393	0.38%
Investment and other financial assets	112,192	100.00%	103,635	100.00%

Information on holding of bonds

At the end of the report period, the face value of the treasury bonds and financial bonds (including PBOC bills, policy bank debts, various ordinary financial debts, and subordinated financial debts, excluding corporate debts) held by the Bank were RMB 84.8 billion. The bonds of substantial amount are stated as below:

In RMB million

Types	Face value (in RMB million)	Nominal annual interest rate (%)	Maturity date	Impairment provision
2010 financial bonds	21,320	0~4.02	2011/1/28~2020/11/4	-
2009 financial bonds	10,140	1.95~3.97	2011/9/23~2019/9/23	-
2008 financial bonds	9,970	2.04~4.95	2011/6/12~2018/12/16	-
PBOC notes	9,031	0~4.56	2011/2/10~2013/8/27	-
2010 treasury bonds	6,983	0~4.6	2011/1/24~2040/6/21	-
2006 treasury bonds	6,100	2.4~3.81	2011/3/31~2016/3/27	-
2007 financial bonds	4,425	2.52~5.14	2012/2/2~2017/10/25	-
2009 treasury bonds	2,689	1.67~4	2012/3/25~2019/7/23	-
2009 other financial bonds	2,591	0.79~5.7	2011/5/19~2024/3/25	-
2002 financial bonds	2,140	2.65~4.6	2012/4/19~2022/5/9	-

Information on holding of derivative financial instruments

Table of derivatives investments

Risk analysis on derivatives position-holding during the report period and explanations on controlling measures (including but not limited to market risk, liquidity risk, credit risk, operational risk and legal risk)	1. Market risk. Market risk of derivatives refers to the risk of loss on on-balance-sheet and off-balance-sheet business due to change of market prices (interest rate, exchange rate, stock price and commodity price). Market risk control in the Bank is exercised via risk limit management from various perspectives such as exposure, risk level, and profit/loss. 2. Liquidity risk. Liquidity risk of derivatives refers to the risk that a bank has the solvency but cannot obtain sufficient fund in a timely manner or cannot obtain sufficient fund in time with reasonable cost to deal with asset growth or pay off due debts. For derivatives delivered in full amount, the Bank adopted the measure of integrated position closing to ensure sufficient fund for settlement while delivering; for derivatives delivered in net amount, there was no major impact as the cash flow would have minor impact on current assets of the Bank. 3. Operational risk. Operational risk is the risk resulting from defective internal procedures, people, systems, or external events, including the risks caused by people, processes, systems and external factors. The Bank strictly observed *CBRC Guidance on Operational risk Management of Commercial Banks*, staffed full-time traders, adopted professional front-middle-back office integrated monitoring system, set complete business operational process and authorization management system and improved internal monitoring and auditing mechanism, to avoid operational risk to the utmost. 4. Legal risk. Legal risk refers to the possibility of risk exposure caused by business activity incompliant with legal rules or external legal events. The Bank attached a lot of importance to legal documentation related to derivative transactions, and signed legal agreements including ISDA, CSA, MAFMII with other banks to avoid legal disputes and regulate dispute resolving methods. In pursuance to regulatory requirements and transaction management requirements, the Bank also drafted out customer transaction agreement referring to above inter-bank legal agreements, thus largely avoiding potential legal disputes. 5. Force Majeure. Force Majeure refers to unforeseeable, unavoidable or insurmountable objective circumstances, including but not limited to fire, earthquake, flood or other natural disasters, war, military act, strike, pandemic, failure of electricity, telephone service or IT system, financial crisis, halt of related market transaction, or change of national legal rules or policy that prevents the derivative trading to be implemented normally. The Bank has concluded agreements with all the individual, institutional and inter-bank customers and set out terms and conditions about force Majeure to exempt from obligations upon contract breaching in case of force majeure.
Changes of market price or product fair value of invested derivatives during the report period. The methods adopted in determining the fair value of derivatives as well as the assumptions and parameters should be disclosed together with the analysis result.	In 2010, the Bank did not see big fair value change of invested derivatives during the report period. The Bank engaged the evaluation technique to determine the value of derivative financial instruments. The evaluation technique included reference to the price used by all voluntary stakeholders familiar with relevant circumstances in latest market trading, and reference to the current fair values and discounted cash flow technique of other financial instruments of essentially same nature. Evaluation techniques may use market parameters as much as feasible. However, the management team had to evaluate in light of credit risk, market fluctuation rate and correlation of the Bank and the trading counterparties when market parameters were not available.
Explanation on whether there were major changes of accounting policies or accounting settlement principles related to derivatives during the report period compared with that of last report period.	The Bank set out accounting policies and accounting settlement principles for derivatives in line with *Accounting Standards for Business Enterprises*. There was no major change of relevant policy.
Specific comments from Independent Directors, sponsors or financial advisors on derivative investments and risk control.	Independent Directors of the Bank believed that the Bank's derivative trading business was a commercial banking business approved by regulators. The Bank has established a relatively complete risk management system, which is effective for risk control on derivative trading.

Table of position of derivative investments at the end of the report period

In RMB million

Contract type	Beginning-of-period contract amount (Nominal)	End-of-period contract amount (Nominal)	Gains/Losses on changes in fair value in the report period	Percentage of end-of-period contract amount (Nominal) to end-of-period net assets (%)
Foreign exchange forward agreement	19,918	47,535	53	141.84%
Interest rate swap agreement	800	2,300	7	6.86%
Stock option agreement	93	-	-	-
Equity swap agreement	93	-	-	-
Total	20,904	49,835	60	148.70%

(3) Other assets

Repossessed assets

In RMB million

Item	Amount
Land, properties and buildings	590
Others	40
Subtotal	630
Impairment provision balance for repossessed assets	(258)
Net value of repossessed assets	372

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

In RMB million

Interest receivables	Amount
Beginning-of-period balance	1,626
Increased amount in the report period	23,253
Recovered amount in the report period	22,758
End-of-period balance	2,121

In RMB million

Type	Amount	Bad debt provision
Interest receivables	2,121	-

At the end of the report period, interest receivables increased by 30.5% or RMB 495 million compared with the end of last year. Interest receivables arising from interest-earning assets such as loans would offset interest income of the current period and be put off balance sheet if the interest is overdue for 90 days, with no provision set against it.

2. Liability structure and the changes

In RMB million

	31 December 2010		31 December 2009		Change from the end
	Amount	%	Amount	%	of last year (2010 vs. 2009)
Deposit taking	562,912	81.10%	454,635	80.13%	+23.82%
Placements of deposits from banks and other financial institutions	82,370	11.87%	74,140	13.07%	+11.10%
Borrowed funds	6,200	0.89%	7,570	1.33%	-18.10%
Derivative financial liabilities	312	0.04%	22	0.00%	+1318.18%
Repurchase agreements	17,589	2.53%	13,733	2.42%	+28.08%
Employee benefits payables	1,879	0.27%	1,682	0.30%	+11.71%
Tax payables	1,125	0.16%	652	0.11%	+72.55%
Interest payables	3,920	0.56%	2,682	0.47%	+46.16%
Bond payables	9,469	1.36%	9,463	1.67%	+0.06%
Deferred income tax liabilities	103	0.01%	94	0.02%	+9.57%
Other liabilities	8,218	1.18%	2,668	0.47%	+208.02%
Total liabilities	694,097	100.00%	567,341	100.00%	+22.34%

Deposits by product

In RMB million

	31 December 2010	31 December 2009	31 December 2008	Change from the end of last year (2010 vs. 2009)
Corporate deposits	477,742	383,663	302,309	+24.52%
Retail deposits	85,171	70,972	58,205	+20.01%
Total deposits	562,912	454,635	360,514	+23.82%

Deposits by region

In RMB million

	31 December 2010		31 December 2009	
Item	Amount	%	Amount	%
South and Central China	197,959	35.17%	160,943	35.40%
East China	190,693	33.88%	150,534	33.11%
North and Northeast China	140,208	24.91%	115,680	25.45%
Southwest China	34,052	6.05%	27,478	6.04%
Total	562,912	100.00%	454,635	100.00%

3. Changes of shareholders' equity

In RMB million

	Beginning-of-period balance	Increase in the year	Decrease in the year	End-of-period balance
Share capital	3,105	380	-	3,485
Capital reserve	7,017	6,380	-	13,397
Surplus reserve	1,284	628	-	1,912
General reserve	4,676	1,302	-	5,978
Undistributed profit	4,387	6,284	1,930	8,741
Including: Dividend proposed for distribution	-	-	-	-
Total shareholders' equity	20,470	14,974	1,930	33,513

4. Holding of foreign currency financial assets

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

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

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

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

In RMB million

	Beginning-of-period balance	Gains/losses on changesin 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 placement at PBOC	559				1,186
Placement of deposits at other financial institutions	9,977				7,962
Account receivables	3,172				5,373
Loans and advances	7,910			40	11,438
Available-for-sale financial assets	243		2		233
Held-to-maturity investments	1,088				934
Long-term equity investments	1				1
Other assets	117			(5)	104
Total	23,067		2	35	27,231
Financial liabilities:					
Placement of deposits from banks and other financial institutions	2,950				4,297
Deposits	17,375				22,136
Account payables	391				926
Other liabilities	77				66
Total	20,793				27,425

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

In RMB million

Item	Amount
Banker's acceptance bills	246,614
Issuance of letters of credit	2,926
Issuance of letters of guarantee	3,824
Unused credit line of credit card	9,863
Lease commitment	2,399
Capital expenditure commitment	43

(IV) Analysis of asset quality

In 2010, the economy of China gradually returned to the path of steady growth. However, under the macro environment of delicate domestic and international development environments and the challenging recovery of the world economy, the sustained and healthy development of the banking industry also faced various challenges and in particular, the credit risks in three major areas including local government financing platform, real estate and over-capacity deserved serious attention. Confronted with the increasingly complicated macro environment and strict regulatory requirements, the Bank proactively responded by implementing State industrial policies and regulatory requirements, strictly controlling the origination of loans out of the local government financing platform, project loans and real estate loans, doing a good job in clean-up and rectification of the local government financing platform loans, adopting various measures to strengthen the risk management of the loans of local government financing platforms and real estate loans, and paying continued attention to the credit risks potentially arising from the State's strengthened efforts in respect of energy conservation, emission reduction and outdated capacity elimination. The Bank stuck to a robust and prudent credit policy and achieved steady and faster growth in credit business and effective control over both the incremental non-performing loans (NPL) in aggregate and NPL ratio, as a result, both NPL amount and NPL ratio decreased and provision coverage was further enhanced. As of 31 December 2010, the balance of non-performing loans of the Bank was RMB 2.367 billion, representing a decrease of RMB 77 million as compared to year beginning, NPL ratio was 0.58%, down 0.1% from last year and provision coverage was 271.5%.

Meanwhile, the Bank achieved substantial recovery results. It recovered non-performing assets of RMB 2.570 billion in aggregate throughout the year, including the principal amount of RMB 2.256 billion. Out of the recovered principal amount of credit assets, loans of RMB 1.285 billion were written off and non-performing loans of RMB 0.969 billion were not written off. There were 94% of the non-performing credit assets recovered in cash, and the remaining was recovered in repossessed assets.

1. 5-tier loan classification

In RMB million

	31 December 2010		31 December 2009		Compared with the corresponding period of last year	
5-tier classification	Balance	%	Balance	%	Change in balance	Change in %
Pass	403,686	99.09%	355,717	98.94%	13.48%	+0.15%
Special mention	1,339	0.33%	1,356	0.38%	-1.27%	-0.05%
Non-performing loans	2,367	0.58%	2,444	0.68%	-3.16%	-0.10%
Including: Substandard	1,309	0.32%	1,474	0.41%	-11.21%	-0.09%
Doubtful	620	0.15%	529	0.15%	17.20%	-
Loss	438	0.11%	441	0.12%	-0.66%	-0.01%
Total loans	407,391	100.00%	359,517	100.00%	13.32%	-
Loan loss provision	(6,425)		(3,955)		62.46%	
Provision coverage	271.50%		161.84%			+109.66%

In 2010, according to the requirements of the national macro regulatory policies and risk reminder from the regulators, the Bank proactively adjusted its credit policy, optimized its credit structure, strictly controlled the risk of new loans, strengthened its recovery and disposal of existing non-performing loans and participated in asset protection and risk elimination in respect of the problematic loans in advance. Thus, both the non-performing loan amounts and NPL ratio decreased and loan provision coverage further improved.

2. Restructured loans and overdue loans

In RMB million

	Beginning-of-period balance	End-of-period balance	%
Restructured loans	1,418	954	0.23%
Overdue loans	164	424	0.10%
Non-accrual loans	2,565	2,011	0.49%

Note: Overdue loans refer to uncollected loans with principal overdue no more than 90 days. Non-accrual loans refer to uncollected loans with principal or interest overdue more than 90 days.

(1) As of 31 December 2010, the restructured loan balance of the Bank was RMB 954 million, representing a decrease of RMB 464 million or 32.73% compared with year beginning, primarily due to further improvement of disposal efficiency of non-performing assets by the Bank through its reinforced management of restructured loans and its strengthened collection and disposal of restructured loans in respect of non-performing assets.

(2) As of 31 December 2010, overdue loan balance of the Bank was RMB 424 million, representing an increase of RMB 261 million compared with year beginning, primarily because some companies could not repay the loans from the Bank on schedule as a result of external factors and mismanagement, including delinquency of some credit card overdraft loans.

(3) As of 31 December 2010, the Non-accrual loans balance of the Bank was RMB 2.011 billion, representing a decrease of RMB 554 million compared with year beginning, primarily due to a decrease in corporate non-accrual loans. The Bank strengthened the management of loan repayment deadline, as well as tracking and monitoring of the status of the repayment of loans due and loan quality and adopted measures to urge the customers to make repayment on schedule.

3. Loan quality by industry

In RMB million

	31 December 2010		31 December 2009		Change	
Industries	Balance	NPL ratio	Balance	NPL ratio	Increase in amount	Increase in NPL Ratio
Agriculture, husbandry and fishery	829	0.00%	590	0.00%	239	-
Mining (heavy industry)	4,206	0.33%	3,523	0.00%	683	0.33%
Manufacturing (light industry)	83,681	0.80%	59,974	1.35%	23,707	-0.55%
Energy industry	12,574	0.00%	8,001	0.01%	4,573	-0.01%
Transportation, posts and telecommunications	20,288	0.00%	17,405	0.34%	2,883	-0.34%
Commercial	55,196	1.57%	36,070	2.13%	19,126	-0.56%
Real estate industry	22,527	1.83%	23,255	1.48%	-728	0.35%
Social service, technology, culture and sanitary industries	48,328	0.19%	52,517	0.04%	-4,189	0.15%
Construction	18,277	0.08%	13,405	0.42%	4,872	-0.34%
Others (mainly personal loans)	122,838	0.23%	99,491	0.39%	23,347	-0.16%
Discount	18,647	0.00%	45,286	0.00%	-26,639	-
Total loans and advances	407,391	0.58%	359,517	0.68%	47,874	-0.10%

From the view of loan quality by industry, non-performing loans of the Bank mainly concentrated on real estate and commercial purposes and NPL ratios of other industries were lower than 1%. Real estate non-performing loans were primarily legacy non-performing loans disbursed before 2005 for real estate development purpose. Real estate development loan balance was RMB 12.9 billion, with the NPL ratio of about 1%, which were all non-performing loans disbursed before 2005.

4. Loans quality by region

In RMB million

	31 December 2010		31 December 2009	
	Balance	NPL ratio	Balance	NPL ratio
South and Central China	127,304	0.91%	112,690	1.06%
East China	149,627	0.43%	128,155	0.56%
North and Northeast China	97,821	0.50%	91,588	0.50%
Southwest China	32,639	0.27%	27,084	0.27%
Total	407,391	0.58%	359,517	0.68%

In 2010, new loans made by the Bank mainly concentrated in East China and South and Central China, which increased by RMB 21.472 billion and RMB 14.614 billion respectively compared with year beginning and accounted for 44.85% and 30.53% of new loans of the year, respectively. In terms of loan quality by region, as of 31 December 2010, non-performing loans of the Bank mainly concentrated in South China. The NPL ratios in other regions were all lower than bank average.

5. Loan quality by product

In RMB million

	31 December 2010		31 December 2009		
	Balance	NPL ratio	Balance	NPL ratio	Change of NPL ratio
Corporate loans (excluding corporate credit cards)	287,296	0.73%	261,876	0.78%	-0.05%
Including: General loans	268,649	0.78%	216,591	0.95%	-0.17%
Discount	18,647	0.00%	45,285	0.00%	-
Retail loans (excluding personal credit cards)	113,751	0.18%	92,888	0.33%	-0.15%
Including: Housing mortgage loans	64,877	0.16%	59,399	0.34%	-0.18%
Entrepreneur loans	18,626	0.26%	11,193	0.52%	-0.26%
Auto loans	10,667	0.13%	6,453	0.18%	-0.05%
Others	19,581	0.17%	15,843	0.25%	-0.08%
Account receivables of credit cards	6,344	1.21%	4,753	1.68%	-0.47%
Total loans	407,391	0.58%	359,517	0.68%	-0.10%

6. Government financing platform loans

Currently the Bank adopts the credit principle of strict control and central management on loans to government financing platform. For the existing customers, the Bank seriously strove to inspect and remedy the loans out of the local government financing platform, implemented categorized management on the basis of comprehensive risk inspection and resolutely withdrew from the loans subject to the exit standard under the credit policy of the Bank. For the new loans, the Bank reinforced the review and approval and disbursement management for the government financing platform loans and strictly controlled disbursement of new loans to government financing platforms.

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, values of collateral and pledges, the guarantors' actual 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 and given the risk level, recoverability and the estimated future value of the cash flow.

In RMB million

Item	Amount
Year beginning balance	3,955
Add: Accrual for the current year (including non-credit impairment provision)	1,488
Less: Interest offset of impaired loans	69
Less: Non-credit impairment provision	14
Net accruals in the current year	1,405
Add: Recovery of written-off loans in the current year	1,285
Less: Other changes	7
Less: Written-off in the year	213
Year-end balance	6,425

The fully provisioned non-performing loans satisfying write-off conditions will be submitted to the Board of Directors for approval before being written-off. The written-off loans will be transferred to off-balance sheet and left for the Assets Protection Department for follow-up collection and disposal. For 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.

(V) Capital management

In 2010, the Bank successfully issued 379,600,000 new NPO shares to Ping An Life and hence its core capital was increased by RMB 6,907,000,000, which enabled the capital to be further enhanced. As of 31 December 2010, the capital adequacy ratio and core capital adequacy ratio of the Bank increased to 10.19% and 7.10% respectively.

1. Change of capital in the past three years

In RMB million

	31 December 2010	31 December 2009	31 December 2008	Change from the end of last year (2010 vs. 2009)
Net capital	47,272	31,905	23,959	48.16%
Including: Net core capital	32,919	19,854	14,710	65.80%
Supplementary capital	14,662	12,372	9,578	18.51%
Total risk-weighted assets	463,691	359,508	279,113	28.98%
Capital adequacy ratio	10.19%	8.88%	8.58%	+1.31%
Core capital adequacy ratio	7.10%	5.52%	5.27%	+1.58%

2. Table of capital composition and capital adequacy ratio calculation

In RMB million

	31 December 2010	31 December 2009	31 December 2008
Core capital adequacy ratio	7.10%	5.52%	5.27%
Capital adequacy ratio	10.19%	8.88%	8.58%
Composition of capital base			
Core capital	33,228	20,175	15,038
Share capital	3,485	3,105	3,105
Capital reserve	13,341	6,956	6,963
Surplus reserve	1,912	1,284	781
General risk reserve	5,978	4,676	3,583
Retained earnings	8,512	4,154	606
Amount deducted from core capital	309	321	328
Net core capital	32,919	19,854	14,710
Supplementary capital	14,662	12,372	9,578
General loan loss provisions	5,016	2,723	1,445
Revaluation reserve [1]	177	187	778
Long-term subordinated debts	7,979	7,973	7,355
Hybrid capital bonds	1,490	1,490	-
Total capital	47,890	32,548	24,616
Less: Goodwill	-	-	-
Unconsolidated equity investment	369	362	434
Others	250	280	223
Net capital	47,272	31,905	23,959
Total risk-weighted assets	463,691	359,508	279,113
On-balance sheet risk-weighted assets	368,289	290,468	220,032
Off-balance sheet risk-weighted assets	95,402	69,040	59,081

Note: 1. Capital reserve and retained earnings in the above table have deducted unrealized gains caused by change of the fair value of the assets of the Bank in accordance with the CBRC computation method for capital adequacy ratio.

2. Revaluation reserve included that for available-for-sale financial assets and investment properties.

(VI) Business review

1. Corporate banking business

As of the end of 2010, corporate deposit balance of the Bank increased by 24.52%; general corporate loan balance increased by 24.04%; net income from corporate fee-based business increased by 15.8% on a year-on-year basis; balance of trade finance credit balance amounted to RMB 175.5 billion, representing an increase of 43.12% compared with year beginning.

In 2010, the Bank further enhanced its advantages in corporate business innovation and established the online supply chain financing platform which integrated customer experiences, internal process and horizontal cooperation, hence creating technical barriers and reinforcing core competiveness. After applying it comprehensively in the auto industry, the Bank expanded the application to such industries as steel and iron, home appliance and grain and oil and successively established online business cooperation relationship with over 1,000 customers including more than 60 core enterprises such as Baosteel, Midea and Dongfeng Nissan. At the same time, the Bank successfully developed innovative products such as cash management, trading market member financing, order financing, dealer store establishment financing and fixed-current link account.

In respect of the trade finance business, while consolidating the development results in traditional pillar industries such as steel and automobile, the Bank actively enlarged the service scope and achieved substantial breakthrough in mechanical engineering, branded goods and other industries, which began to take effect. The Bank implemented SME customer service upgrade plan and actively deepened the long-term relationship with SME customers.

The Bank's "Online Supply Chain Financing Project" was awarded the second prize in the finance innovation selection activity in 2010 organized by Shenzhen Municipal Government. With its outstanding achievements in promotion of "electronic commercial draft business", the Bank was awarded the "Electronic Commercial Draft Business Development Award" issued by the People's Bank of China and the "Best Supply Chain Finance Service Provider" award in the selection of best banks in China in 2010 organized by the *Global Finance*. In addition, the Bank also earned such awards as "Excellence in Supply Chain Management Case", "Best Supply Chain Finance", "Best Offshore Business" and "Best Business Model Innovation Award for the 21st Century in China" and such titles as "Best Bank in Supply Chain Finance Service", "Excellent Bank in Supply Chain Finance Service in 2010", "2010 Top Ten Commercial Bank in Supporting Development of SMEs in China" and "Top Ten Brand with Influence in Finance Service in China".

Development of trade finance business in 2010:

In RMB million

	31 December 2010	%	31 December 2009	%	Change
Domestic trade finance	162,716	92.72%	115,134	93.89%	41.33%
Including: South and Central China	66,412	37.84%	43,621	35.57%	52.25%
East China	41,194	23.47%	26,054	21.25%	58.11%
North and Northeast China	45,500	25.93%	38,249	31.19%	18.96%
Southwest China and other regions	9,610	5.48%	7,209	5.88%	33.31%
International trade finance (including off-shore)	12,781	7.28%	7,488	6.11%	70.69%
Including: Export trade finance	1,776	1.01%	3,613	2.95%	-50.84%
Import trade finance	11,005	6.27%	3,874	3.16%	184.07%
Total trade finance balance	175,497	100.00%	122,621	100.00%	43.12%

In 2010, by seizing opportunities in rapid economic development of the nation, the Bank continued to rapidly grow its trade finance business. As of the end of the year, trade finance balance of the Bank reached the record high of RMB 175.5 billion, representing a year-on-year increase of RMB 52.9 billion or 43.12%. A relatively rapid growth was maintained in each quarter throughout the year, and a total increase of RMB 32.9 billion was recorded in the second and third quarters, taking up over 60% of the full-year growth. The NPL ratio of trade finance continued to stay at a low level of 0.29%.

The domestic trade finance business still remained the major source of growth. As of the end of the year, the credit balance reached RMB 162.7 billion with a growth rate of 41.33%, and the number of customers increased by 32.7% over the end of 2009. As China's foreign trade continued to improve, the Bank's credit scale of international trade finance recorded an increase of RMB 5.3 billion for the full year, up 70.69% over the previous year.

As to regional distribution, the trade finance business growth in South China and East China was stronger with a year-on-year growth rate of over 50% and the proportion of these two regions in total scale increased by 2 percentage points respectively. Growth rate in North China and Northeast China slowed down, with a decrease of 5 percentage points in the regional proportion.

As to industries, traditional pillar industries still remained the focus of growth as auto industry and iron and steel industry increased by RMB 14.6 billion and RMB 11.3 billion respectively, together taking up nearly 50% of total growth of the Bank. Meanwhile, brand goods industries also achieved rapid development in 2010, among which, the scale of the food industry increased by 143% from the end of 2009 and other industries such as the grain and oil industry, chemical fertilizer industry and engineering machinery industry also started the supply chain finance business under the "headquarters to headquarters" cooperation mode.

2. Retail banking business

As of the end of 2010, balance of retail deposits of the Bank increased by 20.01%, balance of retail loans achieved a growth rate of 23.00% and net income from the retail fee-based business recorded a year-on-year increase of 70.5%.

(1) Vigorously carried out customer development activities to increase the number of valuable retail customers

In 2010, retail banking of the Bank took the retail customer management as its core task, intensified various measures for customer management, improved the capability of retail customer management and fund raising, promoted front-line sales operation mode, expanded construction of channel functions, improved and promoted standardized service system, and performed well in marketing promotion and advertising planning, thereby realizing rapid growth in the scale of valuable retail customers.

(2) Worked together to proactively promote rapid and steady growth of retail deposit service

Absorbed deposits through products such as "Ritianli", "Offset Loan" and "Flexible Fixed Deposit", proactively expanded business of third-party custody and payroll, continuously explored sources of deposits, and took a series of marketing measures including cross-selling to ensure the steady growth of deposit volume.

(3) Promoted optimization and development of personal loan business and sorted out personal loan service process

In terms of personal loans, the Bank adhered to the personal loan development strategy of "high yield growth", focused on personal entrepreneur loan, second house mortgage loan and auto loan businesses, and greatly raised the proportion of high-yield business in the portfolio. Meanwhile, the Bank continued to sort out personal loan service process, developed the personal loan process management system, enhanced the customer service level, established the customer retention policy to put policy into process, set up customer retention mode and realize staff professionalization, and reduced the prepayment rate by 50% from 2009.

(4) Comprehensively implemented the project of "Leapfrog" and promoted the front-line sales mode across the Bank to improve productivity

In 2010, the standardized front-line sales mode (the project of "Leapfrog") was promoted across the Bank and covered 258 outlets. As a result, the retail sales capability of outlets was improved significantly, per capita sales volume of wealth management relationship managers continued to grow rapidly and their sales capability was 2.68 times that at the beginning of the year.

(5) Continued product development and innovation, and further enhanced the basic platform for retail business

The Bank continued to innovate products and improve the policy of "creativity incubator" for personal loans, and launched 2 innovative personal loan businesses and products of "Fast Credit Loan" and "Flexible Fixed Deposits". Meanwhile, it actively carried out agency business, launched medium- and long-term financial products targeted at high-end customers, and established debit card business customization platform. Custody business also developed rapidly in management of wealth management products of small- and medium-sized commercial banks, specific assets of fund companies, and customer assets of securities companies.

(6) Effectively carried out wealth management, agency business, custody business and other businesses and promoted rapid growth of fee income from retail business

In 2010, sales volume of the Bank's various wealth management products reached a record high; the scale of custody service developed rapidly, resulting in a substantial increase in management fees; credit card business, bancassurance business and precious metal trading business grew rapidly; sales volume of fund-related products continued to rise, thus effectively boosting the rapid growth of income from the retail fee-based business.

In 2010, sales volume of wealth management products reached RMB 100.3 billion, representing an increase of 247% over 2009 and the fee income reached RMB 116 million, up 42% over 2009; sales volume of agency fund and insurance increased by 41% and 83% respectively compared with 2009 as high importance was attached to the introduction of high-quality products and brand expansion, and the fee income increased by 48% from 2009; total custody fee income for the whole year reached RMB 20.45 million in respect of the custody business; the balance of custody business as of the end of the year reached RMB 37.8 billion, up 184% over the end of 2009.

(7) The credit card business realized rapid and steady growth with asset quality remaining stable and profit growing quickly.

As of the end of the report period, the number of credit cards in force of the Bank reached 4,128,700, representing an increase of 13.47% over the same period of previous year; the loan balance reached RMB 6.34 billion, representing an increase of 33.48% over the same period of 2009; the balance of non-performing loans reached RMB 76 million with NPL ratio of 1.21%, declining by 0.47% from the same period of previous year. The Bank continued to consolidate the core value positioning of "Eco-friendliness & Fashion" of the credit card through the projects of "Loyalty Points for Tree Seedlings", "Millions of Forests", "Making Efforts for Environmental Protection, Giving 100,000 Subway Tickets for Free", and at the same time, the Bank continuously enhanced the capability of business innovation by successfully launching the world's first

credit card with the Chinese name of the cardholder, researching and developing the real-time two-way marketing mode based on mobile phone positioning, and setting up the advanced credit card communication platform. In 2010, the credit card center passed dual certification of ISO9001:2008 quality management system and ISO14001:2004 environment management system to become the first business unit within the Bank which fully implemented and obtained the certification of quality and environment management systems, thus making itself the first credit card center which obtained the above two certificates at the same time in the whole industry in China.

(8) Retail Banking won various honors and awards in 2010

In 2010, the Bank was awarded with various honors and awards, including "The Most Respected Domestic Bank in China 2010 "The Top 10 Best Retail Bank in China 2010", "Top 10 Best Banking Wealth Management Product in China 2010", "Top 10 Best Banking Wealth Management Brand in China 2010" and "Best Marketing and Service Team 2010" and other titles in the appraisal activity of the banking industry in China organized by the renowned market research institutions and media.

(9) Table of personal loans

In RMB million

	31 December 2010	%	31 December 2009	%
I. Personal loans excluding credit cards				
South China	34,712	30.52%	28,960	31.18%
East China	47,990	42.19%	38,158	41.08%
North China	24,584	21.61%	20,381	21.94%
Southwest China	6,463	5.68%	5,385	5.80%
Headquarters	2	0.00%	3	0%
Total balance of personal loans excluding credit cards	113,751	100.00%	92,887	100.00%
Including: Total non-performing loans	202	0.18%	308	0.33%
II. Mortgage loans in personal loans				
Balance of mortgage loans	68,002	59.78%	61,803	66.53%
Including: Housing mortgage loans	64,877	57.03%	59,399	63.95%
Mortgage Non-performing loans	118	0.17%	217	0.35%
Including: Housing mortgage non-performing loans	106	0.16%	200	0.34%

Note: Mortgage loan includes mortgage of personal residential property and commercial property; Housing mortgage excludes mortgage of housing for both commercial and residential purpose, offices and shops.

As of 31 December 2010, the personal loan balance of the Bank reached RMB 120.1 billion, representing an increase of 23% compared with year beginning. Personal loan disbursed was RMB 54.8 billion in aggregate in 2010 and affected by the austere real estate policies, the growth of the housing mortgage loan slowed down and the personal housing mortgage loan disbursed was RMB 17.9 billion in aggregate.

In the composition of personal loans, the proportion of housing mortgage loan balance to all personal loan business dropped to 57% from 64% as of the beginning of the year. For the distribution areas of personal loans, the growth rate of personal loans in East China was substantial and its proportion to personal loan business across the bank improved by 1.11% over year beginning, primarily attributable to the fact that individual entrepreneur loans and auto consumption credit business maintained fast growth momentum, where auto loan increased by RMB 4.2 billion in 2010.

3. Treasury interbank business

During the report period, the central bank adopted moderate easing monetary policy and increased base interest rate and required reserve rate based on economic growth and price level, with interest rate increased by 50 basis points and required reserve rate increased by 3 percentage points. It also resumed flexible RMB exchange rate mechanism.

Under the background of this macroeconomic policy, the Bank optimized its asset and liability structure, sped up product and management innovation, enriched interbank treasury product chains, aggressively explored interbank sales channels and strengthened risk and liquidity management of the Bank; in the meantime, the Bank also implemented interbank customer relationship manager system, reinforced cross-selling and provided integrated financial solutions to customers of other banks, which helped achieve top quality growth in interbank business.

(1) Scale of interbank business

The scale of interbank assets and liabilities demonstrated sustained and rapid growth, with interbank market activity and influence improving steadily. The interbank business became a major driver for profit growth of the Bank. As of the end of the report period, the balance of bank-wide interbank assets represented a favorable return and a year-on-year increase of 24%.

(2) RMB and foreign currency trading

The accumulated trading volume in currency market recorded a new high with a year-on-year increase of 17%. Bond trading volume continued to go up and market ranking was improved steadily.

The business volume of forward settlement and sales of foreign exchange on behalf of customers grew by 49% on a year-on-year basis and foreign exchange trading business on behalf of customers grew by 70% on a year-on-year basis.

(3) Research, development and management of wealth management business

Wealth management product design and management capability was improved dramatically and a series of wealth management products such as portfolio investment product, asset pool product, tiered product and structured product were developed. Distribution volume of various wealth management products (including corporate, retail and interbank) in the Bank grew by 393% on a year-on-year basis and the balance of wealth management products grew by 400% on a year-on-year basis, helping achieve a year-on-year profit growth of 83%. The Bank was ranked the sixth in respect of competitiveness of wealth management products in the banking industry, with its market position and competitiveness being improved substantially.

(4) Investment banking business

In 2010, debt financing instrument underwriting business demonstrated rapid growth with total underwriting volume and total returns both grew by over 150% from 2009 and the Bank was honored "Investment Banking Business with the Most Growth Potential in China" by *Securities Times*.

(5) Precious metal trading business

Precious metal trading amount for the whole year grew by 445% on a year-on-year basis, with the number of retail customers grew by 332% year on year, and fee income grew by 626% on a year-on-year basis. People's Bank of China formally approved the business qualification of the Bank in "gold import & export", making the Bank the fifth commercial bank with this business qualification, only next to the four major state-owned commercial banks. Gold deposit business continued to maintain growth momentum with delivery volume ranking among Top 8 in Gold Exchange. During the report period, the Bank was awarded "Excellent Member of Shanghai Gold Exchange 2010" and "Silver Trading Single Award of Shanghai Gold Exchange 2010".

(6) Expansion of interbank channels

Through intensified interbank business cooperation, the Bank got another 43 interbank partners for cooperation in wealth management and agency business during the report period; the Bank also sold 114 batches of wealth management products in aggregate to 35 financial institutions, creating a good brand profile for the Bank in the interbank market.

Cooperation between the Bank and securities companies was continuously deepened and the number of online brokers of third-party depository network accumulated to 53; in the meantime, the Bank focused its strength on the development of agency business cooperation platform and strived to create an all-dimensional financial service platform which integrated various businesses including banking, insurance, trust, fund, securities and investment banking, creating substantial prospects for future interbank cooperation.

4. Financial services to small and medium enterprises ("SME")

In 2010, the Bank's SME business developed steadily with domestic SME loan balance amounting to RMB 142.2 billion, representing a growth of 25.56% as compared to the beginning of the year and accounting for 58.64% of corporate loans. The number of domestic SME credit customers stood at 13,335, representing an increase of 21.95% over the end of last year.

In recent years, the Bank had been committed to innovations in SME financial model to support business development of SMEs. As approved by China Banking Regulatory Commission in June 2009, the Bank established dedicated SME service organization at branch level — SME Financial Business Unit. The Business Unit applies vertical management approach based on three lines covering market, risk control and operations. It observed the management concept of target customer base and the principle of wholesale customer acquisition, aiming to provide financial services to SMEs in a more professional, intensive and efficient manner. The Bank further extended its service outlets from top to bottom on this basis to further consolidate dedicated financial services to small enterprise. As of the end of 2010, there were 11 branches which established regional SME Financial Business Unit. Basic staffing indicators and special marketing expenses were allocated to small enterprises business to support its development and to proactively encourage them to develop small enterprise franchise via target customer group acquisition model.

(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 established Credit Portfolio Management Committee to review and determine the strategies for credit risk management, credit risk appetite and all sorts of credit risk management policies and standards. In 2010, the Bank actively dealt with the macroeconomic situation and changes of the regulation requirements, and formulated and adjusted credit policy of the Bank, emphasized development of SMEs, trade finance and retail credit business; continued to promote "Green Credit" culture, increased credit support to major projects on energy saving and emission reduction as well as to enterprises engaging in technology innovation and development for energy saving and emission reduction, strictly controlled lending to "high energy consumption, high pollution and excessive capacity industries", and continuously optimized and adjusted credit structure; seriously implemented the requirements of the regulatory authority, strictly reduced the risks of local government financing platform and carried out the risk management of the real estate industry; and seriously implemented the differentiated credit policy of housing property and proactively adjusted the structure of personal loan.

The Bank implemented credit officer system and appointed Chief Credit Risk Officer at the Headquarters to manage the credit risk of the Bank, , as well as assigned credit officers and retail credit risk officers to each branches for managing corporate and retail credit operation; credit officers and retail credit risk officers of each branch directly reported to the Chief Credit Risk Officer. The Chief Credit Risk Officer was in charge of their performance evaluation. Thus an independent and transparent system of vertical credit risk management was established.

The Bank established a set of standard procedures for credit approval and management, and formulated a comprehensive system for customer credit rating and credit authority. In 2010, the Bank fully implemented the requirements under the "Three Methods and One Guideline" by improving the credit system and credit processing control, requiring on-site inspection to be conducted by two responsible officers, upholding the principle of segregation between credit review and credit approval, enhancing strict investigation on rationality and legality of loan utilization and authenticity of trade background. Facing complex economic situation, the Bank strictly controlled the review standard and credit threshold so as to control the new credit risk from the origin.

The Bank emphasized post-lending monitoring and early warning of credit business, and had established a more comprehensive system for monitoring and pre-warning of credit risk. In 2010, the Bank enhanced its post-lending monitoring management in order to get the early warning signal in time and take effective measures to control credit risk. Meanwhile, in line with changes in the State's macro economic policies and the Bank's current situation, early warning was given on specific industry loans including real estate loans, idle land mortgage credit and low productivity industry loans; while stress test was conducted for relevant industry loans such as real estate loans.

The Bank focused on the on-site and off-site inspection and compliance monitoring work for credit management. In 2010, credit inspection was conducted across the whole bank, and special inspection in the important areas such as loans made through government financing platform and fixed asset loans, disbursement, collaterals management and the implementation of "Three Methods and One Guideline" was also conducted. The Bank also commenced the "Internal Control and Case Prevention and Control Year" campaign, which further strengthened the concept of operating in compliance with laws and regulations amongst the Bank's credit staff.

Based on China Banking Regulatory Commission's 5-tier classification, the Bank categorized corporate credit assets into ten tiers, including tier-1 pass, tier-2 pass, tier-3 pass, tier-4 pass, tier-5 pass, tier-1 special mention, tier-2 special mention, substandard, doubtful, and loss. In addition, there was a "write-off" tier. Retail loans continued to be managed through 5-tier risk classification, with personal credit based on various guarantees classified automatically according to days past due; classifications will be manually adjusted in case of existence of other special factors affecting the quality of loans.

The Bank applied different management policies to different loan classifications. In 2010, the Bank further refined its non-performing asset management. Recovery efficiency was enhanced by actively monitoring and classification and prioritization of non-performing assets, as well as formulating recovery strategy based on every account; risk of problematic loans was promptly resolved through rapid intervention by asset security staff for problematic loans in the Headquarters and branches.

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 it, and to offset the impact of volatility risk of financial instruments on the Bank. The Asset and Liability Management Committee of the Bank is responsible for formulating policies of market risk management and determining the targets of both market risk management and position limit on market risk. The Committee is also responsible for dynamically controlling business volume and structure, interest rate and liquidity. 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.

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 macroeconomic 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, and 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 2010, the liquidity in the Bank was ample, and all important liquidity indicators reached or exceeded regulatory requirements. At the end of 2010, 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.

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4. Operational risks

Operational risks refer to the risks resulting from defective internal procedures, errors or malpractice of Operations staff, and external events.

In 2010, the Bank firmly focused on the objective of "no material settlement accidents, zero operation cases" to improve the Bank's capability and effectiveness of operational risk management in full scale by taking measures such as strengthening internal control, enhancing the awareness and capability of risk prevention among bank staff, implementing strict accountability system, etc. Details are shown below:

1. The Bank constructed operational risk management framework bank-wide, strengthened three defense lines of "before the event, during the event, and after the event", completed the self-assessment of risk control of the operation line, and fully brought the operational risk management into practice.

2. The Bank established and implemented the new reporting system of operational risks. The Bank also included daily KRI monitoring, reporting on material issues, daily report on treasury trading, weekly report on T+D gold business, weekly report on verification and abnormal data, monthly reconciliation report, monthly report on operational risk supervision and control, and other mechanisms in practice to reveal, resolve, mitigate, and control operational risks in a timely manner.

3. The Bank took various measures to strengthen remote risk monitoring on daily basis and enhance the capability of identifying and withstanding risks. The Bank successfully blocked up a lot of forged bill, fake identity cards, counterfeited account opening materials, and other external fraud risk events, and issued risk warnings in time within the Bank; meanwhile, the Bank adopted the suggested measures raised by branches and sub-branches during "Woodpecker" campaign, and hence strengthened the early warning of case prevention and control to effectively prevent operational risks.

4. The Bank continued to strengthen operational risk management for new products, and carried out the training on the updated version of the operational risk assessment standards for new products.

5. The Bank was actively engaged in building the operational risk management system. During the year the Bank optimized phase 2 operation monitoring system as well as phase 2 bank-enterprise reconciliation system, and launched phase 2 post-event supervision system and Operations watch list system.

6. The Bank continued to strengthen case prevention and control. As required by China Banking Regulatory Commission, "Execution Year of Internal Control and Case Prevention" campaign was launched in Operations line within the Bank to drive the safe and stable running of various businesses.

7. The Bank effectively carried out inspection on operational risks, and tracked and supervised timely correction of findings identified in the internal and external inspections on the branches to continuously strengthen the capability of operational risk management.

8. The Bank strictly implemented the internal control policies governing the training, appraisal and rotation of key staff in operational risk control positions to strengthen the prevention of staff moral risks.

5. Other risks

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

The Bank sets up complete compliance risk management system at Headquarters and branch level to take charge of identifying, monitoring, and reporting compliance risks, as well as compliance review, consultancy, training and education. The Compliance Department is obliged to regularly report work progress to Audit and Related Party Transaction Control Committee under the Board of Directors, and accept guidance from the Committee. In 2010, the Bank continued to perfect pragmatic and efficient compliance management structure, effectively implement various actions to identify and manage compliance risks, including tracking the implementation of new policies and regulations, system planning management, identification and control of compliance risks upon launch of new products and new business, "Woodpecker" compliance risks monitoring project, related party transaction management and anti-money laundering. In addition, the Bank also effectively organized and launched a series of projects related to internal control and prevention of compliance risks and operational risks, such as "Pigeon" compliance campaign, the rolling inspection in key business areas and other case prevention actions, self assessment of internal control (C-SOX project), departmental control function checklist mechanism (DCFC), "Red/Yellow/Blue Card" penalty system, compliance education and training at various levels in a continuous and orderly manner, and a wide range of case prevention communication and compliance culture promotion, all of which delivered positive results. The compliance management of the Bank effectively controlled compliance risks, and the practice of compliance management and the achievements continued to gain favorable comments from regulators.

In respect of legal risk control, the Bank focused on legal review steps in business handling procedures, standardized the formats as well as terms and conditions of the contracts, and got involved in the decision-making processes in connection with policy formulation and new product development. Meanwhile, the Bank engaged a well-known legal firm in China as its legal consultant to obtain professional opinions about material legal affairs. The Bank continued to improve bank-wide management structure for legal affairs, and the headquarters enhanced the guidance to and management on branches to effectively put the legal risks of various businesses under control.

(VIII) Institution expansion and employee management

1. Institution expansion

In 2010, the bank set up 2 new sub-branches, 1 in South China and 1 in East China. As of the end of 2010, the Bank had 304 outlets in total.

Below is a list of branches of the Bank (excluding headquarters, sequenced by asset size) at the end of the report period:

Name of branch	Address	Number of outlets	Asset size (In RMB million)	Staff number (including staff on contractual and dispatched basis)
Shanghai Branch	1351 Pudong Road S., Pudong, Shanghai	29	101,991	1,439
Shenzhen Branch	No.7008, Shennan Road, Futian District, Shenzhen	87	91,091	2,162
Beijing Branch	158 Fuxingmen Nei Dajie, Beijing	24	85,538	1,081
Guangzhou Branch	66 Huacheng Avenue, New Pearl River City, Tianhe District, Guangzhou	22	63,149	1,066
Hangzhou Branch	36 Qingchun Road, Hangzhou	14	43,586	734
Nanjing Branch	128 Shanxi Road, Gulou District, Nanjing	13	34,521	647
Ningbo Branch	128 North Jiangdong Road, Jiangdong District, Ningbo	9	24,745	525
Tianjin Branch	347 Nanjing Road, Nankai District, Tianjin	14	23,290	575
Chengdu Branch	206 Shuncheng Street, Chengdu	9	21,629	409
Foshan Branch	5th Area, Foshan Media Center, Yuhe Road, Dongping New City, Foshan	10	20,650	542
Qingdao Branch	6 Hong Kong Road C., Qingdao	8	20,477	404
Jinan Branch	138 Lishan Road, Jinan	8	20,287	353
Wenzhou Branch	Guoxin Building, Renmin Road E., Wenzhou	6	20,144	404
Dalian Branch	130 Youhao Road, Zhongshan District, Dalian	9	15,793	400
Chongqing Branch	1 Xuetianwan Main Street, Yuzhong District, Chongqing	11	15,182	384
Haikou Branch	22 Jinlong Road, Haikou	6	14,496	249
Headquaters Outlet	SDB Tower, 5047 Shennan Road E., Luohu District, Shenzhen	1	13,309	178
Zhuhai Branch	288 Hongshan Road, Xiangzhou District, Zhuhai	7	10,318	258
Kunming Branch	450 Qingnian Road, Kunming City	9	9,851	304
Yiwu Branch	223 Binwang Road, Yiwu	4	7,363	137
Wuhan Branch	54 Zhongbei Road, Wuchang District, Wuhan	1	6,241	132
Wuxi Branch	Hejia Mansion, 20 Beida Street, Wuxi	1	705	78
Special Asset Management Center	No.1054, BaoAn South Road, Shenzhen	1	238	62
SME Finance Department	SDB Tower, 5047 Shennan Road E., Luohu District, Shenzhen	1	Assets are recorded at branches	11
Total		304	664,594	12,534

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

2. Information on employees of the Bank

As of 31 December 2010, the Bank had 12,203 employees on contractual basis, among which 6,904 were in business lines, 3,646 in financial and operation lines, 1,053 in management and operation support functions, and 600 in administrative and other functions. Among the bank's employees on contractual basis, 67.70% of them had bachelor's degree or above, and 94.38% of them had associate degree or above. The Bank needed to bear the retirement expense of 126 retired employees. In addition, the Bank had 4,247 dispatched employees.

(IX) Others

1. Fair value

For financial instruments subject to existence in an active market, the Bank preferably adopts the price of active market to determine the fair value. For financial instruments in an inactive market, the Bank adopts 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 assumptions are used in estimating the fair value by the Bank:

1. Financial assets/financial liabilities at fair value through profit or loss (including derivative financial assets/derivative financial liabilities) are measured at fair value by reference to the quoted market prices when available. If quoted market prices are 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 and the receivables-bond investments is determined with reference to the available market value. If quoted market prices are 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 approximately equal 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 saving accounts and deposits without 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 deposits.

6. Investment real estate is evaluated on a yearly basis at least by an independent appraiser with certified qualification and analysis report is issued every quarter.

2. Items measured by fair value

(In RMB million)

Item	Beginning-of-period amount	End-of-period amount	Gains or losses from changes in fair value during the period	Cumulative fair value changes recognized in equity	Impairment provision during the period
1. Assets					
Financial assets at fair value through profit or loss in the period	1,132	-	1	-	-
Derivative financial assets	100	372	272	-	-
Available-for-sale financial assets	36,998	31,534	-	(175)	-
Investment real estate	524	540	37	73	-
Total assets	38,754	32,446	309	(102)	-
2. Financial liabilities					-
Derivative financial liabilities	22	312	290	-	-
Total liabilities	22	312	290	-	-

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

Item	Year-on-year change	Reason of change
Cash and placement due from the Central Bank	41%	Increase of deposit reserve
Precious metals	-100%	Decrease of gold stock
Due from banks and other financial institutions	-45%	Structural adjustment of inter-bank business
Placements with banks and other financial institutions	58%	Structural adjustment of inter-bank business
Financial assets at fair value through profit or loss in the period	-100%	Adjustment of investment institutions
Derivative financial assets	272%	Increase of foreign currency forward contract business
Reverse repurchase agreements	140%	Structural adjustment of inter-bank business
Accounts receivable	187%	Growth of agency payment business scale
Interest receivable	30%	Increase of interest receivable due to bond size increase and interest rate hike
Held-to-maturity investments	77%	Adjustment of investment structure
Bond asset receivable	-39%	Adjustment of investment structure
Fixed assets	44%	Increase of real estates, electronic devices
Derivative financial liabilities	1348%	Increase of foreign currency forward contract business
Tax payable	72%	Income increase and thus the effective tax rate increase
Accounts payable	502%	Increase of agency payment business scale
Interest payable	46%	Increase of deposit interest payable due to deposit scale growth and interest rate hike
Other liabilities	-53%	Decrease of bond clearing fee
Capital reserve	91%	Share premium caused by share offering
Surplus reserve	49%	Profit distribution
Undistributed profit	99%	Net profit generated in the reported period minus profit distribution
Fee and commission income	32%	Increase of fee income
Investment income	-61%	Decrease in price difference income by selling available-for-sale bonds
Gains from changes in fair value of financial instruments	61%	Decrease in the interest rate swap fair value drop
Non-operating income	196%	Income increase from debt asset disposal
Non-operating expense	-31%	Small base number
Income tax expenses	48%	Increase of total profit and income tax rate

(X) Outlook for 2011

1. The Bank will strengthen portfolio management, and further optimize its structure and enhance return on assets. It will take proactive asset/liability management, strengthen structure and pricing management to improve the capability of portfolio management, and realize diversified fund application.

2. The Bank will pay attention to the fee-based business innovation and pricing management to increase income from fee-based business and improve the income structure.

3. As for risk management, the Bank will adhere to the concept of prudent operation, continue to focus on credit risk prevention in the three major areas, namely, local government financing platform, real estate, industries with excess capacity to ensure that the asset quality remains at a sound level.

4. Corporate business: the Bank will explore and cultivate target customers around "catering to small and middle-sized enterprises, and relying on Trade Finance"; carry out "Customer Tiering Plan", provide systematic support to relationship managers so as to become the main bank of more customers; build up a differentiated competitive edge by leveraging products and means like "trade finance", "cash management", etc.

5. Retail business: the Bank will build up the differentiated competitive edge, and focus on developing targeted customer with priority including the cross-selling channel associated with the credit card customers and auto finance; fully leverage the customer base, sales channel and supporting platform of Ping An Group; set up the retail sales teams around the channels to arrange special resources for the main channels; focus on online banking and remote services to develop new products; improve mortgage loan, auto loan and unsecured loan products; fully upgrade wealth management and establish mature service strategies and industry-leading standards.

6. Operations, compliance, internal control and audit: the Bank will further improve the operation efficiency and reduce the operation risks through building flow banking; be committed to building a strong compliance culture and individual accountability system; establish Departmental Control Function Checklist (DCFC) to strengthen the execution of internal control measures; fully push ahead with the effective implementation of "Red, Yellow, Blue Card" penalty system, raise card penalty opinions for the misconducts found in the audit process and ensure the enforcement of penalty suggestions made by Audit.

7. The Bank will further supplement its capital, implement prudent asset/liability management policies, realize asset scale growth and strengthen capital management under the strict capital constraints through plan appraisal and quota management.

Changes in Share Capital and Shareholders

I. Changes in share capital

1. Changes in shares

Unit: Shares

	Before change		Change (+,-)				After change	
Share type	Quantity	%	Restricted shares released from restriction	Changes of lock-up shares held by senior management	Share transfer and non-public offering	Subtotal	Quantity	%
I. Restricted shares	181,319,499	5.84	-181,255,712	11,464	379,580,000	198,335,752	379,655,251	10.89
1. Held by the state								
2. Held by the state legal person								
3. Held by other domestic investors	63,787	0	-181,255,712	11,464	560,835,712	379,591,464	379,655,251	10.89
Including: held by domestic non-state legal persons	56,476	0	-181,255,712		560,835,712	379,580,000	379,636,476	10.89
Held by domestic natural persons	7,311	0		11,464		11,464	18,775	About 0.00
4. Held by foreign investors	181,255,712	5.84			-181,255,712	-181,255,712	0	0.00
Including: held by foreign legal persons	181,255,712	5.84			-181,255,712	-181,255,712	0	0.00
Held by foreign natural persons								
II. Unrestricted shares	2,924,114,263	94.16	181,255,712	-11,464		181,244,248	3,105,358,511	89.11
1.Ordinary RMB shares	2,924,114,263	94.16	181,255,712	-11,464		181,244,248	3,105,358,511	89.11
2. Domestically listed foreign shares								
3. Overseas listed foreign shares								
4. Others								
III. Total shares	3,105,433,762	100	0	0	379,580,000		3,485,013,762	100.00

Note: 1. During the report period, 520,414,439 shares held by Newbridge Asia AIV III, L.P. (including 181,255,712 restricted shares) were transferred to Ping An Insurance (Group) Company of China, Ltd.

2. During the report period, 181,255,712 restricted shares in total were released from the trading moratorium and thus the restricted shares of the Bank were decreased by 181,255,712 shares and unrestricted shares were increased by 181,255,712 shares accordingly.

3. During the report period, the Bank issued 379,580,000 new shares to Ping An Life Insurance Company of China, Ltd. through non-public offering, all of which were restricted shares. Total shares of the Bank were increased by 379,580,000 shares to 3,485,013,762 shares and the restricted shares were increased by 379,580,000 shares.

4. During the report period, due to changes of directors, supervisors and senior management, shares held by directors, supervisors, and senior management were increased by 11,464 shares and thus the restricted shares were increased by 11,464 shares.

2. Table of changes in restricted shares

Unit: Shares

Name of shareholder	Restricted shares at the beginning of year	Restricted shares released in the year	Restricted shares increased in the year	Restricted shares at the end of year	Reason for restriction	Date of release
Ping An Insurance (Group) Company of China, Ltd.	181,255,712	181,255,712	0	0	Restricted shares from share reform	28 June 2010
Ping An Life Insurance Company of China, Ltd. - proprietary fund	0	0	379,580,000	379,580,000	Non-public offering	17 September 2012
Shenzhen SDG Communications Development Company	40,903	0	0	40,903	Restricted shares from share reform	
Shenzhen Tourism Association	11,033	0	0	11,033	Restricted shares from share reform	
Shenzhen Futian District Agriculture Development Service Company Yannan Agriculture Machine Trading	4,540	0	0	4,540	Restricted shares from share reform	
Total	181,312,188	181,255,712	379,580,000	379,636,476		

Note: 1. Restricted shares held by Ping An Insurance (Group) Company of China, Ltd. were transferred from Newbridge Asia AIV III, L.P.

2. Restricted shares held by Shenzhen SDG Communications Development Company, Shenzhen Tourism Association and Shenzhen Futian District Agriculture Development Service Company Yannan Agriculture Machine Trading matured on 20 June 2008, but relevant shareholders had not entrusted any company to apply for handling restricted share release formalities.

3. The data in above table do not include the 18,775 lock-up shares held by directors, supervisors and senior management.

II. Securities issuance and listing

1. Securities issuance by the Bank within last three years by end of the report period

Upon the deliberation and approval at the 16th meeting of the 7th Board of Directors of the Bank and the 2nd Extraordinary General Meeting held in 2009 and with the approval of relevant regulatory authorities, the Bank issued 379,580,000 new shares to Ping An Life via non-public offering during the report period at the issuance price of RMB18.26 per share and hence raised the fund of RMB 6,931,130,800 in total, which would all be used to supplement the capital after a deduction of the relevant issuance expenses. These non-public offering shares were listed on 17 September 2010 and are not allowed to be transferred within 36 months after the date of listing. However, any share transfer between Ping An Life and its related parties (including the controlling shareholder and actual controller of Ping An Life and other parties controlled by the same actual controller of Ping An Life) is not restricted by this stipulation providing such share transfer is permitted by law and approved by relevant regulatory authorities.

2. Changes in the total number and structure of shares of the Bank during the report period

The Bank's 379,580,000 new non-public offering shares issued to Ping An Life are all restricted shares. The total number of shares of the Bank was increased by 379,580,000 shares to 3,485,013,762 shares and thus the number of restricted shares was increased by 379,580,000 shares. Please refer to the table on changes of shares.

As of the end of the report period, owners' equity of the Bank was increased by RMB 13.043 billion to RMB 33.513 billion, representing an increase of 63.72% compared to the beginning of the period.

3. The Bank has no internal staff share

III. Shareholders as at the end of report period

1. Number of shareholders and their shareholding status

Total number of shareholders: 352,655

Shareholding of top 10 shareholders

Unit: Shares

Name of shareholder	Nature of shareholder	Shareholding (%)	Total shares held	Change during the report period	Number of restricted shares held	Shares pledged or frozen
Ping An Insurance (Group) Company of China, Ltd. – fund owned by the Group - proprietary fund	Others	14.96	521,470,862	521,470,862	0	0
Ping An Life Insurance Company of China, Ltd. - proprietary fund	Others	10.89	379,580,000	379,580,000	379,580,000	0
Ping An Life Insurance Company of China, Ltd. – traditional – ordinary insurance product	Others	4.04	140,963,528	-	0	0
China Electronics Shenzhen Company	Others	2.51	87,302,302	-	0	0
China Life Insurance Co., Ltd – dividend – individual dividend – 005L – FH002 Shenzhen	Others	1.82	63,504,416	-	0	0
Haitong Securities Co., Ltd.	Others	1.33	46,466,893	159,997	0	0
National Social Security Fund – Group 110	Others	1.16	40,326,132	15,999,931	0	0
Bank of China — Efund Shenzhen Stock Exchange 100 Index Open – ended Securities Investment Fund	Others	0.99	34,344,170	10,531,246	0	0
Shanghai Pudong Development Bank - Guangfa Small – cap Growth Stock Securities Investment Fund	Others	0.96	33,329,637	10,797,905	0	0
China Life Insurance Co., Ltd. – traditional – ordinary insurance products – 005L – CT001 Shenzhen	Others	0.90	31,499,998	-	0	0

Shareholding of top 10 unrestricted shareholders

Unit: Shares

Name of shareholder	Number of unrestricted shares held	Type of shares
Ping An Insurance (Group) Company of China, Ltd. – fund owned by the Group - proprietary fund	521,470,862	RMB ordinary shares
Ping An Life Insurance Company of China, Ltd. – traditional – ordinary insurance product	140,963,528	RMB ordinary shares
China Electronics Shenzhen Company	87,302,302	RMB ordinary shares
China Life Insurance Co., Ltd – Dividend – Individual dividend-005L-FH002 Shenzhen	63,504,416	RMB ordinary shares
Haitong Securities Co., Ltd.	46,466,893	RMB ordinary shares
National Social Security Fund – Group 110	40,326,132	RMB ordinary shares
Bank of China — Efunds Shenzhen Stock Exchange 100 Index Open-ended Securities Investment Fund	34,344,170	RMB ordinary shares
Shanghai Pudong Development Bank - Guangfa Small-cap Growth Stock Securities Investment Fund	33,329,637	RMB ordinary shares
China Life Insurance Co., Ltd. - traditional – ordinary insurance product-005L-CT001 Shenzhen	31,499,998	RMB ordinary shares
Agricultural Bank of China — FullGoal Tianrui Favorable Regions Selected Hybrid Open-ended Securities Investment Fund	28,591,494	RMB ordinary shares

Explanation on the associated relation and concerted action of the above shareholders

1. Ping An Life Insurance Company of China, Ltd. is a subsidiary company controlled by Ping An Insurance (Group) Company of China, Ltd. and both are parties acting in concert; Ping An Insurance (Group) Company of China, Ltd. – fund owned by the Group - proprietary fund", "Ping An Life Insurance Company of China, Ltd. - proprietary fund" and "Ping An Life Insurance Company of China, Ltd. – traditional – ordinary insurance product" are related parties.

2. Both "China Life Insurance Co., Ltd – dividend – individual dividend-005L-FH002 Shenzhen" and "China Life Insurance Co., Ltd – traditional – ordinary insurance products 005L-CT001 Shenzhen" are insurance products of China Life Insurance Co., Ltd.

3. The Bank is not aware of the relationship or concerted action between any of other shareholders.

2. Controlling shareholder and actual controller

As at the end of the report period, the Bank has neither controlling shareholder nor actual controller.

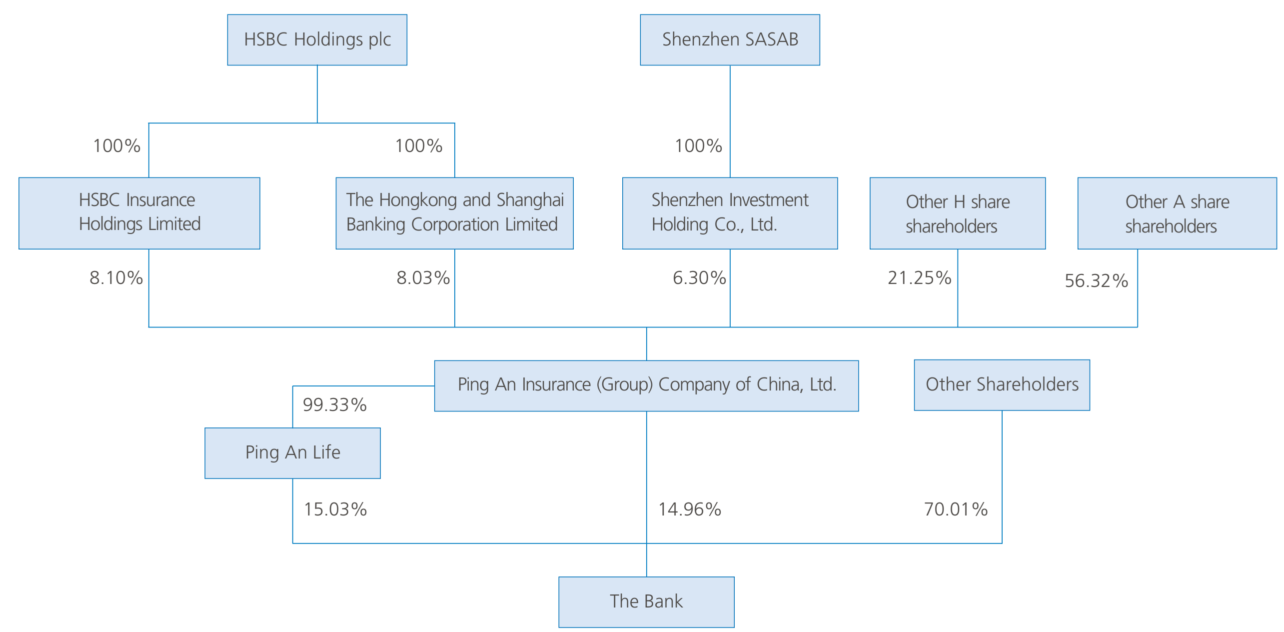
As at the end of the report period, the shareholders who held more than 5% shares of the Bank were Ping An Life and its holding company, Ping An Insurance (Group) Company of China, Ltd ("China Ping An"). They held 1,045,322,687 shares of the Bank in aggregate, accounting for approximately 29.99% of total share capital of the Bank.

Ping An Insurance (Group) Company of China, Ltd. was established on 21 March 1988, and is an A-share and H-share listed company. Its registered office is at the 15th, 16th, 17th and 18th floor offices of Xinghe Development Center, Fuhua Third Road, Futian Central District, Shenzhen, Guangdong. The company's registered capital is RMB 7,345,053,334 (after Ping An Insurance (Group) Company of China, Ltd. made the additional directed issuance of 299,088,758 H shares to NEWBRIDGE ASIA AIV III, L.P. in May 2010, the registered capital of Ping An Insurance (Group) Company of China, Ltd. was changed to RMB 7,644,142,092; the formalities for registration of the change of the registered capital is still under way with the commercial and industrial administrative authority), and the legal representative is Ma Mingzhe. The scope of business is investment into financial and insurance enterprises; supervision and management of various domestic and international businesses of invested companies and carrying out fund application business.

Leveraging the localization advantage, Ping An Insurance (Group) Company of China, Ltd. also practices corporate governance to international standard and is a leading integrated finance group in China. Ping An Insurance (Group) Company of China, Ltd. deeply covers all economically-developed areas in China through the unified brands, integrated structure of integrated finance and multi-channel distribution network to provide insurance, banking and investment services for about 60 million consumer customers and more than 2 million corporate customers.

Ping An Life Insurance Company of China, Ltd. was registered at State Administration for Industry and Commerce of the People's Republic of China on 17 December 2002. The registered office is at the 9th, 10th and 11th floor offices of Xinghe Development Center, Fuhua Third Road, Futian Central District, Shenzhen, Guangdong. The company's registered capital is RMB 23.8 billion and the legal representative is Yuansiong Lee. The company's scope of business is: accepting various personal insurance business in RMB or foreign currencies, including various life insurances, health insurances, accident injury insurances and other insurance businesses; handling reinsurance of the above businesses; handling various statutory personal insurances; acting as an agent for domestic and foreign insurance institutions to carry out examinations, claims and other relevant matters entrusted thereby; carrying out fund application business according to the relevant laws and regulations and other businesses as approved by China Insurance Regulatory Commission.

The controlling relationship between the Bank and Ping An Insurance (Group) Company of China, Ltd. and Ping An Life Insurance Company of China, Ltd. is as follows:



3. Change of the largest shareholder of the Bank during the report period

Name of the new largest shareholder	Ping An Insurance (Group) Company of China, Ltd.
Date of the change of the new largest shareholder	7 May 2010
Publication date of the change of the new largest shareholder	8 May 2010
Media on which the change of the new largest shareholder is published	*China Securities Journal, Securities Times, Shanghai Securities News,* and the website www.cninfo.com.cn
Name of the new actual controller	None
Date of the change of the new actual controller	Not applicable
Publication date of the change of the new actual controller	Not applicable
Media on which the change of the new actual controller is published	Not applicable

On 8 May 2010, according to the mutually signed *Share Purchase Agreement*, Newbridge Asia AIV III, L.P. ("Newbridge Capital"), the original largest shareholder of the Bank transferred all 520,414,439 shares it held in the Bank to Ping An Insurance (Group) Company of China, Ltd., so Ping An replaced Newbridge Capital as the largest shareholder of the Bank.

During the report period, the Bank issued 379,580,000 new shares to Ping An Life via non-public offering, a subsidiary company controlled by Ping An Insurance (Group) Company of China, Ltd. After such issuance, Ping An Insurance (Group) Company of China, Ltd. held 1,045,322,687 shares of the Bank directly and indirectly through Ping An Life and the shares accounted for approximately 29.99% of the total share capital of the Bank after share issuance.

For other specific matters concerning this issuance and share transfer, please refer to the relevant announcements published by the Bank and the relevant information disclosure party on *China Securities Journal, Securities Times, Shanghai Securities News* and the cninfo website (www.cninfo.com.cn) on 13 June 2009, 16 June 2009, 8 May 2010, 12 June 2010, 29 June 2010 and 3 July 2010.

Information of Directors, Supervisors, Senior Management and Staff

I. Brief introduction

Name	Position	Gender	Year of birth	Office Tenure	Shares held at year start	Shares held at year end	Changes in shares held and reason
Xiao Suining	Chairman of Board of Directors	M	1948	2010.12-Reelection			
Richard Jackson	Executive Director, President	M	1956	Director: 2010.12-Reelection President: 2010.6-			
Wang Liping	Non-executive Director	F	1956	2010.12-Reelection			
Yao Bo	Non-executive Director	M	1971	2010.12-Reelection			
David Ku	Non-executive Director	M	1974	2010.12-Reelection			
So Lan Ip	Non-executive Director	F	1956	2010.12-Reelection			
Li Jinghe	Non-executive Director	M	1955	2010.12-Reelection			
Wang Kaiguo	Non-executive Director	M	1958	2010.12-Reelection			
Hu Yuefei	Executive Director, Vice President	M	1962	Director: 2010.12-Reelection Vice President: 2006.5-	1,484	1,484	
Chen Wei	Executive Director, Vice President & Chief Financial Officer	F	1959	Director: 2010.12-Reelection Vice President & Chief Financial Officer: 2010.6-			
Lu Mai	Independent Director	M	1947	2010.12-Reelection			
Liu Nanyuan	Independent Director	M	1949	2010.12-Reelection			
Duan Yongkuan	Independent Director	M	1949	2010.12-Reelection			
Xia Donglin	Independent Director	M	1961	2010.12-Reelection			
Chu Yiyun	Independent Director	M	1964	2010.12-Reelection			
Qiu Wei	Chairman of Board of Supervisors	M	1962	2010.12-Reelection			
Luo Kangping	External Supervisor	M	1954	2010.12-Reelection			
Xiao Lirong	External Supervisor	F	1962	2010.12-Reelection			
Che Guobao	Shareholder Representative Supervisor	M	1949	2010.12-Reelection			
Wang Lan	Employee Supervisor	F	1970	2010.12-Reelection	215	215	
Wang Yi	Employee Supervisor	M	1975	2010.12-Reelection	24,560	24,560	
Cao Lixin	Employee Supervisor	M	1968	2010.12-Reelection			
Feng Jie	Vice President	M	1957	2010.12-			
Xu Jin	Board of Directors Secretary & Chief Legal Officer	M	1966	BoD Secretary: 2005.5- Chief Legal Officer: 2009.8-			

II. Director attendance of Board of Directors meetings

Name	Position	No. of scheduled attendance	Actual presence	Attendance in the manner of telecommunication	Attendance by proxy	Absence	Failure to attend personally for two consecutive times
Xiao Suining	Chairman of Board of Directors	13	12	1	0	0	No
Richard Jackson	Director, President	3	3	0	0	0	No
Wang Liping	Director	8	6	0	2	0	No
Yao Bo	Director	4	1	0	3	0	Yes
David Ku	Director	4	4	0	0	0	No
So Lan Ip	Director	4	2	0	2	0	Yes
Li Jinghe	Director	13	8	1	4	0	Yes
Wang Kaiguo	Director	13	6	1	6	0	No
Hu Yuefei	Director, Vice President	13	10	1	2	0	No
Chen Wei	Director, Vice President & Chief Financial Officer	8	8	0	0	0	No
Lu Mai	Independent Director	1	1	0	0	0	No
Liu Nanyuan	Independent Director	1	1	0	0	0	No
Duan Yongkuan	Independent Director	1	1	0	0	0	No
Xia Donglin	Independent Director	1	0	0	1	0	No
Chu Yiyun	Independent Director	1	1	0	0	0	No

Note: The qualifications of Ms. Wang Liping and Ms. Chen Wei as directors were approved by regulators on 28 June 2010. The qualifications of Mr. Yao Bo, Mr. David Ku and Ms. So Lan Ip as directors were approved by regulators on 8 September 2010. The qualification of Mr. Richard Jackson as director was approved by regulators on 11 October 2010. The qualifications of Mr. Lu Mai, Mr. Liu Nanyuan, Mr. Duan Yongkuan, Mr. Xia Donglin and Mr. Chu Yiyun as directors were approved by regulators on 24 December 2010.

Director Yao Bo did not attend the 29th and 30th meetings of the 7th Board of Directors due to personal unavailability, and he delegated Director Sai Lai Lo to exert the voting rights for both meetings;

Director So Lan Ip did not attend the 29th and 30th meetings of the 7th Board of Directors due to personal unavailability, and she delegated Director Chen Wei to exert the voting rights for both meetings;

Director Li Jinghe did not attend the 29th and 30th meetings of the 7th Board of Directors due to personal unavailability, and he delegated Chairman Xiao Suining to exert the voting rights for both meetings;

Number of Board of Directors meetings held in the year	13
Including: number of on-site meetings	12
Number of meetings held in the manner of telecommunication	1
Number of meetings held on-site plus through telecommunication	0

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III. Positions held by directors and supervisors in shareholder companies

Name	Name of shareholder company	Position	Tenure
Wang Liping	Ping An Insurance (Group) Company of China, Ltd.	Executive Director	June 2009-Now
		Deputy General Manager	January 2004-Now
	Ping An Life Insurance Company of China, Ltd.	Non-executive Director	September 2008-Now
Yao Bo	Ping An Insurance (Group) Company of China, Ltd.	Executive Director	June 2009-Now
		Chief Financial Officer	April 2010-Now
		Deputy General Manager	June 2009-Now
		General Manager of Business Planning & Analysis Department	February 2004-Now
	Ping An Life Insurance Company of China, Ltd.	Non-executive Director	September 2008-Now
David Ku	Ping An Insurance (Group) Company of China, Ltd.	Deputy General Manager	October 2009-Now
	Ping An Life Insurance Company of China, Ltd.	Director	March 2010-Now
So Lan Ip	Ping An Insurance (Group) Company of China, Ltd.	Deputy General Manager	January 2011-Now
		Chief Audit Officer	March 2006-Now
		Compliance Officer	July 2010-Now
		Responsible Person of Audit	March 2008-Now
	Ping An Life Insurance Company of China, Ltd.	Chairman of Board of Supervisors	September 2008-Now
Li Jinghe	China Electronics Shenzhen Company	Vice Chairman	January 2008-Now
		General Manager	2000-Now
		Secretary of CPC Committee	2006-Now
Wang Kaiguo	Haitong Securities Co., Ltd.	Chairman, Secretary of CPC Committee	2001-Now

IV. Positions held concurrently by directors, supervisors and senior management in companies other than the shareholder companies

Name	Name of Company	Position
Wang Liping	Ping An Property & Casualty Insurance Company of China, Ltd.	Director
	Ping An Health Insurance Company Limited	Director
	Ping An Annuity Insurance Company of China, Ltd.	Director
	Ping An Asset Management Co., Ltd.	Director
	China Ping An Trust & Investment Co., Ltd.	Director
	Ping An Securities Company, Ltd.	Director
	Ping An of China Asset Management (Hong Kong) Company Limited	Director
	Shenzhen Ping An Marketing Service Co., Ltd.	Director
	Ping An Technology (Shenzhen) Co., Ltd.	Director
	Ping An Processing & Technology (Shenzhen) Co., Ltd.	Director
	Ping An Channel Development Consultation Service Company of Shenzhen, Ltd.	Director
Yao Bo	Ping An Property & Casualty Insurance Company of China, Ltd.	Director
	Ping An Health Insurance Company Limited	Director
	Ping An Annuity Insurance Company of China, Ltd.	Director
	Ping An Asset Management Co., Ltd.	Director
	China Ping An Trust & Investment Co., Ltd.	Director

Name	Name of Company	Position
Yao Bo	Ping An Securities Company, Ltd.	Director
	Shenzhen Ping An Marketing Service Co., Ltd.	Director
	China Ping An Insurance Overseas (Holdings) Limited	Director
	Ping An Technology (Shenzhen) Co., Ltd.	Director
	Ping An Processing & Technology (Shenzhen) Co., Ltd.	Director
	Ping An Channel Development Consultation Service Company of Shenzhen, Ltd.	Director
	Ping An of China Asset Management (Hong Kong) Company Limited	Director
David Ku	Ping An Channel Development Consultation Service Company of Shenzhen, Ltd.	Chairman of Board of Directors and Chief Executive Officer
	Ping An Processing & Technology (Shenzhen) Co., Ltd.	Chairman of Board of Directors
	Ping An Property & Casualty Insurance Company of China, Ltd.	Director
	Ping An Annuity Insurance Company of China, Ltd.	Director
	Ping An Health Insurance Company Limited	Director
So Lan Ip	Ping An Property & Casualty Insurance Company of China, Ltd.	Chairman of Board of Supervisors
	Ping An Asset Management Co., Ltd.	Chairman of Board of Supervisors
	Ping An Annuity Insurance Company of China, Ltd.	Chairman of Board of Supervisors
	Ping An Health Insurance Company Limited	Chairman of Board of Supervisors
	China Ping An Trust & Investment Co., Ltd.	Chairman of Board of Supervisors
	Ping An Securities Company, Ltd.	Supervisor
	Shenzhen Ping An Marketing Service Co., Ltd.	Supervisor
	Ping An Channel Development Consultation Service Company of Shenzhen, Ltd.	Supervisor
	Ping An Technology (Shenzhen) Co., Ltd.	Supervisor
	Ping An Processing & Technology (Shenzhen) Co., Ltd.	Supervisor
	Ping An UOB Fund Management Co., Ltd.	Chairman of Board of Supervisors
Li Jinghe	China Electronic Engineering Co., Ltd.	Director, Deputy Manager
	China Electronics Zhuhai Company Limit	Chairman
	Zhuhai CEIEC Hi-Tech Industry Investment Co., Ltd.	Chairman
	Shenzhen Jingwah Electronics Co., Ltd.	Vice Chairman
	Shenzhen Huaqiang Industry Co., Ltd.	Independent Director
Wang Kaiguo	Shanghai Chlor-Alkali Chemical Co., Ltd.	Independent Director
Lu Mai	China Development Research Foundation	Secretary General
	Huaxin Cement Co., Ltd.	Independent Director
Duan Yongkuan	Shenzhen Zhengtong Electronics Co., Ltd.	Director
	Anbang Life Insurance Co., Ltd.	Director
Xia Donglin	School of Economics and Management of Tsinghua University	Associate Dean
	Tsinghua Tongfang Co. Ltd	Chairman of Board of Supervisors
	Xinxing Pipes Holdings Company	External Director
	Shandong Shantui Construction Machinery Co., Ltd.	Independent Director
Chu Yiyun	Shanghai University of Finance and Economics	Professor
	Huawen Media Investment Corporation	Independent Director
	Shanghai Jinfeng Wine Co., Ltd.	Independent Director
Luo Kangping	Sino Group	General Manager of Lease and Special Project
Xiao Lirong	China Resources SZITIC Trust Co., Ltd.	Chief Financial Officer and Board Secretary
Che Guobao	Shenzhen Yingzhongtai Investment Co., Ltd.	Chairman of Board of Directors
Xu Jin	China International Economic and Trade Arbitration Committee	Arbitrator
	Shenzhen Arbitration Committee	Arbitrator

V. Work experience of Directors, Supervisors and senior management

Mr. Xiao Suining, Executive Director and Chairman of Board of Directors. Born in 1948. He holds an Associate College's degree, and is a senior economist. Now he serves as Executive Director and Chairman of Shenzhen Development Bank.

Mr. Xiao Suining started his career in September 1968 and served as the Chief Engineer and Vice Chief Economist in Yunnan Hydropower Construction Company and Yunnan Hydropower Design Institute respectively.

Mr. Xiao Suining joined Bank of Communications in 1990, and successively assumed the posts of Head of HR & Education Division, General Manager Assistant, and Vice President in Bank of Communications Chongqing Branch; he was President of Bank of Communications Zhuhai Branch since November 1995 and President of Bank of Communications Shenzhen Branch from December 1999 to February 2007.

He served as President of Shenzhen Development Bank from February 2007 to June 2010; he has been serving as Director of Shenzhen Development Bank from June 2007 to present and Chairman of Board of Directors of Shenzhen Development Bank from June 2010 to present.

Mr. Richard Jackson, Executive Director and President. Born in 1956. He is a Fellow of the Chartered Insurance Institute. He has been Executive Director of Shenzhen Development Bank from June 2010 to present; from June 2010 to October 2010 he was Acting President of Shenzhen Development Bank; he has been serving as President of Shenzhen Development Bank from October 2010 to present.

Mr. Richard Jackson worked in Commercial Union Assurance Corporation from 1974 to 1985 in London, Hong Kong and Singapore. He worked in Citibank from 1985 to 2005 when he successively assumed Head of International Business for Citicorp Insurance International, Financial Institution Head for Citibank Asia Pacific, Chairman and Chief Executive Officer of Citibank Hungary, Director of Bank Handlowy in Poland, Country Manager and Consumer Business Head of Citibank Korea, and Director of Koram Bank.

Mr. Richard Jackson joined Ping An Group in October 2005 and served as President of Ping An Bank from December 2006 to May 2010.

Ms. Wang Liping, Non-executive Director. Born in 1956. She holds a Master's Degree in Monetary Banking from Nankai University, and is a senior economist. She served as Executive Director and Deputy General Manager of Ping An Insurance (Group) Company of China, Ltd. from June 2009 and January 2004 respectively to present. She has been Non-executive Director of Board of Directors of Shenzhen Development Bank from June 2010 to present.

Ms. Wang Liping joined Ping An Group in June 1989. She concurrently served as Deputy Chief Insurance Business Officer of Ping An Insurance (Group) Company of China, Ltd. from July 2006 to January 2007. She was Chairman and General Manager of Ping An Annuity Co., Ltd. from August 2005 to July 2006 and Chairman and Chief Executive Officer of Ping An Life Insurance Company of China, Ltd from 2002 to 2004. She successively served as General Manager Assistant and Deputy General Manager of Ping An Group from 1998 to 2002. She successively served as Headquarters General Manager of Ping An Life Insurance Company and Life Insurance Assistant Manager from 1995 to 1997 and General Manager of Securities Department of Ping An Group from 1994 to 1995.

Mr. Yao Bo, Non-executive Director. Born in 1971. He is a Fellow of Society of Actuaries (FSA) and a Member of American Academy of Actuaries (MAAA), and received an MBA degree from New York University of the United States. He has been serving as Executive Director of Ping An Insurance (Group) Company of China, Ltd. from June 2009 to present. He has been Chief Financial Officer and Deputy General Manager of Ping An Group respectively from April 2010 and June 2009 to present. He has concurrently served as General Manager of Business Planning and Analysis Department of Ping An Group from February 2004 to present. He has served as Non-executive Director of Board of Directors of Shenzhen Development Bank from June 2010 to present.

Mr. Yao Bo joined Ping An Group in May 2001. He served as Finance Head of Ping An Group from March 2008 to April 2010, Vice Chief Financial Officer of Ping An Group from February 2004 to January 2007, Chief Actuary of Ping An Group from January 2007 to June 2010, Vice Chief Actuary of Ping An Group from December 2002 to January 2007, and Deputy General Manager of Product Center of Ping An Insurance (Group) Company of China, Ltd. from 2001 to 2002.

Mr. Yao Bo was previously a senior manager of actuarial consultancy of Deloitte Touche Tohmatsu.

Mr. David Ku, Non-executive Director. Born in 1974. He holds a Bachelor's Degree in Business Administration of the Chinese University of Hong Kong. Mr. David Ku has been serving as Deputy General Manager of Ping An Group from October 2009 to present, Chairman and Chief Executive Officer of Ping An Channel Development Consultation SerVice Company of Shenzhen, Ltd., and Chairman of Ping An Processing & Technology (Shenzhen) Co., Ltd. from November 2008 and June 2010 to present respectively. He has been serving as Non-executive Director of Board of Directors of Shenzhen Development Bank from June 2010 to present.

Mr. David Ku joined Ping An Group in 2000. He successively served as Senior Vice President of Ping An E-Commerce, General Manager of Customer Resource Center, General Manager of E-serVice Marketing

Center, General Manager of Life Insurance Operation Center, and Deputy Director of Group Development and Reform Center. Mr. Ku successively served as General Manager and Vice Chief SerVice & Operation Officer of National Backup Management Center and Group Operation Management Center of Ping An Group from February 2004 to March 2008. He served as General Manager Assistant of Ping An Group from March 2008 to October 2009.

Mr. David Ku was previously a consultant in McKinsey & Company.

Ms. So Lan Ip, Non-executive Director. Born in 1956, she holds a Bachelor's Degree in Computer of Polytechnic of Central London of the United Kingdom. She has been serving as Deputy General Manager of Ping An Group from January 2011 to present, and Chief Audit Officer of Ping An Group, the responsible person of Audit and Compliance from March 2006 to present, March 2008 to present and July 2010 to present respectively. She has been serving as Non-executive Director of Board of Directors of Shenzhen Development Bank from June 2010 to present.

Ms. So Lan Ip joined Ping An Group in February 2004. She served as General Manager Assistant of Ping An Life Insurance from February 2004 to March 2006, and General Manager Assistant of Ping An Group from March 2006 to January 2011.

Ms. Ip previously worked in AIA and Prudential Assurance Company of Hong Kong.

Mr. Li Jinghe, Non-executive Director. Born in 1955. He holds a Bachelor's Degree in Engineering of Electronics Materials of Chengdu Telecommunication Engineering College, and was a postgraduate in Corporate Administration from Chinese Academy of Social Science. He currently serves as Director of Board of Directors and Deputy General Manager of China Electronics Industry Engineering Co., Ltd., and Vice Chairman, General Manager and Secretary of CPC Committee of China Electronics Shenzhen Company. He has been serving as Non-executive Director of Board of Directors of Shenzhen Development Bank from December 2007 to present.

He was a salesman of Export Department of China National Electronics Import & Export South China Branch, Deputy Director of Zhuhai Office of China National Electronics Import & Export South China Branch, and Deputy General Manager and General Manager of China National Electronics Import & Export Zhuhai Company successively from January 1982 to January 2000. From February 2000 to January 2008, he was successively Director, General Manager, Vice Secretary and Secretary of CPC Committee of China Electronics Shenzhen Company. He served as Vice Chairman, General Manager and Secretary of CPC Committee of the China Electronics Shenzhen Company from January 2008 to present, and has been serving as Independent Director of Shenzhen Huaqiang Industrial Co., Ltd. from June 2006 to present.

Mr. Li Jinghe concurrently serves as Standing Director of China Chamber of Commerce for Import and Export of Machinery and Electronic Products, member of China Administration Academy of State Owned Assets, member of Youth President Committee, member of 4th and 5th Committee of Political Consultative Conference of Shenzhen, Chairman of Shenzhen Chamber of Commerce for Import and Export, Vice Chairman of Guangdong Enterprise Confederation and Guangdong Entrepreneur Association, Vice Chairman of Shenzhen Chamber of Electronic Products, Vice Chairman of Shenzhen Electronic Industry Association and Honorary Chairman of Shenzhen Electronics Academy.

Mr. Wang Kaiguo, Non-executive Director. Born in 1958. He holds a Doctor's Degree in Economics. Now he serves as Chairman of Board of Directors and Secretary of CPC Committee of Haitong Securities. He has been serving as Non-executive Director of Board of Directors of Shenzhen Development Bank from June 2006 to present.

Mr. Wang Kaiguo successively served as Deputy Director of the Application Section of the Research Institute, Chief of Policy and Regulation Section of Policy and Regulation Department and Deputy Head of Research Institute of the National Administration of State Owned Assets from 1990 to 1995. He joined Haitong Securities in 1995 and served as Deputy General Manager, General Manager and Chairman of Board of Directors successively, and works as Chairman of Board of Directors and Secretary of CPC Committee at present. Mr. Wang Kaiguo is also a member of the Board of Shanghai Stock Exchange and Vice President of the Securities Association of China.

Mr. Hu Yuefei, Executive Director and Vice President. Born in 1962. He holds in-serVice Master's Degree in Monetary Banking of Zhongnan University of Economics. Now Mr. Hu works as Executive Director and Vice President of Shenzhen Development Bank.

From December 1979 to July 1983, Mr. Hu Yuefei did accounting and credit work in People's Bank of China Hunan Andong County Office. From August 1983 to July 1986, he studied at Hunan Finance Cadre Management Institute. From August 1986 to December 1989, he worked in Industrial and Commercial Bank of China Hunan Branch and from 1988 served as Deputy Section Chief of Human Resource Department.

Mr. Hu began to work in Shenzhen Development Bank from January 1990. From January 1990 to February 1992, he worked in Party Affair Office as Chief of Publicity Unit. From February 1992 to December 1992, he worked as Deputy Manager of Nantou Sub-branch. From January 1993 to February 1999, he worked as Manager of Nantou Sub-branch (from January 1998 to February 1999, he also held a concurrent post as Manager of Shekou Sub-branch). From September 1993 to July 1996, he received in-service education at Zhongnan University of Economics for a Master's Degree, majoring in Monetary Banking.

From February 1999 to March 2000, Mr. Hu worked in Guangzhou Branch as Branch Manager. From March 2000 to March 2005, he worked as President Assistant of Shenzhen Development Bank and Guangzhou Branch Manager. From March 2005 to May 2006, he worked as President Assistant of Shenzhen Development Bank. He has been serving as Vice President of Shenzhen Development Bank from May 2006 to present and Director of Shenzhen Development Bank from December 2007 to present.

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Ms. Chen Wei, Executive Director, Vice President and Chief Financial Officer. Born in 1959. She holds a Doctor's Degree in Management and is a senior economist. She has been serving as Executive Director, Vice President and Chief Financial Officer of Shenzhen Development Bank from June 2010 to present.

She worked in Beijing Branch of People's Bank of China from 1982 to 1984, and served as a cadre, Section Chief, Vice Director of Treasury Planning Division and Section Chief of Finance Management Division of Shenzhen Special Economic Zone Branch of People's Bank of China from 1984 to 1993. She joined China Merchants Bank in February 1993, and worked as Executive Director, Vice President and Finance Head.

Ms. Chen served as Executive Vice President of Ping An Bank from April 2007 to May 2010, and concurrently served as Executive Director of Ping An Bank from September 2007 to May 2010.

Mr. Lu Mai, Independent Director. Born in 1947. He holds a Bachelor's Degree in Economics and a Master's Degree in Public Administration. He is Secretary General of China Development Research Foundation. He has been serving as Independent Director of Board of Directors of Shenzhen Development Bank from December 2010 to present.

He graduated from Beijing Economy College with a Bachelor's Degree in Economics in 1981.

From 1986 to 1989, he successively served as Head of Marketing Research Office of Development Research Institute, Deputy Head of Liaison Office, Deputy Head and Head of Administration Office of Rural Reform Experimental Division of the Center for Rural Development Research under the State Council, member of Administration Office for Economic System Reform Leading Group under State Council and member of Circulation System Reform Leading Group.

From 1990 to 1991, he studied at Harvard Kennedy School of the United States with a Master's Degree in Public Administration. He worked as a deputy researcher of Harvard Institute for International Development and a deputy researcher of the Government Faculty of Harvard University from 1991 to 1993 and a senior researcher of China Business Center of the Hong Kong Polytechnic University from 1993 to 1995.

He worked in Development Research Center of State Council since 1995 as a researcher and Deputy Director in the International Cooperation Bureau. From 1998 he served as Deputy Secretary General and then Secretary General of China Development Research Foundation.

Mr. Liu Nanyuan, Independent Director. Born in 1949. He holds a Bachelor's Degree and is a senior economist. He has been serving as Independent Director of Board of Directors of Shenzhen Development Bank from December 2010 to the present.

He served as a cadre of Jiangxi Banking School from December 1982 to January 1984. He successively served as a regular cadre, a principal staff member, Deputy Division Chief and Division Chief of Planning Division, Chief of Human Resources Division and Vice President of PBOC Jiangxi Provincial Branch from January 1984 to November 1998. He worked as a party committee member of People's Bank of China Shanghai and a commissioner to Fuzhou Regulation Office from November 1998 to July 2003 and Secretary of CPC Committee and Director General of CBRC Fujian from July 2003 to May 2006.

He served as Deputy Secretary of CPC Committee and Deputy Director of CBRC Shenzhen from May 2006 to August 2007, a inspector of CBRC Shenzhen Office from August 2007 to May 2009 and Vice Chairman of Shenzhen Domestic Banking Association from May 2009 to June 2010. He was an Independent Non-executive Director of Ping An Bank from December 2009 to May 2010.

Mr. Duan Yongkuan, Independent Director. Born in 1949. He holds a Bachelor's Degree in Economics of Anhui University of Finance and Economics and a Doctor's Degree in Economics of Southwestern University of Finance and Economics and is a senior economist. He served as Independent Director of Board of Directors of Shenzhen Development Bank from December 2010 to present.

From January 1982 to 1983, Mr. Duan conducted research on financial and economic policies in Research Department of the Office of Finance and Trade of Anhui Provincial Government. From 1983 to 1984, he served as Secretary of the General Office of Anhui Provincial Government.

Mr. Duan served as Department Chief of International Settlement Department of Bank of China Hefei Branch (Anhui Provincial Branch of BOC) from 1984 to 1985, Vice President and Deputy Secretary of CPC Committee of Anhui Provincial Branch of Bank of China from 1985 to December 1992, Director and Deputy General Manager of Nanyang Commercial Bank of Hong Kong from December 1992 to October 1997, President and Secretary of CPC Committee of Anhui Provincial Branch of Bang of China from October 1997 to January 2000, President and Secretary of CPC Committee of Bank of China Zhejiang Branch from January 2000 to May 2006 and President and Secretary of CPC Committee of BOC Shenzhen Branch from May 2006 to November 2009.

Mr. Xia Donglin, Independent Director. Born in 1961. He holds a Doctoral Degree in Economics (Accounting). He is an associate dean, professor of Accounting and supervisor of PhD students of School of Economics and Management of Tsinghua University. He has been serving as Independent Director of Board of Directors of Shenzhen Development Bank from December 2010 to present.

Mr. Xia Donglin received a Bachelor's Degree in Economics (Accounting) from Accounting Faculty of Jiangxi University of Finance and Economics in July 1984, a Master's Degree in Economics (Accounting) from Research Institute for Fiscal Science of Ministry of Finance in July 1990 and a Doctor's Degree in Economics (Accounting) from Research Institute for Fiscal Science of Ministry of Finance in July 1994. In July 2000, he completed CPCL Program in Harvard Business School. He successively served as a visiting scholar in Wharton School of University of Pennsylvania, Accounting Faculty of the Hong Kong Polytechnic University, the University of New South Wales and MIT Sloan School of Management.

From March 1995, he started to teach in School of Economics and Management of Tsinghua University. Before that, he worked in the Accounting Faculty of Jiangxi University of Finance and Economics and China Consultants of Advisory and Finance Management Co., Ltd.

Mr. Chu Yiyun, Independent Director. Born in 1964. He holds a Doctor's Degree in Accounting. He is now working as an accounting professor and doctoral supervisor in Shanghai University of Finance and Economics. He has been serving as Independent Director of Board of Directors of Shenzhen Development Bank from December 2010 to present.

He graduated from Shanghai University of Finance and Economics. He is now working as an accounting professor and doctoral supervisor in Shanghai University of Finance and Economics, consulting expert in Accounting Standards of China Accounting Standards Committee under Ministry of Finance, member of Senior Professional Qualification Evaluation Committee for Accounting (Auditing) Series of Police Servicemen Institution under Ministry of Public Security, Executive Secretary General of Accounting Education Association of China Accounting Society, a full-time research associate of Accounting and Finance Research Institute of Shanghai University of Finance and Economics under the Research Base for Humanities and Social Sciences of the Ministry of Education and Standing Director of the 6th Council of Finance Cost Sub-Institute of China Accounting Association.

Mr. Qiu Wei, Shareholder Representative Supervisor and Chairman of Board of Supervisors. Born in 1962. He holds a Doctor's Degree in Finance. He is currently working as Chairman of the Board of Supervisors of Shenzhen Development Bank.

Mr. Qiu Wei previously worked as Deputy Section Chief and Section Chief of People's Bank of China Sichuan Luzhou Branch, Head of the Comprehensive Office of the Headquarters Administrative Department, Deputy Manager of Sub-branch and General Manager Assistant of HR Department of Shenzhen Development Bank, Head of the Administrative Department, Assistant to Branch Manager, Vice President, President and Secretary of CPC Committee of Guangdong Development Bank Shenzhen Branch, President and Deputy Secretary of CPC Committee of Shenzhen International Trust Investment Company, Chairman of Board of Supervisors, Deputy Secretary of CPC Committee and Secretary of Discipline and Inspection Commission of Shenzhen Commercial Bank and Chairman of Board of Supervisors, Deputy Secretary of CPC Committee, Secretary of Discipline and Inspection Commission and Chairman of Labor Union of Ping An Bank. He has been serving as Chairman of Board of Supervisors of Shenzhen Development Bank from June 2010 to present.

Mr. Che Guobao, Shareholder Representative Supervisor. Born in 1949, He holds a Bachelor's Degree in Construction Machinery. He is a shareholder, legal representative and Chairman of Shenzhen Yingzhongtai Investment Co., Ltd. He has been serving as Shareholder Representative Supervisor of Board of Supervisors of Shenzhen Development Bank from December 2010 to present.

Mr. Che Guobao previously worked as Vice Director of Beijing Construction Lightweight Steel Factory, a monitor of training course in the 3rd session of China Merchants Shekou Industrial Zone, Deputy Director General and Secretary of CPC Committee of Shenzhen Shekou Management Bureau, Officer of System Reform Office of People's Government of Shenzhen, Deputy General Manager of China Merchants Shekou Industrial Zone Co., Ltd, Director of China Merchants Shekou Industry & Enterprise Office, General Manager of China Merchants Shekou Port Service Company, General Manager of China Merchants Import & Export Company, Director of Technical Title Certification Committee of China Merchants Shekou Industrial Zone, Officer of No.11 Office of People's Government of Guangdong Province, Chairman of Shenzhen Yueshang Industrial Co., Ltd, and a shareholder, legal representative and Chairman of Shenzhen Yingzhongtai Investment Co., Ltd.

Mr. Luo Kangping, External Supervisor. Born in 1954. He holds a Master's Degree in Economics. He is currently working as General Manager of Lease and Special Project of HK Sino Group. He has been serving as External Supervisor of Board of Supervisors of Shenzhen Development Bank from December 2010 to present.

Mr. Luo Kangping previously worked as an economist in CLP Group, Strategy Planning & Implementation Officer, Management Accountant, Manager of Finance Control & Management Information System, Manager of Finance Control Department, Regional Manager of Retail Banking, Manager of Retail Risk Management, Regional Manager, Marketing Manager of Special Projects, Regional Senior Officer, Head of Mortgage Business, and Head of Banking Service of HSBC Shanghai Headquarter, and General Manager of Retail Banking of Bank of China (Hong Kong).

Ms. Xiao Lirong, External Supervisor. Born in 1962. She holds a Master's Degree in Economics. She is currently working as Chief Financial Officer and Board Secretary of China Resources SZITIC Trust Co., Ltd. She has been serving as External Supervisor of Board of Supervisors of Shenzhen Development Bank from December 2010 to present.

Ms. Xiao Lirong previously worked as a teacher in Finance and Accounting Faculty of Jiangxi University of Finance and Economy, and an accountant, Deputy Section Chief, General Manager Assistant, Deputy General Manager, and General Manager of Treasury and Finance Department of Shenzhen International Trust & Investment Co., Ltd. in succession. Then she worked as the Chief Financial Officer of China Resources SZITIC Trust Co., Ltd.

Ms. Wang Lan, Employee Supervisor. Born in 1970. She holds a Master's Degree in Business Administration. She currently works as Deputy General Manager of the Financial Information and Asset and Liability Management Department of Shenzhen Development Bank. She has been serving as Employee Representative Supervisor of Board of Supervisors of Shenzhen Development Bank from December 2010 to present.

Ms. Wang Lan was previously Deputy Director of Accounting Unit under International Business Department of Shenzhen Development Bank, Deputy Unit Manager of the Accounting Department, Manager of General Unit, Manager of General Unit under Planning Finance and Accounting Department, Manager and General Manager Assistant of the Financial Information and Asset and Liability Management Department.

Mr. Wang Yi, Employee Supervisor. Born in 1975. He holds a Master's Degree in International Law. He currently works as Deputy General Manager of the Credit Management Department of Shenzhen Development Bank. He has been serving as Employee Representative Supervisor of Board of Supervisors of Shenzhen Development Bank from December 2010 to present.

Mr. Wang Yi was previously Deputy Manager of Risk Management Department at sub-branch level, Deputy Manager of General Unit, Manager of Credit Policy and Portfolio Management Unit of Credit Management Department, Manager and General Manager Assistant of Credit Monitoring and Early Warning Unit of Shenzhen Development Bank.

Mr. Cao Lixin, Employee Supervisor. Born in 1968. He holds a Bachelor's Degree in Automatic Control. He now works as Operations Officer of Shenzhen branch of Shenzhen Development Bank. He has been serving as Employee Representative Supervisor of Board of Supervisors of Shenzhen Development Bank from December 2010 to present.

Mr. Cao Lixin was previously an accountant, Deputy Accounting Section Chief, Manager of the Accounting and Settlement Department of Taipingqiao Sub-branch of the Industrial and Commercial Bank of China in Harbin, Deputy Unit Manager of Accounting Department of Shenzhen Development Bank, the acting person-in-charge and Deputy General Manager (as person-in-charge) of Finance and Accounting Department of Qingdao branch, the person-in-charge and General Manager of Finance and Accounting Department of the sub-branch in Qingdao Economic and Technological Development Zone of Shenzhen Development Bank, and General Manager Assistant and Deputy General Manager of Accounting and Settlement Department of Shenzhen Development Bank.

Mr. Feng Jie, Vice President. Born in 1957. He is a postgraduate with a Master's Degree and a senior economist. He graduated from the Southwestern University of Finance and Economics in 1984 with a Degree in Finance, and graduated from China Europe International Business School in 1998 as a postgraduate with an in-service EMBA degree. He joined Shenzhen Development Bank in December 2010 and now serves as Vice President.

Mr. Feng Jie entered the banking industry in 1979 and worked in Shanghai Branch of People's Bank of China, Shanghai branch of Industrial and Commercial Bank and Shanghai branch of China CITIC Bank. He was previously President Assistant, Vice President, Vice President (as person-in-charge) and President of Shanghai Branch of China CITIC Bank. In April 2004, he joined Ping An Bank as Executive Vice President. In December 2006, he was transferred to Shenzhen Commercial Bank where he worked as Eexecutive Vice President. From July 2007 to November 2010, he served as Executive Director and Executive Vice President of Ping An Bank and was in charge of the business operation and management of East Region Business Unit of Ping An Bank.

Mr. Xu Jin, Board Secretary and Chief Legal Officer. Born in 1966. He holds a Bachelor's Degree in Law of Anhui University, a Master's Degree in Law of China University of Political Science and Law, and studied in Peking University for a Doctor's Degree in Law. He is a lawyer, a State certified legal consultant and a senior economist. He is currently the Secretary of the Board of Directors and Chief Legal Officer of Shenzhen Development Bank.

From September 1989 to July 1990, he worked in People's Procuratorate of Fengtai District of Beijing Municipality. In August 1995, he joined Shenzhen Development Bank and worked as General Manager Assistant of Credit Department, Deputy General Manager of Credit Department, Deputy General Manager of Asset Protection Department and Director of Special Asset Management Centre in Shenzhen region. He has been the General Manager of Legal Affairs Department from June 2003 to present. He was the Employee Representative Supervisor of the 5th Board of Supervisors of Shenzhen Development Bank from January 2005 to May 2005, as well as Secretary of the Board of Directors and General Manager of Legal Affairs Department of the Bank from May 2005 to August 2009. He has been serving as Secretary of the Board of Directors and Chief Legal Officer of Shenzhen Development Bank from August 2009 to present.

VI. Annual compensation

The compensation and benefits of directors, supervisors and senior management of the Bank is decided on following basis and via following procedures: the compensation plan for senior management of the Bank is reviewed and approved at the meeting of the Board of Directors; while the compensation plan for directors and supervisors is reviewed and approved by the Board of Directors before submitting to the General Meeting of Shareholders for review and approval.

The following table shows the before-tax compensations of directors, supervisors and senior management of the Bank in 2010:

(In RMB thousand)

Name	Position	2010 Compensation
Xiao Suining	Chairman of Board of Directors	8,250
Richard Jackson	Executive Director, President	5,540
Wang Liping	Non-executive Director	-
Yao Bo	Non-executive Director	-
David Ku	Non-executive Director	-
So Lan Ip	Non-executive Director	-
Li Jinghe	Non-executive Director	410
Wang Kaiguo	Non-executive Director	410
Hu Yuefei	Executive Director, Vice President	5,160
Chen Wei	Executive Director, Vice President & Chief Financial Officer	2,780
Lu Mai	Independent Director	-
Liu Nanyuan	Independent Director	-
Duan Yongkuan	Independent Director	-
Xia Donglin	Independent Director	-
Chu Yiyun	Independent Director	-
Qiu Wei	Chairman of Board of Supervisors	1,000
Luo Kangping	External Supervisor	-
Xiao Lirong	External Supervisor	-
Che Guobao	Supervisor	50
Wang Lan	Employee Supervisor	1,360
Wang Yi	Employee Supervisor	1,000
Cao Lixin	Employee Supervisor	1,230
Feng Jie	Vice President	280
Xu Jin	Board Secretary & Chief Legal Officer	2,180
Liu Baorui	Vice President	4,340
Total		33,990

Note:

1. *Mr. Richard Jackson has served as the Acting President and President of the Bank since June 2010.*
2. *Ms. Chen Wei has been serving as the Vice President and Chief Financial Officer of the Bank since June 2010.*
3. *Mr. Feng Jie joined the Bank in December 2010.*
4. *Ms. Wang Liping, Mr. Yao Bo, Mr. David Ku and Ms. So Lan Ip waived their directors' remuneration.*
5. *In December 2010, Mr. Lu Mai, Mr. Liu Nanyuan, Mr. Duan Yongkuan, Mr. Xia Donglin and Mr. Chu Yiyun were elected as independent directors of the 8th Board of Directors of the Bank, and so far they have not received director's remuneration from the Bank.*
6. *Mr. Qiu Wei has served as the Chairman of the 6th and the 7th Board of Supervisors of the Bank since June 2010.*
7. *In December 2010, Mr. Che Guobao was elected as the shareholder representative supervisor of the 7th Board of Supervisors of the Bank, and Mr. Luo Kangping and Ms. Xiao Lirong were elected as external supervisors of the 7th Board of Supervisors of the Bank.*
8. *Besides, in the report period, as approved by the Board of Directors, Mr. Xiao Suining was awarded RMB 2 million as special bonus.*
9. *On 29 December 2010, the Bank announced that Mr. Liu Baorui resigned as Vice President of Shenzhen Development Bank.*

In 2006, the 15th meeting of the 6th Board of Directors of the Bank reviewed and approved *Proposal on Deferred Bonus Plan for Key Management Members*. According to this proposal, the Bank provided key management members and backbone staff with an initial deferred bonus plan in 2006 and the Bank paid this deferred bonus to key management members and backbone staff in 2010 based on 3-year performance of net profit and shareholders' value growth. Specific income (before tax) received by the Bank's senior management due to enforcement of the deferred bonus plan in 2010 is as follows:

(In RMB thousand)

Name	Position	Accumulated deferred bonus over the years (paid in 2010)
Xiao Suining	Chairman	1,870
Hu Yuefei	Executive Director, Vice President	3,220
Liu Baorui	Vice President	3,220
Xu Jin	Board Secretary & Chief Legal Officer	1,340
Wang Lan	Employee Supervisor	230

VII. Changes of directors, supervisors and senior management

1. Changes of directors

On 25 May 2010, Mr. Liu Baorui, Mr. Daniel A. Carroll, Ms. Mary Ma and Mr. Ricky Lau resigned as Directors of the 7^{th} Board of Directors of the Bank. Mr. Frank N. Newman resigned as Chairman and Director and his resignation was effective after the Bank received the official approval for his successor's appointment qualification from China Banking Regulatory Commission. On 29 June 2010, the Board of Directors accepted Mr. Frank N. Newman's resignation as the Chairman.

On 25 May 2010, Mr. Xiao Suining was elected as the Chairman of the 7^{th} Board of Directors at the 24^{th} meeting of the 7^{th} Board of Directors of the Bank. In June 2010, the appointment qualification of Mr. Xiao Suining as the Chairman was approved by China Banking Regulatory Commission and Mr. Xiao Suining took office as the Chairman on 29 June 2010.

On 17 June 2010, Mr. Richard Jackson and Ms. Chen Wei were elected as the Executive Directors of the 7^{th} Board of Directors of the Bank by 2009 Annual General Meeting of Shareholders, and Ms. Wang Liping, Mr. Yao Bo, Mr. Sai Lai Lo, Mr. David Ku and Ms. So Lan Ip were elected as Non-executive Directors of the 7^{th} Board of Directors of the Bank at the meeting.

On 11 October 2010, the appointment qualification of Mr. Richard Jackson as Director was approved by China Banking Regulatory Commission Shenzhen Office and Mr. Frank N. Newman stopped serving as Director of the Bank.

In December 2010, the term of the 7^{th} Board of Directors of the Bank expired. On 23 December 2010, Ms. Wang Liping, Mr. Yao Bo, Mr. David Ku, Ms. So Lan Ip, Mr. Li Jinghe and Mr. Wang Kaiguo were elected as Non-executive Directors of the 8^{th} Board of Directors of the Bank at the 2^{nd} Extraordinary General Meeting of the Bank in 2010. Mr. Xiao Suining, Mr. Richard Jackson, Mr. Hu Yuefei and Ms. Chen Wei were elected as Executive Directors of the 8^{th} Board of Directors of the Bank at the 2^{nd} Extraordinary General Meeting of the Bank in 2010. Mr. Lu Mai, Mr. Liu Nanyuan, Mr. Duan Yongkuan, Mr. Xia Donglin and Mr. Chu Yiyun were elected as Independent Directors of the 8^{th} Board of Directors of the Bank at the 2^{nd} Extraordinary General Meeting of the Bank in 2010. Mr. Sai Lai Lo and Mr. Shan Weijian, as Non-executive Directors of the 7^{th} Board of Directors and Mr. Michael O' Hanlon, Mr. Robert T. Barnum, Mr. Chen Wuzhao, Mr. Andy Xie and Mr. Tang Min, as Independent Directors of the 7th Board of Directors stopped serving as directors of the Bank.

On 27 December 2010, Mr. Xiao Suining was elected as Chairman of the 8^{th} Board of Directors at the 1^{st} meeting of the 8^{th} Board of Directors of the Bank.

2. Changes of supervisors

On 29 March 2010, Mr. Kang Dian and Mr. Zhou Jianguo resigned respectively as External Supervisor and as Shareholder Representative Supervisor of the 6^{th} Board of Supervisors.

On 17 June 2010, Mr. Qiu Wei was elected as Shareholder Representative Supervisor of the 6^{th} Board of Supervisors, and Mr. Che Guobao was elected as External Supervisor of the 6^{th} Board of Supervisors at the General Meeting of Shareholders of the Bank in 2009.

On 17 June 2010, Mr. Qiu Wei was elected as Chairman of the 6th Board of Supervisors at the 19^{th} meeting of the 6^{th} Board of Supervisors of the Bank.

In December 2010, the tenure of the Bank's 6th Board of Supervisors expired. On 23 December 2010, Mr. Qiu Wei and Mr. Che Guobao were elected as Shareholder Representative Supervisors of the 7^{th} Board of Supervisors of the Bank, and Mr. Luo Kangping and Ms. Xiao Lirong were elected as External Supervisors of the 7^{th} Board of Supervisors of the Bank at the 2^{nd} Extraordinary General Meeting of the Bank in 2010; and Ms. Wang Lan, Mr. Wang Yi and Mr. Cao Lixin were elected as Employee Supervisors of the 7^{th} Board of Supervisors of the Bank by democratic election of all employees of the Bank. Former Shareholder Representative Supervisor Mr. Xiao Geng, External Supervisor Mr. Guan Weili, Employee Supervisors Mr. Ma Limin, Mr. Jiao Jisheng and Ms. Ye Shuhong of the 6^{th} Board of Supervisors stopped serving as Supervisors of the Bank.

On 23 December 2010, Mr. Qiu Wei was elected as Chairman of the 7th Board of Supervisors of the Bank at the 1st meeting of the 7th Board of Supervisors of the Bank.

3. Changes of senior management

On 25 May 2010, Mr. Frank N. Newman resigned as Chief Executive Officer, and his resignation was effective after the Bank received the official approval of China Banking Regulatory Commission for the successor's qualification. On 29 June 2010, the Board of Directors approved Mr. Frank N. Newman's resignation as Chief Executive Officer.

On 25 May 2010, Mr. Xiao Suining resigned as President, and his resignation was effective after the Bank received the official approval of China Banking Regulatory Commission for the successor's qualification.

On 25 May 2010, Mr. Richard Jackson was appointed as President of Shenzhen Development Bank Co., Ltd. at the 24^{th} meeting of the 7^{th} Board of Directors of the Bank.

On 30 September 2010, the qualification of Mr. Richard Jackson as President of Shenzhen Development Bank was approved by China Banking Regulatory Commission.

On 25 May 2010, Mr. Wang Bomin's title was changed from Chief Financial Officer of Shenzhen Development Bank Co., Ltd. to Chief Accounting Officer. On 1 September 2010, Mr. Wang Bomin stopped serving as Chief Accounting Officer of the Bank.

On 25 May 2010, Ms. Chen Wei was appointed as Vice President and Chief Financial Officer of Shenzhen Development Bank Co., Ltd. by the Board of Directors. On 23 June 2010, the qualification of Ms. Chen Wei as Vice President and Chief Financial Officer was approved by China Banking Regulatory Commission Shenzhen Office.

On 27 December 2010, Mr. Feng Jie was appointed as Vice President of Shenzhen Development Bank at the 1^{st} meeting of the 8^{th} Board of Directors of the Bank. On 21 January 2011, the qualification of Mr. Feng Jie as Vice President was approved by China Banking Regulatory Commission Shenzhen Office.

On 29 December 2010, the Bank announced that Mr. Liu Baorui resigned as Vice President of Shenzhen Development Bank.

Corporate Governance Structure

I. Corporate governance

The Bank abides by the *Company Law*, the *Securities Law*, the *Commercial Banking Law* and relevant rules and regulations as well as regulatory requirements stipulated by China Securities Regulatory Commission ("CSRC") and China Banking Regulatory Commission ("CBRC") and has been committed to improving corporate governance system, improving corporate governance structure and upgrading the overall governance standard.

In the report period, all directors of the Bank have honored their commitments and fulfilled their duties with diligence. They have actively participated in all meetings, fully expressed their opinions and performed their duties with seriousness. The Bank's Board of Directors fulfilled its obligations to the general meeting of shareholders and holds meetings according to due legal procedures and exercises its rights in strict adherence to laws. The Board of Supervisors has kept close contact and communication with the Board of Directors and senior management. By attending various board meetings and audit committee meetings under board of directors, the supervisors have fulfilled their responsibilities to provide opinion after reviewing the periodic reports. The Bank built the management structure which is in conformity with corporate governance principles and relevant laws and regulations and is applicable to the Bank's specific situation. The roles and responsibilities and reporting lines of the senior management team are clear. In the report period, the Bank disclosed information in a truthful, accurate, complete and timely manner. The Bank didn't provide any undisclosed information to majority shareholder and actual controllers of the Bank.

In the report period, the Board of Directors of the Bank reviewed and approved the policies and measures in connection with the engagement of accounting firm, accountability system for material error of information disclosure in the annual report, prevention of fund appropriation by majority shareholder and its related parties and appraisal of directors' fulfillment of duties.

In the report period, the Bank completed the reelection of board of directors. At the 2nd extraordinary general meeting in 2010, 6 non-executive directors, 4 executive directors and 5 independent directors of the 8th Board of Directors were elected. Pursuant to the resolution of the general meeting of shareholders on the composition of board of directors, along with the further implementation of relevant work, the Bank will increase 1 executive director and 3 independent directors as soon as possible according to the statutory procedures.

In the selection for "2010 Best Board of Directors of China Listed Companies" organized by *Money Week*, the Bank's Board of Directors was granted three awards, namely, "2010 Best Board of Directors of China Listed Companies on Main Board" (Top 50), "2010 Best Board of Directors of China Listed Companies for Corporate Governance" (Top 10) and "2010 Best Board of Directors of China Listed Companies for Social Responsibilities (Top 20)."

II. Duty fulfillment of independent directors

In the report period, all independent directors, based on relevant laws, rules and regulations, performed their duties and participated in important decision-makings of the Bank by expressing independent opinions on material events and protected the overall interests of the Bank, in particular the legitimate rights of minority shareholders.

Meeting attendance record for the Bank's independent directors of the 7th and 8th Board of Directors during the report period:

Name of independent director	No. of scheduled attendance	Actual presence	Attendance by proxy	Absence	Objections to proposals
Michael O'Hanlon（Michael O'Hanlon）	12	12	0	0	Nil
Robert T. Barnum	12	11	1	0	Nil
Chen Wuzhao	12	12	0	0	Nil
Andy Xie	12	12	0	0	Nil
Tang Min	12	12	0	0	Nil
Lu Mai	1	1	0	0	Nil
Liu Nanyuan	1	1	0	0	Nil
Duan Yongkuan	1	1	0	0	Nil
Xia Donglin	1	0	1	0	Nil
Chu Yiyun	1	1	0	0	Nil

Note: The qualifications of independent directors Mr. Lu Mai, Mr. Liu Nanyuan, Mr. Duan Yongkuan, Mr. Xia Donglin and Mr. Chu Yiyun were approved by regulators on 24 December 2010.

III. The separation of the Bank from its largest shareholder in business, people, assets, institution and financial aspects

The Bank is completely separated from its largest shareholder in business, institution, people, asset and financial aspects. The Bank is capable of operating independently with independent business management and operation and complete range of assets and bears full responsibility for its own profits and losses. In respect of business, the Bank has its own production and management and sales system; in respect of institution, the Bank is structurally organized to be completely independent from its largest shareholder; in respect of people, the Bank and its largest shareholder are mutually independent in areas such as labor, human resource and compensation management, and the Bank has no business manager who holds positions in any institution of the largest shareholder; in respect of financial area, the Bank has independent financial management policies and accounting systems and deals with all the accounting and tax payment independently; in respect of assets, the Bank has complete range of assets with clear ownership relationship. The Bank has its own independent business operation premises and various intangible assets such as industrial proprietary rights, trademark registration rights and non-proprietary technologies.

In the report period, there was no occurrence of majority shareholder or actual controllers interfering with the production, operation and management of the listed company.

IV. Appraisal and incentive mechanism of senior management

During the report period, the Board of Directors and the Compensation Committee under the Board appraised the performance of senior management based on the achievement of annual work objectives and plan and paid bonus to senior management based on the performance appraisal results. The Bank will keep improving the performance appraisal and incentive mechanism for senior management.

V. Self-appraisal summary on internal control

1. Board of Directors statement on internal control responsibility and self-appraisal summary on internal control

The Board of Directors is responsible for building/improving the internal control system and effectively implementing the system.

In accordance with relevant provisions of the *Commercial Banking Law of the People's Republic of China, Basic Standards for Corporate Internal Control, Guidance for Internal Control of Commercial Banks* and *Guidance for Internal Control of Companies Listed on Shenzhen Stock Exchange*, the Bank takes risk prevention and cautious operation as the starting point, pays attention to internal control system building while maintaining continuous growth of business, establishes and improves a series of systems, procedures and methods to prevent and control risks, and formulates an all-around, cautious, effective and independent internal control system. In 2010, the management team of the Bank effectively operated under the guidance of the Board of Directors and its special committees, and Case Prevention & Control Committee was set up to establish a coordination and response mechanism together with Compliance & Internal Control Committee for preventing and controlling compliance risk, operational risk and relevant risks, so as to continuously improve the internal control and consolidate the foundation of case prevention. The internal control system covers each business procedure and operational step as well as the control and management of current managing departments, branches and sub-branches. With regard to the internal control of financial reporting, the Bank implemented vertical management on the financial work planned for the whole bank, formulated and strictly implemented the *Information Disclosure Management Rules of Shenzhen Development Bank Co., Ltd,* the *Accounting Firm Selection and Engagement Rules of Shenzhen Development Bank Co., Ltd* and the *Accountability for Material Errors in Information Disclosure in the Annual Report of Shenzhen Development Bank Co., Ltd*, and developed financial report preparation system (SAP3), which helps the Bank realize automation in preparing text and notes of financial reports, reduce manual supplementary input and adjustment and ultimately improve the quality and timeliness of the preparation of financial reports.

Generally speaking, the Bank's internal control system is complete, reasonable, effective and sound and there is no material internal control defect.

For more details, please refer to the *2010 Internal Control Self-appraisal Report of Shenzhen Development Bank Co., Ltd* disclosed by the Bank.

2. Board of Supervisors' comments on self-appraisal of internal control

During the report period, the Bank set up a complete and rational internal control system in accordance with basic principles of internal control, relevant provisions of China Securities Regulatory Commission and Shenzhen Stock Exchange and the actual situation of the Bank, and implemented the system in business activities, which was generally consistent with relevant requirements of China Securities Regulatory Commission and Shenzhen Stock Exchange. The 2010 internal control self-appraisal report of the Bank accurately and completely reflects current situation of the Bank's internal control and main areas to be improved. The improvement plan is practical and satisfies the long-term development requirement of internal control.

3. Independent directors' comments on self-appraisal of internal control

In accordance with relevant provisions of the *Commercial Banking Law of the People's Republic of China, Basic Standards for Corporate Internal Control, Guidance for Internal Control of Commercial Banks* and *Guidance for Internal Control of Companies Listed on Shenzhen Stock Exchange*, the Bank takes risk prevention and cautious operation as the starting point, pays attention to internal control system building while maintaining continuous growth of business, establishes and improves a series of systems, procedures and methods to prevent and control risks, and formulates an all-around, cautious, effective and independent internal control system, which plays an effective role in maintaining sustainable business development and preventing financial risks. We did not detect any material internal control defect in the Bank. The *2010 Internal Control Self-appraisal Report of Shenzhen Development Bank* is in conformity with the status quo of the Bank.

VI. Peer competition and related party transactions with the majority shareholder

1. Peer competition

Ping An Group is the controlling shareholder of Ping An Bank Co., Ltd. ("Ping An Bank") and holds 7,825,181,106 shares of Ping An Bank, which account for 90.75% of the total share capital of Ping An Bank. The Bank and Ping An Bank have same or similar businesses.

For the purposes of satisfying regulatory requirements and ensuring the fairness of peer competition, the 1st extraordinary general meeting of the Bank in 2010 reviewed and approved the *Proposal of Shenzhen Development Bank Co., Ltd. on Asset Purchase by Issuing Shares*, pursuant to which Ping An Group planned to use its 7,825,181,106 shares of Ping An Bank and RMB 2.6900523 billion in cash to subscribe 1,638,336,654 shares of the Bank by non-public offering ("this material asset restructuring"). This material asset restructuring is still under approval by relevant regulators. After the completion of this material asset restructuring, Ping An Bank will become a subsidiary company controlled by the Bank and the issue of potential peer competition between the Bank and Ping An Group will be fully solved.

In order to effectively prevent future peer competition between Ping An Group or other enterprises controlled by Ping An Group and the Bank and safeguard the legitimate rights and interests of the Bank and its minority shareholders, Ping An Group made the following commitment:

After completion of the material asset restructuring and during the period when Ping An Group acts as the controlling shareholder of Shenzhen Development Bank, if Ping An Group and other enterprises controlled by Ping An Group intend to capture or are actually given the same type of business or commercial opportunities that Shenzhen Development Bank has, and the asset and business created by such business or commercial opportunities may constitute potential peer competition with Shenzhen Development Bank, Ping An Group and other enterprises controlled by Ping An Group shall not engage in the business that is the same as or similar to that of Shenzhen Development Bank so as to avoid direct or indirect competition with the business of Shenzhen Development Bank.

2. Related party transactions

Ping An Group and the enterprises controlled by Ping An Group are related parties of the Bank. In order to reduce and regulate related party transactions between Ping An Group and the enterprises controlled by Ping An Group and the Bank and safeguard the legitimate rights and interests of the Bank, Ping An Group made the following commitment:

After completion of the material asset restructuring, with regard to matters occurring between Ping An Group or other enterprises controlled by Ping An Group and Shenzhen Development Bank which constitute related party transactions of Shenzhen Development Bank, Ping An Group and other enterprises controlled Ping An Group shall conduct the transactions with Shenzhen Development Bank in compliance with the principles of openness, fairness and impartiality of market transactions and based on fair and reasonable market prices, implement the decision-making procedures in accordance with the provisions of relevant laws, regulations and regulatory documents, and perform the information disclosure obligation in accordance with laws. Ping An Group guarantees that it and other enterprises it controls will not acquire any unlawful benefit or put Shenzhen Development Bank in a position to assume any unjust obligation through transactions with Shenzhen Development Bank.

Introduction of General Meetings of Shareholders

In the report period, the Bank held 3 shareholders' meetings in total, including 1 Annual General Meeting of shareholders and 2 Extraordinary General Meetings. The brief information is as below:

1. On 17 June 2010, the Bank held 2009 Annual General Meeting at which the *2009 Work Report of the Board of Directors of Shenzhen Development Bank Co., Ltd.* and *the 2009 Profit Distribution Proposal of Shenzhen Development Bank Co., Ltd.* were reviewed and approved. The Resolution Announcement for 2009 Annual General Meeting of Shareholders of Shenzhen Development Bank Co., Ltd was disclosed on *China Securities Journal, Securities Times* and *Shanghai Securities News on 18 June 2010.*

2. On 30 September 2010, the Bank held the 1st Extraordinary General Meeting in 2010. The meeting reviewed and approved the proposals on material assets restructuring by means of written voting and on-line voting. The *Resolution Announcement for the 1st Extraordinary General Meeting in 2010 of Shenzhen Development Bank Co., Ltd* was disclosed on *China Securities Journal, Securities Times* and *Shanghai Securities News* on 8 October 2010.

3. On 23 December 2010, the Bank held the 2nd Extraordinary General Meeting in 2010. The meeting reviewed and approved the proposals on the re-election of Board of Directors and Board of Supervisors. The *Resolution Announcement for the 2nd Extraordinary General Meeting in 2010 of Shenzhen Development Bank Co., Ltd* was disclosed on *China Securities Journal, Securities Times, Shanghai Securities News* and *Securities Daily* on 24 December 2010.

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Report of the Board of Directors

I. 2010 annual profit distribution plan

The 2010 legal financial statement of the Bank (audited by domestic Certified Public Accountant – Ernst & Young Hua Ming) reported net profit of RMB 6,283,816,000, and distributable profits of RMB 10,670,686,000.

According to the aforesaid profit result and applicable regulations of China, the annual profit distribution for 2010 is as follows:

1. The Bank should appropriate RMB 628,382,000 legal surplus reserve as per 10% of the profit after tax audited by domestic accounting firm. After this provision, the balance of legal surplus reserve of the Bank exceeds 50% of paid-in capital.

2. Appropriate general provision of RMB 1,301,506,000.

3. In order to better facilitate the long-term development of the Bank, the Bank will make no cash dividends or conversion of common reserve into capital at present.

4. Upon the aforesaid profit distribution, as of 31 December 2010, balance of surplus reserve amounted to RMB 1,912,339,000; general provision RMB 5,977,782,000; and undistributed profit RMB 8,740,798,000, which will be used to supplement capital and retained for profit distribution in future years.

The above plan is subject to review and approval of 2010 Annual General Meeting of Shareholders of the Bank.

II. Cash dividends in prior three years:

Year	Cash dividend (tax included) (In RMB thousand)	Net profit attributed to shareholders of listed company in the consolidated report of the dividend pay-out year (In RMB thousand)	Ratio of dividends to net profit attributed to shareholders of listed company in the consolidated report (%)	Annual distributable profit (In RMB thousand)
2007	12,666	2,649,903	0.48	2,063,817
2008	80,024	614,035	13.03	952,193
2009	-	5,030,729	-	4,386,870
Ratio of accumulative cash dividends in prior three years to average annual net profit (%)			3.35%	

III. Investments of the Bank in the report period

Shareholding in other listed companies

(In RMB thousand)

Securities Code	Name	Initial investment	Percentage as of total shareholding at the end of period	Book value at the end of period	Gains/Losses in the report period	Change of owners' equity in the report period	Accounting entry	Origination
000040	Shenzhen Hongkai	3,215	0%	-	1,918	-3,497	Available-for-sale	Legacy investment
000150	Yihua Real Estate	10,000	1.36%	22,672	14,871	-32,678	Available-for-sale	Repossessed equity
000892	*ST Stellar Megaunion	2,911	0%	-	439	-2,540	Available-for-sale	Repossessed equity
600094	ST Shanghai Worldbest	4,248	0.23%	4,273	-	13	Available-for-sale	Repossessed equity
600062	Double-Crane Pharmaceutical	10,844	0%	-	809	-	Available-for-sale	Repossessed equity
600739	Liaoning Chengda	8,447	0%	-	-2,357	-	Available-for-sale	Repossessed equity
000034	*ST Shenxin Taifeng	5,553	0.18%	4,862	-	-691	Available-for-sale	Repossessed equity
	Visa Inc.	-	0.01%	1,028	-	-296	Available-for-sale	Legacy investment
Total		45,218		32,835	15,680	-39,689		

Shareholding in other unlisted financial institutions and unlisted companies

(In RMB thousand)

Company Name	Investment Amount	Impairment Provision	Net value at the end of the period
China Unionpay Co. Ltd.	50,000	-	50,000
SWIFT	684		684
Total	50,684	-	50,684

IV. Controlling Company

In the report period, there was no investment for controlling stake in a company or any other equity investment.

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V. Purpose of raised funds

(In RMB thousand)

Total raised funds	6,907,428	Total raised funds invested in the report period	6,907,428
Total raised funds with purpose changed in the report period	6,907,428		
Total accumulative raised funds with purpose changed	6,907,428	Total accumulative raised funds invested	6,907,428
Percentage of total accumulative raised funds with purpose changed	6,907,428		

(In RMB thousand)

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 year	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 year	In line with predicted benefit or not	Any material changes of feasibility of the project
Promised investment projects										
Capital replenishment	No	6,907,428	6,907,428	6,907,428	6,907,428	100%	-	-	-	No
Subtotal of promised investment projects	-	6,907,428	6,907,428	6,907,428	6,907,428	100%	-	-	-	-
Flows of surplus funds raised										
Repayment of bank loans	-	-	-	-	-	-	-	-	-	-
Replenishment of working capital	-	-	-	-	-	-	-	-	-	-
Subtotal of flows of surplus funds raised	-	-	-	-	-	-	-		-	-
Total	-	6,907,428	6,907,428	6,907,428	6,907,428	100%	-	-	-	-

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	–
Purpose and flows of unused funds raised	–
Issues or other situations occurring in the application and disclosure of raised funds	No

VI. Actual progress of and return on major non-share-offering investment project

In the report period, the Bank had no non-share-offering investment project.

VII. The work summary of Board of Directors

1. Meetings and resolutions of Board of Directors in the report period

The 20th meeting of the 7th Board of Directors was convened on 28 January 2010. The meeting reviewed and approved the *Proposal for Write-offs in Q4 2009, Proposal for Credit Line of RMB 500 million to Shenzhen Ping An Real Estate Investment Co., Ltd, Business and Finance Plan for 2010* and *Proposal for Purchase of Office Building for Jinan Branch.* Relevant resolutions were published on *China Securities Journal, Securities Times* and *Shanghai Securities News* dated 29 January 2010.

The 21st meeting of the 7th Board of Directors was convened on 11 March 2010. The meeting reviewed and approved *Adjusted Conditional Bonus Payment Plan, Proposal of Compensation for Some Senior Management, Annual Accounting Statements and Audit Report as of 31 December 2009 of Shenzhen Development Bank Co., Ltd.* issued by Ernst & Young Hua Ming, *Annual Audit Report of Shenzhen Development Bank Co., Ltd. as of 31 December 2009* issued by Ernst & Young Accounting Firm, *2009 Profit Distribution Proposal of Shenzhen Development Bank Co., Ltd., 2009 Annual Report and Abstract of Shenzhen Development Bank Co., Ltd., 2009 Internal Control Self-Appraisal Report of Shenzhen Development Bank Co., Ltd., Proposal for Engagement of Accounting Firm for 2010*, and *2009 Social Responsibility Report of Shenzhen Development Bank Co., Ltd.* Relevant resolutions were published on *China Securities Journal, Securities Times* and *Shanghai Securities News* dated 12 March 2010.

The 22nd meting of the 7th Board of Directors was convened on 28 April 2010. The meeting reviewed and approved *Proposal for Write-offs in Q1 2010, Work Report of Shenzhen Development Bank Co., Ltd. for Q1 2010, 2009 Special Report of Related Party Transactions of Shenzhen Development Bank Co., Ltd., Proposal for Purchase of Liability Insurance for Directors & Officers, Proposal of Accountability System for Material Error of Information Disclosed in the Annual Report of Shenzhen Development Bank Co., Ltd., Proposal of Supplementary Agreement to the Share Subscription Agreement between Shenzhen Development Bank Co., Ltd. and Ping An Life Insurance Company of China, Ltd., Capital Plan of Shenzhen Development Bank Co., Ltd. (2010-2012), 2009 Work Report of the Board of Directors of Shenzhen Development Bank Co., Ltd., 2009 Independent Directors' Work Report of Shenzhen Development Bank Co., Ltd., 2009 Financial Closing Statements of Shenzhen Development Bank Co., Ltd., 2010 Annual Budget Report of Shenzhen Development Bank Co., Ltd., Proposal regarding Submitting the Proposals Related to Election of External Supervisors of the Bank's Board of Supervisors to 2009 General Meeting of Shareholders of the Bank for Review, Proposal regarding Submitting the Proposals Related to Election of Shareholder Representative Supervisors of the Bank's Board of Supervisors to 2009 General Meeting of Shareholders of the Bank for Review, General Guidance on Performance Evaluation for Senior Executives for 2010, Proposal of Regular Deferred Bonus Framework, Three-year Bonus Scheme for Key Executives of Shenzhen Development Bank Co., Ltd., Proposal for Total Bonus Target Amount for Senior Executives for 2010,* and *Proposal for Compensation for Some Senior Executives.* Relevant resolutions were published on *China Securities Journal, Securities Times* and *Shanghai Securities News* dated 29 April 2010.

The 23rd meeting of the 7th Board of Directors was convened in the manner of voting via correspondence. The notice was served on all directors on 11 May 2010. The closing time of voting was 3:00 pm on 13 May 2010. The meeting was held in the manner of voting via correspondence, and reviewed and approved *Report of Shenzhen Development Bank Co., Ltd. on Utilization of Fund Previously Raised* and *Proposal of Opening Special Account for Fund Raising Purpose.* Relevant resolutions were published on *China Securities Journal, Securities Times* and *Shanghai Securities News* dated 14 May 2010.

The 24th meeting of the 7th Board of Directors was convened on 25 May 2010. The meeting reviewed and approved *Proposal for Transition Agreement, Proposal for Electing Mr. Xiao Suining as Chairman of the 7th Board of Directors of Shenzhen Development Bank Co., Ltd., Proposal for Engaging Mr. Richard Jackson as President of Shenzhen Development Bank Co., Ltd., Proposal of Exempting Time Element for New Director Nomination and Election, Proposal for Increasing the Number of Directors for the 7th Board of Directors of Shenzhen Development Bank Co., Ltd., Proposal for Nominating Non-executive Director Candidates for the 7th Board of Directors of Shenzhen Development Bank Co., Ltd., Proposal for Nominating Independent Director Candidates for the 7th Board of Directors of Shenzhen Development Bank Co., Ltd., Proposal for Engaging Ms. Chen Wei as Vice President and Chief Financial Officer of Shenzhen Development Bank Co., Ltd., Proposal for Nominating Executive Director Candidates for the 7th Board of Directors of Shenzhen Development Bank Co., Ltd., Proposal for Titles and the Reporting Line for Some Senior Executives, Proposal for Cumulative Voting Rule for Director Election in 2009 Annual General Meeting of Shareholders of Shenzhen Development Bank Co., Ltd., Proposal regarding Deferred Bonus Plan, Proposal of Compensation for Some Senior Executives, Proposal for Convening 2009 Annual General Meeting of Shareholders of Shenzhen Development Bank Co., Ltd.* and *Proposal for a Credit Line of RMB 1 billion to Ping An Bank Co., Ltd.* Relevant resolutions were published on *China Securities Journal, Securities Times* and *Shanghai Securities News* dated 26 May 2010.

The 25th meeting of the 7th Board of Directors was convened on 29 June 2010. The meeting reviewed and approved *Self-examination Report on the Standardization of Financial Accounting Fundamental Tasks of Shenzhen Development Bank Co., Ltd., Proposal for the Plan to Open More Branches and Capital Expenditure Arrangements for New Branches* and *Proposal for Work Arrangements of Some Senior Officers.* Relevant resolutions were published on *China Securities Journal, Securities Times* and *Shanghai Securities News* dated 30 June 2010.

The 26th meeting of the 7th Board of Directors was convened on 6 July 2010. The meeting reviewed and approved *Proposal of the Board of Directors of Shenzhen Development Bank Co., Ltd. regarding the Establishment of Special Committee of Independent Directors during Merger Period.*

The 27th meeting of the 7th Board of Directors was convened on 23 July 2010 and 1 September 2010. The meeting reviewed and approved *Proposal of Shenzhen Development Bank Co., Ltd. regarding Compliance with the Conditions for Material Asset Restructuring in Listed Companies, Proposal of Shenzhen Development Bank Co., Ltd. regarding Asset Purchase by Issuing Shares, Proposal of Shenzhen Development Bank Co., Ltd. regarding this Material Asset Restructuring Constituting Related Party Transaction, Proposal of Shenzhen Development Bank Co., Ltd. regarding the Compliance of the Material Asset Restructuring with Clause 4 of "Requirements regarding Certain Matters about Regulating Material Asset Restructuring of Listed Companies", Proposal of Shenzhen Development Bank Co., Ltd. regarding the Execution of the Share Subscription Agreement with Ping An Insurance (Group) Company of China, Ltd.* and *Proposal of Shenzhen Development Bank Co., Ltd. regarding the Restructuring Plan for Asset Purchase by Issuing Shares and Related Party Transaction.* Relevant resolutions were published on *China Securities Journal, Securities Times* and *Shanghai Securities News* dated 2 September 2010.

The 28th meeting of the 7th Board of Directors was convened on 23 August 2010. The meeting reviewed and approved *Proposal for Write-offs in Q2 2010, Proposal for Issuing RMB 800 million of Guarantee Limit and RMB 200 million of Entrusted Loan Limit to Shenzhen Small & Medium Enterprise Credit Guarantee Center Co., Ltd, Proposal for Credit Limit of RMB 1 billion to China National Electronics Import & Export Corp., Accounting Statement and Audit Report as of 30 June 2010 of Shenzhen Development Bank Co., Ltd.* issued by Ernst & Young Hua Ming, *Interim Audit Report of Shenzhen Development Bank Co., Ltd. (30 June 2010) and 2010 Interim Report of Shenzhen Development Bank Co., Ltd.* issued by Ernst & Young Accounting Firm, *Abstract of 2010 Interim Report of Shenzhen Development Bank Co., Ltd.* and *Proposal for Amendments to Articles of Association of Shenzhen Development Bank Co., Ltd.* Relevant resolutions were published on *China Securities Journal, Securities Times* and *Shanghai Securities News* dated 25 August 2010.

The 29th meeting of the 7th Board of Directors was convened on 14 September 2010. The meeting reviewed and approved *Proposal of Shenzhen Development Bank Co., Ltd. regarding Asset Purchase by Issuing Shares, Proposal of Shenzhen Development Bank Co., Ltd. regarding the Execution of the Supplementary Agreement to the Share Subscription Agreement with Ping An Insurance (Group) Company of China, Ltd., Proposal of Shenzhen Development Bank Co., Ltd. regarding the Execution of the Forecast Profit Indemnity Agreement with Ping An Insurance (Group) Company of China, Ltd., Proposal of Shenzhen Development Bank Co., Ltd. regarding the Draft Report of Asset Purchase by Issuing Shares* and *Related Party Transaction, Proposal of Shenzhen Development Bank Co., Ltd. regarding the Approval of Relevant Profit Forecast Reports and Financial Reports for Material Asset Restructuring, Statement of Shenzhen Development Bank Co., Ltd. regarding Relevant Issues of Asset Evaluation, Proposal of Shenzhen Development Bank Co., Ltd. regarding Application for Approval of Shareholders' Meeting of the Waiver of Ping An Insurance (Group) Company of China Limited from Tender Offer Obligation, Proposal of Shenzhen Development Bank Co., Ltd. regarding Opening Special Account for Fund Raising Purpose, Proposal of Shenzhen Development Bank Co., Ltd. regarding the Submittal for Shareholders Meeting Approval to Delegate the Authority to Board of Directors to Handle Matters relating to this Asset Purchase by Issuing Share, Proposal of Shenzhen Development Bank Co., Ltd. regarding the Delegation of Authority to Chairman to Handle Matters relating to this Asset Purchase by Issuing Shares,* and *Proposal of Shenzhen Development Bank Co., Ltd. regarding the Convention of the 1st Extraordinary General Meeting of 2010.* Relevant resolutions were published on *China Securities Journal, Securities Times* and *Shanghai Securities News* dated 15 September 2010.

The 30th meeting of the 7th Board of Directors was convened on 27 October 2010. The meeting reviewed and approved *Proposal for Write-offs in Q3 2010, Work Report of Shenzhen Development Bank Co., Ltd. For Q3 2010, Summary Report of Shenzhen Development Bank Co., Ltd. on the Standardization of Financial Accounting Fundamental Works,* and *Self-Inspection Report on the Establishment of Long-term Mechanism for Prevention of Fund Consumption and the Implementation.* Relevant resolutions were published on *China Securities Journal, Securities Times* and *Shanghai Securities News* dated 28 October 2010.

The 31st meeting of the 7th Board of Directors was convened on 30 November 2010. The meeting reviewed and approved *Proposal for the Number of Directors and the Composition of the 8th Board of Directors of Shenzhen Development Bank Co., Ltd., Proposal for the Nomination of Non-Executive Director Candidates of the 8th Board of Directors of Shenzhen Development Bank Co., Ltd., Proposal for the Nomination of Executive Director Candidates of the 8th Board of Directors of Shenzhen Development Bank Co., Ltd., Proposal for the Nomination of Independent Director Candidates of the 8th Board of Directors of Shenzhen Development Bank Co., Ltd., Proposal for Submitting Proposals relating to Election of New Board of Supervisors to the 2nd Extraordinary General Meeting of 2010 for Review, Proposal for Convention of the 2nd Extraordinary General Meeting of Shenzhen Development Bank Co., Ltd. of 2010, Policy for Prevention of Fund Appropriation by Substantial Shareholder and its Related Parties of Shenzhen Development Bank Co., Ltd.,* and *Measures for Appraisal of Directors' Performance of Shenzhen Development Bank Co., Ltd.* Relevant resolutions were published on *China Securities Journal, Securities Times* and *Shanghai Securities News* dated 2 December 2010.

The 1st meeting of the 8th Board of Directors was convened on 27 December 2010. The meeting reviewed and approved *Proposal for Electing Mr. Xiao Suining as Chairman of the 8th Board of Directors of Shenzhen Development Bank Co., Ltd., Proposal of the Establishment and Composition of Special Committees of the 8th Board of Directors, Proposal regarding Signing Labor Contracts with Chairman of the Board of Directors, Proposal for Engaging Mr. Feng Jie as Vice President of Shenzhen Development Bank Co., Ltd., Proposal for Engaging Mr. Du Jiangyuan as Chief Human Resource Officer of Shenzhen Development Bank Co., Ltd., Plan of Shenzhen Development Bank Co., Ltd. for Staff*

Compensation Accrual for 2011, 2011 Budget of Shenzhen Development Bank Co., Ltd., Related Party Transaction of Agreement Entered into with Ping An Life Insurance Company of China, Ltd. for Credit Card Referrals through Life Insurance Agents, Related Party Transaction of Insurance Procurement Agreement Entered into with Ping An Annuity Co., Ltd. and *Related Party Transaction of Reward Point Service Agreement Entered into with Shenzhen Ping An Marketing Service Co., Ltd.* Relevant resolutions were published on *China Securities Journal, Securities Times* and *Shanghai Securities News* dated 29 December 2010.

2. The execution of shareholders' meeting resolutions by the Board

The Board of Directors of the Bank seriously executed every resolution of shareholders' meeting during the report period. As of the end of report period, except the proposals subject to regulatory approvals, such as *Proposal of Shenzhen Development Bank Co., Ltd. regarding Asset Purchase by Issuing Shares* approved at the 1st Extraordinary General Meeting of 2010, the Bank executed and implemented all the shareholders' meeting resolutions including 2009 annual profit distribution plan.

3. Duty fulfillment of Audit and Related Party Transaction Control Committee of the Board

During the report period, Audit and Related-Party Transaction Control Committee held 9 meetings in total, assisting the Board of Directors in supervising the completeness of financial report and internal control system as well as the effectiveness of internal audit function; supervising the annual independent audit on financial statements, and evaluating the qualification, independence and performance of independent auditors; supervising the compliance with legal and regulatory requirements; supervising the execution of information disclosure control and the procedures as well as the efficiency; supervising the fairness and justice of related party transactions; and performing other duties specified in the Working Rules of the Audit and Related Party Transaction Control Committee.

In the report period, Audit and Related Party Transaction Control Committee under the Board of Directors carried out communication and coordination with the accounting firm for annual audit, in accordance with *Working Rules for Annual Audit* and relevant rules of the Committee.

(1) Opinions on financial reports after two rounds of reviews

The Audit and Related Party Transaction Control Committee negotiated the auditing arrangement on 2010 financial report with the accounting firm, and urged the accounting firm to submit auditors' report within specified time.

The Audit and Related Party Transaction Control Committee reviewed the financial statements prepared by the Bank before the CPA in charge of annual auditing officially came into work, and considered that the financial report prepared in accordance with the rules of new Accounting Standards for Business Enterprises and fairly revealed, in all material aspects, the financial standing of the Bank as of 31 December 2010 and the business result and cash flow in 2010.

After annual auditing CPA came to work, the Audit and Related Party Transaction Control Committee reinforced the communication with them. After the annual audit CPA issued the preliminary audit opinion, the Audit and Related Party Transaction Control Committee reviewed the financial report the second time at the meeting held on 23 February 2011, and considered the financial report true, accurate and complete, and prepared in accordance with Accounting Standards for Business Enterprises and relevant regulations, and rendered no disputes with the accountant on significant issues.

(2) Supervision on audit work

The Audit and Related Party Transaction Control Committee made arrangement for annual audit in advance, and negotiated the scope and timetable of auditors' report with the accounting firm. After auditors came to work, they communicated with the in-charge project heads to understand the auditing progress and areas of CPA's concerns. the Audit and Related Party Transaction Control Committee also urged the Accountants to hand in high-quality report according to specified time limit to make sure annual auditing and information disclosure is completed as scheduled.

(3) Summary report submitted to Board of Directors on auditors work in last year

Current CPA completed the auditing work on 2010 annual report and interim report, and the review of Q1 report and Q3 report as per agreed procedures.

Audit and Related Party Transaction Control Committee, according to the working rules of the Committee, shall carry out annual performance appraisal on independent auditors. During the appraisal, the Committee carried out communication with the management and internal audit head, and reviewed the auditing report from independent auditors.

Audit and Related Party Transaction Control Committee is satisfied with the qualifications and independence of current Accountant, and considered they have completed 2010 financial statement auditing and other work satisfactorily according to audit regulations and rules.

(4) Resolution on extension of the appointment of accounting firm for the next year

Suggest the Bank engage Ernst & Young Hua Ming as the domestic audit service agency, and engage Ernst & Young as the international audit service agency in 2010. The total auditing fee is up to RMB 6.80 million.

4. Duty fulfillment of Compensation & Appraisal Committee

During the report period, the Compensation & Appraisal Committee held 8 meetings in total, reviewed senior management performance appraisal rules and carried out appraisals, and made research on compensation policy and plan for directors, supervisors and senior management and implemented other compensation related assignments authorized by Board of Directors.

(1) Review opinion of compensation of directors, supervisors and senior management disclosed in this report

The Compensation & Appraisal Committee, as per regulatory requirements, paid special attention to senior executives' compensation which should be disclosed. The Compensation & Appraisal Committee reviewed the compensation of directors, supervisors and senior management disclosed in this report, and considered the disclosure true, accurate and complete and consistent with relevant resolutions of shareholders' meetings, Board meetings and Compensation & Appraisal Committee meetings as well as relevant policies of the Bank.

(2) The Bank did not implement equity incentive plan.

VIII. Implementation of inside information and insider management policy

The Bank formulated the *Inside Information and Insider Management Policy of Shenzhen Development Bank Co., Ltd.*, which was reviewed and approved at the 19th meeting of the 7th Board of Directors. During the report period, the Bank strictly implemented the provisions of *Inside Information and Insider Management Policy of Shenzhen Development Bank Co., Ltd.*, conscientiously and properly managed the registration and filing of insiders and inside information; organized the Bank's directors, supervisors, senior management and staff on posts that have access to inside information to study relevant documents to improve their awareness of compliance and confidentiality and forwarded relevant documents to the major shareholders and external institutions such as accounting firms, financial advisors and counsels. During the report period, there was no insider who made use of inside information to trade the Company's shares before the disclosure of material and sensitive information that can affect the stock price of the Company.

IX. Corporate social responsibility report

In 2010, the Bank proactively undertook various activities to fulfilling its social responsibility, and incorporated GRI (Global Report Initiative) G3 Guidelines into the regular management work and report of corporate social responsibility for the first time. The Bank initially established a social responsibility management system for the benefit of the stakeholders and focused on the Bank's overall strategies so as to organize and coordinate all functional departments, branches and sub-branches to fulfill the corporate social responsibility.

1. In accordance with the *provisions of relevant laws* and regulations, such as the *Company Law, Securities Law* and *Commercial Banking Law*, as well as the regulatory requirements stipulated by the People's Bank of China, China Securities Regulatory Commission and China Banking Regulatory Commission, the Bank has been continuously committed to improving the corporate governance policies and structure and adding value for its shareholders while protecting shareholders' interests.

2. The Bank has been providing high-quality customer service. Taking the "Best Bank" as a target, the Bank carried out various process re-engineering projects for optimizing customer service quality surveillance system and improving customer service level.

3. Based on the online supply chain finance system, the Bank continuously diversified its business models, integrated and developed the corporate cash management system, and enriched the integrated service functions to build an innovative financial service platform. In addition, the Bank provided support to the SME development by establishing a business management model for target SME customer groups to help solve their difficulties in financing.

4. The bank cares for its staff and their career development. A professional title system, which was supplemented with necessary titles of management positions, was implemented to expand their career progression paths. The Bank provided opportunities of training and development to its staff so that all of them received proper job-related training before delivering services to customers. This helped the staff to improve their overall capability, working skills and performance and led to a joint development among our society, the Bank and all the staff.

5. The bank proactively carried out charity activities. Through the Red Cross Society of China, the Bank donated RMB 5 million to earthquake-stricken Yushu, including more than RMB 3 million contributed by the Bank's staff, and RMB 200,000 to the drought-stricken areas in Yunnan. Over 300 outlets of the Bank actuated the "Program of Donation of Books and Energy-saving Lamps" at the same time. Through this program, 105,032 books from 22 cities across the country were collected and love libraries were established in 22 schools located in rural areas, which benefited more than 13,000 pupils in those areas. The program of "Understand and Care for Pupils" under the 2nd "Shenzhen Development Bank Love Project" was launched to help children of Hope Schools to realize their dreams of learning. Besides, the Bank organized a number of activities to share financial knowledge with more people, including "Public Education Day of Banking Industry" and "Knowledge of Finance to Rural Areas". The Bank also entered into a cooperation agreement with Fudan University for the purpose of innovation in financial service.

Please refer to *2010 Corporate Social Responsibility Report of Shenzhen Development Bank Co., Ltd.* disclosed by the Bank for specifics.

Report of the Board of Supervisors

In 2010, the Board of Supervisors of Shenzhen Development Bank fulfilled its duties with diligence, seriously exercised its supervising functions and powers, and fulfilled its supervising obligations, on the basis of being responsible for our shareholders and staff, in accordance with *Company Law, Securities Law*, *Articles of Association* of the Bank and *Rules of Procedure for Board of Supervisors* and various guidelines from the regulators. This has positive effect on the disciplined operation and development of the Bank.

I. Meetings of the Board of Supervisors

Eleven Board of Supervisors meetings were held during the report period. Detailed contents of the meetings are as follows:

1. The 16th meeting of 6th Board of Supervisors

The 16th meeting of the 6th Board of Supervisors was convened on the afternoon of 10 March 2010 at No. 2 conference room on 6th floor of Shenzhen Development Bank. The meeting reviewed the minutes of the 15th meeting (the 7th meeting in 2009) of the 6th Board of Supervisors; Chairman of Audit and Risk Management Committee of the Board of Supervisors, Guan Weili, reported relevant status of the 17th meeting of the Audit Committee of the Board of Directors; and the meeting reviewed and approved *2009 Annual Report of Shenzhen Development Bank Co., Ltd.* and reviewed and approved *2009 Internal Control Self-Appraisal Report of Shenzhen Development Bank Co., Ltd.* and discussed and issued opinions of the Board of Supervisors on this report.

2. The 2nd meeting of the Nomination Committee of the 6th Board of Supervisors

The 2nd meeting of the Nomination Committee of the 6th Board of Supervisors was convened on the afternoon of 29 March 2010 in Chairman of Board of Supervisors' Office 3303. The meeting reviewed and approved the proposal on the nomination of Mr. Che Guobao as external supervisor of the Bank; reviewed and approved the proposal on the nomination of Mr. Qiu Wei as shareholder representative supervisor of the Bank; reviewed and approved the proposal on the resignation of Mr. Kang Dian as external supervisor of Board of Supervisors of the Bank; and reviewed and approved the proposal on the resignation of Mr. Zhou Jianguo as shareholder representative supervisor of Board of Supervisors of the Bank.

3. The 17th meeting of the 6th Board of Supervisors

The 17th meeting of the 6th Board of Supervisors (conference call) was convened on the afternoon of 29 March 2010 in Chairman of Board of Supervisors' Office 3303 of Shenzhen Development Bank. The meeting reviewed the minutes of 16th meeting (the 1st meeting in 2010) of the 6th Board of Supervisors. The meeting reviewed and approved the proposal on the nomination of Mr. Che Guobao as external supervisor of the Bank; reviewed and approved the proposal on the nomination of Mr. Qiu Wei as shareholder representative supervisor of the Bank; reviewed and approved the proposal on the resignation of Mr. Kang Dian as external supervisor of Board of Supervisors of the Bank; and reviewed and approved the proposal on the resignation of Mr. Zhou Jianguo as shareholder representative supervisor of Board of Supervisors of the Bank.

4. The 18th meeting of the 6th Board of Supervisors

The 18th meeting of the 6th Board of Supervisors was convened on the afternoon of 27 April 2010 at No. 2807 conference room of Shenzhen Development Bank. The meeting reviewed and approved *2010 Q1 Report of Shenzhen Development Bank Co., Ltd.,* reviewed and approved *Board of Supervisors Review Opinions Report on 2010 Q1 Report of Shenzhen Development Bank*; and reviewed and approved *2009 Work Report of Board of Supervisors of Shenzhen Development Bank*.

5. The 19th meeting of the 6th Board of Supervisors

The 19th meeting of the 6th Board of Supervisors was convened on the afternoon of 17 June 2010 at No. 2 conference room on the 6th floor of Shenzhen Development Bank Building. The meeting elected Mr. Qiu Wei as Chairman of the 6th Board of Supervisors of the Bank and elected Mr. Che Guobao as Chairman of the Nomination Committee of the 6th Board of Supervisors of the Bank.

6. The 20th meeting of the 6th Board of Supervisors

The 20th meeting of the 6th Board of Supervisors was convened on the afternoon of 23 August 2010 at No. 2 conference room on 6th floor of Shenzhen Development Bank Building. The meeting reviewed and approved *2010 Interim Report of Shenzhen Development Bank Co., Ltd.*, and reviewed and approved *Board of Supervisors Review Opinions Report on 2010 Interim Report of Shenzhen Development Bank.*

7. The 21st meeting of the 6th Board of Supervisors

The 21st meeting of 6th Board of Supervisors was convened on the afternoon of 27 October 2010 at No. 2 conference room on 6th floor of Shenzhen Development Bank Building. The meeting reviewed and approved the minutes of the 20th meeting (the 5th meeting in 2010) of the 6th Board of Supervisors; *2010 Q3 Report of Shenzhen Development Bank Co., Ltd.; Board of Supervisors Review Opinions Report on 2010 Q3 Report of Shenzhen Development Bank;* and *Review Opinions Report of Board of Supervisors of Shenzhen Development Bank on Self-Inspection Report on the Establishment of Long-term Mechanism for Prevention of Capital Consumption and Its Implementation*.

8. The 3rd meeting of the Nomination Committee of the 6th Board of Supervisors

The 3rd meeting of the Nomination Committee of the 6th Board of Supervisors was convened on the morning of 9 November 2010 at Chairman of Board of Supervisors' Office 3303 of Shenzhen Development Bank Building. The meeting reviewed and approved proposals on the nominations of Qiu Wei and Che Guobao as shareholder representative supervisor candidates of the 7th Board of Supervisors of Shenzhen Development Bank Co., Ltd., and on the nominations of Luo Kangping and Xiao Lirong as external supervisor candidates of the 7th Board of Supervisors of Shenzhen Development Bank Co., Ltd.

9. The 22nd meeting of the 6th Board of Supervisors

The 22nd meeting of the 6th Board of Supervisors was convened on the afternoon of 17 November 2010 at Green Lake Hotel of Kunming. The meeting reviewed and approved the proposals on the nominations of Qiu Wei and Che Guobao as shareholder representative supervisor candidates of the 7th Board of Supervisors of Shenzhen Development Bank Co., Ltd., and on the nominations of Luo Kangping and Xiao Lirong as external supervisor candidates of the 7th Board of Supervisors of Shenzhen Development Bank Co., Ltd.

10. The 1st meeting of the 7th Board of Supervisors

The 1st meeting of the 7th Board of Supervisors was convened at noon of 23 December 2010 at western style conference room on the 32nd floor of Shenzhen Development Bank Building. The meeting elected Mr. Qiu Wei as Chairman of the 7th Board of Supervisors of the Bank and reviewed and approved the chairmen and members of the two special committees under the 7th Board of Supervisors.

11. The 2nd meeting of the 7th Board of Supervisors

The 2nd meeting of the 7th Board of Supervisors was convened on the morning of 28 December 2010 at No. 2 conference room on the 6th floor of Shenzhen Development Bank Building. The meeting reviewed and approved the *Measures for Appraising Performance of Supervisors of Shenzhen Development Bank (Tentative)* and *2011 Work Plan of Board of Supervisors.*

II. Board of Supervisors expressed independent opinions on the following matters:

1. Operation in compliance with laws

In the report period, the Company observed relevant laws, administrative rules and the Bank's *Articles of Association*, established and improved corporate governance structure, and decision-making procedures were basically in compliance with relevant regulations. No breach of laws, policies, *Articles of Association* of the Bank or resolutions of the General Meeting of Shareholders was found in the Board of Directors, the senior management or their members in the process of fulfilling their duties.

2. Inspection on the Bank's financial status

In 2010, the Bank standardized the conducts in compliance with the *Articles of Association* of the Bank in major aspects including financial accounting, and no conduct detrimental to the interest of the bank and the shareholders was found.

3. Fund raising and purchase/sale of assets

During the report period, no major purchase or sale of assets happened.

4. Related party transaction

All related party transactions were conducted under normal business processes and policies during the report period and no action that might be detrimental to the interest of the bank and the shareholders happened.

5. Internal control of the Bank

During the report period, the Bank adhered to the general principles of internal control in accordance with relevant provisions of China Securities Regulatory Commission and Shenzhen Stock Exchange, set up complete and rational internal control policies based on the Bank's status quo, and properly implemented such policies in business activities, which was generally consistent with relevant requirements of China Securities Regulatory Commission and Shenzhen Stock Exchange. The 2010 self-appraisal of internal control of the Bank accurately and completely reflected the current status of internal control and main aspects to be improved. The correction plan was practical and in line with the long-term development requirement of internal control.

Important Events

I. Material lawsuits and arbitrations

Within the report period, there were no lawsuits or arbitrations that had material impact on the operation of the Bank. The Bank, as defendant, was involved in 58 lawsuits with a total amount of RMB 241 million, all of which has no verdict yet.

II. There were no acquisition, merger or asset sales during the report period.

III. Material related party transactions during the report period

During the report period, the Bank issued 379,580,000 new shares to Ping An Life by non-public offering (the offer price was 100% of the average of the Company's share trading prices in the past 20 trading days before pricing base date, i.e., RMB 18.26 per share), and raised RMB 6,931,130,800, which will be all used to supplement capital after deducting relevant issuance fees.

In accordance with the provisions of *Share Listing Rules of Shenzhen Stock Exchange*, Ping An Group and its subsidiaries became the related legal entity of the Bank as a result of the share transfer arrangement between Newbridge Capital and Ping An Group. Therefore, the non-public offering made by the Bank to Ping An Life constituted a related party transaction of the Bank.

1. Transactions between the Bank and Ping An Group and its subsidiaries are as follows:

(In RMB thousand)

End of period balance	31 December 2010
Account receivables investment	100,000
Due to banks and other financial institutions	85,975
Deposits	3,752,314
Factoring credit line	300,000
Inter-bank credit line	1,000,000

(In RMB thousand)

Transactions during the period	January - December 2010
Bond interest income of account receivables	4,200
Agency fee income	8,380
Custody fee income	1,005
Interest expense for due to banks and other financial institutions	1,701
Interest expense for deposits	176,948
Expense for insurance premium	2,082

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

2. As of 31 December 2010, the Bank had approved credit facilities of RMB 2,150 million to legal entities or close relatives related to the key management members (RMB 1,732 million as of 31 December 2009) with an actual loan balance of RMB 319 million (RMB 605 million as of 31 December 2009) and off-balance sheet credit facilities balance of RMB 209 million (RMB 76 million as of 31 December 2009).

All these transactions have followed proper related party transaction procedures of the Bank.

IV. Material contracts and their implementation

1. Material custody, contracting and leasing: there were no material custody, contracting and leasing in the report period.

2. Material guarantee: except normal guarantee business approved by China Banking Regulatory Commission, the Bank had no other significant guarantees.

3. Entrusted wealth management: the Bank did not entrust others to handle management of cash assets in the report period.

4. Material contract performance: the Bank had no material contract disputes in the report period.

V. Material commitment made by the Bank and related parties

Commitments	Made by	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 Insurance Company of China, Ltd.	Ping An Group and Ping An Life made promise in the *Detailed Equity Change Report of Shenzhen Development Bank Co., Limited* published on 16 June 2009: Promise to take legal and feasible measures to integrate Shenzhen Development Bank and Ping An Bank in the manner 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.	Underway.
Commitments made in material assets restructuring	Ping An Insurance (Group) Company of China, Ltd.	In order to subscribe 1,638,336,654 shares offered by the Bank via non-public offering with its 90.75% stakes in Ping An Bank and cash of RMB 2.6900523 billion, Ping An Group promises that: 1. The integration of Ping An Bank and the Bank will be launched as soon as possible in strict accordance with relevant rules and regulatory requirements, necessary internal decision-making procedures will be performed, reporting to the regulators will be made for review and approval, and the integration is expected to be finished within one year. Due to uncertainties of regulatory approval, the specific time for completing the integration depends on the approval progress of the regulators and other factors. Ping An Group will actively communicate with relevant regulators, and try to complete regulatory approval and integration as soon as possible. 2. It will not transfer shares subscribed via non-public offering within 36 months from the date of the completion of this deal. However, under permission of applicable laws, transfer between Ping An Group's related organizations (any direct or indirect controllers of Ping An Group, or any companies directly or indirectly controlled by Ping An Group, or any Ping An Group affiliated companies commonly controlled by other companies) is not subject to this limitation. After the expiration of the said duration, Ping An Group can dispose such newly issued shares in accordance with regulations of China Securities Regulatory Commission and Shenzhen Stock Exchange. 3. According to the stipulations of the *Profit Forecast Compensation Agreement* signed between Ping An Group and Shenzhen Development Bank on 14 September 2010, within four months after the end of each year during the three years after the completion of the purchase of assets through share issuance ("Compensation Period"), Ping An Group shall prepare the pro forma net profit of Ping An Bank for the year ("Realized Profit") according to the *Accounting Standards for Business Enterprises in China* and shall urge the accounting firm engaged by Ping An Group to issue as fast as possible a special audit opinion ("Special Audit Opinion") on the Realized Profit and the difference in the amount between the Realized Profit and the corresponding profit forecast ("Difference in Amount"). If, according to that Special Audit Opinion, the actual profit in any year during the Compensation Period is less than the corresponding profit forecast, Ping An Group shall pay 90.75% of the difference between the aforesaid actual profit and profit forecast ("Compensation Amount") to Shenzhen Development Bank in cash. Ping An Group shall deposit such amount in full to the bank account designated by the Bank within 20 business days after the issuance of the Special Audit Opinion specifically for that year.	As this material asset restructuring is still under approval by the relevant regulator, the performance of the relevant promise has not been started.

Commitments	Made by	Contents	Performance
		4. After completion of the material asset restructuring and during the period when Ping An Group acts as the controlling shareholder of Shenzhen Development Bank, if Ping An Group and other enterprises controlled by Ping An Group intend to capture or are actually given the same type of business or commercial opportunities that Shenzhen Development Bank has, and the asset and business created by such business or commercial opportunities may constitute potential peer competition with Shenzhen Development Bank, Ping An Group and its controlling enterprises shall not engage in the business that is the same as or similar to that of Shenzhen Development Bank so as to avoid direct or indirect competition with the business of Shenzhen Development Bank. 5. After completion of the material asset restructuring, with regard to matters occurring between Ping An Group or other enterprises controlled by Ping An Group and Shenzhen Development Bank which constitute related party transactions of Shenzhen Development Bank, Ping An Group and other enterprises controlled by Ping An Group shall conduct the transactions with Shenzhen Development Bank in compliance with the principles of openness, fairness and impartiality of market transactions and based on fair and reasonable market prices, implement the decision-making procedures in accordance with the provisions of the relevant laws, regulations and regulatory documents, and perform the information disclosure obligation in accordance with the law. Ping An Group guarantees that it and other enterprises it controls will not acquire any unlawful benefit or put Shenzhen Development Bank in a position to assume any unjust obligation through transactions with Shenzhen Development Bank. 6. After completion of the material asset restructuring and during the period when Ping An Group acts as the controlling shareholder of Shenzhen Development Bank, the independence of Shenzhen Development Bank shall be maintained and it shall be guaranteed that Shenzhen Development Bank and Ping An Group or other enterprises controlled by Ping An Group will be mutually independent in aspects such as people, assets, finance, institutions and business.	
Commitments made upon issuance	Ping An Life Insurance Company of China, Ltd.	As for the subscription of 379,580,000 new shares of the Bank via non-public offering, Ping An Life has promised that it will not transfer the subscribed shares within 36 months since the listing date of the subscribed shares (17 September 2010); however, under permission by laws and approval by relevant regulators, transference between Ping An Life and its related parties (including its controlling shareholder, its actual controller and different subjects controlled by the same actual controller of Ping An Life) is not subject to this limitation. If Ping An Life sells the subscribed shares against the said commitment, China Securities Depository and Clearing Corporation Limited Shenzhen Branch will be authorized to transfer all the proceeds from selling the subscribed shares to the listed company account of Shenzhen Development Bank, and the money will be owned by shareholders of Shenzhen Development Bank.	Underway.
Other commitments (including additional commitments)	Ping An Insurance (Group) Company of China, Ltd.	181,255,712 restricted shares of Shenzhen Development Bank held by Newbridge Asia AIV III, L.P., the former substantial shareholder of the Bank, were transferred to Ping An Group and were released on June 28 2010. If Ping An Group plans to sell over 5% of the released Shenzhen Development Bank shares through trading system of Shenzhen Stock Exchange within 6 months after the first-time selling, it shall disclose a reminding announcement for the selling through Shenzhen Development Bank in two trading days prior to the first-time selling.	Underway.

VI. Engagement of accounting firms

During the report period, the Bank engaged Ernst & Young Hua Ming for the auditing assignment and engaged Ernst & Young Accounting Firm to audit the supplementary financial statements prepared by the Bank under the *International Financial Reporting Standards*.

In 2010, the Bank paid RMB 5.01 million to Ernst & Young Hua Ming and RMB 1.20 million to Ernst & Young Accounting Firm, totalling RMB 6.21 million. In addition, RMB 920,000 agreed procedures fees for the 1st quarter and the 3rd quarter were paid. Travel expenses of these two accounting firms were not reimbursed by the Bank.

Ernst & Young Hua Ming has provided services for the Bank for 4 years; Ernst & Young Accounting Firm has provided services for the Bank for 11 years.

VII. During the report period, the Bank, the Board of Directors and its members were not examined or penalized by China Securities Regulatory Commission, or publicly denounced by Shenzhen Stock Exchange.

VIII. Fund utilization by related parties

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

IX. Explanations and independent opinions of independent directors concerning external guarantee offered by the Bank

We, as independent directors of Shenzhen Development Bank, have checked the external guarantee offered by the Bank in an impartial, fair and objective manner and pursuant to China Securities Regulatory Commission Document [2003] No. 56. We think that the external guarantee business conducted by Shenzhen Development Bank is a regular banking business approved by the People's Bank of China and China Banking Regulatory Commission. Shenzhen Development Bank attaches importance to risk management of this business and strictly follows relevant operation process and examination and approval procedures, thus ensuring effective control of risks in external guarantee business.

X. Bond issuance

The Bank did not issue new bonds during the report period.

XI. Other material events

On 30 September 2010, proposals including *Proposal of Shenzhen Development Bank Co., Ltd. on Asset Purchase by Issuing Shares* were reviewed and approved at the 1st extraordinary general meeting of the Bank in 2010, pursuant to which Ping An Group planned to use its 7,825,181,106 shares of Ping An Bank (approximately 90.75% of Ping An Bank's total capital shares) and RMB 2.6900523 billion in cash (equivalent to the assessed value of approximately 9.25% of Ping An Bank's shares) to subscribe 1,638,336,654 shares of the Bank by non-public offering ("this material asset restructuring"). This material asset restructuring is still under approval by relevant regulators.

Other specifics of this material asset restructuring can refer to relevant announcements published by the Bank and relevant information disclosing parties on *China Securities Journal, Securities Times, Shanghai Securities News* and at www.cninfo.com.cn on 2 September 2010, 15 September 2010 and 8 October 2010.

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

In the report period, the Bank conducted communication with institutions for many times in the form of results release, analyst meeting and investor investigation in respect of performance, financial status, and other issues of the Bank. The Bank also accepted inquiry by phone from individual investors. The contents mainly include: development strategy, non-public offering, periodic report, interim report with explanations, disclosed business and management information and major events, corporate culture, and other related information. According to the requirement of *Shenzhen Stock Exchange Guidelines on Fair Information Disclosure of Listed Companies*, the Bank and relevant information disclosing parties strictly observed the principle of fair information disclosure, and there was no situation in violation of it.

The main information of investors received by the Bank within the report period is as follows:

Time	Locale	Reception manner	Investor	Contents discussed and materials provided
2010-01-07	Shenzhen	Onsite survey	Sinolink Securities	Business status, development strategy
2010-01-12	Shenzhen	Onsite survey	Guosen Securities	Business status, development strategy
2010-01-19	Shanghai	Investor communication	UBS Securities	Business status, development strategy
2010-01-21	Shenzhen	Onsite survey	Moody's	Business status, development strategy
2010-01-28	Shenzhen	Onsite survey	Orient Securities, Xiangcai Securities, Nanjing Securities	Business status, development strategy
2010-02-03	Shenzhen	Onsite survey	Soros Fund	Business status, development strategy
2010-02-11	Shenzhen	Onsite survey	Nevsky Capital	Business status, development strategy
2010-03-12	Shenzhen	Onsite survey & telephone communication	All sorts of investors including securities traders and funds investors	Annual report results release
2010-03-22	Shenzhen	Onsite survey	China Southern Fund, Sinolink Securities	Business status, development strategy
2010-03-23	Shenzhen	Onsite survey	Sloane Robinson LLP	Business status, development strategy
2010-03-24	Shenzhen	Conference call	Citibank	Business status, development strategy
2010-03-26	Shenzhen	Onsite survey	Standard & Poor's	Business status, development strategy
2010-04-29	Shenzhen	Onsite survey & telephone communication	All sorts of investors including securities traders and funds investors	Q1 report results release
2010-05-11	Shenzhen	Onsite survey	Ping An Securities	Business status, development strategy
2010-05-13	Shenzhen	Onsite survey	Sinolink Securities	Business status, development strategy
2010-05-14	Qingdao	Investor communication	BOCI Securities	Business status, development strategy
2010-05-14	Shenzhen	Onsite survey	CICC	Business status, development strategy
2010-05-18	Shanghai	Investor communication	CLSA Securities	Business status, development strategy
2010-05-25	Shenzhen	Onsite survey	Keefe, Bruyette & Woods	Business status, development strategy
2010-05-26	Shenzhen	Onsite survey	Guosen Securities	Business status, development strategy
2010-06-09	Beijing	Investor communication	J.P.Morgan Chase	Business status, development strategy
2010-06-10	Shenzhen	Investor communication	Everbright Securities	Business status, development strategy
2010-06-22	Hubei	Investor communication	Changjiang Securities	Business status, development strategy
2010-06-24	Shenzhen	Onsite survey	Morgan Stanley	Business status, development strategy
2010-07-12	Shenzhen	Onsite survey	HSBC	Business status, development strategy
2010-07-16	Shenzhen	Onsite survey	Pacific Insurance	Business status, development strategy
2010-07-16	Shenzhen	Onsite survey	HSBC	Business status, development strategy
2010-08-25	Shenzhen	Telephone communication	All sorts of investors including securities traders and funds investors	Interim report results release
2010-09-02	Shenzhen	Onsite survey & telephone communication	All sorts of investors including securities traders and funds investors	Material asset restructuring

Time	Locale	Reception manner	Investor	Contents discussed and materials provided
2010-09-15	Shenzhen	Investor communication	All sorts of investors including securities traders and funds investors	Material asset restructuring
2010-09-16	Shenzhen	Investor communication	All sorts of investors including securities traders and funds investors	Material asset restructuring
2010-09-16	Guangzhou	Investor communication	All sorts of investors including securities traders and funds investors	Material asset restructuring
2010-09-17	Shanghai	Investor communication	All sorts of investors including securities traders and funds investors	Material asset restructuring
2010-09-17	Beijing	Investor communication	All sorts of investors including securities traders and funds investors	Material asset restructuring
2010-09-17	Shenzhen	Onsite survey	Macquarie Bank	Business status, development strategy
2010-09-28	Shenzhen	Onsite survey	J.P.Morgan Chase	Business status, development strategy
2010-10-29	Shenzhen	Telephone communication	All sorts of investors including securities traders and funds investors	Q3 report results release
2010-11-02	Beijing	Investor communication	Goldman Sachs Gao Hua Securities	Business status, development strategy
2010-11-08	Shenzhen	Onsite survey	UBS Securities	Business status, development strategy
2010-11-10	Shenzhen	Onsite survey	Industrial Securities	Business status, development strategy
2010-11-11	Shenzhen	Onsite survey	Credit Suisse	Business status, development strategy
2010-11-16	Shenzhen	Onsite survey	BOCOM International, China Jianyin Investment Securities	Business status, development strategy
2010-11-19	Shanghai	Investor communication	Qilu Securities	Business status, development strategy
2010-11-19	Shenzhen	Onsite survey	MacCap	Business status, development strategy
2010-11-23	Shenzhen	Onsite survey	Orient Securities	Business status, development strategy
2010-11-25	Kunming	Investor communication	Ping An Securities	Business status, development strategy
2010-11-26	Sanya	Investor communication	Shenyin & Wanguo Securities	Business status, development strategy
2010-11-30	Shenzhen	Conference call	Nomura Securities	Business status, development strategy
2010-12-03	Sanya	Investor communication	Hongyuan Securities	Business status, development strategy
2010-12-03	Shenzhen	Investor communication	Huatai United Securities	Business status, development strategy
2010-12-07	Shenzhen	Investor communication	Guangfa Securities	Business status, development strategy
2010-12-29	Shenzhen	Onsite survey	Morgan Stanley	Business status, development strategy

XIII. Reference of information disclosure

Item	Publication date	Media
Announcement regarding Derivatives Transaction Business	2010-1-21	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Announcement regarding Approval of Launching Custody Business of National Social Security Funds, 2009 Annual Performance Forecast	2010-1-27	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Resolution Announcement of Board of Directors	2010-1-29	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Clarification Announcement	2010-3-2	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Resolution Announcement of Board of Directors, Resolution Announcement of Board of Supervisors, 2009 Annual Report, Audit Report of 2009 Annual Financial Statements, Abstract of 2009 Annual Report, 2009 Social Responsibility Report, 2009 Self-Appraisal Report on Internal Control, Special Explanation on Funds Impropriation by Controlling Shareholders and the Related Parties	2010-3-12	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Resolution Announcement of Board of Supervisors	2010-3-31	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Resolution Announcement of Board of Directors, Resolution Announcement of Board of Supervisors, 2010 Q1 Report	2010-4-29	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Announcement of Board of Directors	2010-5-5	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Announcement regarding the Completion of Transfer of Ownership of Shares	2010-5-8	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Resolution Announcement of Board of Directors	2010-5-14	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Resolution Announcement of Board of Directors, Notice of Convening 2009 Annual General Meeting, Materials for 2009 Annual General Meeting, Public Declaration of the Nominators for Independent Directors	2010-5-26	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Announcement regarding Shenzhen Stock Exchange's Letter of Objection to Independent Director's Qualification	2010-6-5	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Announcement regarding Application for Non-Public Offering of A Shares passed by the Issuance Examination Commission of China Securities Regulatory Commission	2010-6-12	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Resolution Announcement of 2009 Annual General Meeting, Legal Opinion Letter of 2009 Annual General Meeting, Resolution Announcement of Board of Supervisors, Announcement of Board of Directors	2010-6-18	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Reminding Announcement for Release of Restricted Shares	2010-6-25	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Announcement regarding China Securities Regulatory Commission's Approval for A-Share Non Public Offering Application	2010-6-29	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Resolution Announcement of Board of Directors, Announcement regarding Material Asset Restructuring and Continuous Trade Suspension	2010-6-30	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Reminding Announcement regarding the Completion of Non-Public Offering	2010-7-3	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*

Item	Publication date	Media
Announcement regarding the Progress of Material Asset Restructuring	2010-7-7, 2010-7-14, 2010-7-21, 2010-7-28, 2010-8-4, 2010-8-11, 2010-8-18, 2010-8-25, 2010-9-1	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Announcement regarding Signing of Depository and Supervisory Agreement on Special Account for Raised Funds	2010-7-21	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Announcement regarding the Change of Disclosure Time for 2010 Interim Report	2010-8-19	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
2010 Interim Report & Abstract, Resolution Announcement of Board of Directors, Resolution Announcement of Board of Supervisors	2010-8-25	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Resolution Announcement of Board of Directors	2010-9-2	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Resolution Announcement of Board of Directors, Notice of Convening 2010 1st Extraordinary General Meeting, Report (Draft) and Abstract regarding Asset Purchase by Issuing Shares and Related Party Transaction	2010-9-15	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Report on Non-Public Offering of A Shares and Listing Announcement and Abstract, Announcement regarding Commitments to Avoid Peer Competition	2010-9-16	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Reminding Announcement of Convening 2010 1st Extraordinary General Meeting	2010-9-27, 2010-9-29	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Resolution Announcement of 1st Extraordinary General Meeting in 2010	2010-10-8	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Announcement of Board of Directors	2010-10-13	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
2010 Q3 Report, Resolution Announcement of Board of Directors, Resolution Announcement of Board of Supervisors	2010-10-28	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Announcement of Board of Supervisors	2010-11-16	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Resolution Announcement of Board of Directors, Notice of Convening 2010 2nd Extraordinary General Meeting, Public Declaration of Nominators for Independent Directors	2010-12-2	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Announcement of Board of Directors	2010-12-18	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Resolution Announcement of 2nd Extraordinary General Meeting in 2010, Resolution Announcement of Board of Supervisors	2010-12-24	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*
Resolution Announcement of Board of Directors, Announcement regarding Resignation of Senior Executives	2010-12-29	*China Securities Journal, Securities Times, Shanghai Securities News,* and *www.cninfo.com.cn*

PRC GAAP Financial Statements

Auditors' Report

Ernst & Young Hua Ming（2011）Shenzi No. 60438538_H01

To the shareholders of Shenzhen Development Bank Co., Limited

We have audited the accompanying financial statements of Shenzhen Development Bank Co., Ltd., which comprise the balance sheet as at 31 December 2010, and the income statement, statement of changes in shareholders' equity and cash flow statement for the year then ended and notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements of Shenzhen Development Bank Co., Ltd., have been prepared, in all material aspects, in accordance with Accounting Standards for Business Enterprises, and present fairly the financial position of Shenzhen Development Bank Co., Ltd. as of 31 December 2010 and the results of its operations and its cash flows for year then ended.

Ernst & Young Hua Ming

Beijing, the People's Republic of China
24 February 2011

Chinese Certified Public Accountant:
Zhang Xiaodong

Chinese Certified Public Accountant:
Chang Hua

Balance Sheet

31 December 2010

In RMB'000

	Note III	2010-12-31	2009-12-31
ASSETS:			
Cash on hand and due from the Central Bank	1	76,586,858	54,243,952
Precious metals		2	3,302
Placements of deposits with other financial institutions	2	8,523,729	15,592,536
Funds loaned to other financial institutions	3	8,475,988	5,361,139
Financial assets at fair value through profit or loss	4	-	1,132,048
Derivative financial assets	5	371,734	99,996
Reverse repurchase agreements	6	98,263,433	40,923,396
Accounts receivables	7	13,727,415	4,782,161
Interest receivable	8	2,121,487	1,625,700
Loans and advances	9	400,966,075	355,562,545
Available-for-sale financial assets	10	31,534,183	36,998,409
Held-to-maturity investments	11	61,379,837	34,585,440
Receivables	12	18,502,100	30,427,100
Long term equity investments	13	404,390	392,705
Investment properties	14	539,805	523,846
Fixed assets	15	2,470,051	1,714,461
Intangible assets		191,580	156,788
Deferred tax assets	16	1,954,568	1,582,934
Other assets	17	1,596,833	2,102,576
TOTAL ASSETS		727,610,068	587,811,034
LIABILITIES:			
Due to the Central Bank		2,237,675	-
Placements of deposits from other financial institutions	19	82,370,060	74,139,673
Funds borrowed from other financial institutions	20	6,200,174	7,570,118
Derivative financial liabilities	5	311,805	21,540
Repurchase agreements	21	17,588,672	13,733,384
Customer deposits	22	562,912,342	454,635,208
Employee benefits payable	23	1,878,603	1,681,728
Tax payable	24	1,125,121	652,289
Accounts payables	25	5,120,818	850,881
Interest payable	26	3,920,073	2,682,162
Bonds payable	27	9,469,488	9,462,714
Provisions	28	3,047	3,358
Deferred tax liabilities	16	103,076	94,525
Other liabilities	29	856,238	1,813,845
TOTAL LIABILITIES		694,097,192	567,341,425
SHAREHOLDERS' EQUITY:			
Share capital	30	3,485,014	3,105,434
Capital reserve	31	13,396,943	7,017,072
Surplus reserve	32	1,912,339	1,283,957
General reserve	33	5,977,782	4,676,276
Unappropriated profit	34	8,740,798	4,386,870
TOTAL SHAREHOLDERS' EQUITY		33,512,876	20,469,609
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		727,610,068	587,811,034

The financial statements have been signed by:

Legal representative	President	Chief financial officer	Accounting manager
Xiao Suining	Richard Jackson	Chen Wei	Li Weiquan

Income Statement

For the year ended 31 December 2010

In RMB'000

	Note III	2010	2009
Operating income			
Interest income	35	26,251,790	21,985,512
Interest expense	35	(10,422,598)	(9,001,138)
Net interest income	35	15,829,192	12,984,374
Fee and commission income	36	1,836,376	1,386,972
Fee and commission expense	36	(251,234)	(206,188)
Net fee and commission income	36	1,585,142	1,180,784
Investment income	37	228,525	580,286
of which: Share of profits of associates		60,824	18,336
Gains or losses from changes in fair values of financial instruments	38	(19,071)	(49,190)
Gains from changes in fair values of investment properties		37,071	47,858
Net foreign exchange differences	39	213,921	241,623
Other operating income	40	147,498	128,705
Total operating income		18,022,278	15,114,440
Operating costs			
Business tax and surcharge	41	(1,324,595)	(1,069,134)
Business and administrative expenses	42	(7,360,012)	(6,311,091)
Total operating costs		(8,684,607)	(7,380,225)
Operating profit before impairment losses on assets		9,337,671	7,734,215
Impairment losses on assets	43	(1,488,116)	(1,575,088)
Operating profit		7,849,555	6,159,127
Add: Non-operating income		165,320	55,805
Less: Non-operating expenses		(16,854)	(24,395)
Profit before tax		7,998,021	6,190,537
Less: Income tax expense	44	(1,714,205)	(1,159,808)
Profit for the year		6,283,816	5,030,729
Earnings per share			
Basic earnings per share (Renminbi Yuan)	45	1.91	1.62
Diluted earnings per share (Renminbi Yuan)	45	1.91	1.62
Other comprehensive income for the year, net of tax	46	(147,977)	(961,910)
Total comprehensive income for the year, net of tax		6,135,839	4,068,819

Cash Flow Statement

For the year ended 31 December 2010

In RMB'000

	Note III	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net increase in amounts due to the Central Bank		2,218,199	-
Net increase in customer deposits and placements of deposits from other financial institutions		116,507,521	132,197,813
Net decrease in funds loaned to other financial institutions		-	1,263,609
Net increase in funds borrowed from other financial institutions		-	190,118
Net increase in accounts payable		4,269,937	343,398
Net decrease in reverse repurchase agreements		-	1,584,998
Net increase in repurchase agreements		3,701,753	-
Cash receipts from interest and fee and commission income		21,206,937	20,713,796
Cash receipts relating to other operating activities	48	3,069,659	1,459,726
Subtotal of cash inflows from operating activities		150,974,006	157,753,458
Net increase in loans and advances		46,575,944	76,230,806
Net increase in amounts due from the Central Bank and placements of deposits with other financial institutions		18,764,827	3,562,647
Net decrease in funds borrowed from other financial institutions		1,369,944	-
Net increase in funds loaned to other financial institutions		974,193	-
Net increase in accounts receivables		8,945,254	3,422,569
Net increase in reverse repurchase agreements		33,937,324	-
Net decrease in repurchase agreements		-	25,182,731
Cash payments for interest and fee and commission expenses		8,579,821	9,019,496
Cash payments for salaries and staff expenses		3,747,634	2,913,635
Cash payments for taxes		2,885,964	2,602,116
Cash payments relating to other operating activities	49	3,446,806	2,625,847
Subtotal of cash outflows from operating activities		129,227,711	125,559,847
Net cash flows generated from operating activities		21,746,295	32,193,611
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash receipts from investments upon disposal/maturity		110,133,550	139,269,639
Cash receipts from investment income		3,275,000	2,490,274
Cash receipts from disposal of fixed assets		9,954	672
Subtotal of cash inflows from investing activities		113,418,504	141,760,585
Cash payments for investments		127,241,139	156,416,547
Cash payments for fixed assets, intangible assets, construction in progress and leasehold improvements		837,901	985,252
Subtotal of cash outflows from investing activities		128,079,040	157,401,799
Net cash flows used in investing activities		(14,660,536)	(15,641,214)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from issue of shares		6,931,130	-
Cash receipts from bond issue		-	1,500,000
Subtotal of cash inflows from financing activities		6,931,130	1,500,000
Cash payments for dividend distribution and bond interest		548,862	463,562
Cash payments for bond issue		-	9,810
Cash payments for issue of shares		23,702	-
Subtotal of cash outflows from financing activities		572,564	473,372
Net cash flows generated from financing activities		6,358,566	1,026,628

In RMB'000

	Note III	2010	2009
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		13,444,325	17,579,025
Add: Cash and cash equivalents at beginning of the year		54,703,483	37,124,458
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	47	68,147,808	54,703,483

SUPPLEMENTARY INFORMATION

In RMB'000

	Note III	2010	2009
Adjustment of profit for the year to cash flows generated from operating activities:			
Profit for the year		6,283,816	5,030,729
Impairment losses on assets		1,488,116	1,575,088
Interests related to unwinding of discounts of provisions for impaired financial assets		(68,905)	(109,510)
Depreciation of fixed assets		322,211	264,134
Amortisation of intangible assets		52,458	36,032
Amortisation of long term deferred expenses		117,783	91,732
Losses/(gains) on disposal of fixed assets		(602)	(289)
Losses/(gains) from changes in fair values of financial instruments		19,071	49,190
Losses/(gains) from changes in fair values of investment properties		(37,071)	(47,858)
Interest on investment securities and investment income		(3,243,965)	(3,093,826)
Decrease/ (increase) in deferred tax assets		(329,069)	228,882
Increase / (decrease) in deferred tax liabilities		9,073	(10,972)
Interest paid on bonds		555,945	520,356
Increase in operating receivables		(110,151,738)	(79,510,412)
Increase in operating payables		126,727,703	107,173,843
Increase/(decrease) in provisions		1,469	(3,508)
Net cash flows generated from operating activities		21,746,295	32,193,611
Net increase in cash and cash equivalents:			
Cash at end of the year	47	836,549	779,169
Less:Cash at beginning of the year		779,169	981,859
Add:Cash equivalents at end of the year	47	67,311,259	53,924,314
Less:Cash equivalents at beginning of the year		53,924,314	36,142,599
Net increase in cash and cash equivalents		13,444,325	17,579,025

Statement of Changes In Shareholders' Equity

For the year ended 31 December 2010

In RMB'000

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

In RMB'000

2009	Note III	Share capital	Capital reserve	Of which: Cumulative changes in fair value of available-for-sale financial assets	Of which: Revaluation surplus on owner-occupied properties transferred to investment properties	Surplus reserve	General reserve	Unappropriated profit	Total
I. At 1 January 2009		3,105,434	7,978,982	1,002,795	13,043	780,885	3,583,296	952,193	16,400,790
II. Movements in the year									
(i) Profit for the year		-	-	-	-	-	-	5,030,729	5,030,729
(ii) Other comprehensive income	46	-	(961,910)	(982,296)	27,987	-	-	-	(961,910)
Subtotal of (i) and (ii)		-	(961,910)	(982,296)	27,987	-	-	5,030,729	4,068,819
(iii) Profit appropriation									
1. Appropriation to surplus reserve	34	-	-	-	-	503,072	-	(503,072)	-
2. Appropriation to general reserve	34	-	-	-	-	-	1,092,980	(1,092,980)	-
III. At 31 December 2009		3,105,434	7,017,072	20,499	41,030	1,283,957	4,676,276	4,386,870	20,469,609

Notes To The Financial Statements

I. General Information

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

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

The Company is principally engaged in authorised commercial and retail banking activities in Mainland China.

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

The financial statements were approved and authorised for issue by the board of directors on 24 February 2011.

II. Summary of Significant Accounting Policies And Accounting Estimates

1. Basis of preparation

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

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

2. Statement of compliance

The financial statements have been prepared in accordance with ASBEs and present fairly the financial position of the Company as at 31 December 2010 and the results of its operation and its cash flows for the year ended 31 December 2010.

3. Accounting year

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

4. Functional currency

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

5. Basis of accounting and measurement

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

6. Foreign currency translation

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

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

7. Precious metals

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

8. Reverse repurchase and repurchase agreements

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

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.

II. Summary of Significant Accounting Policies And Accounting Estimates (continued)

9. Financial assets

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

Financial assets at fair value through profit or loss

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

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

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

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

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

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

Held-to-maturity investments

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

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

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

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

Loans and receivables

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

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

II. Summary of Significant Accounting Policies And Accounting Estimates (continued)

9. Financial assets (continued)

Available-for-sale financial assets

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

10. Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Financial assets carried at cost

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

Available-for-sale financial assets

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

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

II. Summary of Significant Accounting Policies And Accounting Estimates (continued)

11. Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

Financial guarantee contracts

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

Other financial liabilities

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

12. Recognition and derecognition of financial instruments

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

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

(i) the contractual rights to the cash flows from the financial asset expire; or

(ii) the financial asset has been transferred and the transfer qualifies for derecognition as set out below.

Transfer of financial assets

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

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

(ii) the Company retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient(s) in an arrangement that meets all of the following conditions:

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

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

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

(i) when the Company has not retained control of the financial asset, the financial asset is derecognised;

(ii) when the Company has retained control of the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the transferred financial asset and an associated liability is recognised.

Financial liabilities

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

II. Summary of Significant Accounting Policies And Accounting Estimates (continued)

13. Derivative financial instruments

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

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

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

14. Long term equity investments

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

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

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

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

Under the equity method, when the initial investment cost of a long term equity investment exceeds the Company's interest in the fair values of the investee's identifiable net assets at the acquisition date, no adjustment is made to the initial investment cost. When initial investment cost is less than the Company's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference is charged to profit or loss for the current period, and the cost of the long term equity investment is adjusted accordingly.

Under the equity method, after acquiring a long term equity investment, the Company recognises its share of the net profits or losses made by the investee as investment income or losses, and adjusts the carrying amount of the investment accordingly. The carrying amount of the investment is reduced by the portion of any profit distributions or cash dividends declared by the investee that is attributed to the Company. The Company shall discontinue recognising its share of net losses of the investee after the carrying amount of the long term equity investment together with any long term interest that in substance form part of the investor's net investment in the investee are reduced to zero, except to the extent that the Company has incurred obligations to assume additional losses. The Company shall adjust the carrying amount of the long term investment for other changes in owners' equity of the investee (other than net profits or losses), and include the corresponding adjustment in other comprehensive income.

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

For a long term equity investment accounted for using the cost method and which is not quoted in an active market and its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The impairment loss is recognised in the income statement in "Impairment losses on assets" and shall not be reversed. For long term equity investments accounted for using the equity method, any impairment is accounted for in accordance with the accounting policy set out in Note III.18.

15. Investment properties

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

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

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

II. Summary of Significant Accounting Policies And Accounting Estimates (continued)

16. Fixed assets and accumulated depreciation

(i) Recognition of fixed assets

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

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

(ii) Measurement and depreciation of fixed assets

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

Depreciation is calculated using the straight-line method. The Company reasonably determines the useful lives and estimated net residual values of the fixed assets according to the natures and use patterns of the fixed assets as follows:

	Useful life	Estimated net residual value	Annual depreciation rate
Properties and buildings	30 years	1%	3.3%
Transportation vehicles	6 years	3%	16.2%
Computers	3 or 5 years	1%	33.0% or 19.8%
Electronic appliances	5 or 10 years	1%	19.8% or 9.9%
Automatic teller machines	5 years	1%	19.8%
Owner-occupied property improvements	5 or 10 years	-	20.0% or 10.0%

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

17. Construction in progress

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

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

18. Intangible assets

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

An intangible asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. The Company analyses and assesses the useful life of an intangible asset on its acquisition. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Company.

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

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

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

19. Long term deferred expenses

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

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

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

II. Summary of Significant Accounting Policies And Accounting Estimates (continued)

20. Impairment of assets

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

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

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The Company estimates the recoverable amount of an asset on an individual basis.

If the result of the recoverable amount calculation indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to profit or loss for the period. A provision for impairment loss of the asset is recognised accordingly.

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

21. Repossessed assets

Repossessed assets are initially recognised at fair value. The difference between the initial fair value and the sum of the related loan principal, interest receivable and impairment provision is taken into the income statement. At the balance sheet date, the repossessed assets are measured at the lower of their carrying value and net realisable value. When the carrying value of the repossessed assets is higher than the net realisable value, a provision for the decline in value of repossessed assets is recognised in the income statement in "Impairment losses on assets".

22. Recognition of income and expense

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

Interest income and interest expense

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

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

Fee and commission income

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

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

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

(ii) Fee income from providing transaction services

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

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

Dividend income

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

II. Summary of Significant Accounting Policies And Accounting Estimates (continued)

23. Income tax

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

Current income tax

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

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

Deferred tax

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

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

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

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

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

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

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

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

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

24. Employee benefits

Short term employee benefits

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

Defined contribution plans

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

Supplementary retirement benefits

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

II. Summary of Significant Accounting Policies And Accounting Estimates (continued)

24. Employee benefits (continued)

Share-based payment transactions

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

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

25. Definition of cash equivalents

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

26. Related parties

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

27. Fiduciary activities

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

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

28. Leases

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

As a lessee under operating leases

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

As a lessor under operating leases

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

29. Contingent liabilities

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

II. Summary of Significant Accounting Policies And Accounting Estimates (continued)

30. Provisions

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

(i) the obligation is a present obligation of the Company;

(ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and

(iii) the amount of the obligation can be measured reliably.

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

31. Trade date accounting

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

32. Offsetting

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

33. Dividends

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

34. Debts restructuring

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

As a creditor

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

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

35. Significant accounting judgements and estimates

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

(a) Designation of held-to-maturity investments

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

II. Summary of Significant Accounting Policies And Accounting Estimates (continued)

35. Significant accounting judgements and estimates (continued)

(b) Impairment losses of loans and advances

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

(c) Income tax

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

(d) Fair value of financial instruments

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

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

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

36. Taxes

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

Tax	Basis of tax assessment	Tax rate
Business Tax	Business income (not including interest income from transactions with financial institutions)	5%
City Maintenance and Construction Tax	Amount of business tax	1% to 7%
Corporate Income Tax	Amount of taxable income	22%, 25%

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS

1. Cash on hand and due from the Central Bank

In RMB'000	2010-12-31	2009-12-31
Cash on hand	836,549	779,169
Statutory reserve with the Central Bank - RMB	61,766,745	38,650,469
Statutory reserve with the Central Bank - foreign currency	809,165	327,335
Unrestricted balance with the Central Bank	12,798,567	14,354,511
Other deposits with the Central Bank - fiscal deposits	375,832	132,468
Total	76,586,858	54,243,952

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

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

2. Placements of deposits with other financial institutions

Analysed by location and counterparty

In RMB'000	2010-12-31	2009-12-31
Domestic banks	7,119,595	14,074,591
Other domestic financial institutions	45,280	42,222
Overseas banks	1,389,549	1,516,418
Subtotal	8,554,424	15,633,231
Less: Impairment provision (Note III.18)	(30,695)	(40,695)
Total	8,523,729	15,592,536

As at 31 December 2010, included in this total amount of placements of deposits with other financial institutions was an amount of RMB31,520 thousand (31 December 2009: RMB41,520 thousand) impaired assets.

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

3. Funds loaned to other financial institutions

Analysed by location and counterparty

In RMB'000	2010-12-31	2009-12-31
Domestic banks	1,580,636	1,204,596
Other domestic financial institutions	2,782,626	533,393
Overseas banks	4,142,056	3,653,129
Subtotal	8,505,318	5,391,118
Less: Impairment provision (Note III.18)	(29,330)	(29,979)
Total	8,475,988	5,361,139

As at 31 December 2010, included in this total amount of loans funded to other financial institutions was an amount of RMB32,626 thousand (31 December 2009: RMB33,393 thousand) impaired assets.

4. Financial assets at fair value through profit or loss

In RMB'000	2010-12-31	2009-12-31
Bonds held for trading	-	1,132,048
Bond investments analysed by issuer:		
Policy banks	-	1,132,048

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

5. Derivative financial instruments

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

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

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

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

In RMB'000

	2010-12-31					
	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	23,821,327	23,318,315	395,376	47,535,018	343,972	(291,069)
Interest rate derivative instruments:						
Interest rate swap contracts	-	100,000	2,200,000	2,300,000	27,762	(20,736)
Total	23,821,327	23,418,315	2,595,376	49,835,018	371,734	(311,805)

In RMB'000

	2009-12-31					
	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	9,599,495	9,634,913	682,660	19,917,068	71,142	(19,448)
Interest rate derivative instruments:						
Interest rate swap contracts	-	-	800,000	800,000	28,854	-
Equity derivative instruments:						
Equity option contracts	-	93,356	-	93,356	-	(337)
Equity swap contracts	-	93,356	-	93,356	-	(1,755)
Total	9,599,495	9,821,625	1,482,660	20,903,780	99,996	(21,540)

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

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

6. Reverse repurchase agreements

(a) Analysed by counterparty

In RMB'000

	2010-12-31	2009-12-31
Banks	97,525,239	40,152,396
Non-bank financial institutions	773,194	806,000
Subtotal	98,298,433	40,958,396
Less: Impairment provisions (Note III.18)	(35,000)	(35,000)
Total	98,263,433	40,923,396

As at 31 December 2010, included in this total amount of reverse repurchase agreements was an amount of RMB50 million (31 December 2009: RMB50 million) impaired assets.

(b) Analysed by collateral

In RMB'000

	2010-12-31	2009-12-31
Securities	250,000	50,000
Bills	97,525,239	40,152,396
Loans	-	150,000
Receivables under finance leases	523,194	606,000
Subtotal	98,298,433	40,958,396
Less:Impairment provisions (Note III.18)	(35,000)	(35,000)
Total	98,263,433	40,923,396

(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:

In RMB'000

	2010-12-31		2009-12-31	
	Amount of reverse repurchase agreements	Fair value of Collateral	Amount of reverse repurchase agreements	Fair value of Collateral
Bills	59,788,125	59,788,125	21,994,768	21,994,768

As at 31 December 2010, included in the above fair value of collateral were bills of RMB9,830,370 thousand (31 December 2009: Nil) that had been re-pledged and the Company had an obligation to return such collateral.

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

7. Accounts receivables

In RMB'000

	2010-12-31	2009-12-31
Receivables with respect to making payments on behalf of customers (Note)	7,388,795	3,169,088
Receivables under factoring	3,960,733	676,502
Receivables with respect to making payments on behalf of other banks	1,874,992	491,328
Receivables under discounted bills	502,895	445,243
Total	13,727,415	4,782,161

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

As at 31 December 2010 and 31 December 2009, no impairment provision was made for the above outstanding balances of accounts receivables.

8. Interest receivable

In RMB'000

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

In RMB'000

	2009			
	Balance at beginning of the year	Increase during the year	Collection during the year	Balance at end of the year
Interest receivable on bond investments and wealth management products	860,227	2,543,910	(2,488,368)	915,769
Interest receivable on loans and amounts due from other financial institutions	745,409	16,457,852	(16,493,330)	709,931
Total	1,605,636	19,001,762	(18,981,698)	1,625,700

As at 31 December 2010, included in the interest receivable was an amount of RMB12,334 thousand (31 December 2009: RMB7,305 thousand) that is past due. Such interest receivables are related to interest income on loans and are aged within 90 days.

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

9. Loans and advances

9.1 Analysed by corporation and individual

In RMB'000

	2010-12-31	2009-12-31
Loans and advances to corporations:		
Loans	268,653,156	216,593,743
Discounted bills	18,646,560	45,285,528
Subtotal	287,299,716	261,879,271
Loans and advances to individuals:		
Credit cards	6,340,541	4,750,620
Property mortgages	102,372,046	85,800,764
Others	11,378,832	7,086,758
Subtotal	120,091,419	97,638,142
Total loans and advances	407,391,135	359,517,413
Less: Loan impairment provisions (Note III.9.6)	(6,425,060)	(3,954,868)
Loans and advances, net	400,966,075	355,562,545

As at 31 December 2010, included in the discounted bills was an amount of RMB1,305,932 thousand (31 December 2009: Nil) that had been pledged for amounts due to the Central Bank.

As at 31 December 2010, included in the loans was an amount of RMB2,572,000 thousand (31 December 2009: Nil) that had been pledged for repurchase agreements.

As at 31 December 2010, there were no discounted bills (31 December 2009: RMB5,260,731 thousand) that had been pledged for repurchase agreements.

In addition, as at 31 December 2010, the Company transferred out (without recourse) discounted bills amounting to RMB86 billion (31 December 2009: RMB56.5 billion) that had not yet matured at the year end.

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

9. Loans and advances (continued)

9.2 Analysed by industry

In RMB'000

	2010-12-31	2009-12-31
Agriculture, husbandry and fisheries	829,002	590,000
Extraction (Heavy industry)	4,206,075	3,523,490
Manufacturing (Light industry)	83,680,778	59,974,269
Energy	12,574,110	8,000,990
Transportation, storage and communication	20,287,842	17,405,390
Commercial	55,195,669	36,069,931
Real estate	22,527,322	23,254,621
Service, technology, culture and sanitary industries	48,328,221	52,516,681
Construction	18,277,064	13,405,329
Discounted bills	18,646,560	45,285,528
Loans and advances to individuals	120,091,419	97,638,142
Others	2,747,073	1,853,042
Total loans and advances	407,391,135	359,517,413
Less: Loan impairment provisions (Note III.9.6)	(6,425,060)	(3,954,868)
Loans and advances, net	400,966,075	355,562,545

9.3 Analysed by type of collateral held or other credit enhancement

In RMB'000

	2010-12-31	2009-12-31
Unsecured	73,941,051	64,776,195
Guaranteed	84,903,049	66,303,241
Secured by collateral	229,900,475	183,152,449
Of which:secured by mortgages	185,885,620	156,820,843
secured by monetary assets	44,014,855	26,331,606
Subtotal	388,744,575	314,231,885
Discounted bills	18,646,560	45,285,528
Total loans and advances	407,391,135	359,517,413
Less: Loan impairment provisions (Note III.9.6)	(6,425,060)	(3,954,868)
Loans and advances, net	400,966,075	355,562,545

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

9. Loans and advances (continued)

9.4 Aging analysis of past due loans

In RMB'000

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

In RMB'000

	2009-12-31				
	Overdue by 1 to 90 days, inclusive	Overdue by 90 days to 1 year, inclusive	Overdue by 1 to 3 years, inclusive	Overdue by more than 3 years	Total
Unsecured	173,864	80,390	190	-	254,444
Guaranteed	28,237	278,579	84,564	63,288	454,668
Secured by collateral	1,458,413	455,196	927,866	573,478	3,414,953
Of which: secured by mortgages	1,432,051	388,525	597,893	434,730	2,853,199
secured by monetary assets	26,362	66,671	329,973	138,748	561,754
Total	1,660,514	814,165	1,012,620	636,766	4,124,065

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

9.5 Analysed by geographical region

In RMB'000

	2010-12-31	2009-12-31
Southern and Central China	124,556,533	110,844,053
Eastern China	149,627,501	128,154,646
Northern and North-eastern China	97,820,853	91,587,937
South-western China	32,639,175	27,084,283
Offshore businesses	2,747,073	1,846,494
Total loans and advances	407,391,135	359,517,413
Less：Loan impairment provisions (Note III.9.6)	(6,425,060)	(3,954,868)
Loans and advances, net	400,966,075	355,562,545

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

9. Loans and advances (continued)

9.6 Movements in impairment provisions for loans and advances

In RMB'000

	2010			2009		
	Individual	Collective	Total	Individual	Collective	Total
Balance at beginning of the year	994,935	2,959,933	3,954,868	481,327	1,545,352	2,026,679
Charge/(reversal) for the year	(928,082)	2,402,545	1,474,463	9,802	1,430,750	1,440,552
Amounts written off	(12,111)	(201,088)	(213,199)	-	(175,017)	(175,017)
Reversal for the year:						
Add-back of loans written off previously	-	-	-	356,235	-	356,235
Recovery of loans written off previously	1,147,353	137,199	1,284,552	514,312	158,848	673,160
Amounts released upon disposal of loans	-	-	-	(302,717)	-	(302,717)
Interest accrued on impaired loans and advances	(68,905)	-	(68,905)	(109,510)	-	(109,510)
Other changes for the year	(6,719)	-	(6,719)	45,486	-	45,486
Balance at end of the year (Note III.18)	1,126,471	5,298,589	6,425,060	994,935	2,959,933	3,954,868

10. Available-for-sale financial assets

In RMB'000

	2010-12-31	2009-12-31
Bond investments analysed by issuer:		
Governments and the Central Bank	7,767,220	17,205,253
Policy banks	22,526,040	18,192,544
Other banks and non-bank financial institutions	677,160	634,433
Corporations	530,928	889,933
Total bond investments	31,501,348	36,922,163
Equity investments	32,835	76,246
Total	31,534,183	36,998,409

As at 31 December 2010, there were no bond investments (31 December 2009: RMB5,319,856 thousand) that had been pledged for repurchase agreements. As at 31 December 2010, there are no bond investments (31 December 2009: RMB1,269,572 thousand) that had been pledged for agreements of time deposit from the PBOC.

As at 31 December 2010, there were RMB2,715 thousand restricted tradable available-for-sale financial assets. As at 31 December 2009, included in the available-for-sale financial assets were restricted tradable shares of RMB7,343 thousand.

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

11. Held-to-maturity investments

In RMB'000

	2010-12-31	2009-12-31
Bond investments analysed by issuer:		
Governments and the Central Bank	22,010,366	11,610,040
Policy banks	28,613,269	13,758,516
Other banks and non-bank financial institutions	2,739,149	2,924,145
Corporations	8,017,053	6,292,739
Total	61,379,837	34,585,440

As at 31 December 2010, included in the bond investments were amounts of RMB598,218 thousand (31 December 2009: RMB8,777,992 thousand) and RMB6,177,996 thousand (31 December 2009: RMB1,208,175 thousand) that had been pledged for agreements of time deposit from the PBOC and repurchase agreements, respectively.

12. Receivables

In RMB'000

	2010-12-31	2009-12-31
PBOC bills	-	13,450,000
Subordinated bonds issued by financial institutions	500,000	500,000
Principal guaranteed wealth management products issued by banks	18,002,100	16,477,100
Total	18,502,100	30,427,100

As at 31 December 2010, there were no receivables (31 December 2009: RMB2,000,000 thousand) that had been pledged for repurchase agreements.

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

13. Long term equity investments

In RMB'000

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

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

13. Long term equity investments (continued)

In RMB'000

Name of investee	2009 Initial cost of investment	Balance at beginning of the year	Movements	Balance at end of the year	Percentage of equity held by the Company (%)	Percentage of voting right held by the Company (%)	Provision charged for the year	Impairment provisions (Note III.18)	Net balance at end of the year
Cost method:									
China UnionPay Co., Ltd.	50,000	50,000	-	50,000	1.71%	1.71%	-	-	50,000
Gintian Industry (Group) Co., Ltd.	9,662	9,662	-	9,662	2.03%	2.03%	-	(9,662)	-
Hainan Pearl River Holdings Co., Ltd.	9,650	9,650	-	9,650	0.27%	0.27%	-	(9,650)	-
Hainan Wuzhou Travel Co., Ltd.	5,220	5,220	-	5,220	3.70%	3.70%	-	(5,220)	-
Meizhou Polyester (Group) Co.	1,100	1,100	-	1,100	0.41%	0.41%	-	(1,100)	-
Shenzhen Zoto Investment Co.,Ltd.	2,500	2,500	-	2,500	4.10%	4.10%	-	-	2,500
Hainan Junhe Travel Co., Ltd.	2,800	2,800	(2,800)	-	-	-	-	-	-
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 Zhuxin Investment Co., Ltd.	500	500	(500)	-	-	-	-	-	-
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	230	454	684	0.03%	0.00%	-	-	684
Yong An Property Insurance Co., Ltd.	67,000	67,000	-	67,000	4.03%	4.03%	(28,530)	(67,000)	-
Wuhan Steel Electricity Co., Ltd.	32,175	32,175	-	32,175	3.37%	3.37%	-	-	32,175
Founder Securities Co., Ltd.	4,283	4,283	(4,283)	-	-	-	-	-	-
Chengdu Unionfriend Network Co. Ltd.	20,000	20,000	-	20,000	14.13%	14.13%	-	-	20,000
Subtotal	225,799	225,345	(7,129)	218,216			(28,530)	(112,857)	105,359
Equity method:									
Associates									
Chengdu Gongtou Assets Management Co., Ltd.	259,836	269,065	10,735	279,800	33.20%	33.20%	-	(20,000)	259,800
Shandong Xinkaiyuan Real Estate Co., Ltd.	30,607	30,607	-	30,607	15.42%	15.42%	(3,061)	(3,061)	27,546
Subtotal	290,443	299,672	10,735	310,407			(3,061)	(23,061)	287,346
Total	516,242	525,017	3,606	528,623			(31,591)	(135,918)	392,705

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

13. Long term equity investments (continued)

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

In RMB'000	2010			
	Balance at beginning of the year	Charge for the year	Amounts released upon disposal of assets	Balance at end of the year
Chengdu Gongtou Assets Management Co., Ltd.	20,000	-	-	20,000
Yong An Property Insurance Co., Ltd.	67,000	-	-	67,000
Others	48,918	-	-	48,918
Total	135,918	-	-	135,918

In RMB'000	2009			
	Balance at beginning of the year	Charge for the year	Amounts released upon disposal of assets	Balance at end of the year
Chengdu Gongtou Assets Management Co., Ltd.	20,000	-	-	20,000
Yong An Property Insurance Co., Ltd.	38,470	28,530	-	67,000
Others	49,157	3,061	(3,300)	48,918
Total	107,627	31,591	(3,300)	135,918

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

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

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

13. Long term equity investments (continued)

In RMB'000	2009							
			Movements in equity			Impairment provision		
	cost of investment	Balance at beginning of the year	Share of profit for the year	Movement in other comprehensive income (Note III.46)	Cash dividend received	Charge for the year	Accumulated balance	Balance at end of the year
Chengdu Gongtou Assets Management Co., Ltd. (Note 1)	259,836	249,065	18,336	(7,601)	-	-	(20,000)	259,800
Shandong Xinkaiyuan Real Estate Co., Ltd. (Note 2)	30,607	30,607	-	-	-	(3,061)	(3,061)	27,546
Total	290,443	279,672	18,336	(7,601)	-	(3,061)	(23,061)	287,346

Note: 1. At 30 January 2008, the Company obtained 33.2% of the shareholding of Chengdu Gongtou Assets Management Co., Ltd. as repossessed assets.
2. At 18 August 2008, the Company obtained 15.42% of the shareholding of Shandong Xinkaiyuan Real Estate Co., Ltd. as repossessed assets. The Company has appointed a representative at the board of the investee and has significant influence over the investee.

The key financial information of the associates is as follows:

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

In RMB'000	2010-12-31		2010	
	Total assets	Total liabilities	Operating income	Net profit (Note)
Chengdu Gongtou Assets Management Co., Ltd.	1,385,767	467,642	114,434	115,053
Shandong Xinkaiyuan Real Estate Co., Ltd.	634,548	459,741	-	(23,086)

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

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

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

14. Investment properties

In RMB'000

	2010-12-31	2009-12-31
Balance at beginning of the year	523,846	411,690
Purchase during the year	-	54,306
Fair value changes recognised in profit or loss	37,071	47,858
Transfer in/(out) during the year, net	(21,112)	9,992
Balance at end of the year	539,805	523,846

The Company's investment properties are mainly properties and buildings, which are rented to third parties under operating leases. The investment properties are situated in locations where there are active property markets and the fair value of the investment properties can be reliably determinable on a continuing basis. Accordingly, management decided to adopt the fair value model for subsequent measurement of the investment properties, which are valued by independent professionally qualified valuers on, at least, an annual basis. The revaluation as at 31 December 2010 was performed by Shenzhen Guozi Land and Real Estate Valuation Co., Ltd. In connection with this, the valuation was carried out by qualified persons who are members of the Shenzhen Institute of Real Estate Appraisers.

As at 31 December 2010, included in the investment properties was an amount of RMB29,937 thousand (31 December 2009: RMB23,322 thousand) that did not have the corresponding registration certificates of property rights.

The gross rental income earned from the investment properties during the year amounted to RMB42,732 thousand (2009: RMB40,086 thousand). The total direct operating expense (including repairs and maintenance expenses) for the investment properties, with or without rental income generated during the year, was RMB2,479 thousand (2009: RMB2,907 thousand).

15. Fixed assets

In RMB'000

	2010				
At cost:	Balance at beginning of the year	Additions	Transfer from construction in progress	Subtraction	Balance at end of the year
Properties and buildings	1,552,298	50,007	591,512	(27,786)	2,166,031
Transportation vehicles	84,150	13,291	-	(13,889)	83,552
Computers	578,218	108,023	2,748	(35,246)	653,743
Electronic appliances	489,283	107,704	47,270	(20,313)	623,944
Automatic teller machines	281,469	24,388	-	(14,357)	291,500
Owner-occupied property improvements	370,896	25,030	132,078	(6,380)	521,624
Total	3,356,314	328,443	773,608	(117,971)	4,340,394

Accumulated depreciation:	Balance at beginning of the year	Additions	Accrual	Subtraction	Balance at end of the year
Properties and Buildings	494,463	-	66,093	(10,599)	549,957
Transportation vehicles	51,403	-	8,618	(12,991)	47,030
Computers	380,626	-	99,056	(34,190)	445,492
Electronic appliances	263,923	-	71,961	(18,154)	317,730
Automatic teller machines	159,986	-	40,037	(14,169)	185,854
Owner-occupied property improvements	285,163	-	36,446	(3,618)	317,991
Total	1,635,564	-	322,211	(93,721)	1,864,054
Less: Impairment provision (Note III.18)	(6,289)				(6,289)
Net book value	1,714,461				2,470,051

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

15. Fixed assets (continued)

In RMB'000

	2009				
At cost:	Balance at beginning of the year	Additions	Transfer from construction in progress	Subtraction	Balance at end of the year
Properties and buildings	1,538,502	43,921	-	(30,125)	1,552,298
Transportation vehicles	82,794	13,687	-	(12,331)	84,150
Computers	540,963	77,397	172	(40,314)	578,218
Electronic appliances	368,692	119,464	30,845	(29,718)	489,283
Automatic teller machines	259,613	36,661	589	(15,394)	281,469
Owner-occupied property improvements	335,628	14,480	22,393	(1,605)	370,896
Total	3,126,192	305,610	53,999	(129,487)	3,356,314

Accumulated depreciation:	Balance at beginning of the year	Additions	Accrual	Subtraction	Balance at end of the year
Properties and Buildings	455,371	-	53,386	(14,294)	494,463
Transportation vehicles	55,446	-	7,288	(11,331)	51,403
Computers	333,320	-	52,700	(5,394)	380,626
Electronic appliances	203,296	-	87,148	(26,521)	263,923
Automatic teller machines	135,349	-	39,760	(15,123)	159,986
Owner-occupied property improvements	262,197	-	23,852	(886)	285,163
Total	1,444,979	-	264,134	(73,549)	1,635,564
Less: Impairment provision (Note III.18)	(6,289)				(6,289)
Net book value	1,674,924				1,714,461

As at 31 December 2010, the original cost and net book value of properties and buildings amounting to RMB330,810 thousand (31 December 2009: RMB140,603 thousand) and RMB281,104 thousand (31 December 2009: RMB83,033 thousand) respectively, are in use by the Company without having the registration certificates of property rights. Among these properties and buildings, the certificate of Tianjin branch building (with an original cost and net book value of RMB217,959 thousand and RMB215,562 thousand respectively) is in progress and is expected to be completed in mid 2011.

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

16. Deferred tax assets/liabilities

In RMB'000

	2010			
	Balance at beginning of the year	Recognised in profit or loss (Note III.44)	Recognised in other comprehensive income (Note III.46)	Balance at end of the year
Deferred tax assets				
Impairment provisions	1,492,006	25,486	-	1,517,492
Salaries and bonuses	67,522	284,694	-	352,216
Changes in fair values of available-for-sale financial assets	-	-	42,565	42,565
Others	23,406	18,889	-	42,295
Subtotal	1,582,934	329,069	42,565	1,954,568
Deferred tax liabilities				
Changes in fair values of financial instruments at fair value through profit or loss and derivative financial instruments	(18,680)	3,255	-	(15,425)
Changes in fair values of available-for-sale financial assets	(6,106)	-	6,106	-
Changes in fair values of investment properties and revaluation surplus on owner-occupied properties transferred to investment properties	(69,739)	(12,328)	(5,584)	(87,651)
Subtotal	(94,525)	(9,073)	522	(103,076)
Net amount	1,488,409	319,996	43,087	1,851,492

In RMB'000

	2009			
	Balance at beginning of the year	Recognised in profit or loss (Note III.44)	Recognised in other comprehensive income (Note III.46)	Balance at end of the year
Deferred tax assets				
Impairment provisions	1,742,460	(250,454)	-	1,492,006
Salaries and bonuses	21,600	45,922	-	67,522
Others	47,756	(24,350)	-	23,406
Subtotal	1,811,816	(228,882)	-	1,582,934
Deferred tax liabilities				
Changes in fair values of financial instruments at fair value through profit or loss and derivative financial instruments	(46,585)	27,905	-	(18,680)
Changes in fair values of available-for-sale financial assets	(251,248)	-	245,142	(6,106)
Changes in fair values of investment properties and revaluation surplus on owner-occupied properties transferred to investment properties	(43,846)	(16,933)	(8,960)	(69,739)
Subtotal	(341,679)	10,972	236,182	(94,525)
Net amount	1,470,137	(217,910)	236,182	1,488,409

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

17. Other assets

(a) Analyzed by nature

In RMB'000

	2010-12-31	2009-12-31
Prepayments (Note III.17b)	137,907	118,255
Prepaid legal expenses (Note III.17c)	64,045	68,697
Repossessed assets (Note III.17d)	630,116	1,028,124
Construction in progress (Note III.17e)	194,586	673,587
Receivable of bills due from other banks	3,796	1,977
Receivable of deferred consumption payments	336,457	141,141
Long term deferred expenses (Note III.17f)	489,385	429,279
Others (Note III.17g)	158,120	156,885
Total other assets	2,014,412	2,617,945
Less: Impairment provisions:		
Prepaid legal expenses (Note III.17c)	(56,080)	(61,636)
Repossessed assets (Note III.17d)	(258,185)	(360,961)
Others (Note III.17g)	(103,314)	(92,772)
Total impairment provisions	(417,579)	(515,369)
Other assets, net	1,596,833	2,102,576

(b) Aging analysis of prepayments

In RMB'000

	2010-12-31		2009-12-31	
	Amount	Percentage	Amount	Percentage
Less than 1 year	88,661	64.29%	77,536	65.57%
1 to 2 years	11,657	8.45%	15,768	13.33%
2 to 3 years	14,672	10.64%	6,178	5.22%
Over 3 years	22,917	16.62%	18,773	15.88%
Total	137,907	100.00%	118,255	100.00%

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

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

17. Other assets (continued)

(c) Prepaid legal expenses

In RMB'000

	2010-12-31				2009-12-31			
	Carrying amount		Impairment provision		Carrying amount		Impairment provision	
	Amount	Percentage	Amount	Coverage	Amount	Percentage	Amount	Coverage
Individual assessment	59,237	92.49%	(52,343)	88.36%	63,071	91.81%	(58,155)	92.21%
Collective assessment:								
Aging less than 1 year	2,269	3.55%	(1,256)	55.35%	2,865	4.17%	(956)	33.37%
Aging between 1 and 2 years	1,271	1.98%	(1,213)	95.44%	790	1.15%	(554)	70.13%
Aging between 2 and 3 years	438	0.68%	(438)	100.00%	522	0.76%	(522)	100.00%
Aging over 3 years	830	1.30%	(830)	100.00%	1,449	2.11%	(1,449)	100.00%
Subtotal	4,808	7.51%	(3,737)	77.72%	5,626	8.19%	(3,481)	61.87%
Total	64,045	100.00%	(56,080)	87.56%	68,697	100.00%	(61,636)	89.72%

(d) Repossessed assets

In RMB'000

	2010-12-31	2009-12-31
Land, properties and buildings	590,375	976,451
Others	39,741	51,673
Total	630,116	1,028,124
Less:Provision for decline in value (Note III.18)	(258,185)	(360,961)
Repossessed assets, net	371,931	667,163

During the year, the Company took possession of collateral held as security with a carrying amount of RMB120,858 thousand (2009: RMB404,393 thousand). The collateral mainly comprises buildings. During the year, the Company disposed of repossessed assets with their gross carrying value amounting to RMB518,866 thousand (2009: RMB313,572 thousand). The Company plans to dispose of the repossessed assets through auctions, bidding or transfers in the future.

(e) Construction in progress

In RMB'000

	2010-12-31	2009-12-31
Balance at beginning of the year	673,587	257,040
Additions during the year	437,470	592,473
Transfer to fixed assets	(773,608)	(53,999)
Transfer to intangible assets	(19,292)	(19,592)
Transfer to long-term deferred expenses	(123,571)	(102,335)
Balance at end of the year	194,586	673,587

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

17. Other assets (continued)

(e) Construction in progress (continued)

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

In RMB'000

	2010						
Project name	Budget amount	Balance at beginning of the year	Additions	Transfer out to fixed assets	Balance at end of the year	Percentage of budget incurred	Progress of project
Bank premises of Jinan Branch	210,000	-	175,330	-	175,330	83%	75%
Property development project for Information Technology Building of SDB	217,095	176,788	32,676	(209,464)	-	96%	100%
Bank premises of Tianjin Branch	268,548	197,504	48,587	(246,091)	-	92%	100%
Bank premises of Nanjing Branch (Hetai Building)	253,444	233,798	11,016	(244,814)	-	97%	100%

In RMB'000

	2009						
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
Property development project for Information Technology Building of SDB	217,095	-	176,788	-	176,788	81%	90%
Bank premises of Tianjin Branch	268,548	-	197,504	-	197,504	74%	10%
Bank premises of Nanjing Branch (Hetai Building)	253,444	215,444	18,354	-	233,798	92%	92%

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

(f) Long term deferred expenses

In RMB'000

	2010-12-31	2009-12-31
Balance at beginning of the year	429,279	355,458
Additions during the year	183,091	165,984
Amortisation during the year	(117,783)	(91,731)
Others	(5,202)	(432)
Balance at end of the year	489,385	429,279

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

17. Other assets (continued)

(g) Others

In RMB'000

	2010-12-31				2009-12-31			
	Carrying amount		Impairment provision		Carrying amount		Impairment provision	
	Amount	Percentage	Amount	Coverage	Amount	Percentage	Amount	Coverage
Individual assessment	117,179	74.11%	(95,144)	81.20%	145,776	92.92%	(92,611)	63.53%
Collective assessment:								
Aging less than 1 year	26,098	16.51%	(1,091)	4.18%	11,030	7.03%	(114)	1.03%
Aging between 1 and 2 years	6,031	3.81%	(208)	3.45%	-	-	-	-
Aging between 2 and 3 years	510	0.32%	(472)	92.55%	7	0.00%	(7)	100.00%
Aging over 3 years	8,302	5.25%	(6,399)	77.08%	72	0.05%	(40)	55.56%
Subtotal	40,941	25.89%	(8,170)	19.96%	11,109	7.08%	(161)	1.45%
Total	158,120	100.00%	(103,314)	65.34%	156,885	100.00%	(92,772)	59.13%

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

18. Impairment losses on assets

In RMB'000

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

In RMB'000

		2009								
	Note III	Balance at beginning of the year	Charge/(reversal) for the year (Note III.43)	Amounts written off	Add-back of loans written off previously	Recovery of assets written off previously	Amounts released upon disposal of assets	Interest accrued on impaired loans and advances	Other movements	Balance at end of the year
Provision for decline in value of precious metals		259	(181)	-	-	-	-	-	-	78
Impairment provision for placements of deposits with other financial institutions	2	40,695	-	-	-	-	-	-	-	40,695
Impairment provision for funds loaned to other financial institutions	3	29,079	(1,166)	-	-	1,774	-	-	292	29,979
Impairment provision for reverse repurchase agreements	6	29,000	6,000	-	-	-	-	-	-	35,000
Impairment provision for loans and advances	9.6	2,026,679	1,440,552	(175,017)	356,235	673,160	(302,717)	(109,510)	45,486	3,954,868
Impairment provision for long term equity investments	13	107,627	31,591	-	-	-	(3,300)	-	-	135,918
Provision for decline in value of repossessed assets	17d	319,480	88,861	-	-	-	(47,380)	-	-	360,961
Impairment provision for fixed assets	15	6,289	-	-	-	-	-	-	-	6,289
Impairment provision for other assets	17c & g	212,637	5,459	(64,340)	-	-	-	-	652	154,408
Total		2,771,745	1,571,116	(239,357)	356,235	674,934	(353,397)	(109,510)	46,430	4,718,196
Provision for financial guarantee contracts			3,972							
Total impairment losses			1,575,088							

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

19. Placements of deposits from other financial institutions

In RMB'000	2010-12-31	2009-12-31
Domestic banks	59,298,912	53,708,335
Domestic non-bank financial institutions	23,071,148	20,431,338
Total	82,370,060	74,139,673

20. Funds borrowed from other financial institutions

In RMB'000	2010-12-31	2009-12-31
Domestic banks	6,200,174	7,570,118

21. Repurchase agreements

In RMB'000	2010-12-31	2009-12-31
Analysed by collateral		
Securities	6,144,600	8,448,000
Bills	8,944,072	5,285,384
Loans	2,500,000	-
Total	17,588,672	13,733,384
Analysed by counterparty		
Banks	16,854,072	13,733,384
Non-bank financial institutions	734,600	-
Total	17,588,672	13,733,384

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

22. Customer deposits

In RMB'000	2010-12-31	2009-12-31
Current deposits:		
Corporate customers	142,599,994	116,998,653
Personal customers	33,028,210	27,243,974
Subtotal	175,628,204	144,242,627
Fixed deposits:		
Corporate customers	177,004,192	125,519,956
Personal customers	47,816,086	43,175,696
Subtotal	224,820,278	168,695,652
Guarantee deposits	143,372,603	121,671,280
Fiscal deposits	16,399,646	9,936,132
Time deposits from PBOC	470,000	8,320,000
Inward and outward remittances	2,221,611	1,769,517
Total	562,912,342	454,635,208

23. Employee benefits payable

In RMB'000	2010			
	Balance at beginning of the year	Increase during the year	Payment made during the year	Balance at end of the year (Note 2)
Salaries, bonuses, allowances and subsidies	1,419,343	3,070,266	(2,942,339)	1,547,270
including: Deferred bonus accrual (Note 1)	159,602	8,625	(99,410)	68,817
Social insurance, supplementary pension contributions and staff welfare	262,385	590,526	(525,883)	327,028
Housing funds	-	162,078	(162,078)	-
Labour union and training expenses	-	96,193	(91,888)	4,305
Others	-	25,446	(25,446)	-
Total	1,681,728	3,944,509	(3,747,634)	1,878,603

In RMB'000	2009			
	Balance at beginning of the year	Increase during the year	Payment made during the year	Balance at end of the year (Note 2)
Salaries, bonuses, allowances and subsidies	1,000,417	2,507,090	(2,088,164)	1,419,343
including: Deferred bonus accrual (Note 1)	108,200	91,334	(39,932)	159,602
Social insurance, supplementary pension contributions and staff welfare	247,003	641,287	(625,905)	262,385
Housing funds	-	121,418	(121,418)	-
Labour union and training expenses	-	73,380	(73,380)	-
Others	-	4,768	(4,768)	-
Total	1,247,420	3,347,943	(2,913,635)	1,681,728

Note: 1. The amount of deferred bonus is determined based on the indicators of profitability, the share price and the capital adequacy ratio of the Company as well as the share prices of certain other domestic listed banks; and will be settled in cash in accordance with the terms of the arrangement.
2. As at 31 December 2010, included in the outstanding balances of employee benefits payable was an approximate amount of RMB1.5 billion (31 December 2009: RMB1.4 billion) that is expected to be settled in 12 months.

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

24. Tax payable

In RMB'000	2010-12-31	2009-12-31
Corporate income tax	656,410	294,784
Business tax and surcharges	432,825	328,507
Others	35,886	28,998
Total	1,125,121	652,289

25. Accounts payables

In RMB'000	2010-12-31	2009-12-31
Payables with respect to making payments on behalf of customers	4,532,860	390,739
Payables under factoring	85,064	14,899
Payables under discounted bills	502,894	445,243
Total	5,120,818	850,881

26. Interest payable

In RMB'000	2010			
	Balance at beginning of the year	Increase during the year	Payment made during the year	Balance at end of the year
Interest payable for deposits from customers and financial institutions	2,329,195	9,566,189	(8,328,587)	3,566,797
Interest payable for bonds	352,967	549,171	(548,862)	353,276
Total	2,682,162	10,115,360	(8,877,449)	3,920,073

In RMB'000	2009			
	Balance at beginning of the year	Increase during the year	Payment made during the year	Balance at end of the year
Interest payable for deposits from customers and financial institutions	2,661,721	7,766,552	(8,099,078)	2,329,195
Interest payable for bonds	301,503	512,114	(460,650)	352,967
Total	2,963,224	8,278,666	(8,559,728)	2,682,162

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

27. Bonds payable

In RMB'000	2010-12-31	2009-12-31
Subordinated bonds (Note 1)	7,978,650	7,972,653
Hybrid capital debt instrument (Note 2)	1,490,838	1,490,061
Total	9,469,488	9,462,714

During 2010 and 2009, the Company did not have any defaults of principal, interest or other breaches with respect to the subordinated bonds and the hybrid capital debt instrument.

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

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.

28. Provisions

In RMB'000	2010-12-31	2009-12-31
Balance at beginning of the year	3,358	25,809
Charge/(reversal) for the year	1,469	(3,508)
Amounts paid or released	(1,780)	(18,943)
Balance at end of the year	3,047	3,358

29. Other liabilities

In RMB'000	2010-12-31	2009-12-31
Bank drafts	14,591	189,471
Amounts pending for settlement and clearing	77,157	88,739
Financial guarantee contracts	69,007	54,692
Amounts payable for bond redemption as intermediaries	36,139	29,994
Accrued expenses	98,230	129,483
Amounts payable for acquisition of bonds	-	794,952
Inactive deposit account balances	34,573	39,457
Dividends payable (Note)	11,260	11,260
Advanced receipts of rentals and proceeds from disposal of repossessed assets	11,713	89,795
Others	503,568	386,002
Total	856,238	1,813,845

Note: As at 31 December 2010, the above-mentioned balance of dividends payable has been outstanding for more than one year as the related shareholders have not collected the dividends.

30. Share capital

As at 31 December 2010, the number of the Company's ordinary shares issued and fully paid was 3,485,014 thousand, with a price of RMB1 Yuan each. The nature and the structure of the share capital are as follows:

In RMB'000	2009-12-31	Percentage	Movement in the year	2010-12-31	Percentage
Restricted tradable shares:					
Domestic non-state-owned corporation shares	56	0.00%	379,580	379,636	10.89%
Domestic individual shares	8	0.00%	11	19	0.00%
Foreign corporation shares	181,256	5.84%	(181,256)	-	0.00%
Total restricted tradable shares	181,320	5.84%	198,335	379,655	10.89%
Unrestricted tradable shares:					
RMB ordinary shares	2,924,114	94.16%	181,245	3,105,359	89.11%
Total shares	3,105,434	100.00%	379,580	3,485,014	100.00%

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

The Company signed a share placement agreement with Ping An Life Insurance Company of China, Ltd. ("Ping An Life") on 12 June 2009. As approved by CSRC on 28 June 2010 in accordance with the ZhengJianXuKe No. [2010]862, the Company issued 379,580 thousand shares to Ping An Life at a price of RMB18.26 Yuan per share, with the proceeds amounting to RMB6,931,130 thousand. After deducting the share issue related expenses amounting to RMB23,702 thousand, the share capital and the share premium increased by RMB379,580 thousand and RMB6,527,848 thousand, respectively. The above shares are restricted to any transfer in 36 months after the issue. However, related parties of Ping An Life (referring to enterprises directly or indirectly controlling Ping An Life, or those being controlled directly or indirectly by Ping An Life, or those subject to the same control by another entity as Ping An Life) are not included in such transfer restriction.

31. Capital reserve

In RMB'000	2010-12-31	2009-12-31
Share premium	13,501,118	6,973,270
Cumulative changes in fair value of available-for-sale financial assets	(132,761)	20,499
Revaluation surplus on owner-occupied properties transferred to investment properties	55,532	41,030
Share of the changes in owners' equity of an associate	(26,946)	(17,727)
Total	13,396,943	7,017,072

32. Surplus reserve

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

As at 31 December 2010 and 31 December 2009, the amount of the surplus reserve represented the statutory surplus reserve.

33. General reserve

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

34. Unappropriated profit

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

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

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

35. Net interest income

In RMB'000

	2010	2009
Interest income:		
Due from the Central Bank	856,418	639,322
Due from financial institutions		
Rediscounted bills and reverse repurchase agreements collateralized by bills	2,345,347	1,629,764
Others	460,476	823,984
Loans and advances		
Corporate loans and advances	13,344,187	10,817,870
Individual loans and advances	5,737,924	4,849,172
Discounted bills	316,995	591,686
Interest income on investment securities (excluding financial assets at fair value through profit or loss)	3,175,925	2,601,525
Subtotal	26,237,272	21,953,323
Interest income on financial assets at fair value through profit or loss	14,518	32,189
Total	26,251,790	21,985,512
Including: Interest income accrued on impaired financial assets	68,905	109,510
Interest expense:		
Due to the Central Bank	19,476	-
Due to financial institutions		
Redisounted bills and repurchase agreements collateralised by bills	153,535	446,414
Others	2,011,910	1,052,461
Customer deposits	7,681,732	6,981,323
Bonds payable	555,945	520,356
Subtotal	10,422,598	9,000,554
Interest expense on financial liabilities at fair value through profit or loss	-	584
Total	10,422,598	9,001,138
Net interest income	15,829,192	12,984,374

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

36. Net fee and commission income

In RMB'000

	2010	2009
Fee and commission income:		
Settlement fee income	501,072	387,014
Wealth management products related fee income	55,948	17,025
Agency business fee income	169,092	102,718
Bank card fee income	621,272	392,259
Advisory and consulting fee income	276,997	301,182
Account management fee income	47,705	29,966
Others	164,290	156,808
Subtotal	1,836,376	1,386,972
Fee and commission expenses:		
Agency business fee expenses	65,244	43,980
Bank card fee	157,470	139,925
Others	28,520	22,283
Subtotal	251,234	206,188
Net fee and commission income	1,585,142	1,180,784

37. Investment income

In RMB'000

	2010	2009
Net gain/(loss) on disposal of bond investments held for trading	2,429	(10,783)
Net gain on disposal of bond investments designated as at fair value through profit or loss	-	12
Net gain/(loss) on disposal of available-for-sale bond investments	(6,306)	435,403
Net gain on disposal of available-for-sale equity investments	15,680	32,872
Net loss on disposal of held-to-maturity bond investments	-	(29,128)
Net gain/(loss) on disposal of long term equity investments	(7,252)	32,913
Share of profits of associates under equity method of accounting	60,824	18,336
Dividend income	5,094	1,905
Net realized gain on derivative financial instruments(excluding foreign exchange derivative financial instruments)	4,468	1,463
Gain on disposal of bills	144,771	97,293
Net gain on disposal of debt instruments being underwritten	8,389	-
Gain on disposal of loans	428	-
Total	228,525	580,286

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

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

In RMB'000	2010	2009
Financial instruments held for trading	665	78
Financial assets designated as at fair value through profit or loss	-	(83)
Financial liabilities designated as at fair value through profit or loss	-	567
Derivative financial instruments (excluding foreign exchange derivative financial instruments)	(19,736)	(49,752)
Total	(19,071)	(49,190)

39. Net foreign exchange difference

In RMB'000	2010	2009
Gain/(loss) from changes in fair values on foreign exchange derivative financial instruments	1,209	(103,635)
Others	212,712	345,258
Total	213,921	241,623

40. Other operating income

In RMB'000	2010	2009
Rental income	73,214	67,053
Others	74,284	61,652
Total	147,498	128,705

41. Business tax and surcharge

In RMB'000	2010	2009
Business tax	1,200,493	977,281
City maintenance and construction tax	71,529	54,691
Education surcharge	46,081	36,627
Others	6,492	535
Total	1,324,595	1,069,134

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

42. Business and administrative expenses

In RMB'000	2010	2009
Staff expenses:		
Salaries, bonuses, allowances and subsidies	3,070,266	2,507,090
Social insurance, supplementary pension contributions and staff welfare	590,526	641,287
Housing funds	162,078	121,418
Labor union and training expenses	96,193	73,380
Others	25,446	4,768
Subtotal	3,944,509	3,347,943
General and administrative expenses:		
Computer system maintenance fees	203,882	140,042
Telecommunication and postage expenses	101,006	98,813
Water and electricity expenses	69,724	58,721
Publication and stationery expenses	238,372	210,738
Travel expenses	82,794	95,734
Marketing and public relation expenses	656,625	475,516
Transportation expenses	144,189	133,344
Legal expenses	81,202	87,907
Professional fees	312,582	280,427
Sundry tax expenses	45,171	45,524
CBRC supervisory fee	42,580	62,702
Others	350,648	362,208
Subtotal	2,328,775	2,051,676
Depreciation, amortization and rental expenses:		
Depreciation of fixed assets	322,211	264,134
Amortisation of leasehold improvements	105,348	78,094
Amortization of intangible assets	52,458	36,032
Rental expenses	606,711	533,212
Subtotal	1,086,728	911,472
Total	7,360,012	6,311,091

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

43. Impairment losses on assets

In RMB'000	2010	2009
Charge/(reversal) of impairment losses on:		
Precious metals	59	(181)
Funds loaned to other financial institutions	(41)	(1,166)
Reverse repurchase agreements	-	6,000
Loans and advances	1,474,463	1,440,552
Long term equity investments	-	31,591
Repossessed assets	15,426	88,861
Other assets	(1,791)	5,459
Subtotal	1,488,116	1,571,116
Impairment losses on financial guarantee contracts	-	3,972
Total	1,488,116	1,575,088

44. Income tax expense

In RMB'000	2010	2009
Current tax:		
Charge for the year	1,826,190	1,151,737
Adjustments in respect of current income tax for prior years (Note1)	208,011	(209,839)
Subtotal	2,034,201	941,898
Deferred income tax (Note III.16) (Note1)	(319,996)	217,910
Total	1,714,205	1,159,808

Note1: During 2010, the adjustments in respect of current income tax for prior years were mainly related to the salary and bonus payable amounting to RMB245,943 thousand at end of 2009. As such salary and bonus payable balance could be deductible from the taxable income when it is actually paid out, deferred tax asset is recognised by the Company correspondingly for this deductible temporary difference which offsets the effect of the current tax for the year.

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

In RMB'000	2010	2009
Profit before tax	7,998,021	6,190,537
Income tax at the statutory rate of 25%	1,999,505	1,547,634
Effects of 22% tax rate (2009: 20%) applicable to the regions of Shenzhen, Zhuhai and Haikou	(173,323)	(211,555)
Adjustments in respect of current income tax for prior years (Note2)	11,390	17,073
Non-taxable income	(126,081)	(111,777)
Non-deductible expenses and other adjustments	2,714	(81,567)
Income tax expense	1,714,205	1,159,808

Note2: The adjustments in respect of current income tax for prior years have excluded the tax effect of temporary differences.

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

45. Earnings per share

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

In RMB'000	2010	2009
Net profit attributable to ordinary shareholders of the Company	6,283,816	5,030,729
The weighted average number of ordinary shares outstanding (in thousands)	3,295,224	3,105,434
Basic earnings per share (Renminbi Yuan)	1.91	1.62

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

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.

46. Other comprehensive income

In RMB'000	2010	2009
Net loss on available-for-sale financial assets	(217,692)	(764,156)
Less：income tax effect	52,470	152,616
Net gain or loss previously recognised in other comprehensive income transferred to profit or loss in the year	15,761	(463,282)
Less：income tax effect	(3,799)	92,526
Subtotal	(153,260)	(982,296)
Share of the changes in owners' equity of an associate	(9,219)	(7,601)
Less：income tax effect	-	-
Subtotal	(9,219)	(7,601)
Revaluation surplus on owner-occupied properties transferred to investment properties	20,086	36,947
Less：income tax effect	(5,584)	(8,960)
Subtotal	14,502	27,987
Total	(147,977)	(961,910)

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

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

47. Cash and cash equivalents

In RMB'000

	2010-12-31	2009-12-31
Cash on hand	836,549	779,169
Cash equivalents:		
Within three months before original maturity date		
- Placements of deposits with other financial institutions	3,495,736	5,487,900
- Funds loaned to other financial institutions	5,375,004	3,234,997
- Reverse repurchase agreements	45,343,000	23,443,025
Unrestricted balance with the Central Bank	12,798,567	14,354,511
Bond investments (with maturity of less than three months when acquired)	298,952	7,403,881
Subtotal	67,311,259	53,924,314
Total	68,147,808	54,703,483

48. Cash receipts relating to other operating activities

In RMB'000

	2010	2009
Collections of amounts already written-off	1,289,795	596,187
Cash receipts from disposal of repossessed assets	400,664	313,573
Financial instruments held for trading	1,135,206	-
Others	243,994	549,966
Total	3,069,659	1,459,726

49. Cash payments relating to other operating activities

In RMB'000

	2010	2009
Financial instruments held for trading	-	10,787
Derivative financial instruments	5,678	103,764
Administrative expenses such as marketing & public relation expenses and rental expenses, and others	3,441,128	2,511,296
Total	3,446,806	2,625,847

IV. OPERATING SEGMENT INFORMATION

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

Corporate banking

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

Retail banking

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

Interbank business

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

Other

This category consists of debt and equity investments, non-performing assets centrally managed by the Company and assets, liabilities, income and expenses that are not directly attributable to individual segments.

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

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

IV. OPERATING SEGMENT INFORMATION (continued)

In RMB'000

	2010				
	Corporate banking	Retail banking	Interbank business	Other	Total
Net interest income	11,286,387	3,073,976	851,714	617,115	15,829,192
Of which: External net interest income	8,892,566	4,210,848	1,383,606	1,342,172	15,829,192
Internal net interest income/(expense)	2,393,821	(1,136,872)	(531,892)	(725,057)	-
Net non-interest income (Note 1)	1,033,453	628,089	318,037	213,507	2,193,086
Of which: Share of profits of associates	-	-	-	60,824	60,824
Operating income	12,319,840	3,702,065	1,169,751	830,622	18,022,278
Operating costs (Note 2)	(4,696,211)	(3,235,357)	(297,095)	(455,944)	(8,684,607)
Of which: Depreciation, amortisation and rental expenses	(553,993)	(503,671)	(26,566)	(2,498)	(1,086,728)
Impairment losses on assets	(1,733,175)	(415,961)	41	660,979	(1,488,116)
Net non-operating income	-	-	-	148,466	148,466
Segment profit	5,890,454	50,747	872,697	1,184,123	7,998,021
Income tax expense					(1,714,205)
Profit for the year					6,283,816
2010-12-31					
Total assets	317,025,565	124,822,955	145,663,438	140,098,110	727,610,068
Total liabilities	426,988,680	84,844,019	108,384,626	73,879,867	694,097,192

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

In RMB'000

	2009				
	Corporate banking	Retail banking	Interbank business	Other	Total
Net interest income	8,567,920	2,837,599	934,202	644,653	12,984,374
Of which: External net interest income	6,831,683	3,501,759	1,317,172	1,333,760	12,984,374
Internal net interest income/(expense)	1,736,237	(664,160)	(382,970)	(689,107)	-
Net non-interest income (Note 1)	892,708	368,331	246,432	622,595	2,130,066
Of which: Share of profits of associates	-	-	-	18,336	18,336
Operating income	9,460,628	3,205,930	1,180,634	1,267,248	15,114,440
Operating costs (Note 2)	(3,897,918)	(2,573,700)	(230,800)	(677,807)	(7,380,225)
Of which: Depreciation, amortisation and rental expenses	(476,083)	(422,428)	(22,563)	(4,036)	(925,110)
Impairment losses on assets	(1,645,801)	(176,327)	(4,834)	251,874	(1,575,088)
Net non-operating income	-	-	-	31,410	31,410
Segment profit	3,916,909	455,903	945,000	872,725	6,190,537
Income tax expense					(1,159,808)
Profit for the year					5,030,729
2009-12-31					
Total assets	256,927,202	101,868,661	121,910,029	107,105,142	587,811,034
Total liabilities	342,559,690	70,944,657	95,443,175	58,393,903	567,341,425

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

IV. OPERATING SEGMENT INFORMATION (continued)

Geographical information

The Company's external operating income and non-current assets are mainly attributable to Mainland China based on the locations of the customers and assets respectively for the year ended 31 December 2010 and 31 December 2009. Non-current assets for this purpose consist of investment properties, fixed assets, construction in progress, repossessed assets and intangible assets.

Information about a major customer

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in the year 2010 or 2009.

V. COMMITMENTS AND CONTINGENT LIABILITIES

1. Capital commitments

In RMB'000

	2010-12-31	2009-12-31
Authorised, but not contracted for	22,122	62,464
Contracted, but not provided for	21,193	75,081
Total	43,315	137,545

2. Operating lease commitments

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

In RMB'000

	2010-12-31	2009-12-31
Within one year, inclusive	472,328	443,244
One to two years, inclusive	408,917	360,606
Two to three years, inclusive	356,260	316,079
More than three years	1,161,237	1,121,228
Total	2,398,742	2,241,157

V. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

3. Credit commitments

In RMB'000

	2010-12-31	2009-12-31
Financial guarantee contracts:		
Bank acceptances	246,614,478	196,808,019
Guarantees issued	3,823,915	2,306,093
Letters of credit issued	2,926,267	2,391,676
Subtotal	253,364,660	201,505,788
Unused limit of credit cards and undrawn irrevocable loan commitments	9,863,018	8,447,565
Total	263,227,678	209,953,353
Credit risk weighted amounts of credit commitments	95,401,720	69,039,949

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

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

4. Fiduciary transactions

In RMB'000

	2010-12-31	2009-12-31
Entrusted deposits	11,144,128	9,028,475
Entrusted loans	11,144,128	9,028,475
Entrusted funding	16,256,304	3,319,686
Entrusted investments	16,256,304	3,319,686

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

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

V. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

5. Contingent liabilities

5.1 Legal proceedings

As at 31 December 2010, the total claimed amount of the litigation cases of which the Company is the defendant was RMB241 million (31 December 2009: RMB175 million). These litigation cases are under legal proceedings. In the opinion of management, the Company has made adequate allowance for any probable losses based on the prevailing facts and circumstances.

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

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

As an underwriting agent of the MOF, the Company underwrites PRC voucher-type government bonds and savings bonds (electronic) and sells the bonds to the general public. The Company is obliged to redeem the bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2010, the Company has sold voucher-type government bonds and savings bonds (electronic) with accumulated amounts of RMB3,146,088 thousand (31 December 2009: RMB2,911,597 thousand) and RMB183,313 thousand (31 December 2009: RMB99,648 thousand) respectively, to the general public that the Company has the obligation of early redemption.

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

As at 31 December 2010 and 31 December 2009, there was no unexpired underwriting commitment of the government bonds.

VI. Capital management

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

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

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

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

In RMB'000

	2010-12-31	2009-12-31
Net core capital	32,918,920	19,854,282
Supplementary capital	14,662,482	12,372,093
Net capital	47,271,941	31,905,240
Risk-weighted assets and market risk capital adjustment	463,690,570	359,508,049
Core capital adequacy ratio	7.10%	5.52%
Capital adequacy ratio	10.19%	8.88%

VII. RISK DISCLOSURE

1. Credit risk

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

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

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

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

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

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

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

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

In RMB'000

	2010-12-31	2009-12-31
Due from the Central Bank	75,750,309	53,464,783
Placements of deposits with other financial institutions	8,523,729	15,592,536
Funds loaned to other financial institutions	8,475,988	5,361,139
Financial assets at fair value through profit or loss	-	1,132,048
Derivative financial assets	371,734	99,996
Reverse repurchase agreements	98,263,433	40,923,396
Loans and advances	400,966,075	355,562,545
Available-for-sale financial assets (excluding equity investments)	31,501,348	36,922,163
Held-to-maturity investments	61,379,837	34,585,440
Receivables	18,502,100	30,427,100
Other assets	16,250,073	6,622,153
Total	719,984,626	580,693,299
Credit commitments	263,227,678	209,953,353
Maximum exposure to credit risk	983,212,304	790,646,652

VII. RISK DISCLOSURE (continued)

1. Credit risk (continued)

Risk concentration of the maximum exposure to credit risk

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

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

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

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

Credit quality

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

In RMB'000

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

VII. RISK DISCLOSURE (continued)

1. Credit risk (continued)

In RMB'000

	2009-12-31			
	Neither past due nor impaired	Past due but not impaired	Impaired (Note)	Total
Placements of deposits with other financial institutions	15,591,711	-	41,520	15,633,231
Funds loaned to other financial institutions	5,357,725	-	33,393	5,391,118
Financial assets at fair value through profit or loss	1,132,048	-	-	1,132,048
Reverse repurchase agreements	40,908,396	-	50,000	40,958,396
Accounts receivables	4,782,161	-	-	4,782,161
Loans and advances	355,276,052	1,764,663	2,476,698	359,517,413
Available-for-sale financial assets (excluding equity investments)	36,922,163	-	-	36,922,163
Held-to-maturity investments	34,585,440	-	-	34,585,440
Receivables	30,427,100	-	-	30,427,100
Total	524,982,796	1,764,663	2,601,611	529,349,070

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 31 December 2010, impaired loans and advances comprise overdue loans of RMB2,227,165 thousand (31 December 2009: RMB2,359,402 thousand) and non-overdue loans of RMB173,501 thousand (31 December 2009：RMB117,296 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.

In RMB'000

	2010-12-31	2009-12-31
Pass	401,879,920	354,198,769
Special Mention	1,120,733	1,077,283
Total	403,000,653	355,276,052

VII. RISK DISCLOSURE (continued)

1. Credit risk (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:

In RMB'000

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

In RMB'000

	2009-12-31					
	Within 1 month	1 to 2 months	2 to 3 months	More than 3 months	Total	Fair value of collateral
Corporate loans and advances	78,070	18,325	5,000	129,928	231,323	169,402
Personal loans	1,286,773	188,524	58,043	-	1,533,340	3,271,790
Total	1,364,843	206,849	63,043	129,928	1,764,663	3,441,192

Impaired loans and advances

Impaired loans and advances are defined as those loans and advances having objective evidence of impairment as a result of one or more events that occur after initial recognition, resulting in an impact on the estimated future cash flows of loans and advances that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and the situation where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The fair value of the collateral that the Company holds relating to corporate loans and advances individually determined to be impaired at 31 December 2010 amounted to RMB790 million (31 December 2009: RMB841 million).

VII. RISK DISCLOSURE (continued)

1. Credit risk (continued)

Impaired amounts due from other financial institutions

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

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

In RMB'000

	2010-12-31	2009-12-31
Loans and advances to customers	274,523	282,172

2. Liquidity risk

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

VII. RISK DISCLOSURE (continued)

2. Liquidity risk (continued)

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

In RMB'000

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

Note: (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.

VII. RISK DISCLOSURE (continued)

2. Liquidity risk (continued)

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

In RMB'000

	2009-12-31							
	Overdue/ on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
Non-derivative cash flows:								
Financial assets:								
Cash on hand and due from the Central Bank	15,133,680	27	21,369	-	-	-	39,110,272	54,265,348
Amounts due from other financial institutions (1)	2,377,217	40,411,958	11,779,672	7,323,035	290,701	-	-	62,182,583
Financial assets at fair value through profit or loss	-	-	7,115	21,198	821,239	381,711	-	1,231,263
Accounts receivables	-	727,738	1,659,487	2,430,835	-	-	-	4,818,060
Loans and advances	1,430,288	13,388,685	69,440,359	143,205,819	95,886,404	80,827,104	-	404,178,659
Available-for-sale financial assets	-	372,032	9,321,356	7,988,728	15,472,421	6,700,861	76,246	39,931,644
Held-to-maturity investments	-	98,313	190,412	1,996,538	25,430,290	12,847,495	-	40,563,048
Receivables	-	139,308	4,951,392	24,754,827	1,638,704	111,990	-	31,596,221
Long term equity investments	-	-	-	-	-	-	392,705	392,705
Other financial assets	50,689	-	30,189	-	-	14,737	-	95,615
Total financial assets	18,991,874	55,138,061	97,401,351	187,720,980	139,539,759	100,883,898	39,579,223	639,255,146
Financial liabilities:								
Amounts due to other financial institutions (2)	25,372,481	45,824,394	21,827,086	2,743,611	-	-	-	95,767,572
Accounts payables	-	128,765	202,851	529,318	-	-	-	860,934
Customer deposits	206,325,253	60,122,412	66,345,753	90,308,325	37,560,031	501,682	-	461,163,456
Bonds payable	-	-	370,025	177,075	9,714,725	1,927,500	-	12,189,325
Other financial liabilities	1,582,642	1,310	1,366,277	215,762	176,936	51,706	-	3,394,633
Total financial liabilities	233,280,376	106,076,881	90,111,992	93,974,091	47,451,692	2,480,888	-	573,375,920
Derivative cash flows:								
Derivative financial instruments settled on net basis	-	-	-	9,301	34,178	-	-	43,479
Derivative financial instruments settled on gross basis								
Of which: Cash inflow	-	5,850,886	3,762,857	9,594,670	673,786	-	-	19,882,199
Cash outflow	-	(5,846,045)	(3,753,452)	(9,557,389)	(673,501)	-	-	(19,830,387)
	-	4,841	9,405	37,281	285	-	-	51,812

Note: (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.

VII. RISK DISCLOSURE (continued)

2. Liquidity risk (continued)

Analysis of credit commitments by contractual expiry date:

In RMB'000

	2010-12-31							
	Repayable on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
Credit commitments	12,751,042	55,485,097	96,179,808	97,742,016	1,069,715	-	-	263,227,678

In RMB'000

	2009-12-31							
	Repayable on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
Credit commitments	9,232,655	39,599,210	76,524,196	83,888,728	708,564	-	-	209,953,353

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

3. Market risk

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

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

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

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

VII. RISK DISCLOSURE (continued)

3. Market risk (continued)

3.1. Currency risk

The Company's foreign exchange risk exposure mainly comprises exposures from the mismatch of foreign currency assets and liabilities, and off-balance sheet foreign exchange position arisen from derivative transactions. The currency risk of the Company mainly arises from loans and advances, investments and deposits denominated in foreign currencies. The Company has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

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

In RMB'000

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

Note: (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) he net position of foreign currency comprised the related net position of monetary assets and liabilities.

VII. RISK DISCLOSURE (continued)

3. Market risk (continued)

3.1. Currency risk (continued)

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

In RMB'000

	2009-12-31			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets				
Cash on hand and due from the Central Bank	386,339	160,973	11,453	558,765
Amounts due from other financial institutions (1)	8,151,882	672,300	1,153,153	9,977,335
Accounts receivables	3,040,441	-	131,545	3,171,986
Loans and advances	6,709,044	1,160,499	40,238	7,909,781
Available-for-sale financial assets	241,527	-	-	241,527
Held-to-maturity investments	1,039,253	-	48,864	1,088,117
Others	104,175	11,265	1,591	117,031
Total assets	19,672,661	2,005,037	1,386,844	23,064,542
Liabilities				
Amounts due to other financial institutions (2)	2,885,061	64,975	-	2,950,036
Accounts payables	391,318	-	-	391,318
Customer deposits	13,782,860	2,232,455	1,359,166	17,374,481
Others	72,184	4,073	651	76,908
Total liabilities	17,131,423	2,301,503	1,359,817	20,792,743
Net position of foreign currency (3)	2,541,238	(296,466)	27,027	2,271,799
Notional amount of foreign exchange derivative financial instruments	(1,598,058)	380,281	(11,929)	(1,229,706)
Total	943,180	83,815	15,098	1,042,093
Off-balance sheet credit commitments	3,368,490	126	301,306	3,669,922

Note: (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.

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

In RMB'000

	2010-12-31	
Currency	Change in exchange rate in %	Effect on profit before tax (RMB equivalent)
USD	+/-3%	+/-49,105
HKD	+/-3%	-/+9,453

In RMB'000

	2009-12-31	
Currency	Change in exchange rate in %	Effect on profit before tax (RMB equivalent)
USD	+/-3%	+/-28,295
HKD	+/-3%	+/-2,514

VII. RISK DISCLOSURE (continued)

3. Market risk (continued)

3.2. Interest rate risk

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

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

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

In RMB'000

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

Note: (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.

VII. RISK DISCLOSURE (continued)

3. Market risk (continued)

3.2. Interest rate risk (continued)

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

In RMB'000

	2009-12-31					
	Within 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-interest-bearing	Total
Assets:						
Cash on hand and due from the Central Bank	52,863,536	-	-	-	1,380,416	54,243,952
Precious metals	-	-	-	-	3,302	3,302
Amounts due from other financial institutions (1)	54,350,284	7,240,255	286,532	-	-	61,877,071
Financial assets at fair value through profit or loss and derivative financial assets	935,600	101,595	94,853	-	99,996	1,232,044
Accounts receivables	2,047,627	1,612,790	-	-	1,121,744	4,782,161
Loans and advances	180,379,059	164,044,284	8,219,018	2,920,184	-	355,562,545
Available-for-sale financial assets	16,537,017	14,338,674	5,738,171	141,831	242,716	36,998,409
Held-to-maturity investments	1,938,023	7,970,016	19,354,225	5,291,830	31,346	34,585,440
Receivables	5,037,100	23,890,000	1,500,000	-	-	30,427,100
Long term equity investments	-	-	-	-	392,705	392,705
Fixed assets	-	-	-	-	1,714,461	1,714,461
Others	-	-	-	-	5,991,844	5,991,844
Total assets	314,088,246	219,197,614	35,192,799	8,353,845	10,978,530	587,811,034
Liabilities:						
Amounts due to other financial institutions (2)	92,742,045	2,701,130	-	-	-	95,443,175
Derivative financial liabilities	-	-	-	-	21,540	21,540
Accounts payables	-	390,740	-	-	460,141	850,881
Customer deposits	335,186,700	88,234,946	30,537,951	500,001	175,610	454,635,208
Bonds payable	500,000	-	7,472,653	1,490,061	-	9,462,714
Others	-	-	-	-	6,927,907	6,927,907
Total liabilities	428,428,745	91,326,816	38,010,604	1,990,062	7,585,198	567,341,425
Interest rate risk exposure	(114,340,499)	127,870,798	(2,817,805)	6,363,783	Not applicable	Not applicable

Note: (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. Market risk (continued)

3.2. Interest rate risk (continued)

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

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

In RMB'000

	2010-12-31		2009-12-31	
	Changes in interest rate (basis points)		Changes in interest rate (basis points)	
	-100	+100	-100	+100
Effect on the net interest income increase/(decrease)	321,210	(321,210)	529,531	(529,531)
Effect on equity increase/(decrease)	148,130	(148,130)	166,225	(166,225)

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 year end portfolio of fixed-rate available-for-sale financial assets, based on a reasonable possible change in interest rates. Impact on income tax has not been considered in calculating the above effect on the net interest income and equity.

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

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

4. Fair value of financial instruments

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

In RMB'000

	2010-12-31		2009-12-31	
	Carrying value	Fair value	Carrying value	Fair value
Receivables	18,502,100	18,502,100	30,427,100	30,489,418
Held-to-maturity debt securities	61,379,837	60,326,494	34,585,440	34,412,902
Bonds payable	9,469,488	9,514,103	9,462,714	9,599,219

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

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

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

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

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

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

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

VII. RISK DISCLOSURE (continued)

4. Fair value of financial instruments (continued)

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

In RMB'000

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

In RMB'000

	2009-12-31			
	Quoted market price ("Level 1")	Valuation techniques market observable inputs ("Level 2")	Valuation techniques-non -market observable inputs ("Level 3")	Total
Financial assets:				
Financial assets at fair value through profit or loss	-	1,132,048	-	1,132,048
Derivative financial assets	-	99,996	-	99,996
Available-for-sale financial assets	66,536	36,931,873	-	36,998,409
Total	66,536	38,163,917	-	38,230,453
Financial liabilities:				
Derivative financial liabilities	-	21,540	-	21,540

During the year, there were no transfer of financial assets (2009: RMB10 million) from Level 2 to Level 1.

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

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

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

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

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

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

Outstanding balances at the year end

In RMB'000

	2010-12-31	2009-12-31
Receivables	100,000	100,000
Amounts due to other financial institutions	85,975	261,225
Customer deposits	3,752,314	4,259,348
Credit limit of factoring	300,000	-
Interbank credit limit	1,000,000	5,800,000

Transactions during the year

In RMB'000

	2010	2009
Interest income on receivables	4,200	2,324
Agency business fee income	8,380	-
Custodian services fee income	1,005	101
Interest expenses on amounts due to other financial institutions	1,701	895
Interest expenses on customer deposits	176,948	99,277
Insurance premium expenses	2,082	247

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

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

Loans

In RMB'000

	2010	2009
Balance at beginning of the year	455	543
Increase during the year	1,345	-
Decrease during the year	(841)	(88)
Balance at end of the year	959	455
Interest income on loans	41	9

As at 31 December 2010, the annual interest rates of these loan transactions ranged from 1.80% to 4.29%.

Deposits

In RMB'000

	2010	2009
Balance at beginning of the year	12,271	7,425
Increase during the year	63,887	199,840
Decrease during the year	(64,430)	(194,994)
Balance at end of the year	11,728	12,271
Interest expense on deposits	226	48

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

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

In RMB'000

	2010	2009
Salaries and other short term employee benefits	72,815	48,242
Post-employment benefits	719	759
Other long term employee benefits	-	18,798
Termination benefits	10,298	-
Deferred bonus accrual (Note)	1,432	15,527
Total	85,264	83,326

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 31 December 2010, the Company has authorised a total credit facility of RMB2.15 billion (31 December 2009: RMB1.732 billion) for entities relating to the key management personnel of the Company and the associate companies, which included an outstanding loan balance amounting to RMB0.319 billion (31 December 2009: RMB0.605 billion) and an outstanding facility of the off-balance sheet items amounting to RMB0.209 billion (31 December 2009: RMB0.076 billion).

IX. POST BALANCE SHEET EVENTS

Up to the date that these financial statements are authorised for issue, there were no significant events after the reporting date which required disclosure or adjustment to the financial statements.

X. COMPARATIVE FIGURES

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

XI. OTHER SIGNIFICANT ITEMS

1. Assets and liabilities carried at fair value

In RMB'000

	2010			
	Balance at beginning of the year	Gains or (losses) from changes in fair values during the year	Accumulated valuation gain taken into other comprehensive income	Balance at end of the year
Assets:				
Financial assets at fair value through profit or loss	1,132,048	665	-	-
Derivative financial assets	99,996	271,738	-	371,734
Available-for-sale financial assets	36,998,409	-	(175,327)	31,534,183
Investment properties	523,846	37,071	73,337	539,805
Total	38,754,299	309,474	(101,990)	32,445,722
Liabilities:				
Derivative financial liabilities	(21,540)	(290,265)	-	(311,805)

XI. OTHER SIGNIFICANT ITEMS (continued)

2. Foreign currency financial assets and foreign currency financial liabilities

In RMB'000 (RMB equivalent)

	2010				
	Balance at beginning of the year	Gains or (losses) from changes in fair values during the year	Accumulated valuation gain taken into other comprehensive income	Impairment provision charged for the year	Balance at end of the year
Foreign currency financial assets:					
Cash on hand and due from the Central Bank	558,765	-	-	-	1,186,492
Amounts due from other financial institutions (1)	9,977,335	-	-	-	7,961,756
Accounts receivable	3,171,986	-	-	-	5,372,622
Loans and advances	7,909,781	-	-	39,832	11,437,874
Available-for-sale financial assets	242,851	-	2,339	-	232,926
Held-to-maturity investments	1,088,117	-	-	-	934,292
Long term equity investments	684	-	-	-	684
Other assets	117,030	-	-	(4,524)	103,969
Total	23,066,549	-	2,339	35,308	27,230,615
Foreign currency financial liabilities:					
Amounts due to other financial institutions (2)	2,950,036	-	-	-	4,297,277
Customer deposits	17,374,481	-	-	-	22,135,557
Accounts payable	391,318	-	-	-	926,158
Other liabilities	76,820	-	-	-	66,190
Total	20,792,655	-	-	-	27,425,182

Note: (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.

Net asset return and earnings per share

In RMB'000

	2010				
		Net asset return		Earnings per share (RMB Yuan)	
	Profit for the year	Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	6,283,816	18.75%	23.22%	1.91	1.91
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss	6,143,737	18.31%	22.70%	1.86	1.86

XI. OTHER SIGNIFICANT ITEMS (continued)

In RMB'000

	2009				
		Net asset return		Earnings per share (RMB Yuan)	
	Profit for the year	Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	5,030,729	24.58%	26.59%	1.62	1.62
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss	4,939,571	24.13%	26.11%	1.59	1.59

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

In RMB'000

	2010	2009
Net profit attributable to ordinary shareholders of the Company	6,283,816	5,030,729
Add/(deduct): Non-recurring profit and loss items:		
Gain on disposal of fixed assets and settled assets	(122,227)	(20,565)
Gain on disposal of long term equity investments	7,252	(32,913)
Provision for litigation	1,469	(3,508)
Changes in fair value of investment properties	(37,071)	(47,858)
Other non-operating income and expenses	(27,708)	(7,337)
Income tax effect	38,206	21,023
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss	6,143,737	4,939,571

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 0 - Non-recurring profit and loss, effective from 1 December 2008.

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

IFRS Financial Statements

Independent Auditors' Report

To the shareholders of Shenzhen Development Bank Co., Limited

(Established in the People's Republic of China with limited liability)

We have audited the accompanying financial statements of Shenzhen Development Bank Co., Ltd. (the "Company") set out on pages 3 to 88, which comprise the statement of financial position as at 31 December 2010 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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.

To the shareholders of Shenzhen Development Bank Co., Limited

(Established in the People's Republic of China with limited liability)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2010 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

Certified Public Accountants
Hong Kong
24 February 2011

Income Statement

For the year ended 31 December 2010

In RMB'000

	Notes	2010	2009
Interest income	4	26,251,790	21,985,512
Interest expense	4	(10,422,598)	(9,001,138)
Net interest income	4	15,829,192	12,984,374
Fee and commission income	5	1,836,376	1,386,972
Fee and commission expense	5	(251,234)	(206,188)
Net fee and commission income	5	1,585,142	1,180,784
Investment income	6	167,701	561,950
Gains or losses from changes in fair values of financial instruments	7	(19,071)	(49,190)
Gains from changes in fair values of investment properties		37,071	47,858
Net foreign exchange differences		213,921	241,623
Other net income	8	295,964	160,115
TOTAL OPERATING INCOME		18,109,920	15,127,514
Staff expenses	9	(3,944,509)	(3,347,943)
General and administrative expenses	9	(2,328,775)	(2,051,676)
Depreciation, amortisation and rental expenses	9	(1,086,728)	(911,472)
Business tax and surcharges		(1,324,595)	(1,069,134)
Profit before impairment losses on assets		9,425,313	7,747,289
Impairment losses on assets	10	(1,488,116)	(1,575,088)
OPERATING PROFIT		7,937,197	6,172,201
Share of profits of associates		60,824	18,336
PROFIT BEFORE TAX		7,998,021	6,190,537
Income tax expense	11	(1,714,205)	(1,159,808)
PROFIT FOR THE YEAR		6,283,816	5,030,729
EARNINGS PER SHARE			
Basic earnings per share (Renminbi Yuan)	12	1.91	1.62
Diluted earnings per share (Renminbi Yuan)	12	1.91	1.62

Statement of Comprehensive Income

For the year ended 31 December 2010

In RMB'000

	Notes	2010	2009
PROFIT FOR THE YEAR		6,283,816	5,030,729
OTHER COMPREHENSIVE INCOME			
(i)Net loss on available-for-sale financial assets		(217,692)	(764,156)
Less: Income tax effect		52,470	152,616
Net gain or loss previously recognised in other comprehensive income transferred to income statement during the year		15,761	(463,282)
Less: Income tax effect		(3,799)	92,526
Subtotal		(153,260)	(982,296)
(ii)Share of the other comprehensive income of associates		(9,219)	(7,601)
Less: Income tax effect		-	-
Subtotal		(9,219)	(7,601)
(iii)Revaluation surplus on owner-occupied properties transferred to investment properties		20,086	36,947
Less:Income tax effect		(5,584)	(8,960)
Subtotal		14,502	27,987
Total other comprehensive income		(147,977)	(961,910)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		6,135,839	4,068,819

Statement of Financial Position

31 December 2010

In RMB'000

	Notes	2010-12-31	2009-12-31
ASSETS			
Cash on hand and due from the Central Bank	13	76,586,858	54,243,952
Precious metals		2	3,302
Placements of deposits with other financial institutions	14	8,523,729	15,592,536
Funds loaned to other financial institutions	15	8,475,988	5,361,139
Financial assets at fair value through profit or loss	16	-	1,132,048
Derivative financial assets	17	371,734	99,996
Reverse repurchase agreements	18	98,263,433	40,923,396
Accounts receivables	19	13,727,415	4,782,161
Loans and advances	20	400,966,075	355,562,545
Available-for-sale financial assets	21	31,466,000	36,937,298
Held-to-maturity investments	22	61,379,368	34,554,094
Receivables	23	18,502,100	30,427,100
Investments in associates	24	319,031	287,346
Investment properties	25	539,805	523,846
Property and equipment	26	2,860,558	2,034,301
Intangible assets		191,580	156,788
Deferred tax assets	27	1,954,568	1,582,934
Other assets	28	3,481,824	3,606,252
TOTAL ASSETS		727,610,068	587,811,034
LIABILITIES			
Due to the Central Bank		2,237,675	-
Placements of deposits from other financial institutions	29	82,370,060	74,139,673
Funds borrowed from other financial institutions	30	6,200,174	7,570,118
Derivative financial liabilities	17	311,805	21,540
Repurchase agreements	31	17,588,672	13,733,384
Customer deposits	32	562,912,342	454,635,208
Employee benefits payable	33	1,878,603	1,681,728
Corporate income tax payable		656,410	294,784
Accounts payables	34	5,120,818	850,881
Bonds payable	35	9,469,488	9,462,714
Provisions	36	3,047	3,358
Deferred tax liabilities	27	103,076	94,525
Other liabilities	37	5,245,022	4,853,512
TOTAL LIABILITIES		694,097,192	567,341,425
SHAREHOLDERS' EQUITY			
Share capital	38	3,485,014	3,105,434
Share premium		13,501,118	6,973,270
Reserves	39	7,786,706	6,004,795
Unappropriated profit	40	8,740,038	4,386,110
TOTAL SHAREHOLDERS' EQUITY		33,512,876	20,469,609
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		727,610,068	587,811,034

Statement of Changes In Equity

For the year ended 31 December 2010

In RMB'000

	2010							
	Share capital	Share premium	Reserves (Note 39)	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	Of which: general reserve	Unappropriated profit (Note 40)	Total
I. At 1 January 2010	3,105,434	6,973,270	6,004,795	20,499	41,790	4,676,276	4,386,110	20,469,609
II. Movements in the year								
(i) Profit for the year	-	-	-	-	-	-	6,283,816	6,283,816
(ii) Other comprehensive income	-	-	(147,977)	(153,260)	14,502	-	-	(147,977)
Subtotal of (i) and (ii)	-	-	(147,977)	(153,260)	14,502	-	6,283,816	6,135,839
(iii) Capital injection from shareholders	379,580	6,527,848	-	-	-	-	-	6,907,428
(iv) Profit appropriation	-	-	1,929,888	-	-	1,301,506	(1,929,888)	-
III. At 31 December 2010	3,485,014	13,501,118	7,786,706	(132,761)	56,292	5,977,782	8,740,038	33,512,876

In RMB'000

	2009							
	Share capital	Share premium	Reserves (Note 39)	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	Of which: general reserve	Unappropriated profit (Note 40)	Total
I. At 1 January 2009	3,105,434	6,973,270	5,370,653	1,002,795	13,803	3,583,296	951,433	16,400,790
II. Movements in the year								
(i) Profit for the year	-	-	-	-	-	-	5,030,729	5,030,729
(ii) Other comprehensive income	-	-	(961,910)	(982,296)	27,987	-	-	(961,910)
Subtotal of (i) and (ii)	-	-	(961,910)	(982,296)	27,987	-	5,030,729	4,068,819
(iii) Profit appropriation	-	-	1,596,052	-	-	1,092,980	(1,596,052)	-
III. At 31 December 2009	3,105,434	6,973,270	6,004,795	20,499	41,790	4,676,276	4,386,110	20,469,609

Cash Flow Statement

For the year ended 31 December 2010

In RMB'000

	Note	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES	41	23,418,870	33,529,537
Income tax paid		(1,672,575)	(1,335,926)
Net cash flows generated from operating activities		21,746,295	32,193,611
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of construction in progress		(437,470)	(592,473)
Purchases of property and equipment		(331,884)	(273,129)
Purchases of intangible assets		(68,547)	(54,306)
Purchases of investment properties		-	(65,344)
Proceeds from disposal of items of property and equipment assets		9,954	672
Interest received from investment securities		3,249,986	2,488,369
Dividend received from investment securities		25,014	1,905
Purchases of bond investments		(127,241,139)	(156,416,547)
Cash receipts from investment securities upon disposal/maturity		110,089,296	139,159,125
Proceeds from disposal of equity investments		44,254	110,514
Net cash flows used in investing activities		(14,660,536)	(15,641,214)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from share issue		6,931,130	-
Cash receipts from bond issue		-	1,500,000
Cash payments for bond interest		(548,862)	(463,562)
Cash payments for bond issue		-	(9,810)
Cash payments for share issue		(23,702)	-
Net cash flows generated from financing activities		6,358,566	1,026,628
NET INCREASE IN CASH AND CASH EQUIVALENTS		13,444,325	17,579,025
Cash and cash equivalents at beginning of the year		54,703,483	37,124,458
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		68,147,808	54,703,483
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash on hand		836,549	779,169
Cash equivalents:			
Within three months before original maturity date			
-Placements of deposits with other financial institutions		3,495,736	5,487,900
-Funds loaned to other financial institutions		5,375,004	3,234,997
-Reverse repurchase agreements		45,343,000	23,443,025
Unrestricted balance with the Central Bank		12,798,567	14,354,511
Bond investments (with maturity of less than three months when acquired)		298,952	7,403,881
		68,147,808	54,703,483
SUPPLEMENTARY INFORMATION			
Interest received		22,553,427	21,798,323
Interest paid		(8,877,448)	(9,273,958)

Notes To The Financial Statements

1. GENERAL INFORMATION

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

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

The Company is principally engaged in authorised commercial and retail banking activities in Mainland China.

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

The financial statements were approved and authorised for issue by the board of directors on 24 February 2011.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial assets and financial liabilities held at fair value through profit or loss, available-for-sale financial assets, investment properties and cash-settled share-based payments, that have been measured at fair value, as further explained in the respective accounting policies below.

The Company maintains its books and prepares its statutory financial statements in accordance with "Accounting Standards for Business Enterprises — Basic Standard" and 38 specific standards, Implementation Guidance, Interpretations and other relevant regulations (hereafter collectively referred to as "ASBEs") issued by the Ministry of Finance (the "MOF") of the PRC in February 2006. As the accounting policies adopted in the preparation of the statutory financial statements are basically the same as those adopted in these financial statements, there is no significant difference in the results of operations and financial performance.

Statement of compliance

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

2.2 Significant accounting judgements and estimates

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

(a) Designation of held-to-maturity investments

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

(b) Impairment losses of loans and advances

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

(c) Income tax

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

2. ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgements and estimates (continued)

(d) Fair value of financial instruments

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

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

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

2.3 Impact of new and revised International Financial Reporting Standards

The Company has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

- IFRS 2 *Share-based Payment:* Group Cash-settled Share-based Payment Transactions effective 1 January 2010;
- IFRS 3 *Business Combinations* (Revised) and IAS 27 *Consolidated and Separate Financial Statements* (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39;
- IAS 39 *Financial Instruments: Recognition and Measurement* - Eligible Hedged Items effective 1 July 2009;
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009;
- *Improvements to IFRSs* (April 2009)

Improvements to IFRSs 2009 issued in April 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Company. Details of the key amendments most applicable to the Company are as follows:

- *IAS 7 Statement of Cash Flows:* Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.
- IAS 17 Leases: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

The adoption of these new and revised IFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.4 Issued but not yet effective International Financial Reporting Standards

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

- IFRS 1 Amendment: Amendment to IFRS 1 Limited Exemption from Comparatives IFRS 7 Disclosures for First-time Adopters effective 1 July 2011;
- IFRS 7 Amendments: Amendments to IFRS 7 *Financial Instruments: Disclosures - Transfers of Financial Assets* effective 1 July 2011;
- IFRS 9: Financial Instruments effective 1 January 2013;
- IAS 12 Amendments: Amendments to IAS 12 *Income Taxes - Deferred Tax:* Recovery of Underlying Assets effective 1 January 2012;
- IAS 24 (Revised): Related Party Disclosures effective 1 January 2011;
- IAS 32 Amendment: Amendment to IAS 32 *Financial Instruments: Presentation* - Classification of Rights Issues effective 1 February 2010;
- IFRIC 14 Amendment: Amendment to IFRIC 14 *Prepayments of a Minimum Funding Requirement* effective 1 January 2011;
- IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments* effective 1 July 2010.

2. ACCOUNTING POLICIES (continued)

2.4 Issued but not yet effective International Financial Reporting Standards (continued)

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

Further information about those changes that are expected to significantly affect the Company is as follows:

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

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions"). The changes resulting from the Amendments only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in IAS 39 in respect of liabilities are carried forward into IFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply. The Company expects to adopt IFRS 9 from 1 January 2013.

2.5 Summary of significant accounting policies

Investments in associates

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

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

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

Recognition of income and expense

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

Interest income and interest expense

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

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

2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Fee and commission income

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

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

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

(ii) Fee income from providing transaction services

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

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

Dividend income

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

Precious metals

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

Financial instruments

(a) Initial recognition of financial instruments

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

(b) Determination of fair value

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

For all other financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

(c) "Day 1" profit or loss

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

(d) Financial assets or financial liabilities held for trading

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

2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

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

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

(f) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate, less impairment provision. The amortisation is included in "Net Interest Income" in the income statement. The losses arising from impairment of such investments are recognised in the income statement in "Impairment losses on assets".

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

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

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

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

(g) Loans and receivables

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

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

(h) Available-for-sale financial assets

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets (other than those at fair value through profit or loss) is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(a) Financial assets carried at amortised cost

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

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

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

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

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

(b) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

(c) Available-for-sale financial assets

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

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

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

2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities

(a) Financial assets

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

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

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

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

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

(b) Financial liabilities

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

Derivative financial instruments

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

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

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

Trade date accounting

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

Offsetting

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

Reverse repurchase agreements and repurchase agreements

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

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

2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Leases

A lease that transfers substantially all the risks and rewards incidental to ownership of the leased item is accounted for as a finance lease. An operating lease is a lease other than a finance lease.

As a lessee under operating leases

Lease payments under an operating lease are recognized in the income statement as an expense by a lessee on a straight-line basis over the lease term.

As a lessor under operating leases

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

Construction in progress

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

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

Property and equipment

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

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

Properties and buildings	3.3%
Transportation vehicles	16.2%
Computers	19.8% or 33.0%
Electronic appliances	9.9% or 19.8%
Automatic teller machines	19.8%
Owner-occupied property improvements	10.0% or 20.0%
Leasehold improvements	Over the lease terms

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

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

Intangible assets

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of non-financial assets excluding goodwill

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

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

Investment properties

Investment properties are interests in land or buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business. The Company adopts the fair value model for the measurement of investment properties which are not depreciated or amortised. At each period end, the carrying value of the investment properties is adjusted based on the fair value, and any difference between the carrying amount and the fair value is accounted for in the income statement.

Repossessed assets

Repossessed assets are initially recognised at fair value. The difference between the initial fair value and the sum of the related loan principal, interest receivable and impairment provision is taken into the income statement. At the reporting date, the repossessed assets are measured at the lower of their carrying value and net realisable value. When the carrying value of the repossessed assets is higher than the net realisable value, a provision for the decline in value of the repossessed assets is recognised in the income statement in "Impairment losses on assets".

Foreign currency translation

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

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

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

Fiduciary activities

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

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

2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial guarantee contracts

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

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

Related parties

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

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

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

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

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

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

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

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

Income tax

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

Current income tax

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

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

Deferred tax

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

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

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

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

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

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2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

Deferred tax assets and deferred tax 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.

Employee benefits

Short term employee benefits

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

Defined contribution plans

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

Supplementary retirement benefits

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

Share-based payment transactions

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

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

Cash and cash equivalents

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

Provisions

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

Contingent liabilities

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

Dividends

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

3. OPERATING SEGMENT INFORMATION

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

Corporate banking

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

Retail banking

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

Interbank business

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

Other

This category consists of debt and equity investments, non-performing assets centrally managed by the Company and assets, liabilities, income and expenses that are not directly attributable to individual segments.

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

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

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

3. OPERATING SEGMENT INFORMATION (continued)

In RMB'000

	2010				
	Corporate banking	Retail banking	Interbank business	Other	Total
Net interest income	11,286,387	3,073,976	851,714	617,115	15,829,192
Of which:External net interest income	8,892,566	4,210,848	1,383,606	1,342,172	15,829,192
Internal net interest income/(expense)	2,393,821	(1,136,872)	(531,892)	(725,057)	-
non-interest income (Note 1)	1,033,453	628,089	318,037	301,149	2,280,728
Operating income	12,319,840	3,702,065	1,169,751	918,264	18,109,920
Operating costs (Note 2)	(4,696,211)	(3,235,357)	(297,095)	(455,944)	(8,684,607)
Of which: Depreciation, amortisation and rental expenses	(553,993)	(503,671)	(26,566)	(2,498)	(1,086,728)
Impairment losses on assets	(1,733,175)	(415,961)	41	660,979	(1,488,116)
Share of profits of associates	-	-	-	60,824	60,824
Segment profit	5,890,454	50,747	872,697	1,184,123	7,998,021
Income tax expense					(1,714,205)
Profit for the year					6,283,816
2010-12-31					
Total assets	317,025,565	124,822,955	145,663,438	140,098,110	727,610,068
Of which: Investments in associates	-	-	-	319,031	319,031
Total liabilities	426,988,680	84,844,019	108,384,626	73,879,867	694,097,192

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

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

In RMB'000

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

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

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

3. OPERATING SEGMENT INFORMATION (continued)

Geographical information

The Company's external operating income and non-current assets are mainly attributable to Mainland China based on the locations of the customers and assets respectively for the year ended 31 December 2010 and 31 December 2009. Non-current assets for this purpose consist of investment properties, property and equipment, construction in progress, repossessed assets and intangible assets.

Information about a major customer

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in 2010 or 2009.

4. NET INTEREST INCOME

In RMB'000

	2010	2009
Interest income:		
Interest income on loans and advances (Note)	19,399,106	16,258,728
Interest income on amounts due from financial institutions	3,662,241	3,093,070
Interest income on investment securities (excluding financial assets at fair value through profit or loss)	3,175,925	2,601,525
Subtotal	26,237,272	21,953,323
Interest income on financial assets at fair value through profit or loss	14,518	32,189
Total	26,251,790	21,985,512
Interest expenses:		
Interest expense due to the Central Bank	19,476	-
Interest expense on amounts due to financial institutions	2,165,445	1,498,875
Interest expense on customer deposits	7,681,732	6,981,323
Interest expense on bonds	555,945	520,356
Subtotal	10,422,598	9,000,554
Interest expense on financial liabilities at fair value through profit or loss	-	584
Total	10,422,598	9,001,138
Net interest income	15,829,192	12,984,374

Note: Included in interest income was RMB68,905 thousand (2009: RMB109,510 thousand) in respect of interest income accrued on impaired financial assets (see Note 20f).

5. NET FEE AND COMMISSION INCOME

In RMB'000

	2010	2009
Fee and commission income:		
Settlement fee income	501,072	387,014
Wealth management products related fee income	55,948	17,025
Agency business fee income	169,092	102,718
Bank card fee income	621,272	392,259
Advisory and consulting fee income	276,997	301,182
Account management fee income	47,705	29,966
Others	164,290	156,808
Subtotal	1,836,376	1,386,972
Fee and commission expense:		
Agency business fee expenses	65,244	43,980
Bank card fee	157,470	139,925
Others	28,520	22,283
Subtotal	251,234	206,188
Net fee and commission income	1,585,142	1,180,784

6. INVESTMENT INCOME

In RMB'000

	2010	2009
Net gain/(loss) on disposal of bond investments held for trading	2,429	(10,783)
Net gain on disposal of bond investments designated as at fair value through profit or loss	-	12
Net gain/(loss) on disposal of available-for-sale bond investments	(6,306)	435,403
Net gain on disposal of available-for-sale equity investments	8,428	65,785
Net loss on disposal of held-to-maturity bond investments	-	(29,128)
Dividend income	5,094	1,905
Net realised gain on derivative financial instruments (excluding foreign exchange derivative financial instruments)	4,468	1,463
Gain on disposal of bills	144,771	97,293
Net gain on disposal of debt instruments being underwritten	8,389	-
Gain on disposal of loans	428	-
Total	167,701	561,950

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

In RMB'000

	2010	2009
Financial instruments held for trading	665	78
Financial assets designated as at		
fair value through profit or loss	-	(83)
Financial liabilities designated as at		
fair value through profit or loss	-	567
Derivative financial instruments (excluding foreign exchange derivative financial instruments)	(19,736)	(49,752)
Total	(19,071)	(49,190)

8. OTHER NET INCOME

In RMB'000

	2010	2009
Gain on disposal of property and equipment, net	602	289
Rental income	73,214	67,053
Gain on disposal of repossessed assets, net	121,625	20,276
Provision against litigation claims	(1,469)	3,508
Others	101,992	68,989
Total	295,964	160,115

9. OPERATING EXPENSES

In RMB'000

	2010	2009
Staff expenses:		
Salaries, bonuses, allowances and subsidies	3,070,266	2,507,090
Of which: Deferred bonus accrual (Note 33)	8,625	91,334
Social insurance, supplementary pension contributions and staff welfare	590,526	641,287
Housing funds	162,078	121,418
Labour union and training expenses	96,193	73,380
Others	25,446	4,768
Subtotal	3,944,509	3,347,943
General and administrative expenses:		
Computer system maintenance fees	203,882	140,042
Telecommunication and postage expenses	101,006	98,813
Water and electricity expenses	69,724	58,721
Publication and stationery expenses	238,372	210,738
Travel expenses	82,794	95,734
Marketing and public relation expenses	656,625	475,516
Transportation expenses	144,189	133,344
Legal expenses	81,202	87,907
Professional fees	312,582	280,427
Sundry tax expenses	45,171	45,524
CBRC supervisory fee	42,580	62,702
Others	350,648	362,208
Subtotal	2,328,775	2,051,676
Depreciation, amortisation and rental expenses:		
Depreciation of property and equipment	427,559	342,228
Amortisation of intangible assets	52,458	36,032
Rental expenses	606,711	533,212
Subtotal	1,086,728	911,472
Total operating expenses	7,360,012	6,311,091
Including:		
Auditors' remuneration - audit service fees	6,210	5,530

10. IMPAIRMENT LOSSES ON ASSETS

In RMB'000

		2010								
	Notes	Balance at beginning of the year	Charge/ (reversal) for the year	Amounts written off	Add-back of loans written off previously	Recovery of assets written off previously	Amounts released upon disposal of assets	Interest accrued on impaired loans and advances	Other movements	Balance at end of the year
Provision for decline in value of precious metals		78	59	-	-	-	(137)	-	-	-
Impairment provision for placements of deposits with other financial institutions	14	40,695	-	(10,000)	-	-	-	-	-	30,695
Impairment provision for funds loaned to other financial institutions	15	29,979	(41)	-	-	-	-	-	(608)	29,330
Impairment provision for reverse repurchase agreements	18	35,000	-	-	-	-	-	-	-	35,000
Impairment provision for loans and advances	20	3,954,868	1,474,463	(213,199)	-	1,284,552	-	(68,905)	(6,719)	6,425,060
Impairment provision for available-for-sale financial assets carried at cost	21	112,857	-	-	-	-	-	-	-	112,857
Impairment provision for investments in associates	24	23,061	-	-	-	-	-	-	-	23,061
Provision for decline in value of repossessed assets	28	360,961	15,426	-	-	-	(118,202)	-	-	258,185
Impairment provision for property and equipment	26	6,289	-	-	-	-	-	-	-	6,289
Impairment provision for other assets		154,408	(1,791)	(117)	-	5,243	-	-	1,651	159,394
Total		4,718,196	1,488,116	(223,316)	-	1,289,795	(118,339)	(68,905)	(5,676)	7,079,871

In RMB'000

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

11. INCOME TAX EXPENSE

In RMB'000

	2010	2009
Current tax:		
Charge for the year	1,826,190	1,151,737
Adjustments in respect of current income tax for prior years (Note 1)	208,011	(209,839)
Subtotal	2,034,201	941,898
Deferred income tax (Note 27) (Note1)	(319,996)	217,910
Total	1,714,205	1,159,808

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

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

In RMB'000

	2010	2009
Profit before tax	7,998,021	6,190,537
Income tax at the statutory rate of 25%	1,999,505	1,547,634
Effects of 22% tax rate (2009: 20%) applicable to the regions of Shenzhen, Zhuhai and Haikou	(173,323)	(211,555)
Adjustments in respect of current income tax for prior years (Note 2)	11,390	17,073
Non-taxable income	(126,081)	(111,777)
Non-deductible expenses and other adjustments	2,714	(81,567)
Income tax expense	1,714,205	1,159,808

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

12. EARNINGS PER SHARE

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

In RMB'000

	2010	2009
Net profit attributable to ordinary shareholders of the Company	6,283,816	5,030,729
The weighted average number of ordinary shares outstanding (in thousands)	3,295,224	3,105,434
Basic earnings per share (Renminbi Yuan)	1.91	1.62

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

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

13. CASH ON HAND AND DUE FROM THE CENTRAL BANK

In RMB'000

	2010-12-31	2009-12-31
Cash on hand	836,549	779,169
Statutory reserve with the Central Bank - RMB	61,766,745	38,650,469
Statutory reserve with the Central Bank - foreign currency	809,165	327,335
Unrestricted balance with the Central Bank	12,798,567	14,354,511
Other deposits with the Central Bank - fiscal deposits	375,832	132,468
Total	76,586,858	54,243,952

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

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

14. PLACEMENTS OF DEPOSITS WITH OTHER FINANCIAL INSTITUTIONS

Analysed by location and counterparty

In RMB'000

	2010-12-31	2009-12-31
Domestic banks	7,119,595	14,074,591
Other domestic financial institutions	45,280	42,222
Overseas banks	1,389,549	1,516,418
Subtotal	8,554,424	15,633,231
Less: Impairment provision (Note 10)	(30,695)	(40,695)
Total	8,523,729	15,592,536

As at 31 December 2010, included in this total amount of placements of deposits with other financial institutions was an amount of RMB31,520 thousand (31 December 2009: RMB41,520 thousand) impaired assets.

15. FUNDS LOANED TO OTHER FINANCIAL INSTITUTIONS

Analysed by location and counterparty

In RMB'000

	2010-12-31	2009-12-31
Domestic banks	1,580,636	1,204,596
Other domestic financial institutions	2,782,626	533,393
Overseas banks	4,142,056	3,653,129
Subtotal	8,505,318	5,391,118
Less: Impairment provision (Note 10)	(29,330)	(29,979)
Total	8,475,988	5,361,139

As at 31 December 2010, included in this total amount of loans funded to other financial institutions was an amount of RMB32,626 thousand (31 December 2009: RMB33,393 thousand) impaired assets.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In RMB'000

	2010-12-31	2009-12-31
Bonds held for trading	-	1,132,048
Bond investments analysed by issuer:		
Policy banks	-	1,132,048

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

In RMB'000

	2010-12-31					
	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	23,821,327	23,318,315	395,376	47,535,018	343,972	(291,069)
Interest rate derivative instruments:						
Interest rate swap contracts	-	100,000	2,200,000	2,300,000	27,762	(20,736)
Total	23,821,327	23,418,315	2,595,376	49,835,018	371,734	(311,805)

In RMB'000

	2009-12-31					
	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	9,599,495	9,634,913	682,660	19,917,068	71,142	(19,448)
Interest rate derivative instruments:						
Interest rate swap contracts	-	-	800,000	800,000	28,854	-
Equity derivative instruments:						
Equity option contracts	-	93,356	-	93,356	-	(337)
Equity swap contracts	-	93,356	-	93,356	-	(1,755)
Total	9,599,495	9,821,625	1,482,660	20,903,780	99,996	(21,540)

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

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18. REVERSE REPURCHASE AGREEMENTS

(a) Analysed by counterparty

In RMB'000

	2010-12-31	2009-12-31
Banks	97,525,239	40,152,396
Non-bank financial institutions	773,194	806,000
Subtotal	98,298,433	40,958,396
Less: Impairment provisions (Note 10)	(35,000)	(35,000)
Total	98,263,433	40,923,396

As at 31 December 2010, included in this total amount of reverse repurchase agreements was an amount of RMB50 million (31 December 2009: RMB50 million) impaired assets.

(b) Analysed by collateral

In RMB'000

	2010-12-31	2009-12-31
Securities	250,000	50,000
Bills	97,525,239	40,152,396
Loans	-	150,000
Receivables under finance leases	523,194	606,000
Subtotal	98,298,433	40,958,396
Less: Impairment provisions (Note 10)	(35,000)	(35,000)
Total	98,263,433	40,923,396

(c) Fair value of collateral

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

In RMB'000

	2010-12-31		2009-12-31	
	Amount of reverse repurchase agreements	Fair value of collateral	Amount of reverse repurchase agreements	Fair value of collateral
Bills	59,788,125	59,788,125	21,994,768	21,994,768

As at 31 December 2010, included in the above fair value of collateral were bills of RMB9,830,370 thousand (31 December 2009: Nil) that had been re-pledged and the Company had an obligation to return such collateral.

19. ACCOUNTS RECEIVABLES

In RMB'000

	2010-12-31	2009-12-31
Receivables with respect to making payments on behalf of customers (Note)	7,388,795	3,169,088
Receivables under factoring	3,960,733	676,502
Receivables with respect to making payments on behalf of other banks	1,874,992	491,328
Receivables under discounted bills	502,895	445,243
Total	13,727,415	4,782,161

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

As at 31 December 2010 and 31 December 2009, no impairment provision was made for the above outstanding balances of accounts receivables.

20. LOANS AND ADVANCES

20a. Analysed by corporation and individual

In RMB'000

	2010-12-31	2009-12-31
Loans and advances to corporations:		
Loans	268,653,156	216,593,743
Discounted bills	18,646,560	45,285,528
Subtotal	287,299,716	261,879,271
Loans and advances to individuals:		
Credit cards	6,340,541	4,750,620
Property mortgages	102,372,046	85,800,764
Others	11,378,832	7,086,758
Subtotal	120,091,419	97,638,142
Total loans and advances	407,391,135	359,517,413
Less: Loan impairment provisions (Notes 20f & 10)	(6,425,060)	(3,954,868)
Loans and advances, net	400,966,075	355,562,545

As at 31 December 2010, included in the discounted bills was an amount of RMB1,305,932 thousand (31 December 2009: Nil) that had been pledged for amounts due to the Central Bank.

As at 31 December 2010, included in the loans was an amount of RMB2,572,000 thousand (31 December 2009: Nil) that had been pledged for repurchase agreements.

As at 31 December 2010, there were no discounted bills (31 December 2009: RMB5,260,731 thousand) that had been pledged for repurchase agreements.

In addition, as at 31 December 2010, the Company transferred out (without recourse) discounted bills amounting to RMB86 billion (31 December 2009: RMB56.5 billion) that had not yet matured at the year end.

20. LOANS AND ADVANCES (continued)

20b. Analysed by industry

In RMB'000

	2010-12-31	2009-12-31
Agriculture, husbandry and fisheries	829,002	590,000
Extraction (Heavy industry)	4,206,075	3,523,490
Manufacturing (Light industry)	83,680,778	59,974,269
Energy	12,574,110	8,000,990
Transportation, storage and communication	20,287,842	17,405,390
Commercial	55,195,669	36,069,931
Real estate	22,527,322	23,254,621
Service, technology, culture and sanitary industries	48,328,221	52,516,681
Construction	18,277,064	13,405,329
Discounted bills	18,646,560	45,285,528
Loans and advances to individuals	120,091,419	97,638,142
Others	2,747,073	1,853,042
Total loans and advances	407,391,135	359,517,413
Less: Loan impairment provisions (Notes 20f & 10)	(6,425,060)	(3,954,868)
Loans and advances, net	400,966,075	355,562,545

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

In RMB'000

	2010-12-31	2009-12-31
Unsecured	73,941,051	64,776,195
Guaranteed	84,903,049	66,303,241
Secured by collateral	229,900,475	183,152,449
Of which: secured by mortgages	185,885,620	156,820,843
secured by monetary assets	44,014,855	26,331,606
Subtotal	388,744,575	314,231,885
Discounted bills	18,646,560	45,285,528
Total loans and advances	407,391,135	359,517,413
Less: Loan impairment provisions (Notes 20f & 10)	(6,425,060)	(3,954,868)
Loans and advances, net	400,966,075	355,562,545

20. LOANS AND ADVANCES (continued)

20d. Aging analysis of past due loans

In RMB'000

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

In RMB'000

	2009-12-31				
	Overdue by 1 to 90 days, inclusive	Overdue by 90 days to 1 year, inclusive	Overdue by 1 to 3 years, inclusive	Overdue by more than 3 years	Total
Unsecured	173,864	80,390	190	-	254,444
Guaranteed	28,237	278,579	84,564	63,288	454,668
Secured by collateral	1,458,413	455,196	927,866	573,478	3,414,953
Of which: secured by mortgages	1,432,051	388,525	597,893	434,730	2,853,199
secured by monetary assets	26,362	66,671	329,973	138,748	561,754
Total	1,660,514	814,165	1,012,620	636,766	4,124,065

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

20e. Analysed by geographical region

In RMB'000

	2010-12-31	2009-12-31
Southern and Central China	124,556,533	110,844,053
Eastern China	149,627,501	128,154,646
Northern and North-eastern China	97,820,853	91,587,937
South-western China	32,639,175	27,084,283
Offshore businesses	2,747,073	1,846,494
Total loans and advances	407,391,135	359,517,413
Less: Loan impairment provisions (Notes 20f &10)	(6,425,060)	(3,954,868)
Loans and advances, net	400,966,075	355,562,545

20. LOANS AND ADVANCES (continued)

20f. Movements in impairment provisions for loans and advances

In RMB'000

	2010			2009		
	Individual	Collective	Total	Individual	Collective	Total
Balance at beginning of the year	994,935	2,959,933	3,954,868	481,327	1,545,352	2,026,679
Charge/(reversal) for the year	(928,082)	2,402,545	1,474,463	9,802	1,430,750	1,440,552
Amounts written off	(12,111)	(201,088)	(213,199)	-	(175,017)	(175,017)
Reversal for the year:						
Add-back of loans written off previously	-	-	-	356,235	-	356,235
Recovery of loans written off previously	1,147,353	137,199	1,284,552	514,312	158,848	673,160
Amounts released upon disposal of loans	-	-	-	(302,717)	-	(302,717)
Interest accrued on impaired loans and advances	(68,905)	-	(68,905)	(109,510)	-	(109,510)
Other changes for the year	(6,719)	-	(6,719)	45,486	-	45,486
Balance at end of the year (Note 10)	1,126,471	5,298,589	6,425,060	994,935	2,959,933	3,954,868

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

In RMB'000

	2010-12-31	2009-12-31
Bond investments analysed by issuer:		
Governments and the Central Bank	7,618,980	17,043,489
Policy banks	22,526,040	18,192,544
Other banks and non-bank financial institutions	677,160	634,433
Corporations	525,626	885,227
Subtotal	31,347,806	36,755,693
Equity investments (Note 21a):		
Tradable shares	32,835	76,246
Non-tradable shares (Note)	198,216	218,216
Less: Impairment provisions (Note 10)	(112,857)	(112,857)
Non-tradable shares, net	85,359	105,359
Subtotal	118,194	181,605
Total available-for-sale financial assets	31,466,000	36,937,298

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

As at 31 December 2010, there were no bond investments (31 December 2009: RMB5,319,856 thousand) that had been pledged for repurchase agreements. As at 31 December 2010, there were no bond investments (31 December 2009: RMB1,269,572 thousand) that had been pledged for agreements of time deposit from the PBOC.

As at 31 December 2010, there were RMB2,715 thousand restricted tradable available-for-sale financial assets. As at 31 December 2009, included in the available-for-sale financial assets were restricted tradable shares of RMB7,343 thousand.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

21a. Equity investments

In RMB'000

	2010-12-31	2009-12-31
Tradable shares		
Shenzhen Hongkai (Group) Co., Ltd.	-	5,757
Yihua Real Estate Co., Ltd.	22,672	59,455
Visa Inc.	1,029	1,324
Stellar Megaunion Corporation	-	5,450
Shanghai Worldbest Co., Ltd.	4,273	4,260
Shenzhen Shenxin Taifeng Group Co., Ltd.	4,861	-
Subtotal	32,835	76,246
Non-tradable shares		
China UnionPay Co., Ltd	50,000	50,000
Gintian Industry (Group) Co., Ltd.	9,662	9,662
Hainan Pearl River Holdings Co., Ltd.	9,650	9,650
Hainan Wuzhou Travel Co., Ltd.	5,220	5,220
Meizhou Polyester (Group) Co.	1,100	1,100
Shenzhen Zoto Investment Co., Ltd.	2,500	2,500
Guangdong Sanxing Enterprises (Group) Co., Ltd.	500	500
Hainan Baiyunshan Co., Ltd.	1,000	1,000
Hainan Saige Co., Ltd.	1,000	1,000
Hainan Zhonghailian Real Estate Co., Ltd.	1,000	1,000
Shenzhen Jiafeng Textile Industrial Co., Ltd.	16,725	16,725
SWIFT	684	684
Yong An Property Insurance Co., Ltd.	67,000	67,000
Wuhan Steel Electricity Co., Ltd.	32,175	32,175
Chengdu Unionfriend Network Co., Ltd.	-	20,000
Less: Impairment provisions (Note 10)	(112,857)	(112,857)
Subtotal	85,359	105,359
Equity investments, net	118,194	181,605

22. HELD-TO-MATURITY INVESTMENTS

In RMB'000

	2010-12-31	2009-12-31
Bond investments analysed by issuer:		
Governments and the Central Bank	22,010,366	11,578,694
Policy banks	28,613,269	13,758,516
Other banks and non-bank financial institutions	2,739,149	2,924,145
Corporations	8,016,584	6,292,739
Total	61,379,368	34,554,094

As at 31 December 2010, included in the bond investments were amounts of RMB598,218 thousand (31 December 2009: RMB8,777,992 thousand) and RMB6,177,996 thousand (31 December 2009: RMB1,208,175 thousand) that had been pledged for agreements of time deposit from the PBOC and repurchase agreements, respectively.

23. RECEIVABLES

In RMB'000

	2010-12-31	2009-12-31
PBOC bills	-	13,450,000
Subordinated bonds issued by financial institutions	500,000	500,000
Principal guaranteed wealth management products issued by banks	18,002,100	16,477,100
Total	18,502,100	30,427,100

As at 31 December 2010, there were no receivables (31 December 2009: RMB2,000,000 thousand) that had been pledged for repurchase agreements.

24. INVESTMENTS IN ASSOCIATES

In RMB'000

	2010-12-31	2009-12-31
Associates		
Chengdu Gongtou Assets Management Co., Ltd.	313,054	279,800
Shandong Xinkaiyuan Real Estate Co., Ltd.	29,038	30,607
Subtotal	342,092	310,407
Less: Impairment provisions (Note 10)	(23,061)	(23,061)
Net investment balance	319,031	287,346

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

In RMB'000

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

In RMB'000

	2009							
			Movements in equity			Impairment provision		
	cost of investment	Balance at beginning of the year	Share of profit for the year	Movement in other comprehensive income	Cash dividend received	Charge for the year	Accumulated balance	Balance at end of the year
Chengdu Gongtou Assets Management Co., Ltd. (Note 1)	259,836	249,065	18,336	(7,601)	-	-	(20,000)	259,800
Shandong Xinkaiyuan Real Estate Co., Ltd. (Note 2)	30,607	30,607	-	-	-	(3,061)	(3,061)	27,546
Total	290,443	279,672	18,336	(7,601)	-	(3,061)	(23,061)	287,346

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

Note 2: At 18 August 2008, the Company obtained 15.42% of the shareholding of Shandong Xinkaiyuan Real Estate Co., Ltd. as repossessed assets. The Company has appointed a representative at the board of the investee and has significant influence over the investee.

The key financial information of the associates is as follows:

In RMB'000

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

24. INVESTMENTS IN ASSOCIATES (continued)

In RMB'000

	2010-12-31		2010	
	Total assets	Total liabilities	Operating income	Net profit (Note)
Chengdu Gongtou Assets Management Co., Ltd.	1,385,767	467,642	114,434	115,053
Shandong Xinkaiyuan Real Estate Co., Ltd.	634,548	459,741	-	(23,086)

In RMB'000

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

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

25. INVESTMENT PROPERTIES

In RMB'000

	2010-12-31	2009-12-31
Balance at beginning of the year	523,846	411,690
Purchase during the year	-	54,306
Fair value changes recognised in the income statement	37,071	47,858
Transfer in / (out) during the year, net	(21,112)	9,992
Balance at end of the year	539,805	523,846

The Company's investment properties are mainly properties and buildings, which are rented to third parties under operating leases. The investment properties are situated in locations where there are active property markets and the fair value of the investment properties can be reliably determinable on a continuing basis. Accordingly, management decided to adopt the fair value model for subsequent measurement of the investment properties, which are valued by independent professionally qualified valuers on, at least, an annual basis. The revaluation as at 31 December 2010 was performed by Shenzhen Guozi Land and Real Estate Valuation Co., Ltd. In connection with this, the valuation was carried out by qualified persons who are members of the Shenzhen Institute of Real Estate Appraisers.

As at 31 December 2010, included in the investment properties was an amount of RMB29,937 thousand (31 December 2009: RMB23,322 thousand) that did not have the corresponding registration certificates of property rights.

The gross rental income earned from the investment properties during the year amounted to RMB42,732 thousand (2009: RMB40,086 thousand). The total direct operating expense (including repairs and maintenance expenses) for the investment properties, with or without rental income generated during the year, was RMB2,479 thousand (2009: RMB2,907 thousand).

26. PROPERTY AND EQUIPMENT

In RMB'000

2010					
At cost:	Balance at beginning of the year	Additions	Transfer from construction in progress	Subtraction	Balance at end of the year
Properties and buildings	1,552,298	50,007	591,512	(27,786)	2,166,031
Transportation vehicles	84,150	13,291	-	(13,889)	83,552
Computers	578,218	108,023	2,748	(35,246)	653,743
Electronic appliances	489,283	107,704	47,270	(20,313)	623,944
Automatic teller machines	281,469	24,388	-	(14,357)	291,500
Owner-occupied property improvements	370,896	25,030	132,078	(6,380)	521,624
Leasehold improvements	829,417	57,668	123,571	(43,635)	967,021
Total	4,185,731	386,111	897,179	(161,606)	5,307,415
Accumulated depreciation:	Balance at beginning of the year	Additions	Accrual	Subtraction	Balance at end of the year
Properties and buildings	494,463	-	66,093	(10,599)	549,957
Transportation vehicles	51,403	-	8,618	(12,991)	47,030
Computers	380,626	-	99,056	(34,190)	445,492
Electronic appliances	263,923	-	71,961	(18,154)	317,730
Automatic teller machines	159,986	-	40,037	(14,169)	185,854
Owner-occupied property improvements	285,163	-	36,446	(3,618)	317,991
Leasehold improvements	509,577	-	105,348	(38,411)	576,514
Total	2,145,141	-	427,559	(132,132)	2,440,568
Less: Impairment provision (Note 10)	(6,289)				(6,289)
Net book value	2,034,301				2,860,558

26. PROPERTY AND EQUIPMENT (continued)

In RMB'000

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

As at 31 December 2010, the original cost and net book value of properties and buildings amounting to RMB330,810 thousand (31 December 2009: RMB140,603 thousand) and RMB281,104 thousand (31 December 2009: RMB83,033 thousand) respectively, are in use by the Company without having the registration certificates of property rights. Among these properties and buildings, the certificate of Tianjin branch building (with an original cost and net book value of RMB217,959 thousand and RMB215,562 thousand respectively) is in progress and is expected to be completed in mid 2011.

27. DEFERRED TAX ASSETS/LIABILITIES

In RMB'000

	2010			
	Balance at beginning of the year	Recognised in the income statement	Recognised in other comprehensive income	Balance at end of the year
Deferred tax assets				
Impairment provisions	1,492,006	25,486	-	1,517,492
Salaries and bonuses	67,522	284,694	-	352,216
Changes in fair values of available-for-sale financial assets	-	-	42,565	42,565
Others	23,406	18,889	-	42,295
Subtotal	1,582,934	329,069	42,565	1,954,568
Deferred tax liabilities				
Changes in fair values of financial instruments at fair value through profit or loss and derivative financial instruments	(18,680)	3,255	-	(15,425)
Changes in fair values of available-for-sale financial assets	(6,106)	-	6,106	-
Changes in fair values of investment properties and revaluation surplus on owner-occupied properties transferred to investment properties	(69,739)	(12,328)	(5,584)	(87,651)
Subtotal	(94,525)	(9,073)	522	(103,076)
Net amount	1,488,409	319,996	43,087	1,851,492

In RMB'000

	2009			
	Balance at beginning of the year	Recognised in the income statement	Recognised in other comprehensive income	Balance at end of the year
Deferred tax assets				
Impairment provisions	1,742,460	(250,454)	-	1,492,006
Salaries and bonuses	21,600	45,922	-	67,522
Others	47,756	(24,350)	-	23,406
Subtotal	1,811,816	(228,882)	-	1,582,934
Deferred tax liabilities				
Changes in fair values of financial instruments at fair value through profit or loss and derivative financial instruments	(46,585)	27,905	-	(18,680)
Changes in fair values of available-for-sale financial assets	(251,248)	-	245,142	(6,106)
Changes in fair values of investment properties and revaluation surplus on owner-occupied properties transferred to investment properties	(43,846)	(16,933)	(8,960)	(69,739)
Subtotal	(341,679)	10,972	236,182	(94,525)
Net amount	1,470,137	(217,910)	236,182	1,488,409

28. OTHER ASSETS

(a) Analysed by nature

In RMB'000

	2010-12-31	2009-12-31
Interest receivable on bond investments and wealth management products	1,384,991	1,113,585
Interest receivable on loans and amounts due from other financial institutions	890,507	709,931
Long term prepayments	98,878	109,439
Prepayments (Note 28b)	137,907	118,255
Prepaid legal expenses (Note 28c)	64,045	68,697
Repossessed assets (Note 28d)	630,116	1,028,124
Construction in progress (Note 28e)	194,586	673,587
Receivable of bills due from other banks	3,796	1,977
Receivable of deferred consumption payments	336,457	141,141
Others (Note 28f)	158,120	156,885
Total other assets	3,899,403	4,121,621
Less: Impairment provisions:		
Prepaid legal expenses (Note 28c)	(56,080)	(61,636)
Repossessed assets (Note 28d)	(258,185)	(360,961)
Others (Note 28f)	(103,314)	(92,772)
Total impairment provisions	(417,579)	(515,369)
Other assets, net	3,481,824	3,606,252

(b) Aging analysis of prepayments

In RMB'000

	2010-12-31		2009-12-31	
	Amount	Percentage	Amount	Percentage
Less than 1 year	88,661	64.29%	77,536	65.57%
1 to 2 years	11,657	8.45%	15,768	13.33%
2 to 3 years	14,672	10.64%	6,178	5.22%
Over 3 years	22,917	16.62%	18,773	15.88%
Total	137,907	100.00%	118,255	100.00%

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

28. OTHER ASSETS (continued)

(c) Prepaid legal expenses

In RMB'000

	2010-12-31				2009-12-31			
	Carrying amount		Impairment provision		Carrying amount		Impairment provision	
	Amount	Percentage	Amount	Coverage	Amount	Percentage	Amount	Coverage
Individual assessment	59,237	92.49%	(52,343)	88.36%	63,071	91.81%	(58,155)	92.21%
Collective assessment:								
Aging less than 1 year	2,269	3.55%	(1,256)	55.35%	2,865	4.17%	(956)	33.37%
Aging between 1 and 2 years	1,271	1.98%	(1,213)	95.44%	790	1.15%	(554)	70.13%
Aging between 2 and 3 years	438	0.68%	(438)	100.00%	522	0.76%	(522)	100.00%
Aging over 3 years	830	1.30%	(830)	100.00%	1,449	2.11%	(1,449)	100.00%
Subtotal	4,808	7.51%	(3,737)	77.72%	5,626	8.19%	(3,481)	61.87%
Total	64,045	100.00%	(56,080)	87.56%	68,697	100.00%	(61,636)	89.72%

(d) Repossessed assets

In RMB'000

	2010-12-31	2009-12-31
Land, properties and buildings	590,375	976,451
Others	39,741	51,673
Total	630,116	1,028,124
Less: Provision for decline in value (Note 10)	(258,185)	(360,961)
Repossessed assets, net	371,931	667,163

During the year, the Company took possession of collateral held as security with a carrying amount of RMB120,858 thousand (2009: RMB404,393 thousand). The collateral mainly comprises buildings. During the year, the Company disposed of repossessed assets with their gross carrying value amounting to RMB518,866 thousand (2009: RMB313,572 thousand). The Company plans to dispose of the repossessed assets through auctions, bidding or transfers in the future.

(e) Construction in progress

In RMB'000

	2010-12-31	2009-12-31
Balance at beginning of the year	673,587	257,040
Additions during the year	437,470	592,473
Transfer to property and equipment	(897,179)	(156,334)
Transfer to intangible assets	(19,292)	(19,592)
Balance at end of the year	194,586	673,587

28. OTHER ASSETS (continued)

(e) Construction in progress (continued)

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

In RMB'000

	2010						
Project name	Budget amount	Balance at beginning of the year	Additions	Transfer out to fixed assets	Balance at end of the year	Percentage of budget incurred	Progress of project
Bank premises of Jinan Branch	210,000	-	175,330	-	175,330	83%	75%
Property development project for Information Technology Building of SDB	217,095	176,788	32,676	(209,464)	-	96%	100%
Bank premises of Tianjin Branch	268,548	197,504	48,587	(246,091)	-	92%	100%
Bank premises of Nanjing Branch (Hetai Building)	253,444	233,798	11,016	(244,814)	-	97%	100%

In RMB'000

	2009						
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
Property development project for Information Technology Building of SDB	217,095	-	176,788	-	176,788	81%	90%
Bank premises of Tianjin Branch	268,548	-	197,504	-	197,504	74%	10%
Bank premises of Nanjing Branch (Hetai Building)	253,444	215,444	18,354	-	233,798	92%	92%

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

(f) Others

In RMB'000

	2010-12-31				2009-12-31			
	Carrying amount		Impairment provision		Carrying amount		Impairment provision	
	Amount	Percentage	Amount	Coverage	Amount	Percentage	Amount	Coverage
Individual assessment	117,179	74.11%	(95,144)	81.20%	145,776	92.92%	(92,611)	63.53%
Collective assessment:								
Aging less than 1 year	26,098	16.51%	(1,091)	4.18%	11,030	7.03%	(114)	1.03%
Aging between 1 and 2 years	6,031	3.81%	(208)	3.45%	-	-	-	-
Aging between 2 and 3 years	510	0.32%	(472)	92.55%	7	0.00%	(7)	100.00%
Aging over 3 years	8,302	5.25%	(6,399)	77.08%	72	0.05%	(40)	55.56%
Subtotal	40,941	25.89%	(8,170)	19.96%	11,109	7.08%	(161)	1.45%
Total	158,120	100.00%	(103,314)	65.34%	156,885	100.00%	(92,772)	59.13%

29. PLACEMENTS OF DEPOSITS FROM OTHER FINANCIAL INSTITUTIONS

In RMB'000

	2010-12-31	2009-12-31
Domestic banks	59,298,912	53,708,335
Domestic non-bank financial institutions	23,071,148	20,431,338
Total	82,370,060	74,139,673

30. FUNDS BORROWED FROM OTHER FINANCIAL INSTITUTIONS

In RMB'000

	2010-12-31	2009-12-31
Domestic banks	6,200,174	7,570,118

31. REPURCHASE AGREEMENTS

In RMB'000

	2010-12-31	2009-12-31
(a) Analysed by collateral		
Securities	6,144,600	8,448,000
Bills	8,944,072	5,285,384
Loans	2,500,000	-
Total	17,588,672	13,733,384
(b) Analysed by counterparty		
Banks	16,854,072	13,733,384
Non-bank financial institutions	734,600	-
Total	17,588,672	13,733,384

32. CUSTOMER DEPOSITS

In RMB'000

	2010-12-31	2009-12-31
Current deposits:		
Corporate customers	142,599,994	116,998,653
Personal customers	33,028,210	27,243,974
Sub-total	175,628,204	144,242,627
Fixed deposits:		
Corporate customers	177,004,192	125,519,956
Personal customers	47,816,086	43,175,696
Sub-total	224,820,278	168,695,652
Guarantee deposits	143,372,603	121,671,280
Fiscal deposits	16,399,646	9,936,132
Time deposits from the PBOC	470,000	8,320,000
Inward and outward remittances	2,221,611	1,769,517
Total	562,912,342	454,635,208

33. EMPLOYEE BENEFITS PAYABLE

In RMB'000

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

In RMB'000

	2009			
	Balance at beginning of the year	Increase during the year	Payment made during the year	Balance at end of the year (Note 2)
Salaries, bonuses, allowances and subsidies	1,000,417	2,507,090	(2,088,164)	1,419,343
including: Deferred bonus accrual (Note 1)	108,200	91,334	(39,932)	159,602
Social insurance, supplementary pension contributions and staff welfare	247,003	641,287	(625,905)	262,385
Housing funds	-	121,418	(121,418)	-
Labour union and training expenses	-	73,380	(73,380)	-
Others	-	4,768	(4,768)	-
Total	1,247,420	3,347,943	(2,913,635)	1,681,728

Note 1: The amount of deferred bonus is determined based on the indicators of profitability, the share price and the capital adequacy ratio of the Company as well as the share prices of certain other domestic listed banks; and will be settled in cash in accordance with the terms of the arrangement.

Note 2: As at 31 December 2010, included in the outstanding balances of employee benefits payable was an approximate amount of RMB1.5 billion (31 December 2009: RMB1.4 billion) that is expected to be settled in 12 months.

34. ACCOUNTS PAYABLES

In RMB'000

	2010-12-31	2009-12-31
Payables with respect to making payments on behalf of customers	4,532,860	390,739
Payables under factoring	85,064	14,899
Payables under discounted bills	502,894	445,243
Total	5,120,818	850,881

35. BONDS PAYABLE

In RMB'000

	2010-12-31	2009-12-31
Subordinated bonds (Note 1)	7,978,650	7,972,653
Hybrid capital debt instrument (Note 2)	1,490,838	1,490,061
Total	9,469,488	9,462,714

During 2010 and 2009, the Company did not have any defaults of principal, interest or other breaches with respect to the subordinated bonds and the hybrid capital debt instrument.

Note 1: *As approved by the PBOC and CBRC, the Company issued three sets of subordinated bonds with a total amount of RMB8 billion in the inter-bank bond market on 21 March 2008 and 28 October 2008. These subordinated bonds comprise two sets of fixed-rate bonds with nominal values of RMB6 billion and RMB1.5 billion respectively; and one set of floating-rate bonds with a nominal value of RMB0.5 billion. The term of the bonds is of 10 years with a call option at the end of the fifth year. The coupon rates for the first five years are 6.10% and 5.30% for the two sets of fixed-rate bonds; and SHIBOR3M+1.40% for the floating-rate bonds. If the Company does not exercise the call option at the end of the fifth year, both the fixed and floating coupon rates will increase by 3%.*

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

36. PROVISIONS

In RMB'000

	2010-12-31	2009-12-31
Balance at beginning of the year	3,358	25,809
Charge/(reversal) for the year	1,469	(3,508)
Amounts paid or released	(1,780)	(18,943)
Balance at end of the year	3,047	3,358

37. OTHER LIABILITIES

In RMB'000

	2010-12-31	2009-12-31
Interest payable	3,920,073	2,682,162
Tax payable – other than income tax	468,711	357,505
Bank drafts	14,591	189,471
Amounts pending for settlement and clearing	77,157	88,739
Financial guarantee contracts	69,007	54,692
Amounts payable for bond redemption as intermediaries	36,139	29,994
Inactive deposit account balances	34,573	39,457
Accrued expenses	98,230	129,483
Amounts payable for acquisition of bonds	-	794,952
Dividends payable (Note)	11,260	11,260
Advanced receipts of rentals and proceeds from disposal of repossessed assets	11,713	89,795
Others	503,568	386,002
Total	5,245,022	4,853,512

Note: As at 31 December 2010, the above-mentioned balance of dividends payable has been outstanding for more than one year as the related shareholders have not collected the dividends.

38. SHARE CAPITAL

As at 31 December 2010, the number of the Company's ordinary shares issued and fully paid was 3,485,014 thousand, with a price of RMB1 Yuan each. The nature and the structure of the share capital are as follows:

In RMB'000	2009-12-31	Percentage	Movement in the year	2010-12-31	Percentage
I.Restricted tradable shares:					
Domestic non-state-owned corporation shares	56	0.00%	379,580	379,636	10.89%
Domestic individual shares	8	0.00%	11	19	0.00%
Foreign corporation shares	181,256	5.84%	(181,256)	-	0.00%
Total restricted tradable shares	181,320	5.84%	198,335	379,655	10.89%
II.Unrestricted tradable shares:					
RMB ordinary shares	2,924,114	94.16%	181,245	3,105,359	89.11%
III.Total shares	3,105,434	100.00%	379,580	3,485,014	100.00%

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

The Company signed a share placement agreement with Ping An Life Insurance Company of China, Ltd. ("Ping An Life") on 12 June 2009. As approved by CSRC on 28 June 2010 in accordance with the ZhengJianXuKe No. [2010]862, the Company issued 379,580 thousand shares to Ping An Life at a price of RMB18.26 Yuan per share, with the proceeds amounting to RMB6,931,130 thousand. After deducting the share issue related expenses amounting to RMB23,702 thousand, the share capital and the share premium increased by RMB379,580 thousand and RMB6,527,848 thousand, respectively. The above shares are restricted to any transfer in 36 months after the issue. However, related parties of Ping An Life (referring to enterprises directly or indirectly controlling Ping An Life, or those being controlled directly or indirectly by Ping An Life, or those subject to the same control by another entity as Ping An Life) are not included in such transfer restriction.

39. RESERVES

In RMB'000

	2010-12-31	2009-12-31
Statutory surplus reserve	1,912,339	1,283,957
General reserve	5,977,782	4,676,276
Accumulated share of the other comprehensive income of associates	(26,946)	(17,727)
Cumulative changes in fair value of available-for-sale financial assets	(132,761)	20,499
Revaluation surplus on owner-occupied properties transferred to investment properties	56,292	41,790
Total	7,786,706	6,004,795

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 31 December 2010 and 31 December 2009, the amount of the surplus reserve represented the statutory surplus reserve.

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

40. UNAPPROPRIATED PROFIT

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

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

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41. NOTE TO THE CASH FLOW STATEMENT

In RMB'000

	2010	2009
Profit before tax	7,998,021	6,190,537
Adjustments to reconcile profit before tax to cash flows arising from operating activities		
Non-cash items included in profit before tax and other adjustments:		
Depreciation of property and equipment	427,559	342,228
Impairment provision on loans	1,474,463	1,440,552
Interest income accrued on impaired financial assets	(68,905)	(109,510)
Impairment provisions on other assets	13,653	134,536
Provisions charged/(reversed) for the year	1,469	(3,508)
Amortisation of long term prepayments	12,435	13,638
Amortisation of intangible assets	52,458	36,032
Net unrealised loss of financial assets/liabilities at fair value through profit or loss	19,071	49,190
Net gain on disposal of property and equipment	(602)	(289)
Interest income on debt investments	(3,175,925)	(2,601,525)
Dividend income from investment securities	(5,094)	(1,905)
Net gain on disposal of investment securities	(2,122)	(472,060)
Changes in fair value of investment properties	(37,071)	(47,858)
Interest expense on bonds	555,945	520,356
Share of profits of associates	(60,824)	(18,336)
Net decrease/(increase) in operating assets:		
Due from the Central Bank	(23,841,469)	(9,468,942)
Placements of deposits with other financial institutions	5,076,642	5,906,295
Funds loaned to other financial institutions	(974,193)	1,263,609
Reverse repurchase agreements	(33,937,324)	1,584,997
Financial assets at fair value through profit or loss	1,132,776	(98,772)
Loans and advances	(46,575,944)	(76,230,806)
Long term prepayments	(1,874)	(8,271)
Other assets	(11,030,352)	(2,458,522)
Net increase/(decrease) in operating liabilities:		
Due to the Central Bank	2,218,199	-
Placements of deposits from other financial institutions	8,230,387	38,076,641
Interbank borrowings	(1,369,944)	190,118
Repurchase agreements	3,701,753	(25,182,731)
Financial liabilities at fair value through profit or loss	-	(103,764)
Customer deposits	107,825,040	93,506,775
Inward and outward remittances	452,094	614,398
Other liabilities	5,308,548	466,434
Cash flows from operating activities	23,418,870	33,529,537

42. COMMITMENTS AND CONTINGENT LIABILITIES

42a. Capital commitments

In RMB'000

	2010-12-31	2009-12-31
Authorised, but not contracted for	22,122	62,464
Contracted, but not provided for	21,193	75,081
Total	43,315	137,545

42b. Operating Lease commitments

Operating lease commitments - Company as lessee

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

In RMB'000

	2010-12-31	2009-12-31
Within one year, inclusive	472,328	443,244
In the second to fifth years, inclusive	1,315,628	1,180,074
More than five years	610,786	617,839
Total	2,398,742	2,241,157

Operating lease commitments - Company as lessor

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

In RMB'000

	2010-12-31	2009-12-31
Within one year, inclusive	33,886	37,512
In the second to fifth years, inclusive	32,930	39,883
More than five years	3,207	2,424
Total	70,023	79,819

42. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

42c. Credit commitments

In RMB'000

	2010-12-31	2009-12-31
Financial guarantee contracts:		
Bank acceptances	246,614,478	196,808,019
Guarantees issued	3,823,915	2,306,093
Letters of credit issued	2,926,267	2,391,676
Subtotal	253,364,660	201,505,788
Unused limit of credit cards and undrawn irrevocable loan commitments	9,863,018	8,447,565
Total	263,227,678	209,953,353
Credit risk weighted amounts of credit commitments	95,401,720	69,039,949

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

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

42d. Fiduciary transactions

In RMB'000

	2010-12-31	2009-12-31
Entrusted deposits	11,144,128	9,028,475
Entrusted loans	11,144,128	9,028,475
Entrusted funding	16,256,304	3,319,686
Entrusted investments	16,256,304	3,319,686

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

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

42. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

42e. Contingent liabilities

(1) Legal proceedings

As at 31 December 2010, the total claimed amount of the litigation cases of which the Company is the defendant was RMB241 million (31 December 2009: RMB175 million). These litigation cases are under legal proceedings. In the opinion of management, the Company has made adequate allowance for any probable losses based on the prevailing facts and circumstances.

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

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

As an underwriting agent of the MOF, the Company underwrites PRC voucher-type government bonds and savings bonds (electronic) and sells the bonds to the general public. The Company is obliged to redeem the bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2010, the Company has sold voucher-type government bonds and savings bonds (electronic) with accumulated amounts of RMB3,146,088 thousand (31 December 2009: RMB2,911,597 thousand) and RMB183,313 thousand (31 December 2009: RMB99,648 thousand) respectively, to the general public that the Company has the obligation of early redemption.

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

As at 31 December 2010 and 31 December 2009, there was no unexpired underwriting commitment of the government bonds.

43. CAPITAL MANAGEMENT

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

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

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

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

In RMB'000

	2010-12-31	2009-12-31
Net core capital	32,918,920	19,854,282
Supplementary capital	14,662,482	12,372,093
Net capital	47,271,941	31,905,240
Risk-weighted assets and market risk capital adjustment	463,690,570	359,508,049
Core capital adequacy ratio	7.10%	5.52%
Capital adequacy ratio	10.19%	8.88%

44. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

A maturity analysis of the assets and liabilities of the Company as at 31 December 2010 was as follows:

In RMB'000

	2010-12-31							
	Overdue/ on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
ASSETS:								
Cash on hand and due from the Central Bank	13,635,116	-	-	-	-	-	62,951,742	76,586,858
Precious metals	2	-	-	-	-	-	-	2
Amounts due from other financial institutions (1)	2,460,521	45,088,187	41,780,983	25,490,265	443,194	-	-	115,263,150
Financial assets at fair value through profit or loss and derivative financial assets	-	67,118	75,084	198,679	30,853	-	-	371,734
Accounts receivables	-	1,787,785	5,203,656	5,955,618	780,356	-	-	13,727,415
Loans and advances	1,233,509	22,949,743	46,152,391	174,654,157	96,316,791	59,659,484	-	400,966,075
Available-for-sale financial assets	-	239,370	1,992,138	8,341,043	12,796,721	7,978,534	118,194	31,466,000
Held-to-maturity investments	-	1,060	-	4,989,745	38,549,494	17,839,069	-	61,379,368
Receivables	-	8,000,000	-	10,002,100	500,000	-	-	18,502,100
Investments in associates	-	-	-	-	-	-	319,031	319,031
Property and equipment	-	-	-	-	-	-	2,860,558	2,860,558
Others	24,392	263,277	702,664	1,292,715	2,219,457	128,733	1,536,539	6,167,777
Total assets	17,353,540	78,396,540	95,906,916	230,924,322	151,636,866	85,605,820	67,786,064	727,610,068
LIABILITIES:								
Due to the Central Bank	-	669,706	68,855	1,499,114	-	-	-	2,237,675
Amounts due to other financial institutions (2)	26,840,245	33,283,356	22,972,512	23,062,793	-	-	-	106,158,906
Derivative financial liabilities	-	73,115	70,756	145,688	22,246	-	-	311,805
Accounts payables	-	447,318	2,184,803	2,488,697	-	-	-	5,120,818
Customer deposits	256,242,145	74,184,080	84,289,184	119,133,645	28,163,288	900,000	-	562,912,342
Bonds payable	-	-	-	-	7,978,649	1,490,839	-	9,469,488
Others	658,976	1,994,869	2,657,077	1,795,631	718,314	57,072	4,219	7,886,158
Total liabilities	283,741,366	110,652,444	112,243,187	148,125,568	36,882,497	2,447,911	4,219	694,097,192
Liquidity net value	(266,387,826)	(32,255,904)	(16,336,271)	82,798,754	114,754,369	83,157,909	67,781,845	33,512,876

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

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

44. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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

In RMB'000

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

Note: (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.

45. RISK DISCLOSURE

45a. Credit risk

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

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

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

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

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

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

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

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

In RMB'000

	2010-12-31	2009-12-31
Due from the Central Bank	75,750,309	53,464,783
Placements of deposits with other financial institutions	8,523,729	15,592,536
Funds loaned to other financial institutions	8,475,988	5,361,139
Financial assets at fair value through profit or loss	-	1,132,048
Derivative financial assets	371,734	99,996
Reverse repurchase agreements	98,263,433	40,923,396
Loans and advances	400,966,075	355,562,545
Available-for-sale financial assets (excluding equity investments)	31,347,806	36,755,693
Held-to-maturity investments	61,379,368	34,554,094
Receivables	18,502,100	30,427,100
Other assets	16,404,084	6,819,969
Total	719,984,626	580,693,299
Credit commitments	263,227,678	209,953,353
Maximum exposure to credit risk	983,212,304	790,646,652

45. RISK DISCLOSURE (continued)

45a. Credit risk (continued)

Risk concentration of the maximum exposure to credit risk

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

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

Please refer to Note 20 for an analysis of concentration of loans and advances by industry and geographical region.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

Credit quality

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

In RMB'000

	2010-12-31			
	Neither past due nor impaired	Past due but not impaired	Impaired (Note)	Total
Placements of deposits with other financial institutions	8,522,904	-	31,520	8,554,424
Funds loaned to other financial institutions	8,472,692	-	32,626	8,505,318
Reverse repurchase agreements	98,248,433	-	50,000	98,298,433
Accounts receivables	13,727,415	-	-	13,727,415
Loans and advances	403,000,653	1,989,816	2,400,666	407,391,135
Available-for-sale financial assets (excluding equity investments)	31,347,806	-	-	31,347,806
Held-to-maturity investments	61,379,368	-	-	61,379,368
Receivables	18,502,100	-	-	18,502,100
Total	643,201,371	1,989,816	2,514,812	647,705,999

45. RISK DISCLOSURE (continued)

45a. Credit risk (continued)

Credit quality (continued)

In RMB'000

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

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 31 December 2010, impaired loans and advances comprise overdue loans of RMB2,227,165 thousand (31 December 2009: RMB2,359,402 thousand) and non-overdue loans of RMB173,501 thousand (31 December 2009:RMB117,296 thousand).

Neither past due nor impaired loans and advances

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

In RMB'000

	2010-12-31	2009-12-31
Pass	401,879,920	354,198,769
Special Mention	1,120,733	1,077,283
Total	403,000,653	355,276,052

Past due but not impaired loans and advances

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

In RMB'000

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

45. RISK DISCLOSURE (continued)

45a. Credit risk (continued)

Credit quality (continued)

In RMB'000

	2009-12-31					
	Within 1 month	1 to 2 months	2 to 3 months	More than 3 months	Total	Fair value of collateral
Corporate loans and advances	78,070	18,325	5,000	129,928	231,323	169,402
Personal loans	1,286,773	188,524	58,043	-	1,533,340	3,271,790
Total	1,364,843	206,849	63,043	129,928	1,764,663	3,441,192

Impaired loans and advances

Impaired loans and advances are defined as those loans and advances having objective evidence of impairment as a result of one or more events that occur after initial recognition, resulting in an impact on the estimated future cash flows of loans and advances that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and the situation where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The fair value of the collateral that the Company holds relating to corporate loans and advances individually determined to be impaired at 31 December 2010 amounted to RMB 790 million (31 December 2009: RMB841 million).

Impaired amounts due from other financial institutions

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

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

In RMB'000

	2010-12-31	2009-12-31
Loans and advances to customers	274,523	282,172

45. RISK DISCLOSURE (continued)

45b. Liquidity risk

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

At the reporting date, the remaining contractual maturity analysis of the Company's financial liabilities (based on contractual undiscounted cash flows) was as follows:

In RMB'000

	2010-12-31							
	Overdue/ on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
Due to the Central Bank	-	670,199	69,082	1,508,929	-	-	-	2,248,210
Amounts due to other financial institutions (Note)	26,849,134	33,419,149	22,240,091	23,036,584	1,500,000	-	-	107,044,958
Derivative financial instruments								-
- Contractual amounts payable	-	7,542,181	4,143,761	10,822,782	131,792	-	-	22,640,516
- Contractual amounts receivable	-	(7,467,098)	(4,070,719)	(10,684,679)	(128,940)	-	-	(22,351,436)
Accounts payables	-	450,108	2,202,158	2,537,396	-	-	-	5,189,662
Customer deposits	259,568,208	74,673,416	85,404,544	122,442,503	31,928,407	1,124,645	-	575,141,723
Bonds payable	-	-	372,460	184,740	9,266,532	1,842,000	-	11,665,732
Other financial liabilities	609,918	15	1,373,358	231,014	324,574	47,881	-	2,586,760
Subtotal	287,027,260	109,287,970	111,734,735	150,079,269	43,022,365	3,014,526	-	704,166,125
Credit commitments	12,751,042	55,485,097	96,179,808	97,742,016	1,069,715	-	-	263,227,678
Total	299,778,302	164,773,067	207,914,543	247,821,285	44,092,080	3,014,526	-	967,393,803

In RMB'000

	2009-12-31							
	Overdue/ on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
Amounts due to other financial institutions (Note)	25,372,481	45,824,394	21,827,086	2,743,611	-	-	-	95,767,572
Derivative financial instruments							-	
- Contractual amounts payable	-	2,410,381	1,476,607	3,003,302	338,351	-		7,228,641
- Contractual amounts receivable	-	(2,407,585)	(1,474,807)	(2,989,392)	(335,435)	-	-	(7,207,219)
Accounts payables	-	128,765	202,851	529,318	-	-	-	860,934
Customer deposits	206,325,253	60,122,412	66,345,753	90,308,325	37,560,031	501,682	-	461,163,456
Bonds payable	-	-	370,025	177,075	9,714,725	1,927,500	-	12,189,325
Other financial liabilities	1,582,642	1,310	1,366,277	215,762	176,936	51,706	-	3,394,633
Subtotal	233,280,376	106,079,677	90,113,792	93,988,001	47,454,608	2,480,888	-	573,397,342
Credit commitments	9,232,655	39,599,210	76,524,196	83,888,728	708,564	-	-	209,953,353
Total	242,513,031	145,678,887	166,637,988	177,876,729	48,163,172	2,480,888	-	783,350,695

Note: 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.

45. RISK DISCLOSURE (continued)

45c. Market risk

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

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

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

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

45. RISK DISCLOSURE (continued)

45c. Market risk (continued)

Currency risk

The Company's foreign exchange risk exposure mainly comprises exposures from the mismatch of foreign currency assets and liabilities, and off-balance sheet foreign exchange position arisen from derivative transactions. The currency risk of the Company mainly arises from loans and advances, investments and deposits denominated in foreign currencies. The Company has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

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

In RMB'000

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

Note: (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.

45. RISK DISCLOSURE (continued)

45c. Market risk (continued)

Currency risk (continued)

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

In RMB'000

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

Note: (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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45. RISK DISCLOSURE (continued)

45c. Market risk (continued)

Currency risk (continued)

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

In RMB'000

	2010-12-31	
Currency	Change in exchange rate in %	Effect on profit before tax (RMB equivalent)
USD	+/-3%	+/-49,105
HKD	+/-3%	-/+9,453

In RMB'000

	2009-12-31	
Currency	Change in exchange rate in %	Effect on profit before tax (RMB equivalent)
USD	+/-3%	+/-28,295
HKD	+/-3%	+/-2,514

45. RISK DISCLOSURE (continued)

45c. Market risk (continued)

Interest rate risk

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

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

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

In RMB'000

	2010-12-31					
	Within 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-interest- bearing	Total
Assets:						
Cash on hand and due from the Central Bank	74,305,925	-	-	-	2,280,933	76,586,858
Precious metals	-	-	-	-	2	2
Amounts due from other financial institutions (1)	89,854,678	25,358,472	50,000	-	-	115,263,150
Financial assets at fair value through profit or loss and derivative financial assets	-	-	-	-	371,734	371,734
Accounts receivables	9,749,676	3,643,526	334,213	-	-	13,727,415
Loans and advances	239,551,909	150,661,664	9,341,576	1,410,926	-	400,966,075
Available-for-sale financial assets	11,660,106	15,453,440	4,167,420	66,840	118,194	31,466,000
Held-to-maturity investments	2,654,757	13,234,756	34,253,098	11,236,757	-	61,379,368
Receivables	8,000,000	10,002,100	500,000	-	-	18,502,100
Investments in associates	-	-	-	-	319,031	319,031
Property and equipment	-	-	-	-	2,860,558	2,860,558
Others	-	-	-	-	6,167,777	6,167,777
Total assets	435,777,051	218,353,958	48,646,307	12,714,523	12,118,229	727,610,068
Liabilities:						
Amounts due to the Central Bank	738,560	1,499,115	-	-	-	2,237,675
Amounts due to other financial institutions (2)	83,096,113	23,062,793	-	-	-	106,158,906
Derivative financial liabilities	-	-	-	-	311,805	311,805
Accounts payables	2,669,161	2,451,657	-	-	-	5,120,818
Customer deposits	417,715,410	116,133,644	28,163,288	900,000	-	562,912,342
Bonds payable	499,036	-	7,479,613	1,490,839	-	9,469,488
Others	-	-	-	-	7,886,158	7,886,158
Total liabilities	504,718,280	143,147,209	35,642,901	2,390,839	8,197,963	694,097,192
Interest rate risk exposure	(68,941,229)	75,206,749	13,003,406	10,323,684	Not applicable	Not applicable

Note: (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.

45. RISK DISCLOSURE (continued)

45c. Market risk (continued)

Interest rate risk (continued)

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

In RMB'000

	2009-12-31					
	Within 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-interest- bearing	Total
Assets:						
Cash on hand and due from the Central Bank	52,863,536	-	-	-	1,380,416	54,243,952
Precious metals	-	-	-	-	3,302	3,302
Amounts due from other financial institutions (1)	54,350,284	7,240,255	286,532	-	-	61,877,071
Financial assets at fair value through profit or loss and derivative financial assets	935,600	101,595	94,853	-	99,996	1,232,044
Accounts receivables	2,047,627	1,612,790	-	-	1,121,744	4,782,161
Loans and advances	180,379,059	164,044,284	8,219,018	2,920,184	-	355,562,545
Available-for-sale financial assets	16,537,017	14,338,674	5,738,171	141,831	181,605	36,937,298
Held-to-maturity investments	1,938,023	7,970,016	19,354,225	5,291,830	-	34,554,094
Receivables	5,037,100	23,890,000	1,500,000	-	-	30,427,100
Investments in associates	-	-	-	-	287,346	287,346
Property and equipment	-	-	-	-	2,034,301	2,034,301
Others	-	-	-	-	5,869,820	5,869,820
Total assets	314,088,246	219,197,614	35,192,799	8,353,845	10,978,530	587,811,034
Liabilities:						
Amounts due to other financial institutions (2)	92,742,045	2,701,130	-	-	-	95,443,175
Derivative financial liabilities	-	-	-	-	21,540	21,540
Accounts payables	-	390,740	-	-	460,141	850,881
Customer deposits	335,186,700	88,234,946	30,537,951	500,001	175,610	454,635,208
Bonds payable	500,000	-	7,472,653	1,490,061	-	9,462,714
Others	-	-	-	-	6,927,907	6,927,907
Total liabilities	428,428,745	91,326,816	38,010,604	1,990,062	7,585,198	567,341,425
Interest rate risk exposure	(114,340,499)	127,870,798	(2,817,805)	6,363,783	Not applicable	Not applicable

Note: (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.

45. RISK DISCLOSURE (continued)

45c. Market risk (continued)

Interest rate risk (continued)

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

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

In RMB'000

	2010-12-31		2009-12-31	
	Changes in interest rate (basis points)		Changes in interest rate (basis points)	
	-100	+100	-100	+100
Effect on the net interest income increase/(decrease)	321,210	(321,210)	529,531	(529,531)
Effect on equity increase/(decrease)	148,130	(148,130)	166,225	(166,225)

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

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

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

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

45. RISK DISCLOSURE (continued)

45d. Fair value of financial instruments

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

In RMB'000

	2010-12-31		2009-12-31	
	Carrying value	Fair valuea	Carrying value	Fair valuea
Receivables	18,502,100	18,502,100	30,427,100	30,489,418
Held-to-maturity debt securities	61,379,368	60,326,025	34,554,094	34,381,556
Bonds payable	9,469,488	9,514,103	9,462,714	9,599,219

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

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

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

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

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

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

45. RISK DISCLOSURE (continued)

45d. Fair value of financial instruments (continued)

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

In RMB'000

	2010-12-31			
	Quoted market price ("Level 1")	Valuation techniques market observable inputs ("Level 2")	Valuation techniques non-market observable inputs ("Level 3")	Total
Financial assets:				
Derivative financial assets	-	371,734	-	371,734
Available-for-sale financial assets	25,847	31,354,794	-	31,380,641
Total	25,847	31,726,528	-	31,752,375
Financial liabilities:				
Derivative financial liabilities	-	311,805	-	311,805

In RMB'000

	2009-12-31			
	Quoted market price ("Level 1")	Valuation techniques market observable inputs ("Level 2")	Valuation techniques non-market observable inputs ("Level 3")	Total
Financial assets:				
Financial assets at fair value through profit or loss	-	1,132,048	-	1,132,048
Derivative financial assets	-	99,996	-	99,996
Available-for-sale financial assets	66,536	36,765,403	-	36,831,939
Total	66,536	37,997,447	-	38,063,983
Financial liabilities:				
Derivative financial liabilities	-	21,540	-	21,540

During the year, there were no transfer of financial assets (2009: RMB10 million) from Level 2 to Level 1.

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46. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

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

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

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

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

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

Outstanding balances at the year end

In RMB'000

	2010-12-31	2009-12-31
Receivables	100,000	100,000
Amounts due to other financial institutions	85,975	261,225
Customer deposits	3,752,314	4,259,348
Credit limit of factoring	300,000	-
Interbank credit limit	1,000,000	5,800,000

Transactions during the year

In RMB'000

	2010	2009
Interest income on receivables	4,200	2,324
Agency business fee income	8,380	-
Custodian services fee income	1,005	101
Interest expenses on amounts due to other financial institutions	1,701	895
Interest expenses on customer deposits	176,948	99,277
Insurance premium expenses	2,082	247

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

46. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

Loans

In RMB'000	2010	2009
Balance at beginning of the year	455	543
Increase during the year	1,345	-
Decrease during the year	(841)	(88)
Balance at end of the year	959	455
Interest income on loans	41	9

As at 31 December 2010, the annual interest rates of these loan transactions ranged from 1.80% to 4.29%.

Deposits

In RMB'000	2010	2009
Balance at beginning of the year	12,271	7,425
Increase during the year	63,887	199,840
Decrease during the year	(64,430)	(194,994)
Balance at end of the year	11,728	12,271
Interest expense on deposits	226	48

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

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

In RMB'000	2010	2009
Salaries and other short term employee benefits	72,815	48,242
Post-employment benefits	719	759
Other long term employee benefits	-	18,798
Termination benefits	10,298	-
Deferred bonus accrual (Note)	1,432	15,527
Total	85,264	83,326

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 31 December 2010, the Company has authorised a total credit facility of RMB2.15 billion (31 December 2009: RMB1.732 billion) for entities relating to the key management personnel of the Company and the associate companies, which included an outstanding loan balance amounting to RMB0.319 billion (31 December 2009: RMB0.605 billion) and an outstanding facility of the off-balance sheet items amounting to RMB0.209 billion (31 December 2009: RMB0.076 billion).

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47. EVENTS AFTER THE REPORTING PERIOD

Up to the date that these financial statements are authorised for issue, there were no significant events after the reporting date which required disclosure or adjustment to the financial statements.

48. COMPARATIVE FIGURES

Certain comparative figures have been restated in accordance with the requirements of IFRSs and reclassified to conform with the current year's presentation.

Written Confirmation of Directors and Senior Management on 2010 Annual Report

In accordance with *Securities Law and No. 2 Regulation on Contents and Format of Information Disclosure on Publicly Listed Companies -- Contents and Format of Annual Report* (revised in 2007), we, as directors and senior executives of Shenzhen Development Bank Co., Ltd., provide the following opinions after studying and checking 2010 Annual Report of the Bank and its "Abstract":

1. The Bank operates in accordance with *Accounting Standards for Business Enterprises, Accounting System for Enterprises* and *Accounting System for Financial Enterprises*, and the Bank's 2010 Annual Report and its abstract give a fair view of the financial position and business results of the Bank.

2. Ernst & Young Hua Ming and Ernst & Young Accounting firm have audited the annual financial statement of the Bank in compliance with the national and international audit standards and have issued standard unqualified audit reports.

3. We undertake that the information disclosed in the Bank's 2010 Annual 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.

Reference Documents

1. Financial statements bearing the signatures and stamps of Chairman of Board of Directors, President, Vice President and Chief Financial Officer and officer-in-charge of the accounting unit.

2. Original copies of the audit reports bearing the stamp of the accounting firm and signatures of certified public accountants (CPAs).

3. Original copies of all documents and notices disclosed on the *China Securities Journal, Securities Times* and *Shanghai Securities News* by the Bank during the report period.

Board of Directors of Shenzhen Development Bank
25 February 2011

Auditing Report on Internal Control

Ernst & Young Hua Ming (2011) Shen Zi No. 60438538_H03

To the Board of Directors of Shenzhen Development Bank Co., Ltd.:

We are entrusted to review the establishment and implementation of internal control as at 31 December 2010 in connection with the financial statement in the enclosed *Self-assessment Report on the Internal Control of Shenzhen Development Bank Co., Ltd.* by the management of Shenzhen Development Bank Co., Ltd. (referred to as "the Company" hereafter). Pursuant to the requirements of *Internal Accounting Control Criteria-Basic Criteria (for Trial Implementation)* issued by Ministry of Finance, the Company conducted an effective self-assessment on the establishment and implementation of internal control in relation to financial statement on 31 December 2010. The management of the Company is responsible to set up and maintain complete and effective internal control and ensure the establishment and implementation of internal control in relation to the financial statement in the above assessment report as well as its effectiveness and ensure the truth and completeness of above assessment report, while our responsibility is to form an opinion on the effectiveness of the Company's internal control in relation to the financial statement in the above assessment report.

We conduct audit based on the *Guidance on Internal Control Auditing* issued by the Association of Certified Public Accountants of China. In the course of auditing, we have performed to understand, test and assess the establishment and implementation of the internal control as well as other procedures we considered to be necessary. We believe that our audit has provided a reasonable basis for expressing opinion.

The internal control is subject to inherent restriction, and there is the possibility of misreport not being discovered due to errors or fraud. In addition, change in situations would lead to inappropriateness in internal control, or impair the control policies and procedure, leaving the forecast on the effectiveness of future internal control according to the results of the internal control assessment risky. Therefore, we can not guarantee the effective internal control during the Period will still be effective in the future.

We consider, the Company maintained effective internal control related to its financial statements referred in above internal control assessment report in all material aspects based on the relevant standards in *Internal Accounting Control Criteria-Basic Criteria (for Trial Implementation)* issued by Ministry of Finance as at 31 December 2010.

This report was prepared for the Company to file with relevant authorities in China Securities Regulatory Commission and Stock Exchange only. The certified public accountants and accounting firm preparing this report shall not be liable for any consequences arising from the inappropriate use of this report.

Ernst & Young Hua Ming

Beijing, the People's Republic of China

24 February 2011

Chinese Certified Public Accountant:

Zhang Xiaodong

Chinese Certified Public Accountant:

Chang Hua

Self-assessment Report on the Internal Control

Pursuant to the requirements of the *PRC Commercial Banking Law, Basic Standard for Enterprise Internal Control, Guidelines for Internal Control of Commercial Banks and Shenzhen Stock Exchange Guideline for Internal Control of Listed Companies*, based on the aim of risk prevention and prudential operation, the Bank has established and implemented risk control policies, procedures and measures to form a comprehensive, prudent, effective and independent internal control system, so as to ensure the healthy operation of all business activities of the Bank and prevent financial risks effectively.

I. Overview of the Company's internal control

In 2010, under the guidance of the Board of Directors and BoD special committees, the management of the Bank established the Case Prevention Committee, which, together with the Compliance Committee, formulated a system for preventing and controlling compliance risks and relevant risks and continuously improved our internal control and case prevention capability. The Bank will keep improving the internal control in respect of business operation and information technology.

II. Key internal control activities of the Company

(I) Related party transactions

In 2010, the Bank further improved *Shenzhen Development Bank Related Party Transaction Management Plan* to standardize approval authority and review procedures in connection with related party transactions, which specified that material related party transactions should be submitted to BoD Audit Committee and BoD Related Party Transaction Committee for approval; chief credit risk officer or chief financial officer was authorized to approve common related party transactions of a certain amount, but should report to BoD Audit Committee and BoD Related Party Transaction Committee regularly about the approved related party transactions. In 2010, the aggregate amount of related party transactions of the Bank, the maximum amount of related party transaction with the Group or a single related party transaction, the standards and procedures for the approval or filing of related party transactions were strictly in compliance with *Related Party Transaction Management Plan* of the Bank and relevant regulation.

(II) External guarantees

The guarantee business of the Bank is one of conventional banking businesses approved by the People's Bank of China and China Banking Regulation Commission. The Bank attached importance to risk management of this business and strictly performed the operation process and approval procedures. As a result the risk of the Company's guarantee business was controlled effectively.

In 2010, except the normal letter of guarantee business, there was no other material guarantee issued by the Bank without the approval from the Board.

(III) Use of raised fund

As per China Securities Regulation Commission approval No. [2010] 862, the Bank issued 379,580,000 A Shares through non-public offering on 28 June 2010 with an offering price of RMB18.26 per share, and raised RMB6,931,130,800 in total with a net amount of RMB6,907,427,851.53. Ernst & Young Hua Ming verified the availability of the funds referred above and issued Capital Verification Report of Ernst & Young Hua Ming (2011) Yan Zi No. 60438538_H01. The purpose of the raised fund was to supplement capital.

(IV) Material investment

During the report period, the Bank entered into a conditional Share Subscription Agreement with Ping An Bank on 1 September 2010 and Supplementary Agreement to Share Subscription Agreement on 14 September 2010. According to aforesaid agreements, Ping An Group would subscribe 1,638,336,654 non-public shares issued by the Company with 7,825,181,106 shares of Ping An Bank (representing approximately 90.75% of Ping An Bank's total share capital) held by Ping An Group and RMB 2,690.0523 million in cash (equivalent to the evaluation of approximately 9.25% of Ping An Bank shares). Above agreements and the proposal of issuing shares to Ping An Group so as to purchase assets were approved by the first extraordinary general meeting of the Bank on 30 September 2010 and are subject to regulatory approvals.

(V) Information disclosure

The Bank formulated and implemented *Information Disclosure Management Policy of Shenzhen Development Bank*, which defined the range and content of material information disclosure, and specified that the Chairman of Board of Directors should be the prime responsible person for information disclosure and the Secretary of the Board should be directly responsible for information disclosure, and set out the principles, responsibilities and procedures related to information disclosure.

In 2010 the Bank disclosed relevant information in a timely manner as per relevant requirements, especially in respect of the change of controlling shareholder and material investment, so as to ensure the timeliness, accuracy, legitimacy, truthfulness and completeness of information disclosure.

(VI) The Best Bank Strategy

To achieve the objective of building up scale, leadership and reputation, the Bank launched the Best Bank strategy in 2010. It covered seven areas involving 23 sub-projects regarding to corporate and trade finance, retail and credit card, finance and treasury, IT and operations, compliance and internal audit, human resources, outlet optimization and expansion. The implementation of this strategy would provide our staff with better career development opportunity and uplift their job satisfaction; improve our products and services and provide more convenience to our customers by leveraging on our integrated platform, ; offer shareholders with better and ever growing return while reaching a new high in the respect of internal control, compliance, risk control and business growth.

(VII) Operations management reform, flow bank construction and operations business control

Aiming at further improving our service, preventing operations risk and enhancing the efficiency and quality of operations, the Bank launched a bank-wide reform of vertical management system in 2008, which was successfully completed in March 2009. Regarding building organization structure, we integrated the accounting, retail back office, treasury and financial institution back office business at headquarters and branch level and achieved a double-line operation supporting structure with both headquarters and branch operations management and centralized operation. The headquarters appoints Operations Officer or Operations Director to branch, who is responsible for operations management of the whole branch and reports to headquarters Chief Operations Officer. Regarding business process reform, in order to realize the vision of becoming the best service bank in China, we had conducted operations process re-engineering to 39 sub-projects, which strengthened our key competitive edges in service, efficiency, internal control and adaptability. In terms of policy construction, with our efforts in optimizing and improving the policies in 2010, we rebuilt eight major policy systems, involving basic operations policy, staff and service management, element management, product operations management, system management, authority management and monitoring management, etc.

In respect of operations risk, efforts were made to enhance risk supervision through daily supervision, system control and approval of new products, and a headquarters-branch integrated operations risk supervision system was established. In 2010, the Bank successfully blocked up 46 risk incidents in 2010, avoiding possible lost of RMB 28.397 million and making sure zero operations case in 2010. Regarding operations system management, the Bank sped up the construction of IT projects of operations line, centralized the bank-wide operations system requirements for uniform management and enhanced system's support to operations. In order to accelerate the transformation from a traditional "Departmental Bank" to modern "Process Bank", a two-year project to build flow bank was launched in full swing on 12 March 2010. The first phase sub-project included corporate account, remittance, credit card application, and post-event supervision centralization. At present, the initial project planning has been completed.

Besides the operations management reform and flow bank construction, the Bank further strengthened control over the following operation businesses and achieved significant results:

1. Based on centralized operations management model, the Bank re-engineered some operations business processes and operational procedures, such as conducting centralized management on post-event supervision, corporate account opening, bank-enterprise reconciliation, customer contact verification, as well as enquiry, freezing account and deduction, so as to standardize the operation and improve internal control supervision and inspection mechanism.

2. Initially set up the DCFC internal control system of operations line, further enhanced the implementation of internal control approaches.

3. Continually update the key risk indicators (KRI) of operations from the four dimensions of account, accounting title, transaction and behavior to effectively enhance the daily risk monitoring.

4. Carry out monthly report policy on operational risks of operations settlement and analyze the range and causes in a timely manner to make sure effectively prevent and eliminate various operational risks of operations settlement.

(VIII) Financial planning and financial information control

Since 2005, the Bank launched vertical management for the financial planning work throughout the bank, i.e. headquarters appoints Financial Officer to branch, who is specifically responsible for financial planning management and reports o headquarters Chief Financial Officer.

In 2010, the Bank further optimized the accounting management system (SAP1), which was used to prepare 2010 budget and included performance calculation and appraisal report into system management, which realized automation in almost a hundred statements, including comparison between actual and budge and analysis (AB statement), supplementary analysis statement, key indicator ranking statement, interest rate spread trend statement, breakdown of performance appraisal computation statement etc., across the Bank and branches. It significantly increased the types of statements produced and efficiency of statement production and provided better support to lean management of the budget appraisal; financial accounting management system (SAP2) was launched completely. With the budget control, statement analysis, automatic customization functions, it increased the work efficiency by reducing manual workload. The development of financial statement preparation system (SAP3) enabled the automatic production of text and notes of financial statements, and reduced the items to be amended and adjusted manually, which improved the efficiency of financial statement preparation. It improved the filling templates of Shenzhen Stock Exchange Disclosure System, analyzed and defined the information logic of the filling system, access and processing rules, as well as the articulation with the notes of financial statement of the Bank, and set out the internal filling templates, which made the filled content and quality be improved. The establishment of OA financial report platform realized a paperless and electronic financial approval process across the bank, which provided more accurate fundamental data to the bank-wide cost distribution. The development of 15 module functions of tax management system not only computerized the calculation of quarter’ s income tax report, annual report, income tax accounting, business tax report and stamp duty report, but also met the need in management of tax registration, loss of assets and tax file, to achieve better tax management and work efficiency.

In terms of sorting out policy process, pursuant to requirements of China Banking Regulatory Commission on outsourcing businesses, the Bank re-streamlined the operating expense titles and added accounting title of "outsourcing business" in the existing accounting system, meanwhile simplified the existing titles in accordance with OA electronic account reporting system. The Bank revised the *Financial Expense Approval Authority and Approval Process of Shenzhen Development Bank* to further standardize the headquarters' financial expense approval process, published *Summary of Taxation Law for Banking* and prepared *Summary of the Latest Taxation Law* on a monthly basis.

(IX) Credit risk control

Since 2005, the Bank launched vertical management for bank-wide corporate credit risk, i.e. the headquarters appoints Credit Officer to branch, who is specifically responsible for corporate credit risk management and reports to headquarters Chief Credit Officer. In June 2009, aiming to strengthen retail credit risk management of branches and separate the retail credit risk management from market business development, the Bank reformed the retail credit risk structure of branches, i.e. establishing retail credit risk department in branches and headquarters assigned Retail Credit Officer, who is responsible for the management of retail credit risk of branches and reports to the Chief Credit Officer.

The Bank established Credit Portfolio Management Committee to study and determine the material credit management policies of the whole bank. In compliance with the principle of separating the approval and disbursement, the Bank established independent credit approval center at headquarters and branch level. The Bank enhanced the management and monitoring over important loan portfolio. At present, the Bank set business control line for key monitoring loans, including local government financing platform facilities, incremental loan to companies of high energy consumption and heavy pollution, real estate development loan and medium-term and long-term loan and enhanced the management on credit business to related legal entities.

In 2010, the Bank continued to reform, optimize and improve credit management system and further strengthened credit risk management; on the basis of external situation changes, the Bank reinforced after-loan monitoring and inspection through approaches like stress test, etc.

Meanwhile, to achieve the annual asset quality target, the Bank conducted strict assets quality appraisal towards business units and individual on key positions.

The Bank established a specialized collection team in 2005 and in May 2009, the Bank further integrated the collection resources for centralized and professionalized collection and continuous improvement in collection. In 2010, the Bank established a headquarters-branch linkage and quick response mechanism according to the reality of non-performing asset management, Each NPL case should be reported to HQ, which must reply the branch with specific countermeasures.

(X) Treasury business control

The Bank has established a complete risk monitoring procedure for continuous monitoring and management on bank-wide liquidity risk, market risk, treasury business operational risk, compliance risk and credit risk and maintaining rational balance between safety, liquidity and profitability in the whole bank so as to push forward the sustainable development of treasury business.

Treasury business was carried out with strict control over liquidity risk and market risk to increase net interest spread and improve fund application efficiency of the whole bank. At the same time, the Bank pushed ahead with the construction of interbank sales channels, and focused on developing low risk interbank business so as to increase the non-interest income from fee-based business, while further optimizing treasury interbank business structure of the Bank.

In respect of business control, based on the strict separation of front, middle and back offices, the Bank strived to improve various risk management and internal control policies, refine business management measures, optimize business operation process, improve management information platform, push ahead with system building and staff training and keep improving business management and risk control level. Daily risk monitoring indicators mainly include liquidity ratio, gap limits, excess reserve rate, scenario analysis, sensitivity analysis, stress test, duration, DV01, exposure, transaction authorization and credit limit management, etc.

(XI) Information technology control

In 2010, as per the bank-wide business development strategy and the information technology development planning, the Bank's Information Technology Department carried out the following application system development and building work on the basis of optimizing and adjusting application system structure and for the purpose of supporting business development:

1. In February, the new data center was established. The staff was relocated in three batches respectively on 27 February, 3 April and 10 April and it was successfully put into operation. It mitigated previous restraint on business development.

2. The construction of the "comprehensive business system" or also known as the "core banking business system" which is expected to take two and a half years to complete has been started. It is a systematic project which incorporates the Bank's strategic development goals, business development innovations, internal integrated control and IT structure planning and a process where customer service, business policies and operational process are realized and implemented through information technology. It is expected to be completed in October 2012.

3. The Bank continued to apply classified management on internet access in order to ensure the safe and smooth running of the Bank's internet system, which also created a safe, stable and uninterrupted working environment on the web.

4. The target of supporting business development through IT, reducing risks, controlling costs, and enhancing service is realized through the launch of a batch of banking business processing systems including cash management system, HRMS post management system, management statement and approval management module of credit management system, assets and liabilities management system optimization, mobile phone banking, bank-enterprise reconciliation system for off-shore business, FBS system reconstruction (Phase 1), automobile loan integration project (Phase 1), image transfer platform, new version of online banking phase 2, 95501 new generation customer service system, cross platform ATMP/ATMC/ATMV and new terminal system. At the same time, in order to reduce operational risks arising from difference in technical structure and corresponding investment risk, the Bank implemented unified and standardized management of technology works of the whole bank and formulated a series of technical specifications, which set up an initial technical specification system for the Bank.

5. The Bank further established the backup system for all hardware, the regular maintenance system and troubleshooting registration system, so as to standardize electronic equipment maintenance and repair works and ensure the normal operation of electronic equipment. The Bank also optimized information systems contingency plan and took regular drills to ensure data security on the open platform applications system, promoted the centralization and integration of open platform applications and improved the level and efficiency of storage management. Comprehensive and detailed working plans were made regarding disaster recovery system adjustment and S/390 host emergency response in the course of data center relocation, in order to ensure smooth business operation.

(XII) Internal audit and compliance management

1. Internal audit

In August 2005, the Bank implemented a vertical management system of internal audit, in which internal audit department reports directly to Audit and Related Party Transaction Control Committee of the Board, which is in line with the *Guideline on Internal Audit for Banking Financial Institutions*. In December 2009, to further expand the coverage of audit and to improve audit efficiency, the Bank established an Internal Audit Department within each branch. The Internal Audit Department at the branch level reports to the Internal Audit Department of the headquarters regarding its operation and accepts the guidance from the latter, and reports secondarily to the branch manager and performs its work within the branch. So far, 19 branches have all established the Internal Audit structure and staffing, and performed related duties according to the *Administrative Measures for the Branch-level Audit Department in Shenzhen Development Bank*. The branch audit structure is playing an increasingly important role in compliance and internal control at the branch level and has become an integral part of the Bank's audit function. As at the end of December 2010, the Bank has a total internal audit staff of 131, including headquarters internal audit staff of 82, and branch internal audit staff of 49.

In 2010, Internal Audit Department completed the working plans and tasks instructed by Audit and Related Party Transaction Control Committee of the Board. Any audit findings and issues were promptly reported to Audit and Related Party Transaction Control Committee of the Board of Directors and the Supervisory Board, and the issues were tracked and corrective actions taken.

The scope of assessment / audit for 2010 included: implementation of a special audit / assessment on the quality of the Bank's internal control and related party transactions management; internal control evaluation / assessment of 11 branches; 22 special audits conducted for the retail business, corporate business, financial and accounting operation and IT operation; audits targeting 48 persons conducted upon termination of their services or during their term of services, more than 10 surprise audits concerning dealings between internal and external entities, seal reserve management operations, internal and external reconciliation, operating personnel job responsibilities and authorities management, self-service banking management, job rotation and compulsory leave, debit card management, customer due diligence management, cash box and Operations safe-box. Random checks were made to self-inspections on five rolling inspection subjects namely "loans secured by goods", "risk approval, legal review and disbursement of personal loan business", "personal loan collaterals (ownership certificate management)", and "non-goods collaterals for corporate loans" and "management of corporate loan disbursement". In accordance with the principles agreed at the first meeting of the Case Prevention and Control Committee we announced the names of 35 people in related branches and organizations who were criticized for poor work in the inspection of four rolling self-inspection subjects, in order to achieve the purpose of self-examination and correction, as well as voluntary prevention of risk. Real-time tracking of follow-ups on the comments issued by local offices of CBRC and audit opinions from accounting firms and audit findings was made. On-site examination of corrective actions and implementations regarding issues identified in branches and credit card center was carried out. At the same time, typical issues identified by comprehensive branch internal control exercise and special audits were gathered and issued to various branches for self-checks and correction. Issues identified by comprehensive branch internal control exercise and special audits were sent to relevant departments of the headquarters for them to urge correction, and those typical issues were put under strict surveillance and control. Management omissions, deficiencies and risk points found on-site and off-site were notified to the management / business units in a timely manner by way of management proposal / risk prompts. We also conducted and put together analysis on comprehensive internal control measures of each branch, on-site inspection, processed information and situation analysis which would then give rise to a detailed report, which served as a tool to promote the steady and healthy development of branch operations. Consideration and analysis from a research point of view were given to the status quo and issues existing with our business and value-added management proposals on specific issues were put forward in a research report for assisting decision making by the management. As such, internal audit findings can be fully used and contribute value-added services. In addition, we actively promoted regular self-assessment of risk for various business lines and branches, and constantly enhanced their abilities to identify and control risks.

2. Compliance management

The Bank has a comprehensive compliance management structure in place. A compliance committee has been set up under each business line of the headquarters which strengthened the compliance construction for business. Each branch has an independent compliance and legal section and the compliance team was strengthened. As at the end of December 2010, the Bank has a compliance staff of 75.

Concerning compliance risk management, we continued to carry out the "Woodpecker" action for risk prevention and control. We established effective operational procedures, motivated all staff for active participation and carried out whole process tracking on the implementation of each recommendation. As a result, we eliminated all kinds of potential risks within the Bank and improved internal control. In addition, we establish a unified and effective policy system, and carried out integration and rationalization work for such policies to improve their validity and enforceability. We have also developed a set of standard templates on compliance review, and standardized and unified compliance review procedures. Bank-wide compliance self-examination was conducted, resulting in on-going improvement in compliance practice of our business operation. In addition, we organized special inspection of the Bank on anti-money laundering to improve the reporting quality of suspicious transactions, and continued to optimize the anti-money laundering system, while developing an anti-terrorism financing "blacklist" system to strengthen prevention of terrorist financing. The Bank staff was required to learn the "*Compliance Journey*". An electronic publication named "*Compliance • Development*" was launched. A President Forum named "Compliant Development" and an idea exchange column were created among different functions. We took a series of measures to learn, practice and promote the *Code of Conduct Guidance for Practitioners In Banking Financial Institutions* in order to promote sustained development of compliance culture in the Bank.

In September 2010, the Bank established Case Prevention and Control Committee with its office located at the Compliance Department. The committee organized a series of activities under the theme of "The Month of Compliance" and initiated the "Pigeon" program which encouraged staff to voice out their doubts and potential risks. It also led a year-long or beyond rolling inspection exercise in high-risk areas, and introduced the risk heat map, departmental control and inspection system, *Basic Rules on Internal Control of Business Enterprises* and the preparatory works for the related supplementary guidelines.

3. Confirmed procedures for reporting violations of rules and misconducts

The Bank formulated the *Administrative Measures for Reporting Violations and Implementation Rules for the Management of Violations Reporting* which clearly set out the reporting channels and procedures, helping the inspection unit to gather information and facilitating the inspection and punitive actions against behaviors which violate duty of good faith. Accordingly the Bank's reputation and assets can be better protected.

In 2010, the Bank was not subject to any public penalties imposed by China Securities Regulatory Commission and the Stock Exchange.

4. Establishment of the "Red, Yellow and Blue Card" accountability mechanism

In order to further strengthen the staff's awareness of compliance with the laws and regulations, regulate the business operation and management activities, enhance the execution of internal control system, improve the management incentive and penalty mechanism, and effectively guard against cases, at the end of 2010, based on the refinement and integration of the *Measures of Shenzhen Development Bank concerning Violation of Rules and Regulations by Staff* (2008 version), *Administrative Measures of Shenzhen Development Bank concerning Responsibility Identification and Accountability* (version 1.0, 2009) and *Detailed Rules of Shenzhen Development Bank concerning Responsibility Identification and Accountability* (version 1.0, 2009), the Bank further developed the *System of Shenzhen Development Bank on Red, Yellow and Blue Warning Cards Punishment and Compensation, Detailed Rules of Shenzhen Development Bank concerning the Issuance of Warning Cards upon Violation of Rules and Regulations by Staff, Treatment and Enforcement Standards for Non-compliance Behaviors of Staff, Operating Rules of the Punishment Panel of Shenzhen Development Bank* and *Administrative Measures of Shenzhen Development Bank for Staff Appeals* and other accountability mechanisms.

In summary, during the course of business development, the Bank always pays attention to the construction of internal control system. Internal control system covers the control and supervision of the Bank's various business processes and operation aspects, administrative and management units as well as branches and outlets. While there are areas where we need to further improve, the Bank's management attaches great significance to this and definite improvement measures are in place. On the whole, the Bank's internal control system is complete and rational, and the organization structure for internal control is sound. No material internal control deficiencies have been discovered.

By the Board of Directors of
Shenzhen Development Bank Co., Ltd.

24 February 2011

Auditing Report on Internal Control
Self-assessment Report on the Internal Control

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