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Shenzhen Development Bank Co., Ltd



A Share NPO Proposal in 2011

August 2011

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Company Statements

1. The Company and all members of the Board of Directors guarantee the authenticity, accuracy and completeness of this proposal and confirm that there is no false documentation, misleading representation or material omission in this proposal.
2. After the completion of the non-public offering, the Company will be held responsible for any changes of business operation and revenue changes; investors shall bear their own investment risks caused by this non-public offering.
3. This proposal is an explanation by the Board of Directors on the non-public offering. Any statement against it is not true.
4. If investors have any questions, please consult your stock brokers, lawyers, accountants or any other professional advisers.
5. The issues stated in this proposal do not represent the virtual judgment, acknowledgement, approval or confirmation of approval authorities on this non-public offering. The validation and completion of related issues in this non-public offering are still subject to the approval or confirmation by regulators concerned.

Special note

1. The non-public offering of the Company this time is targeting Ping An Insurance (Group) Company of China Limited.
2. Ping An Insurance (Group) Company of China Limited will subscribe for the shares in cash of no less than 892,325,997 shares but not exceeding 1,189,767,995 shares.
3. The cut-off date for the pricing of this non-public offering is the resolution announcement date of the Board of the Company. The issuance price is the average price over the 20 trading days prior to the cut-off date, namely RMB 16.81 per share.

During the period between the cut-off date and issuance date, if the Company carries out an equity allocation, common reserves capitalizing or rights issue, which would lead to ex-dividend and ex-rights, the issuance price will be adjusted accordingly and so will the issuance volumes (if needed).

4. The proceeds of this non-public offering will not exceed RMB 20 billion and will be fully used for capital supplementation after deducting relevant issuance cost.
5. The non-public offering this time still requires the approval of the first EGM 2011 of the Company as well as approval by CBRC and CSRC. Additionally, this non-public offering also requires CSRC exemption of PAG from tender offer obligations. PAG will file an application to CSRC in accordance with Article 62 and 63 and other rules in *Administrative Rules for M&As of Listed Companies* to exempt PAG from increasing shareholding of the Company's shares in the form of tender offer.

Definitions

In this report, unless the context otherwise specifies, the following abbreviations and terms shall have the meanings set out below:

Company, the issuer, SDB	Shenzhen Development Bank Co., Ltd
A-share	SDB CNY-denominated common shares listed on SZ Stock Exchange with per share par value at 1 Yuan.
The non-public offering or this offering	SDB issues A shares to intended target through non-public offering to raise funds with amount not beyond RMB 20 billion Yuan.
AoA	<i>Shenzhen Development Bank Articles of Association</i>
BoD	Board of Directors of Shenzhen Development Bank
PAG, the subscriber	Ping An Insurance (Group) Co., Ltd
PA Life	Ping An Life Insurance Company of China, Ltd.
PAB	Ping An Bank Co., Ltd
Asset purchase via share issuance	The company issues 1,638,336,654 shares to purchase 7,825,181,106 PAB shares (accounting for about 90.75% of total PAB shares) held by PAG and raise RMB 2,690,052,300 Yuan in cash equaling to the valuation of the 9.25% shares of PAB. The transaction was approved by CSRC on June 28, 2011 and was implemented on July 29, 2011.
NEWBRIDGE	NEWBRIDGE ASIA AIV III ,L.P.
CBRC	China Banking Regulatory Commission and its branch institutions
CSRC	China Securities Regulatory Commission and its branch institutions
SZSE	Shenzhen Stock Exchange
Yuan	Renminbi monetary unit

I. Overview of the non-public offering plan

(I) Background the purpose of the non-public offering

Since 2010, CBRC has constantly strengthened prudent regulation effort and successively launched new regulatory standards to keep in line with global financial regulation reform. On Apr. 27, 2011, CBRC formally issued CBRC Document No. 44 [2011] *Guidance on Implementing New Regulatory Standards of China's Banking Sector*, raising the minimum CAR requirement on non-SIBs (Systematically Important Banks) from 8.0% to 10.5%. The new standard will be implemented starting from Jan.1, 2012 and non-SIBs are required to achieve the standard by end of 2016. Based on the CAR status, CBRC divided commercial banks into three types: banks with sufficient capital, insufficient capital and seriously insufficient capital and imposed different regulatory approaches in respect of business access, scale expansion and institutional establishment. Therefore, it is of strategic significance for commercial banks to continuously meet CAR regulatory requirement and adapt to capital constraints.

As a listed company on A-share market, the Company has gradually improved CAR since 2004 by internal accumulation and multiple financing channels so as to respond to the constant changes of international and domestic economic, financial and regulatory environment. The Company supplemented core capital of about 5.7 billion Yuan through exercising warrant in 2007 and 2008, issued a total of 8 billion Yuan subordinated debts in 2008, issued hybrid bonds of 1.5 billion Yuan in 2009, raised funds amounting to 6.93 billion Yuan via a non-public offering in 2010 to PA Life and issued hybrid bonds of 3.65 billion Yuan in Apr. 2011. As of June 30, 2011, the core CAR and CAR of the Company were 7.01% and 10.58% respectively.

To meet the funding requirement for the sustainable and sound business development as well as asset scale expansion, and to quickly reach the new regulatory standard issued by CBRC, the Company needs to further improve CAR so as to deal with the challenges and fast changes of international and domestic economies, realize sound business management and improve risk defense capability. In this way, the Company can offer better rewards to all shareholders while boosting better and faster development of the Company.

(II) The type and par value of the shares in this public offering

The shares issued by the Company through non-public offering is RMB ordinary share (A share) listed in China, the par value is RMB 1.00 per share.

(III) The relationship between the subscriber and the Company

The non-public offering aims to PAG.

In the asset purchase via share issuance deal, the shares issued to PAG were already registered under the name of PAG on July 20, 2011. As of the signing date of this proposal, PAG directly and indirectly hold 2,683,659,341 shares or 52.38% of the Company and is the controlling shareholder and actual controller of the Company.

(IV) Share price, pricing principles, issuance volume and lock-up period of the non-public offering

1. Issuance price and pricing approach

The pricing cut-off date of the issuance this time is the resolution announcement date of the 7th meeting of the 8th BoD of the Company.

The issuance price is the average trading price of the 20 trading days prior to the cut-off date, namely RMB 16.81 Yuan per share.

2. Adjustment of issuance volume and price

The issuance volume shall not be lower than 892,325,997 shares but not exceeding 1,189,767,995 shares.

During the period between the cut-off date and issuance date, if the Company carries out an equity allocation, common reserves capitalizing or rights issue, which would lead to ex-dividend and ex-rights, the issuance price will be adjusted accordingly and so will the issuance volumes (if needed).

3. Lock-up period

The shares subscribed by PAG shall not be transferred within thirty-six months after completion of this NPO, and the transfers between PAG's affiliated institutions (i.e. any entity/ person which directly or indirectly control PAG, or entity/ person which are directly or indirectly controlled by PAG, or any entity/ person and PAG which are collectively controlled by other companies) are not subject to this limitation. After the expiration of lock-up period, PAG can dispose such newly-issued shares in accordance with the regulations of the CSRC and SZSE.

(V) Investment direction of the funds raised

The proceedings from this non-public offering will not exceed RMB 20 billion and will be fully used for capital supplementation after deducting relevant issuance cost.

(VI) The share issuance this time constitutes related-party transaction

In accordance with relevant rules in *SZSE Rules governing Listing of Stocks*, PAG is a related entity to the Company and therefore the non-public offering this time constitutes related-party transaction.

(VII) The offering will not lead to change of ownership of the Company

After the Completion of this issuance, PAG will remain as the controlling shareholder and actual controller of the Company. The ownership of the Company will not change.

(VIII) Location of Listing

The shares issued this time will be listed on Shenzhen Stock Exchange.

(IX) The issuance plan is still subject to the approval procedures of relevant regulators

The non-public offering plan still requires the approval of CBRC and CSRC. Additionally, this non-public offering also requires CSRC exemption of PAG from tender offer obligations. PAG will file an application to CSRC in accordance with Article 62 and 63 and other rules in *Administrative Rules for M&As of Listed Companies* to exempt PAG from increasing shareholding of the Company's shares in the form of tender offer.

II. Information of the subscriber

(I) Basic information

Chinese name:	中国平安保险（集团）股份有限公司
English name:	Ping An Insurance (Group) Company of China, Ltd.
Registered address:	15th - 18th Floor, Galaxy Development Centre, Fuhua Third Road, Futian Central Zone, Shenzhen, Guangdong
Legal representative:	Ma Mingzhe
Registered capital:	RMB 7,644,142,092 ¹
Paid-in capital:	RMB 7,916,142,092
AIC registration No.:	100000000012314
Organization code:	10001231-6
Type of corporation:	Joint stock limited company (listed)
Business scope:	Authorized business items: None General business items: investment in financial and insurance companies; supervision and management of various domestic and international businesses of enterprises under control; fund application businesses
Duration of Operation:	Long term
Tax Registration No.:	SDSZ # 440300100012316
Listing Information:	A-share listing exchange: Shanghai Stock Exchange A-share stock abbreviation: PAG A-share stock code: 601318 H-share listing exchange: HKEX H-share stock abbreviation: PAG

¹ On June 17, 2011, PAG issued 272,000,000 overseas listed foreign shares through NPO to Jinjun Co., Ltd., with the total equity hitting 7,916,142,092 shares. This equity change has not yet been registered in the Administration for Industry and Commerce.

H-share stock code: 2318

Address: 15th - 18th Floor, Galaxy Development Centre, Fuhua Third Road, Futian Central Zone, Shenzhen, Guangdong; Postcode: 518048

Contact Details: TEL: 4008-866-338

FAX: (0755) 82431029

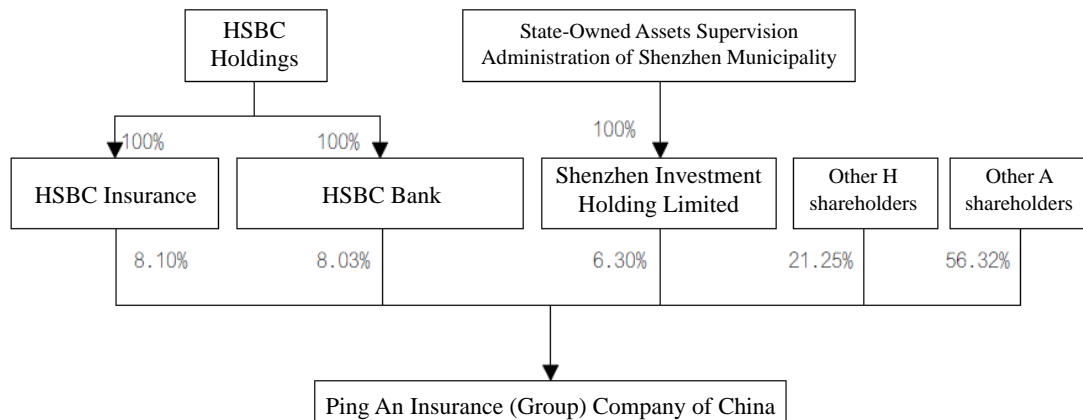
Website: www.pingan.com

Email: ir@pingan.com.cn; pr@pingan.com.cn

(II) The share controlling relationship between the subscriber and its controlling shareholder and actual controller

PAG's equity structure is relatively decentralized. The shareholding % of the shareholders does not suffice to empower them with the voting right to have any significant impact on the resolution of PAG shareholder meeting. PAG does not have a controlling shareholder or actual owner as defined in Article 217 of Corporate Law.

As of Dec. 31, 2010, below is a chart showing the relationship between shareholders with 5% or higher ownership and PAG:



(III) Main business

PAG is the first joint-stock insurance company in China and has developed into an integrated financial service group with consolidated and diversified financial businesses covering insurance, banking and investment. PAG was established in 1988 and headquartered in Shenzhen. PAG was listed in HKEX and SHSE in June 2004 and March 2007 respectively. The stock code on HKEX is 2318 and stock code on SHSE is 601318.

The subsidiaries of PAG mainly include PA Life, PA P&C, PA Trust, PA Annuity, PA Health, PA AMC, PA AMC (HK) and the Company.

The table below shows the business performance of various businesses under PAG as of Dec. 31, 2010.

In RMB Million

Items	2010	2009	2008
Life insurance business	8,417	10,374	(1,464)
P&C insurance business	3,865	675	500
Banking	2,882	1,080	1,444
Securities	1,594	1,072	550
Other businesses ²	1,180	1,281	605
Total net profit	17,938	14,482	1,635

(IV) Brief financial statement of the past one year and the latest accounting quarter

Below is the audited consolidated financial statement of PAG for 2010 and first quarter of 2011:

1. Brief financial statement of the past one year and the latest accounting quarter

In RMB Million

Items	As of Mar. 31, 2011	As of Dec. 31, 2010
Total assets	1,231,074	1,171,627
Total liabilities	1,107,128	1,054,744
Total owners' equity	123,946	116,883

2. Consolidated profit statement of the past year and quarter

In RMB Million

Items	Jan – Mar 2011	2010
Operating income	73,915	189,439
Incl.: insurance business income	69,600	159,384
Operating expense	66,666	167,122
Incl.: insurance liability reserve	35,139	66,479
Operating profit/ (loss)	7,249	22,317

² Other businesses mainly include HQ, trust and AMC business.

Profit / (loss) amount	7,266	22,347
Net profit	5,946	17,938

3. Consolidated cash flow statement of the past year and quarter

In RMB Million

Items	Jan – Mar 2011	2010
Net cash flow from operating activities	58,487	139,255
Net cash flow from investment activities	-57,806	-189,475
Net cash flow from fundraising activities	-22,401	42,253
Balance of End-of-period cash and cash equivalent	59,165	80,938

(V) Administrative punishment, criminal punishment, lawsuit and arbitration

PAG and its Directors, Supervisors and Senior Managers were not involved in securities market related administrative punishment, criminal punishment or material civil lawsuit or arbitration concerning economic disputes in the past 5 years.

(VI) Peer competition and RPTs

1. Peer competition

According to the requirements of *Reply of China Banking Regulatory Commission on SDB Share Transfer and Related Shareholder Qualification* (CBRC Approval [2010] No.147), in order to ensure the fairness of peer competition, the Company shall complete the integration with PAB (referred to as “two-bank integration” hereinafter) within one year after PAG has acquired the said SDB’s shares controlled by Newbridge and Ping An Life Insurance has subscribed for the said shares issued by the Company through non-public offering. As part of “two-bank integration”, PAG injects all the PAG shares it held into the Company in the asset purchase deal to avoid potential peer competition between PAB and the Company. The 90.75% of PAB shares have been transferred to the Company on July 8, 2011, so that PAB has become the subsidiary controlled by SDB. PAG does not have peer competition with the Company.

To effectively avoid future peer competition between the Company and PAG or companies controlled by PAG and safeguard the legal interest of the Company and its medium and minority shareholders, PAG hereby makes the following commitment: After this asset purchase deal and during the period when PAG is the controlling stockholder of SDB, for the possibility that PAG or companies controlled by PAG may engage in or virtually acquire similar businesses or commercial opportunities which may constitute potential peer competition with SDB, PAG and companies

controlled by PAG should not be engaged in businesses similar or identical to those of SDB so as to avoid direct or indirect competition with SDB.

Under the premise that PAG performs the aforesaid commitment, PAG business does not constitute peer competition with the Company.

2. RPTs

As of the signing date of the proposal, PAG directly and indirectly hold 52.38% of the Company and is the controlling shareholder and actual controller of the Company. Based on the rules of *SZSE Rules governing Listing of Stocks*, PAG is a related party to the Company.

In order to reduce and regulate related-party transactions between the company and PAG or enterprises controlled by PAG and protect the legal right and interests of the Company, PAG hereby makes the following commitments: After this asset purchase deal, for the related-party transactions between the Company and PAG or enterprises controlled by PAG, PAG and the enterprises controlled by it will carry out the transactions with SDB according to the principle of just, fare and open market transactions and based on fair and reasonable market price. Furthermore, the decision-making processes and disclosure obligations will be honored in accordance with stipulations in laws, regulations and normative documents. PAG guarantees that neither PAG nor its subsidiaries will obtain illegal interests or put SDB in a position to undertake improper obligations through the transactions with the Company.

After the completion of the issuance, if there is any related party transactions between the Company and PAG, such transactions would be carried out in accordance with applicable laws and regulations as well as the Company's AOA and shall keep in line with PAG's commitment. Meanwhile, the Company will perform information disclosure obligations as per applicable rules and provisions.

(VII) Material RPT between PA and the Company within 24 months before the this NPO proposal is disclosed

In June 2010, PA Life, a subsidiary of PAG, subscribed 379,580,000 shares of the Company through non-public offering. As of June 30, 2010, PAG and PA Life held 1,045,322,687 shares of the Company together, accounting for about 29.99% of share capital of the Company.

In July 2011, PAG subscribed 1,638,336,654 non-public shares issued by the Company with 7,825,181,106 shares of PAB held by PAG (accounting for about 90.75% of capital share of PAB) and RMB 2,690,052,300 which is equivalent to about 9.25% shares of PAB. As of July 20, 2011, PAG holds 2,683,659,341 shares of the Company directly and indirectly, accounting for about 52.38% of capital share of the Company, and it becomes the controlling shareholder and actual controller of the Company.

III. Abstract of the share subscription contract with conditions precedent

(I) Parties to the contract and signing date

1. Parties to the contract

Party A: Shenzhen Development Bank., Ltd

Party B: Ping An Insurance (Group) Company of China , Ltd

2. Signing date

August 17, 2011

(II) Mode of subscription and payment

The subscriber will subscribe shares through this non-public offering with cash.

(III) Conditions precedent and effective date

The Company signed share subscription agreement (subscription contract) with PAG on August 17, 2011, and the contract comes into effect after signing.

(IV) Any saving clause and preconditions attached to the contract

The effectiveness of transaction obligations in the subscription contract between the Company and PAG is based on the precondition that below conditions are met:

- 1) All approvals have been got properly and continue to be effective on the transaction day;
- 2) Relevant authorities haven't issued or implemented any law, regulation, rule, instruction, order or notice to ban the completion of the transaction proposed in the subscription transaction;
- 3) As to obligations PAG needs to perform in order to complete the transaction, the Company should ensure that all the statements and promises in the subscription contract should be authentic and accurate on the contract signing day in all significant terms and will continue to be authentic and accurate on the transaction day;
- 4) As to obligations the Company needs to perform in order to complete the transaction, PAG should ensure that all the statements and promises in the subscription contract should be authentic and accurate on the contract signing day in all significant terms and will continue to be authentic and accurate on the transaction day;

(V) Default liability clause

Bounded by the following clauses, in case any party infringes any statements and warrants under the Subscription Contract or breach any commitments or obligations under the Subscription Contract, thereby (directly or indirectly) incurring any losses, liabilities and/or expenses (including interests, reasonable legal service fees and other expense of experts) to the other party, the default party shall indemnify the other party in full amount.

The company does not undertake responsibilities for any claims raised by PAG, unless and until the total amount of such claims exceeds RMB20 million. If the total amount of any claims exceeds RMB 20 million, the company shall undertake responsibilities for the total amount of such claims; PAG does not undertake responsibilities for any claims raised by the company, unless and until the total amount of such claims exceeds RMB 20 million. If the total amount of any claims exceeds RMB 20 million, PAG shall undertake responsibilities for the total amount of

such claims. The whole responsibilities each party undertakes for all claims as per the Subscription Contract shall be within the limit of the total subscription price.

IV. BoD analysis on feasibility of utilization of funds raised

(I) Utilization plan of funds raised

After deducted relevant issuance expense, funds raised through current issuance will be used to supplement capital of the Company.

(II) Investment of funds raised and feasibility analysis

The Company will enhance capital management, give full play to the Company's advantages in trade finance area, enhance retail banking, strengthen cross-selling with PAG and improve return on unit capital so as to maintain return on equity at a high level and improve the utilization efficiency of funds raised. The Company will take below measures:

1. Give full play to advantages of trade finance

In recent years, the Company has taken the opportunity of rapid growth of the national economy to rapidly grow the trade finance business and developed advantages in this area. The Company will focus on the target of "SME-oriented and trade finance-oriented", build up differentiated advantages with trade finance and cash management as main products and tools, expand business in sectors such as foods, grain and oil, fertilizer, engineering and machinery on the basis of business in auto industry and iron and steel industry, and realize continuous and steady development of advantage business.

2. Enhance retail banking sector

Retail banking business of the Company will focus on management of retail customers, deepen customer management measures, improve business and fund-raising capability of retail customers, promote optimization and development of personal loan business, sort out personal loan business process, continue product development and innovation, further improve retail business basic platform, promote rapid growth of retail fee income and realize rapid expansion of retail banking profitability.

3. Strengthen cross-selling with PAG

PAG is the controlling shareholder of the Company. Through cross-selling, the Company can make use of PAG's 60 million personal customers and 2 million corporate resources. In the future, the Company will make full use of PAG's adequate customer resources and sales channels in terms of retail loan and WM products and proactively explore cross-selling business model and marketing model to effectively improve customer quantity and quality of the Company and to improve profitability.

4. Improve return on unit capital

The Company will further optimize the business structure, take active assets and liabilities management measures, enhance structure and pricing management, adopt prudent assets and liabilities management policy, and take measures such as plan appraisal and limit management to increase asset size under strict capital restriction.

(III) Impact of the issuance on business management and financial situation of the Company

Current non-public issuance will help the Company improve capital adequacy ratio and thus enhance risk prevention capability and competitiveness so as to get more business opportunities. The impact of the non-public issuance on the Company's business management and financial situation mainly lie in:

1. Impact on net assets, book value per share and return on equity

The Company will increase its net assets through this share issuance. The issuance price is higher than the Company's book value per share on Jun 30, 2011, so the book value per share of the Company will increase correspondingly. After the issuance, return on equity of the Company may be diluted in a short term of period, but for a long run, as funds raised begin to take effect gradually, it will help increase the Company's return on equity.

2. Impact on capital adequacy ratio

After funds raised through the issuance are in place, the capital adequacy ratio and core capital adequacy ratio of the Company will be further improved and the risk prevention capability will be further enhanced.

3. Impact on profitability

The issuance will help to promote rapid growth of the Company's businesses and further improve the Company's profitability.

To sum up, funds raised through the non-public issuance will be used to supplement core capital, which is in accordance with relevant laws and regulations and meets regulatory requirements. It is of great significance to improve the Company's capital, ensure sustainable and sound business development of the Company and improve risk prevention capability and competitiveness of the Company. It is also in the interests of the Company and its shareholders.

V. BoD's discussion & analysis of the NPO's impact on the Company

(I) Status of the Company's business, AoA, shareholding structure, senior management staffing structure and business income structure following the NPO

1. Following the NPO, there won't be any significant changes with regard to the Company business, senior management staffing structure and business income structure.
2. Following the NPO, there will be changes with regard to the Company's registered capital and total shares etc, while the Company will revise relevant clauses of AoA based on the NPO results.

(II) Changes of the Company's financial status, profitability and cash flow following the NPO

Following the NPO, the Company's core CAR and CAR will be properly enhanced which will reinforce risk resisting ability and underlie the further development of the Company. In respect of profitability, the NPO will boost bank CAR level and support

healthy & rapid growth of various business segments , which will help the Company to achieve profit growth based on the further expanded assets and business scale thus to product good economic benefit.

(III) Business relationship, management relationship, related party transaction and peer competition between the Company and controlling shareholders and its related parties

The controlling shareholder of the Company, PAG is the NPO subject, its business scope covers “investment finance, insurance enterprises; supervise & manage the domestic/international businesses of the controlled/invested enterprises; do funding application business”. PAG, by virtue of its subsidiaries, provides customers with diversified financial products & service with unified branding via multiple distribution channels. PAG’s stock structure is decentralized, so there does not have any controlling shareholder or actual controller as stipulated in Article 217 of the Company Law.

In terms of business relationship, the Company operates independently with complete business structure and standalone business operating system.

With regard to governance relationship, the controlling shareholder performs its right as the investor through Shareholding’s Meeting and does not interfere with the Company’s decision-making & business activities, by overriding the Shareholder’s Meeting either directly or indirectly.

In the event of related party transaction between PAG and the Company, then such transactions shall be conducted in compliance with relevant laws/regulations, AoA and other rules as well as relevant commitment made by PAG that governs related party transaction, meanwhile, the Company will perform information disclosure obligations as per relevant regulations.

There’s no peer competition between the Company and the controlling shareholder PAG and its related parties and PAG has also made relevant commitment regarding avoidance of peer competition.

(IV) After the NPO such situation does not exist as the Company’s capital/assets are occupied by the controlling shareholder and its related parties or the Company provides guarantee to the controlling shareholder and its related parties

After the NPO such situation does not exist as the Company’s capital/assets are occupied by the controlling shareholder and its related parties or the Company provides guarantee to the controlling shareholder or its related parties on illegal basis.

(V) Liability structure of the Company in recent three years and previous accounting year

Liability business is normal operating business of a commercial bank. The company will neither significantly increase the liability (including contingent liability) through the NPO nor lead to unreasonable financial cost.

(VI) The NPO-related risks

When evaluating the NPO, the investors, apart from referring to the materials included in the Proposal, shall carefully consider risk elements as below:

1. Risk resulting from un-approval of the NPO proposal

Since the NPO needs to be approved by the Company's SHM, so there's possibility that the proposal can't be approved by the SHM. Besides, since the NPO proposal shall be submitted to CBRC, CSRC and other regulatory authorities, therefore there are uncertainties as to whether it can be approved by regulators and when the final regulatory approval can be obtained.

2. Credit risk

Credit risk mainly refers to the potential situation where the bank's borrowers or counterparties can't perform their obligations as previously agreed. The company's credit risk mainly comes from loan disbursement and off b/s credit business, particularly, the loan-related risks fall on credit portfolio risk as well as risks relating to higher NPL rate and lower reserve ratio.

3. Liquidity risk

In the process of business operating, a commercial bank may confront with such risks as surprisingly increased funding cost and incapability to make position clearing with reasonable price within proper time limit for asset portfolio due to reasons such as unbalance between asset and liability structure or improper gapping match. Although the Company has placed liquidity risk prevention as one of the work priorities, the Company is still exposed to liquidity risk given the particularity of banking industry.

4. Market risk

Market risk for the Company mainly lies in position of IR/exchange rate-related product position, and the Company's future income and cash flow may be subject to potentially adverse impact resulted from fluctuation of IR, exchange rate, commodity price and uncertainties of other market factors, so that there may be potential losses.

5. Operational risk

Operational risk refers to the risk caused due to improper internal procedures, operators' error or malpractice and external events. Losses may incur as a result of imperfect corporate governance structure, unreasonable control policies, distorted operational procedures/criteria, business agents' breach of the regulations, and internal control system's incapability to effectively identify, remind and prevent the rules-breaking actions/malpractices.

6. Policy risks

Commercial banks constitute main carrier of monetary policies, and the application of monetary policy instrument may impact the commercial banks' business volumes and profitability. The company may be exposed to risks of failing to timely adjust business strategy in view of policy change.

7. Stock price fluctuation risks

The Company as a listed company may be directly subject to influence on corporate stock price due to policy changes. In addition, the national macroeconomic trend, material policies, domestic/international political trends and supply/demand change in stock market as well as the investors' expectation may have a certain impact on corporate profit level, development prospect and stock price. Hence, the Company's

stock price may likely fluctuate due to above risk elements.

SDB BoD

Aug 18 2011