



昆仑银行
Bank of Kunlun

ANNUAL REPORT 2013



Company Profile

Bank of Kunlun Corporation Limited was previously known as Karamay City Commercial Bank Corporation Limited, which was incorporated as Urban Credit Cooperative of Karamay City, following the merger of Maoyuan Urban Credit Cooperative and Rongxing Urban Credit Cooperative in December 2002. In April 2009, China National Petroleum Corporation (CNPC) took a controlling interest in the Bank with a sizable subscription of new capital. In April 2010, the Bank was renamed Bank of Kunlun. The choice of word for Kunlun as a brand name suggests a strong growth momentum for the Bank.

The restructuring of the Bank took place against the backdrop of a broad national strategy for energy security and for development in the western region of China. Since the restructuring, the Bank has pursued a unique business strategy for differentiation, stressing on quality, efficiency, moderate growth and sustainable development. The Bank operates under the tone set at the top for a strong foundation, improved structure, better risk management and sustainable growth in the pursuit of a business strategy centering on a close fit between banking and oil and gas industry.

Over the past five years since its restructuring, the Bank capitalizes the support of shareholders to rigorously run its corporate banking, financial markets, international clearing/settlement and personal banking business. Its balance sheet expansion has been very fast and operating capacity has been dramatically improved. The Bank now owns six branches, two rural banks, and forty-eight business units including banking departments of the head office and branches, and sub-branches. It now offers E-banking services covering online banking, telephone banking and mobile banking. It has four major lines of business including specifically corporate banking, personal banking, financial market and international clearing/settlement. The Bank has also developed a series of new products such as Kunlun Express, Corporate Cash Management, Trade Financing in Petroleum Supply chain, and CNPC Corporate Card, all of which have helped to better serve customers in a number of regions in a more efficient way.

In the years ahead, the Bank will continue to focus on the business strategy of integration of banking and oil and gas industry, accelerate the transformation towards a quality oriented business strategy, stressing building a strong foundation, improving business structure, better risk management and sustainable growth. Meanwhile, the Bank will enhance core competencies, and pursue a strategy of quality, sustainable growth and efficiency, in the hope of putting in place a unique business model centering of a good fit between banking and oil and gas industry.

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1. Definitions

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

The Company	Bank of Kunlun Co., Ltd. and its subsidiaries
The Bank/Bank of Kunlun	Bank of Kunlun Co., Ltd.
MOF	Ministry of Finance of the People's Republic of China
Company Law	Company Law of the People's Republic of China
Articles of Association	The Articles of Association of Bank of Kunlun Co., Ltd.
Karamay City Commercial Bank	Karamay City Commercial Bank Co., Ltd.
PBOC	The People's Bank of China
CBRC	China Banking Regulatory Commission
CSRC	China Securities Regulatory Commission
PRC GAAP	Accounting Standards for Business Enterprises and the Application Guidance promulgated by the Ministry of Finance in 2006, as well as other relevant regulations
CNPC	China National Petroleum Corporation

2. Important Notices

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management members of Bank of Kunlun hereby guarantee that there are no false records, misleading statements or material omissions in this report.

The 2013 Annual Report of the Bank has been considered and approved at the 8th Meeting of the 3rd Session of the Board of Directors of the Bank held on 5 March 2014.

The 2013 financial statements have been audited by BDO China Shu Lun Pan Certified Public Accountants LLP with standard unqualified auditors' report being issued.

Board of Directors
Bank of Kunlun Co., Ltd.
5 March 2014

Mr. Wang Guoliang, Legal Representative of the Bank, Mr. Wang Zhonglai, President of the Bank, Mr. Jing Lin, Vice President of the Bank in charge of finance, and Mr. Wang Mingdong, General Manager of Planning and Finance Department of the Bank, hereby warrant and guarantee the authenticity and completeness of the financial statements contained in the 2013 Annual Report.

Notes on Material Risks

During the reporting period, the Bank did not identify any material risks that exerted negative impact on the Bank's development strategy and business objectives. The Bank adopted efficient measures to manage various risks. Please refer to the section headed "Management Review—Risk Management".

3. Basic Information

- Legal name in Chinese:** 昆仑银行股份有限公司
Legal name in English: BANK OF KUNLUN CORPORATION LIMITED
Chinese Abbreviation: 昆仑银行
English Abbreviation: Bank of Kunlun
English Acronym: KLB
- Legal Representative:** Wang Guoliang
- Registered Capital:** RMB7,380,523,495.35
Registered Address:
NO.7 Century Ave, Karamay, Xinjiang
Postal Code: 834000
Customer Service and Complaint Hotline:
40066-96569
Website: <http://www.klb.cn/>
- Secretary to the Board of Directors:** Xu Xinyuan
Telephone: 0990-6239370 010-89026988
Fax Number: 0990-6969902 010-89025406
Email Address: ir@klb.com.cn
- Newspaper for Information Disclosure:**
Financial Times
Website designated for publication of the annual report: <http://www.klb.cn/>
Place for preserving the Annual Report:
Board of Directors' Office of the Bank
- Legal advisor:** Jun He Law Offices
Address: 20/F, China Resources Building, No. 8 Jianguomen North Street, Dongcheng District, Beijing, PRC
- Other Relevant Information:**
Date of Incorporation: 9 December 2002
Date of Changing Registration Certificate: 30 December 2013
Registration Authority:
Karamay Administration for Industry and Commerce
Corporate Business License Number:
650200040000052
Financial Business License Number:
B0226H265020001
Tax Registration Certificate Number:
650203745209781
Organization Code: 74520978-1
- Audit Firm Engaged by the Bank:**
BDO CHINA SHU LUN PAN Certificated Public Accountants LLP
Address: 4/F, New Huangpu Financial Plaza, NO.61 East Nanjing Road, Huangpu District, Shanghai, PRC
- Principal business activities and services:**
deposit-taking from the public, issuance of short-term, medium-term and long-term loans; domestic and international banking settlement; bill acceptance and discounting, issuance of financial bonds; acting as an agent for the issuance, redemption and underwriting of government bonds, trading government bonds and financial bonds; interbank placements; trading foreign exchange on its own or acting as an agent; bank card business and service; providing letters of credit service and guarantee; acting as an agent for the payment or receipt of money as well as insurance business; safekeeping service; and other business activities and services under the CBRC's seal of approval.

The report is prepared in both Chinese and English. In case of any discrepancy between the two versions, the Chinese version shall prevail.

4. Financial Highlights

Financial data and indicators in this Annual Report are prepared in accordance with PRC GAAP, and unless otherwise specified, the data is the consolidated amount of the Bank and its subsidiaries and denominated in RMB.

4.1 Key Financial Data

Operating Results

Item	(In RMB Ten Thousands)		
	2013	2012	2011
Net interest income	462,753	295,574	201,244
Net fee and commission income	84,551	69,089	30,451
Operating income	565,843	388,666	233,431
General and administrative expenses	114,894	82,785	53,350
Impairment losses on assets	123,015	58,396	27,688
Operating profit	305,417	233,019	144,506
Profit before tax	306,241	233,706	145,029
Net profit	259,226	194,519	123,431
Net profit attributable to shareholders of the Bank	258,515	194,360	123,426
Accumulated other comprehensive income attributable to shareholders of the Bank	157,356	210,099	126,767
Net cash flows from operating activities	1,518,330	1,962,551	2,703,450

At the end of the Reporting Period

Item	(In RMB Ten Thousands)		
	31 December 2013	31 December 2012	31 December 2011
Total assets	24,645,276	18,481,527	13,029,525
Loans and advances to customers	6,303,460	4,136,336	2,099,471
Allowance for impairment losses	199,714	98,564	40,167
Net investment	7,275,474	5,637,563	4,037,169
Total liabilities	22,900,235	17,027,466	11,750,921
Deposits from customers	13,042,527	10,482,969	7,422,416
Deposits from banks and non-bank financial institutions	8,957,155	4,882,366	2,600,637
Placements from banks and non-bank financial institutions	–	200,000	–

Continued

Item	31 December 2013	31 December 2012	31 December 2011
Equity attributable to shareholders of the Bank	1,741,619	1,451,350	1,277,346
Share capital	738,052	671,619	671,619
Net core Tier 1 capital ⁽¹⁾	1,736,291	1,447,662	—
Net Tier 1 capital ⁽¹⁾	1,736,342	1,447,662	—
Net capital ⁽¹⁾	1,871,059	1,471,721	—
Risk-weighted assets ⁽¹⁾	15,111,438	11,042,328	—

Note:

(1) Calculated in accordance with the Rules for the Capital Rules for Commercial Banks (Provisional) issued by CBRC, and the figures of 2012 are restated.

Per Share Data

(In RMB Yuan)

Item	31 December 2013	31 December 2012	31 December 2011
Net asset value per share ⁽¹⁾	2.36	2.16	1.90
Basic earnings per share ⁽²⁾	0.38	0.29	0.21
Diluted earnings per share ⁽²⁾	0.38	0.29	0.21
Net cash flows per share from operating activities	2.06	2.92	4.03

Note:

(1) Calculated by dividing equity attributable to shareholders of the parent company at the end of the reporting period by the number of shares issued at the end of the reporting period.

(2) Calculation methods are determined according to Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9—Computation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010) issued by CBRC.

4.2 Key Financial Indicators

Profitability (%)

Item	2013	2012	2011
Return on average total assets ⁽¹⁾	1.20	1.23	1.16
Return on weighted average equity ⁽²⁾	16.24	14.25	12.81
Return on weighted average equity after deducting non-operating gain/losses ⁽²⁾	16.21	14.20	12.92
Net interest spread ⁽³⁾	1.94	1.74	1.91
Net interest margin ⁽⁴⁾	2.13	1.98	2.15
Ratio of net fee and commission income to operating income	14.94	17.78	13.05
Cost-to-income Ratio ⁽⁵⁾	20.30	21.30	22.85

Note:

(1) Calculated by dividing net profit by the average balance of total assets at the beginning and at the end of the reporting period.

(2) Calculated in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.9—Computation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010) issued by CBRC.

(3) Calculated by the spread between yield on average balance of interest-generating assets and cost on average balance of interest-bearing liabilities.

(4) Calculated by dividing net interest income by the average balance of interest-generating assets.

(5) Calculated by dividing net fee and commission income by operating income.

Asset Quality (%)

Item	2013	2012	2011
Non-performing loans (NPL) ratio ⁽¹⁾	1.03	1.80	0.03
Allowance to NPL ⁽²⁾	306.79	132.29	5,967.84

Note:

(1) Calculated by dividing the balance of NPL by total balance of loans and advances to customers.

(2) Calculated by dividing allowance for impairment losses on loans and advances by balance of NPL.

Capital Adequacy (%)

Item	2013	2012	2011
Core Tier 1 capital adequacy ratio ⁽¹⁾	11.49	13.11	—
Tier 1 capital adequacy ratio ⁽¹⁾	11.49	13.11	—
Capital adequacy ratio ⁽¹⁾	12.38	13.33	—
Total equity to total assets ratio	7.08	7.87	9.81

Note:

(1) Calculated in accordance with the Rules for the Capital Rules for Commercial Banks (Provisional) issued by CBRC, and the figures for 2012 are restated.



5. Chairman's Statement



In 2013, the development and business transformation of banking industry have been greatly reshaped by the slow growth of the world economy, strategic moves of China to deepen reforms, restructuring of the economy caused by economic transformation & upgrade, and tightening of monetary policy. In addition, with the strict capital regulation and the fast development of interest rate liberalization, the trend of disintermediation is becoming more significant, new financial institutions are springing up, and competition among banks is becoming increasingly intense, all of which have highlighted the tough operating environment of the banking industry.

Facing with constant changes of the economy and finance, the Bank has taken active measures to cope with external and internal challenges under the guidance of the government and regulatory institutions, as well as the support from shareholders

and other sectors of the society. Meanwhile, we firmly focus on the unique strategy of integration of banking and oil and gas industry, focus on customers and market, and take institutional changes. The Bank stresses "peer bank comparison, markets, customers and products", and has undertaken five key projects relating to network construction, integration of banking and oil and gas industry, product innovation, management improvement and employee cultivation. It strives to become a well-streamlined bank, energy bank and platform bank. Indeed, last year was quite a successful year for us as the Bank continued to broaden horizons, better mobilize our resources and improve management skills. On behalf of the Board of Directors, I would like to extend my sincere gratitude to everyone for their support and help over the past year.

In 2013, the overall strength of the Bank rose up to a new level. The Company realized net profit attributable to shareholders of the Bank of RMB2.59 billion, representing an increase of 33.01% over the prior year. Return on assets was 1.20%, with a decrease of 0.03 percentage points. Return on equity amounted to 16.24%, with an increase of 1.99 percentage points. Operating benefit has also grown to a new record. By the end of 2013, total assets of the Company had increased to RMB246.45 billion, up by 33.35% compared with the prior year. The deposit and loan balance reached RMB130.43 billion and RMB63.04 billion respectively, with a year-on-year growth rate of 24.42% and 52.39% respectively. The business scale has been expanding sustainably.

In 2013, the Bank continued to pursue the business strategy of integration of banking and oil and gas industry. The business plan for year 2014-2015 and the 13th five-year long-term plan have been drafted. The Bank has also drawn up a scheme for deepening the integration of banking and oil and gas industry through starting up the making of China's oil industrial map and the information platform for the integration of banking

and oil and gas industry, heightening the cooperation with enterprises, and speeding up to forge a E-banking service platform, all of which have helped the Bank step forward on the road of integration of banking and oil and gas industry. Following our efforts, the content and strategic objective of the integration of banking and oil and gas industry has become more distinct and specific, and the institutional set-up, products and risk management system are now being introduced and enhanced. Both the number of customers and the size of business are growing rapidly, and some advantages in human resources, information resources, ability to address risks and other aspects are improved.

In 2013, the institutional reform made significant headway. The Bank strengthened corporate-governance system and organization, and promoted duty diligence of directors and supervisors by means of training, field trips, industry meetings and performance appraisal. We adjusted the structure and responsibilities of departments of head office, making marketing departments bigger and stronger and getting middle and back offices sound and professional, and further improved the management mechanism. The Bank strengthened its human resources management to make it more competitive, performance based. Moreover, the Bank paid great attention to comprehensively streamlining rules and process, highlighting compliance risk management, and carrying out full-coverage inspections of integrated business, which helped improve risk awareness and management.

In 2013, fruitful success was achieved in the innovation of financial services. The Bank placed emphasis on innovation, enriched existing products, formulated the rules for product innovation and drew up product brochures and the three-year product innovation plan. During the year, the Bank developed 54 new products, issued 45 wealth management products and succeeded in getting qualification in selling securities and investment fund.

In 2013, the service capacity got further enhanced. Network construction was vigorously promoted and the number of branches and sub-branches of the Bank added up to 48 with 8 newly opened sub-branches in 2013. With the operation of pilot remote banking business and expansion & improvement of e-channels, marketing channels were further widened. The Bank streamlined the business process, strengthened consumer protection, and laid down a series of rules including the rules for customer service. Thereby satisfaction of customers rose significantly.

In 2013, the Bank scored high in the practice of social responsibilities. It actively implemented the national strategy of economic structure adjustment and business model transformation, worked hard to fulfill the social responsibility and made active efforts in various aspects of the economy, society and environment, which promoted the well-coordinated development of regional economy. While optimizing the credit structure,

the Bank also provided services for micro-enterprises, which targeted small companies in petroleum and petrochemical supply chain, supported agriculture, rural areas and farmers, funded the projects for people's livelihood, reduced service charges, continued to step up the comprehensive service level and dedicated itself to promoting the harmonious development of the society.

2014 is the final year for the Bank to implement the 12th five-year plan. The Bank will continuously adhere to the development guideline in pursuit of quality, efficiency, moderate growth and coordinated development. The Bank will direct major efforts to sound development of high quality, coordinated development with reasonable structure and value-added sustainable development, build a safe and dynamic bank with sound corporate governance, sustainable development and social responsibility, and deliver well in the eyes of customers, staff and the whole society at large.



Chairman: Wang Guoliang

5 March 2014

6. President's Statement

In 2013, the Bank made great efforts to implement the decisions of the General Meeting of Shareholders and the Board of Directors, closely followed the government policies and regulatory requirements, continued to pursue a customer-centered and market-oriented business strategy, and endeavored to better manage the Bank. Hence, the Bank has achieved a breakthrough in terms of its business performance and risk management.

By the end of 2013, total assets of the Company amounted to RMB246.45 billion, representing an increase of 33.35% over the prior year. The deposits and loans have reached RMB130.43 billion and RMB63.04 billion respectively, with year-on-year growth rate of 24.42% and 52.39% respectively. The Bank achieved profit before tax of RMB3.06 billion, up by 31.04% compared with the prior year. Return on equity amounted to 16.24%, with an increase of 1.99 percentage points.

According to the Competitiveness Assessment of Chinese Commercial Banks in 2013 by the Banker Journal, Bank of Kunlun was ranked 13th in the category of Overall Ranking of City Commercial Banks with assets between RMB100 billion and RMB200 billion in 2013.

The business capability continued to be enhanced. In 2013, the Bank increased its capital by introducing two new shareholders with new capital of RMB1.9 billion, and further diversified the ownership structure while bolstering the equity base significantly. The effort has brought the total number of corporate customers up to 12,000 cumulatively, up by 3,641; the number of individual customers totaled 870,000 accumulatively, rising by 220,000 over the prior year. The number of bank cards issued added up to 957,000 cumulatively, with an increase of 293,000. Besides, service capabilities of the Bank progressed steadily. The number of branches and sub-branches of the Bank reached 48 with 8 newly opened sub-branches in 2013. The number of self-service equipments came up to 526, with an increase of 67; the number of transactions of e-banking accounted for 83.34% of that of the whole bank, representing an increase of 3.9 percentage points; the number of personal internet banking customers, corporate internet banking customers, telephone banking customers and mobile banking customers increased to 232,100, 6,500, 38,000 and 53,000 respectively.

The business foundation got consolidated. Five Projects relating to network construction, integration of banking and oil and gas industry, product innovation, management improvement and employee cultivation were launched, achieving favorable results. The Bank energetically expanded supply chain financial business; loan balance of supply chain customers was RMB11.76 billion, up by 81.6%; while deposit balance reached RMB5.55 billion, up by 79.4%. During the year, 54 new products were developed, among which industrial chain's upstream trade financing, credit loans to oil workers, bill custody and petroleum & petrochemical commodity financing gained excellent effects in application. The Bank developed a series of wealth management products, known as "Baoshi Flower" amounting to RMB8.7 billion. The Bank also made a major breakthrough as the qualification for selling Securities and Investment Fund was approved by CSRC. Management enhancement was carried out firmly that concentrated on the specification of responsibility, streamlining processes, core system optimization, credit system enhancement, management improvement, which helped achieve the goal of clarifying responsibility to improve management quality and rationalizing procedures and processes to boost productivity well. Additional changes relating to marketing and human resources management system were also made. Furthermore, it implemented overall staff training, strengthened team work, increasing marketing staff.

Risk management capability steadily improved. In 2013, the Bank accelerated the New Capital Accord project, improved the measurement and management of credit risk, market risk and operational risk systems and enhanced the whole Bank's risk management. In terms of credit risk management, credit management continued to be consolidated. Centering on the goal of "controlling the loan stock and optimizing loan incremental", the Bank strengthened early warning for customers and the management of loans in different areas, streamlined the process of lending to related customer groups and standardized internal assessment of project loans, leading to enhancement in the quality and efficiency of loan approval. In terms of operational risk management, it reinforced the management of major business, essential timelines, critical link and key position, regulated business operating process, improved the entire process control, and further enriched control means and tools for operational risk, in order to effectively improve the ability of controlling operational risk. Furthermore, the Bank improved the organizational structure of fraud prevention and control, and allocated fraud prevention responsibilities effectually. Non-compliance sanction was working well, enforcing sanctions of various business lines, which further upgraded the objectivity and enforcement of non-compliance responsibility confirmation.

All the above achievements could never be attained without the diligence and selfless dedication of all staff, the guidance of governments and regulatory authorities, and the support from all shareholders, customers and the whole society. I would like to express my sincere gratitude on behalf of the management to all of you!

In 2014, the overall macroeconomic situation seems to be good, but there are still quite a few difficulties and challenges. The Bank will conscientiously implement the government macroeconomic policy and financial regulatory requirements, firmly adhere to the business principle stressing quality, efficiency, moderate growth and coordinated development, work more closely a number of priority areas relating to building a strong foundation, improving structure, better risk management and sustainable growth. The Bank, will underline the growth of corporate business, personal business, international business and financial market business. The Bank will also constantly improve the level of its compliance and risk management, continuously enhance the service and support ability of middle and back offices, and proceed to ensure the high-quality, efficient and sustainable development of the Bank.

The image shows a handwritten signature in black ink. The characters are '王忠来' (Wang Zhonglai), written in a cursive style.

President: Wang Zhonglai

5 March 2014

7. Management Review

7.1 Development Strategy

Since the restructuring, the Bank has established the development strategy of “relying on petroleum and petrochemical industry and going on the road of integration of banking and oil and gas industry” and the medium and long-term strategic objective of “becoming the most powerful commercial bank in the field of energy finance”. Meanwhile, the Bank played an active role in exploring social market as well as focusing on marketing regional featured industries and customers to diversify the customer base and expand profit sources on the principle of “maximizing regional resources and operating profit of separate institutions”. It struggles to rank top among domestic city commercial banks in terms of comprehensive strength by the end of the “12th five-year”.

The Bank will implement “4C” strategy to continue to promote the practice and development of integration of banking and oil and gas industry in the future. “4C” represents CNPC, Chain-Finance, Cluster-Finance and Core-Customer, which means: proceed to depend on profound industrial background of CNPC, develop energy finance business and strive to become an expert of energy finance in the field of commercial banks; keep in conformity with the requirement of economic structure transformation and enterprise growth ecology, and concentrate on developing chain-finance and cluster-finance which covers professional market and business circles; mainly develop liability business and fee-based business surrounding customers of energy enterprises, state-owned enterprises and oil workers, and place emphasis on the development of asset business surrounding small and medium-sized enterprises.

The Bank will achieve above goals through further enhancing its modern management capability and level. Firstly, “Four Researches” will be strengthened, namely studying the peers to acquire advanced experience, analyzing the market to grasp the law of development, delving into the customers to improve marketing skills, and examining the products to promote innovation capabilities. Secondly, “Five Projects” will be pushed forward, which means during the next 3-5 years, the Bank will continuously push forward network construction, integration of banking and oil and gas industry, product innovation, management enhancement, and employee cultivation to further consolidate development foundation.

7.2 Economic, Financial and Regulatory Environments

In 2013, the global economy faced unexpected twists and turns. As the Euro zone's recession lasted longer and the

overall economic growth in emerging markets slowed down, the recovery of global substantial economy now remains unclear, still facing sliding down risks. According to the IMF research report, the actual annual global economic growth rate was about 2.9% in 2013, slightly lower than 3.2% in 2012; growth rates of the United States, Euro zone, Japan and emerging markets were 1.6%, -0.4%, 2.0% and 4.5% respectively.

In 2013, a more complex and profound set of changes has been taken place in the international economic environment as well as the domestic economic conditions. Chinese government coped with challenges leisurely and accomplished major expected goals of economic and social development successfully, maintaining steady and rapid growth of national economy with a year-on-year growth rate of GDP of 7.7%, almost the same as that of 2012. While finance, leasing, business service and fixed asset investment in transportation increased fast, fields such as construction, social security, social welfare, public management and social organization fell into a substantial decline. “The Decisions on Major Issues Concerning Comprehensively Deepening Reforms” passed at the Third Plenary Session of the 18th CPC Central Committee provides important guidance for the future economic reform and development.

In 2013, CBRC further strengthened the regulations in Banking industry. In March, CBRC issued “Notice of the Issues Concerning the Regulation of the Running of Wealth Management Business of Commercial Banks” (No.8 Article) to augment the control of the operation of financial capital and guide the normative development of new institutions. In order to strengthen policy guidance and promote the adjustment of the economic structural, CBRC, jointly with relevant departments, drew up “the Guiding Opinions of the State Council General Office in regard to Financial Support for Economic Structural Adjustment and Transformation”. This article focuses on vitalizing the stock and making good use of the increment (Finance No.10 Ordinance). In August, as for “the Implementation Opinions of the State Council General Office related to Financial Support for the Development of Small and Micro Enterprises”, CBRC, along with other relevant ministries, supervised the implementation, which led to a new situation that all parties supported the development of small and micro companies.

In 2013, domestic banking industry overall operated smoothly, and made significant progress in aspects of reform, development, and risk prevention. First of all, credit services maintained a reasonable growth. As at the end of 2013, RMB loans increased by RMB8.89 trillion, representing a growth rate of 8.41% over the prior year. Secondly, risks of the banking industry remained at a low level. In 2013, the NPL ratio of commercial banks was only around 1.0%, and the weighted average capital adequacy ratio was 12.19%.

With the improvement of the macroeconomic environment and the introduction of a series of related policies, domestic commercial banks will face more opportunities, new competitions and challenges concerning business modes and interest rate liberalization, etc. In face of these chances and obstacles, commercial banks need to fully understand the influences of the slow recovery of international economy, the comprehensive and deepen reform of domestic economy, the upgrade of industry structure, and the evolution of new financial institutions, thus constantly enhancing their own management and operation capability.

7.3 Financial Statements Analysis

7.3.1 Income Statement Analysis

Changes of Key Income Statement Items

The Company realized an operating income of RMB5.66 billion in 2013, representing an increase of RMB1.77 billion or 45.59% compared to the prior year. Operating expenses amounted to RMB2.60 billion, representing an increase of RMB1.05 billion or 67.32% compared to the prior year. The Bank achieved a net profit of 2.59 billion, representing an increase of RMB0.65 billion or 33.27% compared to the prior year.

(In RMB Ten Thousands)

Item	2013	2012	Increase/ (Decrease)	Rate of change (%)
Net interest income	462,753	295,574	167,179	56.56
Non-interest income	103,090	93,092	9,998	10.74
Operating income	565,843	388,666	177,177	45.59
Less: Operating expenses	260,426	155,647	104,779	67.32
Including: Business tax and surcharges	22,499	14,459	8,040	55.61
General operating and administrative expenses	114,894	82,785	32,109	38.79
Impairment losses on assets	123,015	58,396	64,619	110.66
Other operating expenses	18	7	11	157.14
Operating profit	305,417	233,019	72,398	31.07
Add: Net non-operating income	824	687	137	19.94
Profit before tax	306,241	233,706	72,536	31.04
Less: Income tax expenses	47,015	39,187	7,828	19.98
Net profit	259,226	194,519	64,707	33.27
Attributable to: Equity holders of the parent company	258,515	194,360	64,155	33.01

Net Interest Income

In 2013, net interest income of the Company increased by RMB1.67 billion, or 56.56%, to RMB4.63 billion, accounting for 81.78% of the operating income.

The table below presents the daily average balance of interest-generating assets, interest-bearing liabilities, interest income and expenses, and the average interest rate respectively.

(In RMB Ten Thousands)

Item	2013			2012		
	Daily average balance	Income/expenses	Average interest rate(%)	Daily average balance	Income/expenses	Average interest rate(%)
1. Interest-generating assets	21,732,096	859,466	3.95	14,891,555	597,488	4.01
Loans and advances to customers	5,033,184	324,679	6.45	3,114,366	203,747	6.54
Bond Investments	4,807,344	217,374	4.52	4,660,065	217,143	4.66
Placements with banks and non-bank financial institutions	73,496	3,793	5.16	—	—	—
Financial assets held under resale agreements	3,482,904	192,333	5.52	1,222,284	42,576	3.48

Continued

Item	2013			2012		
	Daily average balance	Income/expenses	Average interest rate(%)	Daily average balance	Income/expenses	Average interest rate(%)
Deposits with banks and non-bank financial institutions	5,974,414	86,122	1.44	4,098,205	106,464	2.60
Deposits with central bank	2,360,754	35,165	1.49	1,796,635	27,558	1.53
2. Interest-bearing liabilities	19,675,281	396,714	2.02	13,301,858	301,915	2.27
Deposits from customers	12,070,567	234,145	1.94	8,933,249	179,716	2.01
Deposits from banks and non-bank financial institutions	6,816,162	129,473	1.90	3,711,862	94,341	2.54
Financial assets sold under repurchase agreements	788,552	33,096	4.20	656,747	27,858	4.24
Net Interest Spread	–	–	1.94	–	–	1.74
Net Interest Margin	–	–	2.13	–	–	1.98

The table below sets out the changes in interest income, interest expenses caused by changes in volume, and interest rate.

(In RMB Ten Thousands)

Item	Factor Analysis		
	Daily average balance	Interest rate	Total
1. Interest-generating assets	274,306	(12,328)	261,978
Loans and advances to customers	125,490	(4,558)	120,932
Bond Investments	6,863	(6,632)	231
Placements with banks and non-bank financial institutions	–	3793	3793
Financial assets held under resale agreements	78,670	71,087	149,757
Deposits with banks and non-bank financial institutions	48,782	(69,124)	(20,342)
Deposits with central bank	8,631	(1,024)	7,607
2. Interest-bearing liabilities	144,677	(49,878)	94,799
Deposits from customers	63,060	(8,631)	54,429
Deposits from banks and non-bank financial institutions	78,849	(43,717)	35,132
Financial assets sold under repurchase agreements	5,589	(351)	5,238

Non-interest Income

In 2013, non-interest income of the Company increased by RMB0.10 billion or 10.74% from the prior year to RMB1.03 billion, accounting for 18.22% of total operating income.

(In RMB Ten Thousands)

Item	2013	2012	Increase/(Decrease)	Rate of change (%)
Fee and commission income	90,490	74,095	16,395	22.13
Less: Fee and commission expenses	5,939	5,006	933	18.64
Net fee and commission income	84,551	69,089	15,462	22.38
Other non-interest related gain/(losses)	18,539	24,003	(5,464)	(22.76)
Total	103,090	93,092	9,998	10.74

Net Fee and Commission Income

(In RMB Ten Thousands)

Item	2013		2012	
	Balance	Percentage(%)	Balance	Percentage(%)
Fee and commission income	90,490	100.00	74,095	100.00
Domestic settlement fee	2,015	2.23	2,517	3.40
Agency service fee	33,435	36.95	44,789	60.44
Agency business fee	1,580	1.75	531	0.72
Other business fee	53,460	59.07	26,258	35.44
Fee and commission expenses	5,939	100.00	5,006	100.00
Agency service expenses	227	3.82	885	17.67
Other business expenses	5,712	96.18	4,121	82.33
Net fee and commission income	84,551	—	69,089	—

Interest Expenses

Interest Expenses on Deposits

Interest expenses on deposits of the Company amounted to RMB2.34 billion, representing an increase of RMB0.54 billion or 30.29% compared to the prior year.

Analysis of average deposit cost sorted by products

(In RMB Ten Thousands)

Item	2013			2012		
	Average balance	Interest expenses	Average cost(%)	Average balance	Interest expenses	Average cost(%)
1. Corporate deposits	10,580,865	202,811	1.92	8,188,257	166,123	2.03
Time deposits	4,614,327	166,214	3.60	4,022,218	142,371	3.54
Demand deposits	5,343,858	27,316	0.51	3,833,734	18,880	0.49
Call deposits	622,680	9,281	1.49	332,305	4,872	1.47
2. Personal deposits	1,489,702	31,334	2.10	744,992	13,593	1.82
Time deposits	803,369	27,791	3.46	330,308	11,345	3.43
Demand deposits	611,800	2,585	0.42	377,488	1,769	0.47
Call deposits	74,533	958	1.29	37,196	479	1.29
Total	12,070,567	234,145	1.94	8,933,249	179,716	2.01

Operating Expenses

General operating and administrative expenses

The Company exercised strict cost management and control. Operating expenses were RMB1.15 billion, representing an increase of RMB0.32 billion or 38.79% compared to that of the prior year.

Impairment losses on assets

Impairment losses on assets increased by RMB0.65 billion, or 110.66%, to RMB1.23 billion, of which impairment losses on loans increased by RMB0.46 billion and impairment losses on receivables increased by RMB0.12 billion.

Income tax expenses

(In RMB Ten Thousands)

Item	2013	2012
Current income tax	64,966	44,887
Deferred income tax adjustment	(17,951)	(5,700)
Others	–	–
Total	47,015	39,187

7.3.2 Balance Sheet Analysis

Assets

As at the end of 2013, the total assets of the Company was RMB246.45 billion, representing an increase of RMB61.64 billion or 33.35% from the end of the prior year, of which interest-generating assets increased by RMB61.02 billion or 33.42% to RMB243.59 billion and non-interest-generating assets increased by RMB0.62 billion or 27.45% to RMB2.87 billion.

(In RMB Ten Thousands)

Item	31 December 2013		31 December 2012	
	Balance	Percentage(%)	Balance	Percentage(%)
Loans and advances to customers	6,103,746	24.77	4,037,772	21.85
Financial assets held for trading	545,660	2.21	109,815	0.59
Held-to-maturity investments	1,775,495	7.20	1,996,611	10.80
Available-for-sale financial assets	2,477,265	10.05	2,162,377	11.70
Receivables	2,477,053	10.05	1,368,760	7.41
Placements with banks and non-bank financial institutions	86,890	0.35	–	–
Deposits with banks and non-bank financial institutions	6,638,848	26.94	4,851,343	26.25
Cash and deposits with central bank	3,133,131	12.71	2,430,676	13.15
Financial assets held under resale agreements	1,120,494	4.55	1,299,235	7.03
Total interest-generating assets	24,358,582	98.84	18,256,589	98.78
Non-interest-generating assets	286,694	1.16	224,938	1.22
Total Assets	24,645,276	100.00	18,481,527	100.00

Loans

As at the end of 2013, loans and advances of the Company amounted to RMB63.04 billion, representing an increase of RMB21.67 billion or 52.39% during the whole year, of which corporate loans increased by RMB20.46 billion or 51.03% to RMB60.55 billion and personal loans increased by RMB1.21 billion or 95.37% to RMB2.49 billion compared to the prior year.

(In RMB Ten Thousands)

Item	31 December 2013		31 December 2012	
	Balance	Percentage(%)	Balance	Percentage(%)
Loans and advances to customers	6,303,460	100.00	4,136,336	100.00
Including: Corporate loans	6,054,899	96.06	4,009,110	96.92
Personal loans	248,561	3.94	127,226	3.08

Continued

Item	31 December 2013		31 December 2012	
	Balance	Percentage(%)	Balance	Percentage(%)
Less: Allowance for impairment losses	199,714	100.00	98,564	100.00
Including: Corporate loans	193,510	96.89	95,939	97.34
Personal loans	6,204	3.11	2,625	2.66
Net loans and advances	6,103,746	100.00	4,037,772	100.00
Including: Corporate loans	5,861,388	96.03	3,913,171	96.91
Personal loans	242,358	3.97	124,601	3.09

Liabilities

As at the end of 2013, the total liabilities of the Company amounted to RMB229.00 billion, representing an increase of RMB58.73 billion or 34.49% compared to the prior year, of which interest-bearing liabilities increased by RMB55.15 billion or 33.15% to RMB221.51 billion and non-interest-bearing liabilities increased by RMB3.58 billion or 91.13% to RMB7.50 billion.

(In RMB Ten Thousands)

Item	31 December 2013		31 December 2012	
	Balance	Percentage(%)	Balance	Percentage(%)
Deposits from customers	13,042,527	56.95	10,482,969	61.57
Deposits from banks and non-bank financial institutions	8,957,155	39.11	4,882,366	28.67
Placements from banks and non-bank financial institutions and deposits from central bank	4,500	0.02	202,500	1.19
Financial assets sold under repurchase agreements	146,274	0.64	1,067,348	6.27
Total interest-bearing liabilities	22,150,456	96.73	16,635,183	97.70
non-interest-bearing liabilities	749,779	3.27	392,283	2.30
Total liabilities	22,900,235	100.00	17,027,466	100.00

Deposits from customers

As at the end of 2013, the balance of deposits from customers was RMB130.43 billion, representing an increase of RMB25.60 billion or 24.42% compared to the prior year. In terms of customer structure, the balance of corporate deposits increased by RMB18.07 billion or 19.36% to RMB111.40 billion; and personal deposits increased by RMB6.59 billion or 57.27% to RMB18.09 billion.

(In RMB Ten Thousands)

Item	31 December 2013		31 December 2012	
	Balance	Percentage(%)	Balance	Percentage(%)
1. Corporate deposits	11,139,776	85.41	9,332,701	89.03
Time deposits	3,286,387	25.20	4,307,279	41.09
Demand deposits	7,570,635	58.05	4,514,351	43.06
Fiscal deposits	44,009	0.34	169,032	1.61
Other deposits	2,175	0.02	281	0.00
Guarantee deposits	236,570	1.81	341,759	3.26
2. Personal deposits	1,809,023	13.87	1,150,268	10.97

Continued

Item	31 December 2013		31 December 2012	
	Balance	Percentage(%)	Balance	Percentage(%)
Time deposits	1,057,976	8.11	563,012	5.37
Demand deposits	751,048	5.76	587,256	5.60
3.Structured deposits	93,728	0.72	—	—
Total	13,042,527	100.00	10,482,969	100.00

7.3.3 Cash Flow Statement Analysis

Net cash flow from operating activities amounted to RMB15.18 billion, decreasing RMB4.44 billion or 22.63% compared with the prior year, which was mainly attributed to a sharp increase in cash flow of loans to customers and deposits with banks and non-bank financial institutions.

Net cash flow generated from investing activities summed up to RMB14.86 billion with negative figure, representing a decrease of RMB0.19 billion or 1.26%, on account of the reduction of cash recovered from bond investments.

Net cash flow coming from financing activities added up to RMB1.33 billion, with an increase of RMB1.68 billion, which mainly resulted from the capital increase of the Bank in 2013.

7.3.4 Segment Analysis

Segment operating results by business line

(In RMB Ten Thousands)

Item	Corporate banking	Personal banking	International business	Treasury	Total
1. Net interest income	228,230	35,277	74,367	124,879	462,753
Net fee and commission income	35,391	(396)	49,556	—	84,551
Investment income	—	—	—	5,380	5,380
Gain/(losses) from fair value change	—	—	—	(18,133)	(18,133)
Gain/(losses) on foreign exchange	—	—	31,221	—	31,221
Other operating income/expenses	53	—	—	—	53
Business tax and surcharges	16,418	935	4,845	301	22,499
General operating and administrative expenses	62,035	10,941	24,332	17,585	114,894
Impairment losses on assets	107,214	3,578	—	12,222	123,015
2. Operating profit	78,007	19,427	125,967	82,016	305,417
Non-operating income	1,425	—	—	—	1,425
Non-operating expenses	601	—	—	—	601
3. Profit before tax	78,831	19,427	125,967	82,016	306,241
Income tax expenses	13,972	3,443	15,064	14,536	47,015
4. Net profit	64,859	15,984	110,903	67,480	259,226

Segment operating results by geographical region

(In RMB Ten Thousands)

Item	Inside Xinjiang	Outside Xinjiang	Total
1. Operating income	455,109	110,734	565,843
Interest income	539,050	320,417	859,467
Interest expenses	179,004	217,710	396,714
Fee and commission income	84,047	6,443	90,490
Fee and commission expenses	3,603	2,336	5,939
Other operating income	64	7	71
Investment income	5,380	–	5,380
Gain/(losses) from fair value change	(18,133)	–	(18,133)
Gain/(losses) on foreign exchange	27,309	3,913	31,222
2. Operating expenses	215,816	44,610	260,426
General operating and administrative expenses	87,902	26,992	114,894
Business tax and surcharges	16,079	6,420	22,499
Impairment losses on assets	111,823	11,192	123,015
Other operating expenses	11	7	18
3. Profit before tax	239,772	66,469	306,241
Income tax expenses	39,835	7,180	47,015
4. Net profit	199,937	59,289	259,226

7.4 Business Overview

7.4.1 Corporate Banking

In 2013, the Bank actively responded to the changes in the macroeconomic situation, developed in accordance with the requirement of “pursuing quality, efficiency, and sustainable development” and adhered to the principle of “doing what is appropriate and discarding what is inappropriate”. Being customer-centered and market-oriented, the Bank focuses on integration of banking and oil and gas industry and featured development, expanding market, adjusting structure and maintaining growth as scheduled.

The implementing path of integration of banking and oil and gas industry and featured development of the Bank became clearer after active exploration and practice. The Bank gave full play to its advantages to make a close linkage between domestic and foreign currency businesses, therefore significantly rose customers’ comprehensive contribution. It reinforced the cooperation with core customers, and consequently customers in industrial chain of CNPC, especially small and medium-sized enterprises increased substantially, demonstrating more potential in customer base and business development, strengthening its ability to serve the real economy. The Bank set up teams of product development management and investment banking development. Consequently, characteristic products became more abundant, the capacity of quick-reaction to the market, service and marketing got further improved, and core competitiveness emerged. An information platform for the integration of banking and oil and gas industry was constructed, aiming to realize the share of information and resources and risk control with more efficiency & rigorousness. The Bank actively implemented regulatory requirement, took root in the local, based on featured development, served small and medium-sized enterprises, and supported regional economy. Normalized management mechanism of customer managers was established and access system became strict, conspicuously



improving the personnel quality and vocational skills.

By the end of 2013, corporate customers of the Bank had increased by 3,641 or 55% over the prior year, of which customers in industry chain of CNPC had increased by 1,700, with a year-on-year growth rate of 50%. Corporate deposits amounted to RMB110.82 billion, with a year-on-year growth rate of 19.26%. The balance of corporate loans reached RMB60.43 billion, with a year-on-year growth rate of 50.93%, of which the loan balances of small and micro enterprises and customers in industry chain of CNPC were RMB3.30 billion and RMB11.76 billion respectively, with a year-on-year growth rate of 40% and 81.6% respectively.

7.4.2 Personal Banking

In 2013, in face of complicated and changeable domestic and foreign financial environment, the Bank actively seized the opportunities arising out of the development of macro economy and market, relying on its competitive advantages of channels, service and brand, and took personal investment finance, personal loan, and bank card business as breakthroughs to expand fee-based business income. It also made efforts to quicken the growth of personal savings deposits and intensify meticulous management and brand publicity; enhanced services for mid- and high-tier customers in order to compete in the market of high-end individual customers, and improved operational risk management system of personal banking business, of which sound and fast development were attained.

Savings Deposits

Through the labor-competition activities of “consolidating the foundation, strengthening ability, and making progress in deposits growth while maintaining stability”, the Bank stimulated marketing enthusiasm of branches and sub-branches as well as marketing potential of networks, stepping up efforts to gather deposits. By the end of 2013, the Bank had 869,300 personal customers, representing an increase of 35.30% over the prior year; personal savings deposits reached RMB17.68 billion, with a year-on-year growth rate of 56.93%.

Personal Loans

During the reporting period, the Bank made great efforts to carry out product innovation in line with the strategy of “integration of banking and oil and gas industry”, rolling out innovative personal loan products for specialized target market, including oil workers’ credit loans, jointly guaranteed microcredit to farmers, pledged loans of personal payroll credit and overseas study loans for children of oil workers. These products with features of speedy approval, simple process, and strong competitiveness, successfully broke the bottleneck of the traditional personal loans, such as piles of material, complex procedures, tight credit and operating difficulties. All these products are especially suitable for petroleum enterprises, workers in companies with payroll credit and high-quality farmers in need of short or medium term financing. At the end of 2013, the balance of personal loans was RMB1.87 billion, representing an increase of 100.11% compared with that of the prior year. As for entrusted loans, the balance of entrusted loans for personal housing allowances increased by RMB1.62 billion to RMB2.35 billion, which was conducted in 5 branches including Daqing, Urumqi, Korla, Xi’an, and Karamay.

Personal Wealth Management

During the reporting period, the Bank acquired the qualification in selling securities investment fund, approved by CSRC, which was of significance to further enrich personal financial products and better enhance service capabilities to better meet diversified investment needs of individual customers. Meanwhile, the Bank offered service in various forms to high-end individual customers, collected quarterly feedback, and took different measures according to the characteristics of high-end customers in every region, providing special service channels, professional wealth management services and exclusive preferential services to benefit high-end customers in terms of products and knowledge, leading to the increase of their loyalty and closer relationship with the Bank. In 2013, the total sales of personal wealth management products amounted to RMB12.46 billion, with a year-on-year growth rate of 41.07%; the total sales of personal insurance products reached RMB56.12 million, with a year-on-year growth rate of 158.50%; the income from agency Intermediate business was RMB14.98 million, with a year-on-year growth rate of 197.59%.

Bank Card

During the reporting period, the Bank expanded the application of financing IC cards in depth, which were formally issued in October and the number gradually increased; social security cards were formally issued in November and popularized actively in Xinjiang. In 2013, the number of bank cards issued increased to 0.96 million by 0.29 million. Fee income of bank cards was RMB17.03 million, with a year-on-year growth rate of 55.43%.

7.4.3 Financial Market Business

During the reporting period, the Bank adhered to the development strategy of its financial market business, “steady operation and continuous innovation”, and aimed at improving asset operation efficiency and maintaining steady profit growth through pursuit of new profit growth point, expansion of income source, timely adjustment of investment and trading strategies and optimization of capital operation. By the end of 2013, the scale of assets and liabilities of financial market business amounted to RMB109.31 billion and RMB42.65 billion respectively, with year-on-year growth rates of 12.49% and 21.24%, respectively. All of these figures indicated that the financial market business ran well in the past 2013.

Bond Investments

Due to the impact of market factors and changes in regulatory environment, with yields going up and market transactions being weakened, the Bank upheld stable operating principle, actively worked out trading strategies and moderately optimized the structure of investment portfolio to ensure asset quality and yield level. By the end of 2013, the totality of bond holdings was RMB48.31 billion, with a year-on-year growth rate of 13.2%, of which interest products and credit products with issuers rated as AA+ or above accounted for 93.26%. The bond trading volume amounted to RMB1,844.39 billion, ranking 45th in interbank market and 15th among commercial banks, representing advancement of 12 places and 2 places respectively as compared with the end of 2012. The Bank's involvement in the market continuously enhanced, market scale got further expanded, and the influence on market constantly got strengthened.

Collateralized Bond Repurchase and Interbank Business

The Bank strengthened business operation, carried out capital operation flexibly, expanded financing channels energetically and increased utilization efficiency of funds based on the enhancement of predictions on the market trends. During the reporting period, through repurchase and credit lending, the Bank lent RMB1,405.23 billion and raised RMB357.97 billion. At the end of the reporting period, the balance of borrowing through repurchase and placements with banks and non-bank financial institutions amounted to RMB0.53 billion while the balance of lending reached RMB0.50 billion; deposits with other banks and non-bank financial institutions and investments reached RMB43.66 billion while deposits from others reached RMB41.18 billion.

Bill Business

Closely tracking the market trends, the Bank proactively responded to the complex and variable environment of bill market and intensified its inputs in bill business. It vigorously developed electronic bill business, optimized the structure of bill products, attracted new customers of high-quality and improved the asset quality of bills to ensure sustainable and healthy development of the bill business. By the end of 2013, the trading volume of bill business was RMB17.76 billion, realizing interest income of RMB0.92 billion.

Wealth Management Business

Pursuant to regulatory requirements, the Bank constantly strengthened innovation to enrich product types and satisfy customers' needs. It also broadened the investment and sales channels of wealth management products to promote rapid growth of the business. In addition, the Bank timely and accurately disclosed information on wealth management products and guaranteed investors' right to know, so as to ensure sound and healthy development of wealth management business. In 2013, the Bank successfully issued the first personal wealth management product and its first corporate collective wealth management product. During the reporting period, the Bank issued 45 wealth management products, whose sales amounted to RMB8.7 billion.

7.4.4 International Business

Targeting at main customer base, including large central enterprises, upstream and downstream enterprises in the petroleum & petrochemical industry chain, based on the five overseas strategic cooperation zones of CNPC, the international business of the Bank actively supported "going-out" strategy of national energy. Persisting in its principle

of “high starting point, rapid development and sustainable growth”, the international business coordinated with vigorous overseas development of CNPC, energetically implemented arrangements of the Bank, and swiftly expanded business, which completely manifested the feature and value of integration of banking and oil and gas industry.

In 2013, for the purpose of active response to the changes in international business market and the enhancement of business management and operation ability, the international settlement system of new generation was successfully developed and came into operation, which formed the milestone for the development of international business of the Bank. It was able to significantly promote operation capacity and customer service level, so as to meet customers’ needs and lay a solid foundation for further expanding corporate customer base of the international business of the Bank. In addition, the Bank consolidated the concept of customer service; that is to say, based on comprehension of development strategy and business demand, the Bank would provide enterprises with guidance through comprehensive financial services such as product consulting, business plan design and relevant market research, to effectively improve customers’ satisfaction and loyalty.

The year 2013 was a vital year for fast development of the international business of the Bank, in which business breakthroughs were made, contributing to the enhancement of market competitiveness and return rate. With the help of characteristic competitive advantages, high-quality customer base was widened and continuing growth was achieved in 2013. During the reporting period, there was a sharp increase in the Bank’s RMB and foreign currency-denominated total assets, net profit, foreign exchange purchases and sales, letters of credit, letters of guarantee and the transaction volume of RMB cross-border settlement, gradually forming product advantages.

7.4.5 Distribution Channels

Branches and Sub-branches

In 2013, centering on customers, the Bank continued to push forward the channel optimization, steadily promoted development and construction of branches and sub-branches, reinforced coverage capability of outlets, and established 8 new sub-branches. By the end of 2013, the Bank owned 6 branches in Karamay, Urumqi, Turpan-Hami, Korla, Daqing and Xi’an, respectively; the number of branches and sub-branches reached 48, including 2 rural banks. In 2014, following the strategy of integration of banking and oil and gas industry, the Bank will make scientific plans for channel construction and business layout to exert support and security functions of each channel collaboratively. Meantime, based on local resources and environment, the Bank will differentiate the development of branches and define their priorities, in order to promote self-characteristic development of the branches and sub-branches and enhance the earning power of the whole Bank.

E-banking

Sticking to the subject of “operation-centered”, it spared no efforts to support the development of main business, expand channels and functions, optimize procedures, and upgrade service capacity, so as to meet comprehensive and multi-level financial needs of customers. It also built a unified E-banking brand, interpreting the service concept of “accompanying customers like a family”. Remote banking and non-cash self-service terminals were launched to enrich E-banking service channels, of which the remote banking was awarded “The Best Financial Innovation Case of China in 2012” by New Finance magazine. Moreover, it strengthened marketing management and accelerated

product promotion. The head office, joint with branches, carried out multi-level publicity and promotion activities of E-banking. In 2013, E-banking business experienced rapid development; the number of registered E-banking customers reached 328,900, with a year-on-year growth rate of 86.24%; the number of E-banking transactions was 11.76 million, with a year-on-year growth rate of 64.11%, accounting for 83.34% of total transactions of the Bank, up by 3.9 percentage points compared to that of the prior year.

Internet Banking

The Bank introduced new personal Internet banking system, which adopted WEB2.0 technology to make entire new design in aspects of visual style, showing effect, page layout, marketing & publicity and user interaction. It comprehensively enhanced customer experience. Besides, functions including cell phone top-up, third-party depository, bank-enterprise reconciliation and payroll credit optimization were introduced to push forward transformation to Internet banking channel. The Bank received the "Internet Banking Comprehensive Development of Regional Commercial Banks Award of 2013" in the annual China's E-banking Award Ceremony organized by China Financial Certification Authority. By the end of 2013, the number of corporate Internet banking customers amounted to 6,503, with an increase of 110% compared to the prior year, while the number of individual Internet banking customers reached 232,100, up by 70.7% compared to the prior year.

Telephone Banking

By introducing functions of cell phone top-up and repayment manager, the Bank optimized product functions and procedures so as to improve customer experience. By the end of 2013, the number of telephone banking customers grew by 102.2%, and the trading volume increased by 154.1% compared to those of the prior year.

Moreover, the Bank actively expanded the function of customer service center. With the goal of enhancing service quality, controlling business risk and standardizing service procedures, it consolidated operating basic management, realized management streamlining, service normalization and knowledge standardization, and passed the certification of ISO9001 quality management system. In 2013, the number of calls answered by customer service center reached 1.45 million and customer satisfaction level was 99.7%.

Mobile Banking

To build a mobile service platform, the Bank launched convenient services, including cell phone top-up, mobile phone mall, game cards and E-lottery. By the end of 2013, the number of mobile banking customers increased by 178.1% and the total transaction volume increased by 390.5% compared to the prior year.

Self-Service Equipment

In 2013, the Bank vigorously reinforced financial service network construction and enriched functions of self-service channels, providing a substantial assurance for effective operation of bank card business. In 2013, the number of self-service machines increased by 67 to 526, and the number of POS equipment increased by 267 to 1,537.

7.4.6 Information Technology

In 2013, in accordance with the objective of "spending 3 years laying a foundation and another 3 years going up

to a new level” and the theme of “controlling risk, ensuring operation, and promoting development”, information technology work of the Bank placed emphasis on making sure of production safety, exerted efforts in application system construction, made solid and steady progress, all of which achieved great results.

Accelerated Propulsion of Infrastructure Construction

In 2013, the Bank completed the data center’s transformation of dual-circuit electricity and the enlargement of computer room and the Bank’s Internet standardization alteration, constructed application and monitoring platform, launched professional information security evaluation, and reinforced operation maintenance and risk prevention. As a result, production system operated safely and steadily. The availability rate of key systems remained above the level of 99.9%, and information technology risk control capability was obviously enhanced.

Consolidation of Application System’s Development and Construction

Focusing on operation, the Bank stressed key points, scheduled the priorities of projects, orderly conducted IT project construction according to the amount of IT investment and its work capacity, realizing smooth operation of regular versions for totally 8 times in 2013. The major project of optimization of core and credit system was accomplished well and the system application became more stable and applicable. Systems including centralized business processing center, ECIF, and new international settlement system went into operation successfully, which supported the development of new business. In addition, the Bank continuously optimized E-channels and cash management, steadily propelled the data base construction, management platform for integration of banking and oil and gas industry, and the second-generation settlement system, to meet the demand of business development.

7.4.7 Service Enhancement

In 2013, with the implementation of “customer-centered” service concept, the Bank strengthened product R&D, promoted product innovation, optimized business process, and enhanced the comprehensive service capability of outlets, in order to push ahead the construction and perfection of the long-term and effective service mechanism. It also properly handled consumer complaints and actively carried out consumer protection. As a result, the service awareness of the Bank was significantly enhanced and customer experience got constantly optimized.

The Bank enriched existing product system, put efforts in characteristic innovation, and further upgraded service capabilities. In 2013, the Bank formulated the Rules for Product Innovation Management of Bank of Kunlun, and formulated the Product Handbook of Bank of Kunlun and Three-year Product Innovation Plan. 54 new products were developed, the qualification for selling Securities Investment Fund was acquired, and 45 wealth



management products totaling were issued, all of which fulfilled customers' diversified investment demand.

Business process was further optimized, and the efficiency was significantly improved. In 2013, the Bank launched centralized-business processing-center project, indicating that the business model of "front-office reception, back-office processing" was officially adopted. By the end of 2013, the number of outlets dealing with business has increased from 1 at the beginning of the operation to 51. Total business volume of centralized business reached 94,876, and daily average business volume increased from 89 in June to 2,173 in December. Business processing efficiency of front-office got effectively enhanced.

Comprehensive service capability of outlets kept upgrading continuously. In 2013, Outlets Service Management Handbook of Bank of Kunlun was issued to optimize outlets' space and improve visual marketing and customer experience. According to the implementation of the service rules in 2012, Rules for Outlets Service Management of Bank of Kunlun was amended and implemented to continuously improve comprehensive service capability of outlets.

Protection of rights and interests of consumers was strengthened. A supervisory system where the head office, branches and sub-branches collaborated with each other was established; the leading group for consumer rights in the head office was responsible for the planning, organization, promotion and supervision of legitimate rights and interests of consumers; recommendation groups for consumer rights in branches and sub-branches were responsible for organizing related activities. The Bank played an active role in carrying out financial consuming rights protection activities with the theme of "legal knowledge to be known by one and all" and "popularization of finance" to pass on basic banking knowledge to consumers and guide them to make use of banking products and services scientifically and rationally, and as a result, financial quality and consciousness of safeguarding legal rights and interests of consumers were fully improved. There were 44 outlets participating in as much as 90 activities, and the number of promotional materials reached 81,360, covering 83,000 audiences.

Customer satisfaction level rose constantly and steadily. In 2013, the Bank formulated the Rules for Customer Complaints, the Rules for Customer Service and other regulations to provide reference and guidance for services' standardization management, hardware construction and proper customer complaints settlement of outlets. Accordingly, the Bank handled complaints or suggestions actively, properly and timely. By the end of 2013, all consumer complaints were settled within the given time without unsatisfactory cases or repeated complaints, reflecting high customer satisfaction level.

7.5 Risk Management

7.5.1 Organizational Structure of Risk Management

The Board of Directors and its special committees, the Senior Management and its special committees are the supreme managing and decision-making body of the Bank's risk management structure. Risk and compliance management department and leading departments of all business lines are the main body of the routine work of risk management. It initially forms a comprehensive risk management organizational structure covering various types of risks including credit risk, market risk and operational risk, as well as major business lines of all branches/sub-branches. Since

the second half year of 2013, the Bank adjusted the risk management framework, which clarified that the risk and compliance management department is the leading department for the comprehensive risk management system, credit management department is the leading department for credit risk management, channel operation department is the leading department for operational risk management, planning and finance department is the leading department for market risk management, international business department is the leading department for country risk management, planning and finance department is the leading department for liquidity risk management, office of the Board of Directors is the leading department for strategic risk management, and the office is the leading department for reputational risk management. The clarification of responsibilities erected a good mechanism and platform for cultivating risk management culture, and provided strong support for the healthy development of the Bank.

The Implementation of the New Capital Accord

The Bank actively pressed ahead with the implementation of the New Capital Accord. By the end of 2013, the construction of Pillar 1 of the New Capital Accord had almost been completed. And the set-up work of risk measurement means, management tools and application platforms for credit risk, market risk and operational risk had already been finished. All the 8 non-retail core application projects of the Bank are expected to be put into production in the first half year of 2014, among which, one has already been launched, two system developments have been accomplished and five methodology developments have been completed. In addition, the Bank has been actively promoting projects for calculating the risk weighted assets.

7.5.2 Credit Risk

Credit risk is the risk that bank suffers from the failure of the borrower or counterparty to meet its contractual obligations or devalue of financial products due to the changes in credit quality. Credit risk is the most critical risk in operating activities of the Bank, and the management layer took prudent principles on managing credit risk exposure.

The Bank's credit risk mainly originates from loans, treasury operations (including due from banks, due to banks, reverse repurchase, and bonds investment), receivables, letters of guarantee, and bank acceptance, etc.

The Bank strictly observed the guidance from CBRC regarding credit risk management and other relevant requirements, earnestly executed strategic decisions and objectives under the leadership of the Board of Directors and the Senior Management, continuously optimized credit procedures, and shaped a managing and organizational structure featuring the separation of front office, middle office and back office of credit business. The Board of Directors take the final responsibility for the effectiveness of the credit risk management's implementation and monitoring. The Senior Management and its committees, as the decision-making and coordinating body, are responsible for the report of risk management, the approval of action plan, and the coordination for the execution of action plan. Business departments, including corporate banking department, personal banking department, international business department, Financial market department and other related departments, are the first defense line of credit risk management, responsible for marketing, due diligence, and specific management after loan and investment. Credit management department, as the leading department for credit risk management of the whole bank, takes lead in credit risk management; risk and compliance department is responsible for setting up the risk preference and tolerance of credit risk, research and implementation of credit risk management methodology, and

non-performing loan management; the information technology department is responsible for credit risk unified data management of the whole bank. The above three departments jointly constitute the second defense line of credit risk management. The internal audit department, as the third defense line of credit risk management, undertakes the responsibility of independent examination and evaluation on appropriateness, effectiveness and efficiency of the risk management policy, mechanism, and procedures.

The credit risk management of the Bank actively applied the achievements of the New Capital Accord project, and presented the following characteristics: i. Standardized credit risk management process of the whole Bank; ii. The regulations and operations of risk management emphasis on the entire process of credit, covering business processes from customer investigation, credit rating, credit review and approval, loan distribution and post-loan monitoring; iii. Regularly measuring and monitoring over risks via Information Management System (IMS).

In 2013, the Bank vigorously supported the credit demand of the real economy, timely adjusted and improved its credit policy. It continued to promote the construction of credit risk management system, strictly controlled credit risk of key areas and crucial links, strengthened credit business compliance management, perfected post-loan management, continued to deepen the monitoring and analysis of credit risk, strengthened the disposal of potential risky loans and non-performing loans, and strengthened credit risk management comprehensively.

Credit Risk Management of Corporate Loans

The Bank kept promoting the development of the credit risk management system and implementing the achievements onto the ground. Through centralized training, tour guidance, field investigation and other methods, the Bank vigorously publicized and implemented the concept of risk management and the achievement of constructing the Credit Risk Management System. With the three defense lines of credit risk, that is , under the guidance of the unified credit risk culture, intensifying risk prevention awareness of the front-office business department, enhancing the professionalism and independence of middle-office credit management department, and enriching supervision and inspection means of back-office auditing department, the Bank injected the credit risk culture into all the procedures and stages, and boosted the credit risk control ability of the whole bank with joint forces of the three defense lines.

The Bank optimized industry credit policies and intensified industry-specific risk management. According to macroeconomic policy and industry policy, the Bank timely formulated its credit policy for 2013. The Bank adopted classified management according to different industries, gave full support for relevant industries which were in accordance with integration of banking and oil and gas industry, granted credit support for qualified agriculture related loans, paid attention to and study market opportunities in new industries; it paid close attention to the risk in real estate industry, kept prudent and precautious on property loans; the Bank followed closely on industries which are subjected to economic fluctuations and industries on declining trends; loans in sensitive industries, such as real estate, were strictly controlled. The Bank also controlled industry concentration on loans of diversified systematic risk; work was done based on local region to select high-quality customers. It kept prudent and precautious in developing remote credit, adjusted and optimized region allocation, industry allocation and client structure of remote loans. Businesses in up-stream supply chain of CNPC Group were vigorously expanded, and its down-stream supply chain were seriously studied and developed. The Bank encouraged the involvement of good-quality giant enterprises, in

order to increase the amount of customers and to optimize structure of clients. The Bank focused on enterprises of CNPC supply chain, cultivated and supported middle-sized enterprises, actively developed small and micro enterprises, increased the proportion of high-quality clients, and decreased customers with high risks.

The Bank strengthened risk management of loans to local government financial vehicles (LGFVs). The Bank earnestly followed the relevant policies of regulatory departments, intensified rectification of platform loans, strictly controlled new loans to LGFVs and restrict the entrance to it. The management of existing vehicles credit was intensified by confirming the repayment capacity of loans one by one, and increased the cash flow coverage of loans to LGFVs.

The Bank enhanced the credit risk events handling ability, enriched risk monitoring and warning means and tools, put more efforts in monitoring analysis, so as to realize early discovery, early warning, early decision, early disposal in case of potential risk. Also, it strengthened the management on potential risky loans and non-performing loans to control over substantive risk, established asset preservation department to improve the management capability over potential risky loans and non-performing loans by drawing up asset preservation management plan one by one.

Credit Risk Management in Treasury Operations

The Bank's treasury operations were mainly encountering credit risks from bond investment and trading, and inter-bank financing. The issuers of the financial bonds held by the Bank were policy banks with low credit risk, and avoided subordinated debentures of commercial banks, thus the overall risk was very low. The issuers of the credit bonds were mainly centric or regional state-owned enterprises, the counterparties of interbank placements were commercial banks with reputable credit, and the counterparties of receivables were high-quality investment trust companies and commercial banks principally.

The measurements to credit risk management in treasury business included: setting up terms of access for customers, carrying on credit rating and monitoring on credit limits, prevention, control, and post-tracking, etc.

The following table shows the details of the Bank's maximum exposure of credit risk without taking account of collateral and other risk mitigation.

Item	(In RMB Ten Thousands)	
	31 December 2013	31 December 2012
Deposits with banks and non-bank financial institutions	6,638,848	4,851,343
Placements with banks and non-bank financial institutions	86,890	—
Financial assets held for trading	545,660	109,815
Financial assets held under resale agreements	1,120,494	1,299,235
Loans and advances to customers	6,103,746	4,037,772
Available-for-sale financial assets	2,477,265	2,162,377
Held-to-maturity investments	1,761,419	1,979,428
Receivables	2,477,053	1,368,760
Interest receivable	183,865	167,230
Others	2,776	897

Continued

Item	31 December 2013	31 December 2012
Subtotal	21,398,016	15,976,857
Off-balance-sheet credit commitments exposure includes:		
Letter of credit	—	3,081
Bank acceptance bill	342,080	95,997
Letter of guarantee	507,974	448,739
Subtotal	850,054	547,816
Total	22,248,069	16,524,673

Credit Asset Quality Management

According to the regulatory requirement on loan risk classification, on the one hand, the Bank divided loans into five categories: pass, special mention, substandard, doubtful and losses. On the other hand, in order to implement credit asset quality sophisticated management and improve risk management level, the Bank divided corporate loans into twelve grades. The Bank applied five-tier classification management for personal credit assets and ascertained the class of loans by taking into account of factors such as the overdue days and collateral coverage.

Credit Risk Analysis

Loan Classification

By the end of the reporting period, loan balance of the Company reached RMB63.04 billion, increased by RMB21.67 billion, with a year-on-year growth rate of 52.39%.

Five-tier classification

(In RMB Ten Thousands)

Item	31 December 2013		31 December 2012	
	Balance	Percentage (%)	Balance	Percentage (%)
Pass	6,236,522	98.94	4,060,047	98.16
Special mention	1,840	0.03	1,785	0.04
Non-performing loans	65,098	1.03	74,504	1.80
—Substandard	10,975	0.17	73,993	1.79
—Doubtful	114	0.00	140	0.00
—Losses	54,008	0.86	371	0.01
Total	6,303,460	100.00	4,136,336	100.00

The share of loans classified as pass further rose. By the end of 2013, the pass loans of the Company amounted to RMB62.37 billion with an increase of RMB21.77 billion or 0.78 percentage points, accounting for 98.94% of the total loans. The special mention loans increased by RMB0.55 million to RMB18.40 million, accounting for 0.03% of total loans, which is 0.01 percentage decrease compared to the prior year. The balance of NPLs decreased by RMB94 million to RMB651 million, and the NPLs ratio was 1.03%, 0.77 percentage point decrease compared to the prior year. Both indexes achieved decrease. Overall, the quality of loans of the Company got further improved.

Distribution of loans and NPLs by business lines

(In RMB Ten Thousands)

Item	31 December 2013				31 December 2012			
	Balance	Percentage (%)	NPL	NPL ratio(%)	Balance	Percentage (%)	NPL	NPL ratio(%)
Corporate loans (Discounted corporate loans included)	4,621,262	73.31	64,989	1.41	3,414,532	82.55	74,392	2.18
Discounted bills	1,433,637	22.74	–	–	594,578	14.37	–	–
Personal loans	248,561	3.94	109	0.04	127,226	3.08	112	0.09
Total	6,303,460	100.00	65,098	1.03	4,136,336	100.00	74,504	1.80

The balance of non-performing corporate loans stood at RMB650 million, decreased by RMB94 million compared to the prior year, and NPL ratio was 1.41%, down by 0.77 percentage points. The balance of non-performing personal loans stood at RMB1.09 million, decreased by RMB0.03 million, and NPL ratio was 0.04%, down by 0.05 percentage points.

Distribution of loans by collateral

(In RMB Ten Thousands)

Item	31 December 2013		31 December 2012	
	Balance	Percentage (%)	Balance	Percentage (%)
Unsecured loans	1,930,259	30.61	1,042,382	25.20
Guaranteed loans	993,969	15.77	667,188	16.13
Loans secured by mortgages	359,727	5.71	178,395	4.31
Pledged loans	1,298,367	20.60	1,459,743	35.29
Discounted bank ¹ 's acceptance bills	1,430,756	22.70	650,153	15.72
Discounted commercial acceptance bills	290,382	4.61	138,476	3.35
Total	6,303,460	100.00	4,136,336	100.00

Loans granted to the top ten single borrowers of the Bank as at the end of 2013

(In RMB Ten Thousands)

Borrower	Industry	Balance	Percentage (%)
Borrower A	Mining	140,000	2.22
Borrower B	Real estate	116,000	1.84
Borrower C	Wholesale and retail	100,000	1.59
Borrower D	Wholesale and retail	100,000	1.59
Borrower E	Mining	96,000	1.52
Borrower F	Mining	90,000	1.43
Borrower G	Water, environment and public utility management	86,500	1.37
Borrower H	Public administration, social security and social organizations	74,540	1.18
Borrower I	Transportation, storage and postal services	70,000	1.11
Borrower J	Production and supply of electricity, heat, gas and water	69,700	1.11

The total amount of loans granted by the Company to the single largest customer accounted for 7.48% of the Company's net capital; the total amount of loans granted to the top ten single customers accounted for 50.39% of the Company's net capital and 14.96% of the total loans.

Overdue loans

(In RMB Ten Thousands)

Overdue periods	31 December 2013	31 December 2012
1 to 90 days	42,784	3,195
91 to 360 days	12	20,026
1 to 3 years	13,026	107
Over 3 years	97	371
Total	55,918	23,700

By the end of the reporting period, total amount of overdue loans of the Company stood at RMB559,18 million, increased by RMB322,18 million compared to the prior year, of which, most newly occurred overdue loans were within 3 months.

Changes in allowance for impairment losses on assets with credit risk

(In RMB Ten Thousands)

Item	31 December 2013			31 December 2012		
	Balance	Allowance for impairment losses	Percentage (%)	Balance	allowance for impairment losses	Percentage (%)
Personal loans	248,561	6,204	2.50	127,226	2,625	2.06
Corporate loans	4,333,761	150,489	3.47	3,220,481	80,161	2.49
Discount and outright transfer discount	1,721,138	43,021	2.50	788,629	15,778	2.00
Receivables	2,489,275	12,222	0.49	1,368,760	—	—
Total	8,792,735	211,937	2.41	5,505,097	98,564	1.79

At the end of 2013, adhering to the prudent principle, the Company drew allowances of RMB1,997 million for impairment losses on loans.



7.5.3 Market Risk

Market risk is the risk of losses, in respect of the Bank's on- and off-balance sheet activities, arising from adverse movements in market prices. The Bank is primarily exposed to interest rate risk and exchange rate risk, but not exposed to risk of stock and commodity price volatility. The Bank established a market risk management system to continuously monitor and properly control market risk in transactions, as well as to ensure that market risk is maintained within intolerable and reasonable level for the Bank. The market risk management system was based on risk management strategies, polices, governance structure, organizational structure and personnel, internal control and audit, risk preference and quota management. It covered aspects of risk identification, measurement, reporting, and management, etc.

The Bank strictly complied with related requirements of regulatory authorities, implemented an independent, centralized and coordinated market risk management model under the leadership of the Board of Directors and the Senior Management, and formed a management organizational structure featuring the segregation of the front office, the middle office and the back office in the financial market business. The Board of Directors assumed the final responsibility to implement supervision over market risk management. The Senior Management and its Market Risk Management Committee were responsible for executing strategies, overall policies and systems regarding market risk management approved by the Board of Directors, establishing policies and processes of market risk management, and approving the products and risk limits in capital market business. The Planning and Finance Department, as market risk management department, was responsible for leading the market risk management and undertook the daily work of interest rate risk management in bank books. The Risk and Compliance Department undertook the responsibility of the daily work of market risk management. The business departments played their roles in implementing market risk management policies and standards in respective business areas to ensure that the market risk was controlled within the quota set.

In 2013, the Bank realized the systematization and automation of risk monitoring and reporting as the market risk data mart was officially put into use. To meet the risk measurement requirement of integration of domestic and foreign currency, and gradually play the role of market risk management platform, the foreign exchange business was incorporated into the systematic measurement. The Bank had classified all the assets and liabilities of on-and-off-balance sheet into trading book or banking book on the basis of the nature and characteristics of different accounts, and it enforced the appropriate controls for different types of accounts.

Interest Rate Risk

The Bank's interest rate risk mainly arises from the influence of interest-rate moves on fair value of financial instruments in the trading book.

Interest Rate Risk Management of the Trading Book

The Bank adopted multiple methods including exposure analysis, value at risk (VaR) analysis, duration analysis, sensitivity analysis and stress test to measure and control interest rate risk of financial instruments in the trading book. The Bank applied its Risk Management System, Market risk Data Mart and independent internal control middle office to conduct effective monitoring, management and reporting on the execution of risk limits. Interest rate risk of the Bank mainly came from losses from changes in fair value when the price of RMB bonds in the trading book falls. The

Bank's trading book consisted mainly of middle-term notes, short-term financing bills and political financial bonds whose issuers were rated as AA or above, and at the end of 2013, the book value of RMB bonds in the trading book reached RMB4,519 million. Since June 2013, subjected to central bank policy, supervisory review, overseas liquidity volatility and other factors, the bond market yields had gone upwards, fair value of interest rate debt and credit debt fell, and most bond investment losses, but trading book proposition of the Bank was relatively small, risk was basically under control. By the end of 2013, the VaR with one-day holding period calculated by historical simulation model was RMB18.22 million, meaning that an estimation of the maximum losses of the Bank's trading book during the upcoming day was RMB18.22 million.

Exchange Rate Risk

Exchange rate risk is the risk of adverse movements of exchange rate resulting in losses to the Bank's on-and-off-balance sheet business. The Bank's exchange rate risk manifested as the risk of adverse movements of exchange rate resulting in losses from the foreign currency exposure arising from the currency structures mismatch between foreign currency assets and liabilities in its banking book. All of the Bank's foreign exchange exposures were non-trading exposures, and the foreign exchange exposure analysis was conducted to measure the exchange rate risk. Besides that, other methods including VaR analysis and stress testing were also used to control the exchange rate risk under the acceptable bound.

By the end of 2013, the foreign exchange exposure in the Bank's international business was USD126.01million, increased by USD17.45 million compared to the prior year. The VaR with a 99% confidence level for foreign exchange exposure was RMB5.01 million, meaning that, at the confidence level of 99%, the expected maximum losses of the Bank's foreign exchange exposure during the upcoming day was no more than RMB5.01 million, which was within the tolerable level according to the Bank's degree of risk aversion.

7.5.4 Interest Rate Risk of the Banking Book

The Bank's interest rate risk management of the banking book is the risk of losses in the overall gain and economic value of the banking book arising from adverse movements in interest rate and term structure etc. Subjected to the fluctuations of market interest rate, the Bank's interest margin may expand, reduce or even cause losses. The Bank operated mainly in compliance with the interest rate system regulated by the central bank. The Bank adhered to the prudence principle, regularly measured interest rate sensitivity exposure of the banking book, evaluated the interest rate risk of banking book through gap analysis, and reduced potential negative impact of interest rate volatility on profitability by reasonably adjusting the re-pricing term structure of interest bearing assets and liabilities with interest. At the end of 2013, interest rate sensitivity exposure of the Bank's banking book was as follow:

(In RMB Ten Thousands)

Item	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
The interest-sensitive exposure of the Bank's banking book	(182)	67	60	(200)	335	51	65	196

Note:

The regulatory indicators in this table are calculated in accordance with the regulatory requirements and accounting standards applicable to the relevant period. The comparative figures are not restated.

7.5.5 Liquidity Risk

Liquidity risk refers to the risk that the Bank is unable to raise funds on a timely basis or at a reasonable cost to settle liabilities and other payment obligations as they fall due or to fund the asset growth and other business development needs. Liquidity risk may result from the asset-liability maturity mismatches and the transformations from credit risk, market risk and other risk, or the market liquidity's negative impact. In other words, as a result of market illiquidity or market volatility, timely cash or mortgage are not available at reasonable market prices for banks to get liquidity support.

Liquidity risk may arise from the following events or factors: withdrawal of customers' deposits, drawing of loans by customers, overdue payment of debtors, mismatch of asset and liability, difficulties in realization of assets, and operating losses etc.

Liquidity risk management

Under the framework of comprehensive risk management, the Bank's liquidity risk management structure was composed of decision-making system, execution system, as well as surveillance feedback system. The decision-making system was consist of the Board of Directors, Risk Management Committee of the Board, Senior Management and its Risk Management Committee as well as Asset and Liability Management Committee; the execution system included Planning and Finance Department, Financial Market Department, Information Technology Department and other related departments; the surveillance feedback system was made up of the Board of Supervisors, the Audit Committee, Risk Management Department, Legal and Compliance Department and Inter Audit Department of the Board.

In 2013, the Bank further strengthened the construction of liquidity risk policies by synthesizing the macroeconomic conditions and financial regulatory policy shifts, in order to enhance the management of liquidity risks. According to requirements of regulatory authorities, the Bank effectively enhanced its liquidity risk management capability, updated its liquidity risk management technology, continuously improved liquidity risk limits index system and management information system, realized cash flow monitoring and management system upgrading, as well as constantly improved the pricing mechanism for transferring internal cash, which could generate a more flexible and targeted price for internal cash transferring.

Liquidity Risk Analysis

In 2013, the deposit and loan business of the Bank achieved coordinated development, the asset and liability structure was further optimized, liquidity risk management capability was further enhanced and liquidity risk remained controllable. Relevant indicators reflecting the Bank's liquidity status met all the regulatory requirements in below table:

Main regulatory indicators	Regulatory Criteria	31 December 2013	31 December 2012
Liquidity ratio(%)	≥25	37.96	73.78
Loan-to-deposit ratio(%)	≤75	35.16	31.79

Note:

The regulatory indicators in this table are calculated in accordance with the regulatory requirements and accounting standards applicable to the relevant period. The comparative figures are not restated.

The Bank also assessed the liquidity risk status by using liquidity gap analysis. By the end of 2013, relatively significant liquidity gap of the Bank mainly existed in the following terms: less than 1 month, and 3 months to 1 year. The abundance in excess reserve and due from other banks at the end of the year led to the expansion of the positive gap for the less than 1 month category; the increase in due to banks for 3 months to 1 year enlarged the negative exposure for the 3 month to 1 year category; as demand deposits of the Bank continued to grow, together with sufficient liquidity reserves, which had driven the cumulative positive liquidity gap to further increase compared to the end of prior year, therefore, the overall liquidity status of the Bank was safe. The liquidity gap analysis of the Bank by the end of 2013 is shown in the table below:

(In RMB Ten Thousands)

Item	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Overdue	Undated	Total
31 December 2013	3,686,213	21,380	(3,436,813)	(130,352)	56,603	1,573,786	1,770,816
31 December 2012	4,224,165	(1,296,315)	(3,016,311)	280,655	22,906	1,435,802	1,650,902

Note:

The regulatory indicators in this table are calculated in accordance with the regulatory requirements and accounting standards applicable to the relevant period. The comparative figures are not restated.

7.5.6 Operational Risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, employees and IT systems or from external events. The Bank's operational risk included legal risk, but excluded strategy risk and reputational risk.

Operational Risk Management

Under the leadership of the Board of Directors and the Senior Management, the Bank managed operational risk under the principle of "integrated management, classified control, clarified responsibility, explicit rewards and punishments". The Board of Directors assumed the final responsibility of the effectiveness of operational risk management. The Senior Management and its committees, as the decision-making and coordinating body of operational risk management, were responsible for the report of operational risk management, the approval of action plan, and coordinating the execution of action plan. Operating departments and functional departments in the head office and branches report to the superior in-charge departments about operational risk events occurred internally and the execution and implementation of operational risk management on the one hand, and inform their peer departments in charge of operational risk management on the other hand.

In 2013, the Bank continued to promote the infrastructure work of operational risk management, strengthened in cultivating substantive risk control ability, improved execution of system and implementation of accountability. It strengthened personnel management, set up operational risk management positions in management departments of the head office and branches, promoted the application of risk management tools, and enhanced capability in the recognition, evaluation, monitoring and reporting of operational risk in all business procedures. The Bank compiled the operational risk management risk tips periodicals, strengthened the operational risk management in key areas and crucial links, and established operational risk analysis conference system between the head office and branches. It continued to promote the series of management activities, named as "Sword", and standardized subsequent supervision, bank-corporate reconciliation and department manager performance, etc. Furthermore, it optimized

business processes, constantly enriched risk control means through building and launching systems for electronic seal management, payment password, bank-corporate reconciliation, subsequent supervision, OCR automatic identification and payroll data encryption.

Legal Risk Management

Legal risk is incorporated in the scope of operational risk, and it refers to the risk of incurring legal sanctions, regulatory penalties, financial losses and reputational losses that arise out of or in connection with the failure of the Bank to comply with relevant laws, regulations, provisions and requirements.

The Board of Directors and the Senior Management of the Bank do well in fully comprehending legal risk at every layer and being capable of forecasting and reacting against changes in markets or regulations, so that they can take effective measures to rectify the defects soon after their emergence. The legal risk management system of the Bank was rational on account of the well-defined authorities and responsibilities of all the associated sectors in legal risk management.

In 2013, the Bank strengthened legal review, effectively prevented legal risk by providing legal support during the processes of doing daily business, developing new products and handling significant events. It continuously optimized contract management by perfecting contract management system, revising the “contract management measures”, and renewing and optimizing the procedure of the contract management system. To strengthen the management of authorization, it further established and improved the authorization management system in dimensions of the head office and branches, and blended authorization management deeply into the operating process and business procedures. Moreover, the Bank properly handled disputes and reinforced management on it, established the administrative legal management mechanism, strengthened legal support, actively carried out legal capability training, and intensified propaganda. And as a result, compliance awareness of all the staff got significantly enhanced.

Anti-money Laundering Management

To strengthen the organization and management of anti-money laundering, the Bank distributed the composition of leading members of anti-money laundering working group according to the management personnel adjustments, organized self-investigations of 2013 for institutions at all levels and launched the anti-money laundering assessment project covering all the businesses, and did timely rectification for existing problems. To further improve reports on large-amount trades and suspicious trades, manual analysis and identity were reinforced, and anti-money laundering reports were timely submitted every day by institutions at all levels. In addition, the blacklist management of the anti-money laundering system was improved and achieved real-time synchronization in the customer electronic information system, thus realized the warning, monitoring and reporting function of blacklist management. According to requirements of “Guidelines on financial institution money laundering and terrorist financing as well as client classification management” issued by the central bank, the Bank evaluated the current client classification method, formulated and submitted the work programme for the implementation of the Guidelines. The Bank researched on the demands of system perfection and compiled of feasibility study report. As publicity activities and plans on anti-money laundering were carried out, the awareness of the public on anti-money laundering was constantly enhanced.

7.5.7 Strategic Risk

Strategic risk refers to the risk that arises from inappropriate business strategy of commercial banks or changes of external business environment. Under the current economic and financial system of China, strategic risk of commercial banks mainly comes from systematic risk. The larger the scale of a commercial bank, the more urgently it should establish the strategic risk management system as its operation becomes more complex.

Strategic risk management of the Bank focused on the effectiveness of business strategy implementation and volatility of the external business environment, abided by and served the development strategy of integration of banking and oil and gas industry, paid attention to the fundamental operation management, gave play to early-warning function of professional reports such as risk management report and business operation report on risk monitoring. The basic method of the strategy risk management of the Bank: build a strategic planning system which is compatible with the development target and risk requirements, and make dynamic adjustments and revisions.

Currently, the Bank had established a preliminary strategic risk management framework: the Board of Directors along with its strategy committee and risk management committee formed the structure layer; the evaluation layer adjusted the implementation strategy through annual planning rolling evaluation and risk assessment, etc.; the supervision layer was responsible for the management and supervision of the implementation of the strategy.

The next working direction of strategic risk management is to gradually perfect the monitoring and evaluating mechanism which serves the core business strategy. Firstly, give full play to the “strategic” function of the Board of Directors; secondly, improve the core business strategy and its matching core operation tactics such as assets and liabilities management, and capital management, etc.; thirdly, push forward benchmarking management and establish a coordinate system of strategic risk identification and assessment; fourthly, insist on planning rolling evaluation mechanism; fifthly, reinforce and implement the effect binding of planning on annual scheme of operations; finally, build a cooperation mechanism with think-tank, and set up a “third party” assessment system for strategic risk.

7.5.8 Reputational Risk

Reputational risk is the risk of negative assessment or comments on a commercial bank from stakeholders as a result of its operation, management and other behaviour or external events. The Bank incorporated reputation risk management into corporate governance and comprehensive risk management system, actively and effectively prevented reputation risk and responded to reputational events. Since 2013, the Bank have gradually established and perfected the reputation risk investigation mechanism and special emergency plans, defined the reputational risk management institution, and specified reputation event classification management and emergency handling mechanism.

7.6 Capital Management

The Bank established the target of capital adequacy ratio on the base of the Bank’s capital management objectives, such as meeting regulatory rules, enhancing risk resistance ability of capital and increasing returns on capital. In order to achieve the management goal, the Bank took various steps, including the control of rapid growth of risk-weighted

assets and further increase of capital, in order to accord with the requirements of external regulation and returns for shareholders, ensuring sustainable development of the Bank.

In recent years, business scale of the Bank has maintained sound growth. However, the risk-weighted assets consumed much capital became prominent day by day. To realize the goal of capital management, the Bank established the concept of capital constraints, strengthened capital utilization management, and implemented capital increase plan conscientiously after careful analysis of capital demand and supply. The capital raised in 2013 reached RMB1.90 billion, all of which was used to increase core Tier 1 capital.

7.6.1 Capital Adequacy Ratio Management

The capital adequacy ratio management was the focal point of the Bank's capital management. The Bank specified its objective of capital adequacy ratio management on the base of comprehensive consideration of regulation indicators, development strategy and speed, risk appetite and capital increase mechanism, meeting regulatory requirements and serving the need of the Bank's development.

Guided by "the Capital Rules for Commercial Banks (Provisional)" and other related provisions issued by CBRC, the Bank calculated and disclosed capital adequacy ratio. On 31 December 2013, the Bank's core Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio were 11.49%, 11.49% and 12.38% respectively on consolidated basis, all met regulatory requirements. Details are set out below:

(In RMB Ten Thousands)			
Item	31 December 2013	31 December 2012	Rate of Change(%)
Net core tier 1 capital	1,736,291	1,447,662	19.94
Net tier 1 capital	1,736,342	1,447,662	19.94
Net capital	1,871,059	1,471,721	27.13
Risk-weighted assets	15,111,438	11,042,328	36.85
Including: Credit Risk-weighted assets	13,860,138	10,390,298	33.39
Market Risk-weighted assets	508,760	193,927	162.35
Operational Risk-weighted assets	742,541	458,103	62.09
Core tier 1 capital adequacy ratio(%)	11.49	13.11	(1.62 percentage points)
Tier 1 capital adequacy ratio(%)	11.49	13.11	(1.62 percentage points)
Capital adequacy ratio(%)	12.38	13.33	(0.95 percentage points)

7.6.2 Economic Capital Management

In 2013, the construction of economic capital management system was vigorously explored and improved via progressive definition of organization structure, assignment of responsibility, measurement method, major management application fields and means of the Bank's economic capital management. The Bank designed practical schemes on measurements and utilizations and ameliorated management information system of economic capital in order to establish a value-based management system focusing on economic capital, optimize the allocation of resources and the operation management mechanism which could raise present and long-term benefit, and eventually create best returns for shareholders of the Bank.

7.7 Human Resources Management

In 2013, focusing on the development strategy and operating goal, the Bank continued to deepen and perfect human resources management for innovation of management mechanism and enhancement of staff's core competitiveness. Management improvement project was pushed forward to adjust organization structure, optimize the allocation of resources and upgrade basic management capability. The acquisition and cultivation of talents were strengthened, and as a consequence a large number of outstanding talents joined the Bank. The institutionalization and standardization of competitive selection mechanism was propelled to constantly optimize structure of cadres and consolidate its construction. In addition, the combination of competitive selection and focusing on key employees helped to train and build core cadres in comprehensive and different ways. The Bank also perfected "Six-'Could'Mechanisms" to increase both incentives and restrictions, strengthen remuneration management mechanism which linked payroll with performance, and highlighted resource allocation and policy support for profitable business lines and core positions. The project of employee cultivation was implemented comprehensively, in order to exercise internal development and implement cross trainings between the head office and branches. The Bank organized 591 sessions of training for 15,476 persons, encouraged employees to take all kinds of qualification examinations. On-duty training was consolidated to improve comprehensive business ability and basic management level of all personnel. Moreover, the Bank actively nurtured corporate culture of "profession, compliance, integration and commitment" to enhance cohesion and provide support from policy, staff and service for "high-quality, effective and sustainable" development of the Bank, promoting successful accomplishment of various objectives for the whole year.

7.8 Social Responsibility

In 2013, the Bank proactively implemented the national strategy of economic structure adjustment and development model transformation, conscientiously fulfilled the social responsibility and made active efforts in aspects of economy, society and environment, which promoted the coordinated development of regional economy.

7.8.1 Economic Performance

Formulating Credit Policy, Optimizing Credit Structure

The Bank played an active role in implementing "the Guiding Opinions of the General Office of the State Council in regard to Financial Support for Economic Structure Adjustment and Transformation". It paid close attention to strategic emerging industries such as energy conservation & environment protection, new energies and new materials. It also showed great attention to the risk of real estate industry, and treated industries with "high energy consumption, high pollution and overcapacity" cautiously. More loans were extended to the real economy and credit structure was adjusted in response to the market situation and financial environment to resist liquidity risk.

Persisting in customer-centered principle, the Bank developed high-quality customers, whose proportion kept rising as same as that of the core business; non-prime core business not compliant with the Bank's development strategy would be closed step by step. Aiming at building industry & finance bank and energy bank, it adhered to the road of integration of banking and oil and gas industry and mined the financing demand in depth. Petroleum financial service system was established and it improved to support energy industry, including petroleum & petrochemical, natural gas and coal, making full use of the resource advantages and achieving synergy goals.



Serving for the Development of SMEs

In accord with various policies of serving SMEs issued by regulatory authorities, marketing mainly to SMEs in petroleum and petrochemical industry chain, the Bank provided all kinds of credit service products for customers according to their different phases in the process of serving oilfield, such as equipment procurement, engineering construction and material supply. It resolved financing problems of enterprises without collateral, satisfied SMEs' demand of advances in different stages when they offered oilfield engineering construction and material supply, and formed the unique "Youqitong" series of products, meeting financing needs of companies in petroleum industry chain effectively and realizing "two not less than" goals of loans to SMEs. At the end of 2013, the number of SMEs amounted to 496, with an increase of 126 or 34.05% compared to the prior year; the loan balance of SMEs was RMB3.29 billion, up by 88.24%.

Supporting the Construction of "Sannong", Devoted to Projects for People's Livelihood

Based on features of locations, the Bank played a positive role in boosting the development of rural areas & agriculture and the construction of urban-rural integration through different measures, including the shortening of credit decision-making chain, the innovation of service concept, the green channel of credit and preferential interest rate. By the end of 2013, the loan balance to rural area reached RMB11.15 billion, representing an increase of RMB3.76 billion or 50.95% compared to the prior year.

The Bank devoted energy to infrastructure constructions of local cities actively. Among them, Karamay Branch provided loans totaling RMB0.30 billion for the implementation of "Karamay Regional Digital Network Control Center Project", which was invested mainly by Karamay City Construction Investment and Development Co., Ltd., supporting the digital city construction of Karamay strongly.

Reducing Financial Service Fees

In 2013, in line with various policies about reducing financial service fees set by regulatory authorities, the Bank diminished certain fees of 30 items, such as public small account maintenance for SMEs, revolving loan commitment in RMB guarantee and commitment business, corporate account overdraft commitment, loan commitment, credit certificate, customer credit lines commitment and standby loan commitment, ranking fairly high in commercial bank league. In domains like “Sannong”, vulnerable groups and social welfare, preferential policies were carried out. For instance, charging standard of the POS machines installation fees and commission in counties and townships were decreased, while that of public hospitals, public schools and charities were free of charge.

7.8.2 Social Performance

Regarding Service as Backbone, Improving Its Quality

In 2013, Outlets Service Management Manual, Rules for Clients Complaints Management, and Customer Complaints Settlement Guidance Case Handbook were compiled and issued to promote comprehensive service level of outlets, optimize their space, as well as enhance visual merchandising and customer experience effects. In addition, Outlets Service Specification was amended and implemented according to pilot results in 2012. During this year, the Bank organized external companies to initiate two surveys on the execution of service specification, one open service investigation, and one satisfaction investigation; service management personnel of each branches were organized to launch one internal service inspection. In terms of the results, software and hardware service level of the Bank's outlets made progress while maintaining stability.

In 2013, Karamay Branch of the Bank was honored with “The 2012 Xinjiang Banking Industry Civilization and Standard Service Gold Medal Service Unit”; Xi'an Branch was ranked “Top Ten of the Most Satisfactory Institute”; Daqing Branch was awarded Daqing Finance(Credit) “Service Brand Model”.

Caring for Employees, Building Harmony

Dedicated to building a harmonious enterprise, the Bank adhered to the “people first” principle, took care of employees, and emphasized the protection of employees' legal rights and interests. Employee benefits were improved, and employee cultivation was effectively strengthened. The Bank proceeded to establish “the home for employees” and carry out “delivering warmth” project.

In 2013, aimed at creating a learning organization, the Bank continuously pushed ahead different activities, such as “three to study and three to compete for”, “consolidate three foundations, enhance quality, and build brand”. “Employee Skills and Qualities Competition” was held to upgrade employees' skill level.

In the light of the objective of “vitalizing enterprise with home construction, protecting rights with home construction, attaining education with home construction, and reinforcing union with home construction”, the Bank helped first-line employees perfect living facilities, improve working environment, and better playing venues via on-the-spot guidance and financial support.

The project of “delivering warmth” was vigorously propelled. The head office earmarked relief funds totaling RMB90,000 to aid employees with difficulties. Daqing Branch organized to donate RMB80,000 for staff with serious disease. Xi’an Branch did a good job on major festival solicitude and heart-warming activities, and its persistence in “Five Visits” further promoted harmony and stability of workforce. Korla Branch coordinated the problem of receiving education of employees’ children, easing their hardships and removing their worries. Turpan-Hami Branch launched evaluation activity on 8th March; health lecture and welfare concern were given to female employees.

Keen to Public Welfare, Enhancing Cultural and Sports Business

In 2013, the Bank took part in public welfare actively, supported regional education, and promoted national unity. Employees of the Bank contributed RMB274,500 to earthquake-stricken areas in Lushan County, Sichuan; Xi’an Branch held “Loving Students” activity to donate stationery, sports and living items to elementary schools in poor mountain areas; Karamay Branch organized “monthly contribution” to realize long-acting help to impoverished families; Turpan-Hami Branch carried out the activity of “Respecting the Aged People” and brought forth new ideas on financial service for the elderly. In 2013, the Bank donated RMB6.00 million to Xinjiang Uygur Autonomous Region Government, in order to propel the booming of local cultural and sports business.

7.8.3 Environmental Performance

In 2013, the Bank continued to push forward the construction of “Green Credit”, and injected green environmental protection concept into each link of the credit work. It provided appropriate favorable policies for six fields and related key projects and customers concerning green credit, that is energy conservation, emission reduction, circular economy, clean energy, green ecology, and modern service industry; energy conservation & environmental protection and strategic emerging industry were given priority. In 2013, the loans to energy saving projects and services of the Bank amounted to RMB110.60 million, with an increase of 100% compared to the prior year, of which Urumqi Branch lent RMB65.60 million to Shanshan Feichuangjingxi Co., Ltd., whose reduced emission was about 75, 000 tons of carbon dioxide-equivalent on the basis of energy conservation and circular economy.

7.9 Outlook

In 2014, the Bank will uphold scientific development, further deepen the reform, and focus on foundation consolidation, capability enhancement, business transformation, structure adjustment, development quality and risk control. It will comprehensively promote operating management ability and accelerate the transformation to connotative development, in order to achieve the operating goal in 2014. The Bank will insist on featured development of integration of banking and oil and gas industry, independent development and innovation-driving development. Firstly, diversify the development of main business. The Bank will explore and implement management strategies according to the development status of branches and sub-branches, optimize the allocation of resources, and



release operating vitality, to realize coordinated development. Secondly, adjust and improve business structure and sustain moderate development pace. The Bank will persist in the principle of “high return, low risk and key customers having priorities”, and put emphasis on adjusting and optimizing the structure of income and customers, to realize high-quality, profitable and pragmatic development. Thirdly, highlight three major tasks, namely featured business of integration of banking and oil and gas industry, deposits and product innovation. Fourthly, vigorously upgrade management ability, continuously consolidate basic management, and proceed to enhance management level in depth; strengthen basic capability construction, promote market-oriented and professional service competitiveness, increase effectiveness and executive power, and strive to underpin sustainable development. Fifthly, in terms of risk and compliance, the Bank will intensify its construction, improve its management system, enhance corresponding awareness of the staff, and promote its management capability. It will also strengthen responsibility allocation and supervision & inspection, and control key risks effectively. Sixthly, the Bank will reinforce the party construction to consolidate ideological and organizational guarantee.

8. Changes in Share Capital and Shareholders

8.1 Changes in Share Capital during the Reporting Period

Approved by Xinjiang Regulatory Bureau of CBRC, the Bank increased share capital again in 2013. All shareholders invested total capital of RMB1.90 billion, with a total increase in share capital of RMB0.66 billion. After the capital injection, the registered capital had increased from RMB6.72 billion as at 31 December 2012 to RMB7.38 billion. Two new investors were enrolled: China Shipping Investment Co., Ltd. and Shandong State-owned Assets Investment Holdings Co., Ltd., whose shares amounted to RMB0.84 billion and RMB0.44 billion respectively, accounting for 3.97% and 2.07% of total shares respectively.

8.2 Number of Shareholders and Proportion of Shareholding

At the end of 2013, the total number of shareholders of the Bank was 77, and the total number of shares was 7.38 billion. The shareholding proportion of institutional shareholders was 99.9925% and that of individual shareholders was 0.0075%.

8.3 Top 10 Shareholders of the Bank

No.	Name of shareholder	Shareholding		Proportion(%)	
		Before change	After change	Before change	After change
1	China National Petroleum Corporation	5,507,274,021.41	5,690,141,618.63	82.00	77.10
2	Karamay City Finance Bureau	308,449,902.51	350,617,072.91	4.59	4.75
3	China Shipping Investment Co., Ltd.	–	293,342,285.88	–	3.97
4	Xinjiang Financial Investment Co., Ltd.	223,225,446.36	223,225,446.36	3.32	3.02
5	Xinjiang Uygur Autonomous Region State-owned Assets Investment Management Co., Ltd.	197,044,334.98	197,044,334.98	2.93	2.67
6	Shandong State-owned Assets Investment Holdings Co., Ltd.	–	152,412,480.75	–	2.07
7	Xinjiang Uygur Autonomous Region Financing and Guarantee Co., Ltd.	98,522,167.49	98,522,167.49	1.47	1.33
8	Xinjiang 3U Investment Group Co., Ltd.	52,387,836.93	52,387,836.93	0.78	0.71
9	Xinjiang Taishengxinrong Investment Co., Ltd.	43,382,903.66	43,382,903.66	0.65	0.59
10	Karamay City Construction Investment and Development Co., Ltd.	37,414,335.61	37,414,335.61	0.56	0.51

8.4 Controlling Shareholders and Actual Controller of the Bank

China National Petroleum Corporation (CNPC) is the controlling shareholder and actual controller of the Bank, which didn't change during the reporting period. By the end of 2013, CNPC held RMB5.69 billion shares of the Bank, and the proportion of which was 77.10%.

CNPC is a super-large petroleum and petrochemical enterprise group established in July 1998 on the basis of the previous General Corporation of China National Petroleum, in accordance with the reform scheme of the State Council. It is not only the largest oil and gas producer and distributor in China, but also one of the biggest integrated and comprehensive oil companies in the world. CNPC operates in a way of combination of the upstream and the downstream, conjunction of domestic and foreign trade, and integration of production and marketing, abiding by modern corporate system, and engages in cross-regional, cross-trade and transnational business. The core business of CNPC includes oil and gas business, oil engineering services, oil engineering construction, oil equipment manufacturing, financial services and new energy exploration. In 2013, CNPC was ranked as the fourth of the world top 50 oil companies in the rank of "Petroleum Intelligence Weekly" in America and took the fifth position on the Fortune Global 500. By the end of 2013, the registered capital of CNPC reached RMB379.86 billion, and the legal representative was Mr. Zhou Jiping.

8.5 Particulars of Other Corporate Shareholders Holding 10% Shares or More

As at 31 December 2013, the Bank had no other shareholders who held more than 10% of its shares.

9. Directors, Supervisors, Senior Management, Employees and Branches and sub-branches

9.1 Directors

Name	Position	Gender	Age	Tenure
Wang Guoliang	Chairman	Male	61	2012.07-2015.07
Jiang Shangjun	Vice Chairman	Male	49	2013.02-2016.02
Yu Yibo	Director	Male	50	2013.07-2016.07
Wan Haichuan	Director	Male	57	2012.05-2015.05
Xu Weixi	Director	Male	59	2013.05-2016.05
Wang Zhonglai	Director	Male	50	2012.05-2015.05
Pang Yueying	Independent Director	Female	67	2012.04-2014.08
Yu Zengbiao	Independent Director	Male	58	2012.05-2015.05
Shi Junzhi	Independent Director	Male	60	2012.05-2015.05

Wang Guoliang, Chairman

Professor-level senior accountant; graduated from Heilongjiang Business School (major in Commercial Economics); over 40 years' work experience in finance; retired in July 2013; used to be Chief Accountant and Party Group Member of CNPC, Member of China Accounting Standards Committee of the Ministry of Finance, Vice President of China Association of Chief Finance Officers. Mr. Wang has served as Chairman of the Bank since July 2009.

Jiang Shangjun, Vice Chairman

Senior accountant; graduated from Lanzhou University of Finance and Economics (major in Financial Accounting) and University of Houston (EMBA), USA, Master of business administration; nearly 30 years' work experience in finance; used to be General Manager and Deputy Party Secretary of CNPC Northwestern Sales Company. Mr. Jiang has served as Party Secretary of the Bank since September 2012, Director of the Bank since February 2013 and Vice Chairman of the Bank since March 2013. Mr. Jiang has been authorized to act for Chairman of the Bank since December 2013.

Yu Yibo, Director

Professor-level senior accountant; graduated from Business School of Hitotsubashi University, PhD; nearly 30 years' work experience in economy and finance; Chief Financial Officer of PetroChina. Mr. Yu has served as Director of the Bank since July 2013.

Wan Haichuan, Director

Professor-level senior accountant; graduated from Xinjiang Agricultural University (major in Agricultural Economy and Management); nearly 40 years' work experience in education and public finance; Vice Chairman of People's Political Consultative Conference of Xinjiang Uygur Autonomous Region, Party Group Member of the Government of Xinjiang Uygur Autonomous Region and Director of the Financial Department of Xinjiang Uygur Autonomous Region. Mr. Wan has served as Director of the Bank since May 2012.

Xu Weixi, Director

Professor-level senior political worker; graduated from China University of Petroleum (Huadong); Party Secretary of Karamay, the Director of the Standing Committee of the People's Congress of Karamay, Party Secretary and Deputy General Manager of Xinjiang Oil Field Company. Mr. Xu has served as Director of the Bank since May 2013.

Wang Zhonglai, Director

Senior economist, graduated from Hangzhou Financial Cadres Management Institute (major in Software), Correspondence School of Central Party School (major in economics and management), and Nanjing University (major in management science and engineering); over 30 years' work experience in banking industry; used to be General Manager of Operation Management Department of Shenzhen Development Bank. Mr. Wang has served as Vice President of the Bank since January 2010, Director of the Bank since May 2012, and President of the Bank since June 2012.

Pang Yueying, Independent Director

Senior accountant, graduated from the Central Party School (major in Economics and Management); nearly 40 years' work experience in financial management; used to be Deputy General Manager of Financial Accounting Department, General Manager of Accounting and Settlement Department, General Manager of Human Resources Department and Chief Supervisor of Financial Leasing Co., Ltd. of ICBC; eligible to the State Council's special allowance. Ms. Pang has served as Independent Director of the Bank since August 2011.

Yu Zengbiao, Independent Director

Working as a professor and a tutor to PhD students in Economics and Management School of Tsinghua University; CICPA; graduated from Hebei University (major in Finance) and Xiamen University (major in Accounting), PhD; many years' work experience in accounting, finance, and academic research; currently the Vice President of China Cost Research Association, Vice Chairman of Management Accounting Professional Committee of Accounting Society of China. Mr. Yu has served as Independent Director of the Bank since May 2012.

Shi Junzhi, Independent Director

Researcher and professor of Financial Research Institute of Chinese Academy of Social Sciences; General manager of National Trust Co., Ltd.; graduated from the Financial Research Institute of PBOC (major in Economics), Law School of Renmin University of China (major in Law); engaged in finance for nearly 30 years; used to be Assistant President of China Merchants Bank, President of Tianjin branch of China Merchants Bank, Vice President of China Orient Asset Management Corporation and Vice President of Bohai Bank. Mr. Shi has served as Independent Director of the Bank since May 2012.

9.2 Supervisors

Name	Position	Gender	Age	Tenure
Gao Jun	Chief Supervisor	Male	59	2012.12-2015.12
Wei Guoliang	Supervisor	Male	48	2012.04-2015.04
Yang Jiasi	External Supervisor	Male	64	2012.04-2015.04
Wang Wei	Employee Supervisor	Male	43	2012.04-2015.04

Gao Jun, Chief Supervisor

Senior Economist; graduated from Guizhou College of Finance and Economics (major in monetary banking), Bachelor's degree; over 30 years' work experience in finance; used to be Secretary of Discipline Inspection Commission of Chengdu Branch of PBOC, Deputy Secretary of Sichuan Banking Regulatory Bureau, Secretary of Xinjiang Banking Regulatory Bureau. Mr. Gao has served as Chief Supervisor of the Bank since June 2011.

Wei Guoliang, Supervisor

Professor-level senior accountant; graduated from Finance Faculty of Dongbei University of Finance and Economics(major in finance), Bachelor's Degree; over 20 years' work experience in finance; Deputy Director Capital Operation Department of CNPC, Deputy General Manager of Capital Operation Department of PetroChina. Mr. Wei has served as Supervisor of the Bank since April 2009.

Yang Jiasi, External Supervisor

Senior accountant; graduated from Beijing Open University (major in Finance); nearly 30 years' work experience in financial management; used to be Vice President of Beijing Branch of ICBC, General Manager of Trust and Investment Corporation of ICBC, Vice President of China Hua Rong Asset Management Corporation. Mr. Yang has served as External Supervisor of the Bank since April 2012.

Wang Wei, Employee Supervisor

Engineer; graduated from China University of Petroleum (major in business administration); nearly 20 years' work experience in finance; currently the Party Secretary of Korla Branch of the Bank. Mr. Wang has served as Employee Supervisor of the Bank since April 2012.

9.3 Senior Management

Name	Position	Gender	Age	Start
Wang Zhonglai	President	Male	50	2012.06
Xu Xinyuan	Vice President, Board Secretary	Female	57	2013.04
Jing Lin	Vice President	Male	49	2013.04
Xie Pengfei	Vice President	Male	49	2009.06
Xie Haibing	Vice President	Male	42	2013.04

Wang Zhonglai, President

Please refer to “9.1 Directors”.

Xu Xinyuan, Vice President, Board Secretary

Senior accountant; graduated from Correspondence School of Central Party School (major in Economics and Management); over 30 years' work experience in finance; used to be Deputy Chief Accountant of the Department of Financial Assets of CNPC. Ms. Xu has served as Board Secretary of the Bank since May 2009, Deputy Party secretary, Secretary of the Party Discipline Committee and Chairman of Labor Union of the Bank since July 2009, and Vice President of the Bank since April 2013.

Jing Lin, Vice President

Senior accountant; graduated from Correspondence School of Central Party School (major in Economics and Management) and Tianjin University (major in Industrial engineering), Master of engineering, over 30 years' work experience in finance; used to be Deputy Chief Accountant of Huabei Oilfield Company of PetroChina. Mr. Jing has served as Chief Financial Officer of the Bank since May 2009 and Vice President since April 2013.

Xie Pengfei, Vice President

Graduated from Anhui University of Finance and Economics (major in accounting), over 30 years' work experience in finance; used to be General Manager and Chairman of the Urban Credit Cooperative of Karamay and Chairman of Karamay City Commercial Bank. Mr. Xie has served as Vice President of the Bank since June 2009.

Xie Haibing, Vice President

Senior engineer; graduated from Tongji University (major in applied geophysics), Research Institute of Petroleum Exploration and Development (major in oil and gas field development engineering), PhD of oil and gas field development engineering, Postdoctor of nuclear science and technology of Tsinghua University; used to be Deputy Chief Accountant of Finance Department of PetroChina. Mr. Xie has served as Chief Information Officer of the Bank since May 2009 and Vice President since April 2013.

9.4 Changes in Directors, Supervisors and Senior Management

Directors

At the First Extraordinary Shareholders' Meeting of 2013 held in January 2013, Mr. Jiang Shangjun was elected as the Director of the Bank, whose appointment was approved by Xinjiang Banking Regulatory Bureau on 26 February, 2013. At the fourth session of the third board meeting held in March 2013, he was elected as Vice Chairman of the Bank. At the First Extraordinary Board Meeting of 2013 held in December 2013, Mr. Jiang was elected as Chairman of the Bank, whose appointment is pending for the approval of regulators.

At the Shareholders' Meeting of 2012 held in March 2013, Mr. Yu Yibo and Mr. Xu Weixi were elected as Directors of the Bank, whose appointments were approved by Xinjiang Banking Regulatory Bureau on 16 July 2013 and 28 May 2013 respectively.

At the Second Board Meeting of 2013 held in December 2013, Ms. Su Min was elected as Director of the Bank, whose appointment was approved by the first extraordinary shareholders' Meeting of 2014 and is pending for the approval of Xinjiang Banking Regulatory Bureau.

Mr. Xie Geguo ceased to act as Director and Vice Chairman of the Bank from March 2013 due to his retirement. Mr. Tang Jian ceased to act as Director of the Bank from May 2013 because of his retirement. Mr. Zhou Mingchun ceased to act as Director of the Bank from July 2013 owing to occupational mobility.

Supervisors

Ms. Liu Li ceased to act as Employee Supervisor of the Bank from December 2013 on account of occupational mobility.

Senior Management

At the fourth session of the third board meeting held in March 2013, Ms. Xu Xinyuan, Board Secretary of the Bank, was appointed as Vice President of the Bank and the positions of Mr. Jing Lin as well as Mr. Xie Haibing relocated to Vice Presidents of the Bank whose appointments were approved by Xinjiang Banking Regulatory Bureau on 23 April 2013.

9.5 Employees

As at 31 December 2013, there were 2,197 employees altogether, including 341 in head office, 93 in operation service center, 1,703 in branches and business department of head office and 60 in rural banks. The average age of employees was 33. The total number of employees had increased by 302 or 16% compared with that at the end of 2012. The employee structure continued to be optimized and the overall quality of the employees was relatively high. The number of employees who held Master degree or above was 209, accounting for 10% of the total. The number of employees who held Bachelor degree was 1,555, accounting for 71% of the total.

9.6 Payroll

As at 31 December 2013, the gross payroll of the Bank summed up to RMB305.48 million, and labor cost amounted to RMB32.44 million.

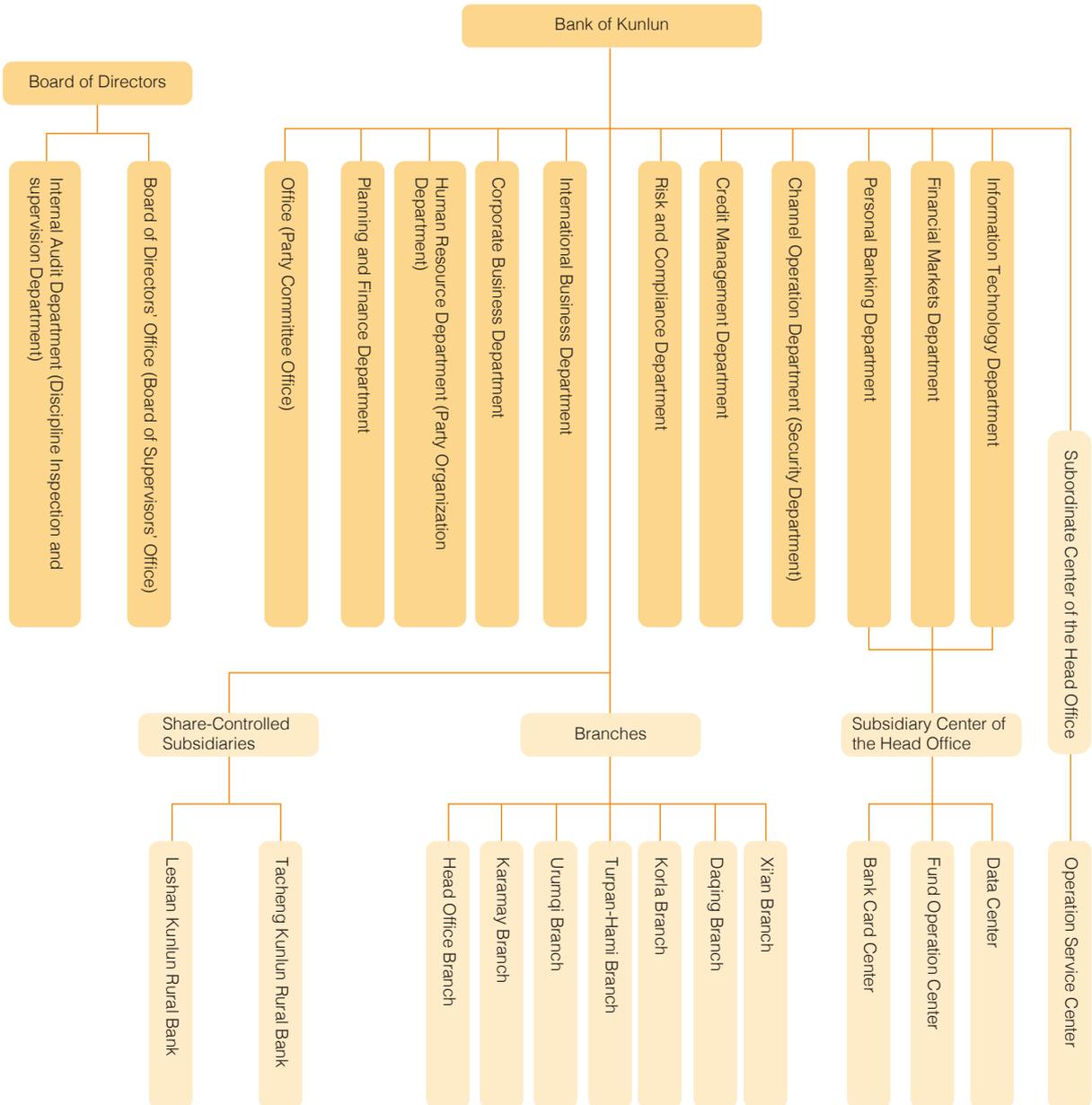
The deferred payroll payment was established according to the Regulatory Guidelines to the Prudential Salary Administration of Commercial Banks. The payment for the performance-related pay of key positions was deferred at specific proportion.

9.7 Institutions

In 2013, the Bank steadily pushed forward the construction of institution according to three levels: head office, branches and sub-branches. And it made efforts to streamline and integrated the departments of head office. The

head office is comprised of 13 functional departments and 1 subordinate center. There are 6 branches located in Karamay, Urumqi, Turpan-Hami, Korla, Daqing and Xi'an, respectively. By the end of 2013, the number of branches and sub-branches of the Bank added up to 48, increased by 8 compared with 2012.

Organizational Structure



List of Institutions

(31 December 2013)

No.	Head Office Branch/Branches			Business Networks					
	Name	Address	Post Code	Telephone	Fax	Name	Address	Post Code	Telephone
1	Head Office Branch	No. 7 Century Avenue, Karamay, Xinjiang	834000	0990-6222789	0990-6969902	—	—	—	—
2						Jinlong Town Sub-Branch	No. 6 Yongsheng Road, Jinlong Town, Karamay, Xinjiang	834000	0990-6919887
3						Yuezhong Road Sub-Branch	No. 1 Yuezhong Road, Baijiantan District, Karamay, Xinjiang	834000	0990-6981927
4						Kunlun Road Sub-Branch	No. 115 Youyi Road, Karamay, Xinjiang	834000	0990-6221879
5						Youyi Road Sub-Branch	No. 98 Youyi Road, Karamay, Xinjiang	834000	0990-6232984
6						Xingfu Road Sub-Branch	No. 3 Xingfu Road, Karamay, Xinjiang	834000	0990-6969995
7						Junggar Road Sub-Branch	No. 224 Xintianqi Business Street, Junggar Road, Karamay, Xinjiang	834000	0990-6977797
8	Karamay Branch	No. 7 Century Avenue, Karamay, Xinjiang	834000	0990-6969907	0990-6240972	Shengli Road Sub-Branch	No. 118-36 Shengli Road, Karamay, Xinjiang	834000	0990-6244416
9						Zhonglou Sub-Branch	No. 1-4, Tiancheng Square, Karamay, Xinjiang	834000	0990-6231373
10						Nanxin Road Sub-Branch	No. A16-105, Zefu, Karamay, Xinjiang	834000	0990-6252553
11						Xincheng Sub-Branch	114 Shiji Building A, No. 60 Yingbin Road, Karamay, Xinjiang	834000	0990-6245106
12						Daqing Road Sub-Branch	No. 14 Daqing East Road, Dushanzi District, Karamay, Xinjiang	833600	0992-3689595
13						Nanjing Road Sub-Branch	No. 21 Nanjing Road, Dushanzi District, Karamay, Xinjiang	833600	0992-3687049
14						Huainan Road Sub-Branch	No. 20 Huainan Road Market, Dushanzi District, Karamay, Xinjiang	833600	0992-3689797
15						Zhongxing Road Sub-Branch	No. 5-19 Furong Road, Baijiantan District, Karamay, Xinjiang	833600	0990-6923341
16						Operation Department	No. 75 Minzhu Road, Tianshan District, Urumqi, Xinjiang	830002	0991-2328114
17						Xizuan Sub-Branch	1st floor, Xibulvigu Building, No. 752 Kashi West Road, Urumqi, Xinjiang	830026	0991-3719647
18	Urumqi Branch	No. 75 Minzhu Road, Tianshan District, Urumqi, Xinjiang	830002	0991-2360468	0991-2360071	Shihua Sub-Branch	No.2 Shihuazhongyi Street, Midong District, Urumqi, Xinjiang	830019	0991-6911321
19						Shiyouxincun Sub-Branch	No. 2219 Xinhua North Road, Urumqi, Xinjiang	830014	0991-3719662
20						Youhao Sub-Branch	No. 739 Youhao North Road, Shayibake District, Urumqi, Xinjiang	830000	0991-4848705

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No.	Head Office Branch/Branches				Business Networks				
	Name	Address	Post Code	Telephone	Fax	Name	Address	Post Code	Telephone
21	Urumqi Branch	No. 75 Minzhu Road, Tianshan District, Urumqi, Xinjiang	830002	0991-2360468	0991-2360071	Gaoxin District Sub-Branch	No. 99 West Five Tianjin North Road, Gaoxin District, Urumqi, Xinjiang	830011	0991-6651754
22						Huaidong Sub-Branch	The 4th Block, Huaidong Fossil Oil Base, Fukang, Xinjiang	831511	0994-3830865
23						Operation Department	No. 172 Xibin Road, Ranghulu District, Daqing, Heilongjiang	163453	0459-5958180
24						Lianhua Sub-Branch	No. 21 Ma'anshan Chengfeng West Road, Ranghulu District, Daqing, Heilongjiang	163411	0459-5616666
25						Shihua Sub-Branch	No. 427 Xinghua Street, Longfeng District, Daqing, Heilongjiang	163714	0459-6411733
26						Longfeng Sub-Branch	No. 142 Longfeng Street, Longfeng District, Daqing, Heilongjiang	163711	0459-6400880
27						Yuanwang Sub-Branch	No. 18 Xihu Street, Ranghulu District, Daqing, Heilongjiang	163453	0459-5956012
28						Aolin Sub-Branch	No. 531 Xincheng Street, Ranghulu District, Daqing, Heilongjiang	163453	0459-5960177
29	Daqing Branch	No. 172 Xibin Road, Ranghulu District, Daqing, Heilongjiang	163453	0459-5958355	0459-5958355	Dongfeng Sub-Branch	No. 35 Dongfengxincun wei'er Road, Saertu District, Daqing, Heilongjiang	163311	0459-4600195
30						Xinchao Sub-Branch	Xinchaojiaoyuan S3 Shop2 and Shop3, Ranghulu District, Daqing, Heilongjiang	163453	0459-5912355
31						Donghu Sub-Branch	No. 10 Tianhu Road, Ranghulu District, Daqing, Heilongjiang	163000	0459-5732688
32						Dongcheng Yinzuo Sub-Branch	No. 40 Yinzuo Shangpin Shopping Mall, Saertu High-tech Development District, Daqing, Heilongjiang	163311	0459-4319096
33						Chengfeng Sub-Branch	No. 210 Chengfeng Street, Ranghulu District, Daqing, Heilongjiang	163411	0459-5681716
34						Ranghulu Sub-Branch	South 13 Commercial and Residential Building Shop4, Xijing Road, Ranghulu District, Daqing, Heilongjiang	163712	0459-5593272
35						Dongchenglingxiu Sub-Branch	No. 202, No. 204 and No. 206 Longfeng North Street and No. 10 and No. 12 Longfeng Road, Longfeng District, Daqing, Heilongjiang	163711	0459-6405950
36						Operation Department	West Side of Construction Bank Building, the 6th Block, Fossil Oil Base, Hami, Xinjiang	839009	0902-2771350
37	Turpan-Hami Branch	Construction Bank Building, the 6th Block, Fossil Oil Base, Hami, Xinjiang	839009	0902-2767110	0902-2767110	Shanshan Fossil Oil Sub-Branch	Yard of Fossil Oil Base, Shanshan, Turpan, Xinjiang	838202	0995-8378612
38						Hami Fossil Oil Base South Sub-Branch	Information Industry Development Office, Fossil Oil Base, Hami, Xinjiang	839009	0902-2772131
39						Guangdong Road Sub-Branch	No. 30 Guangdong Road, Hami, Xinjiang	839009	0902-2209001

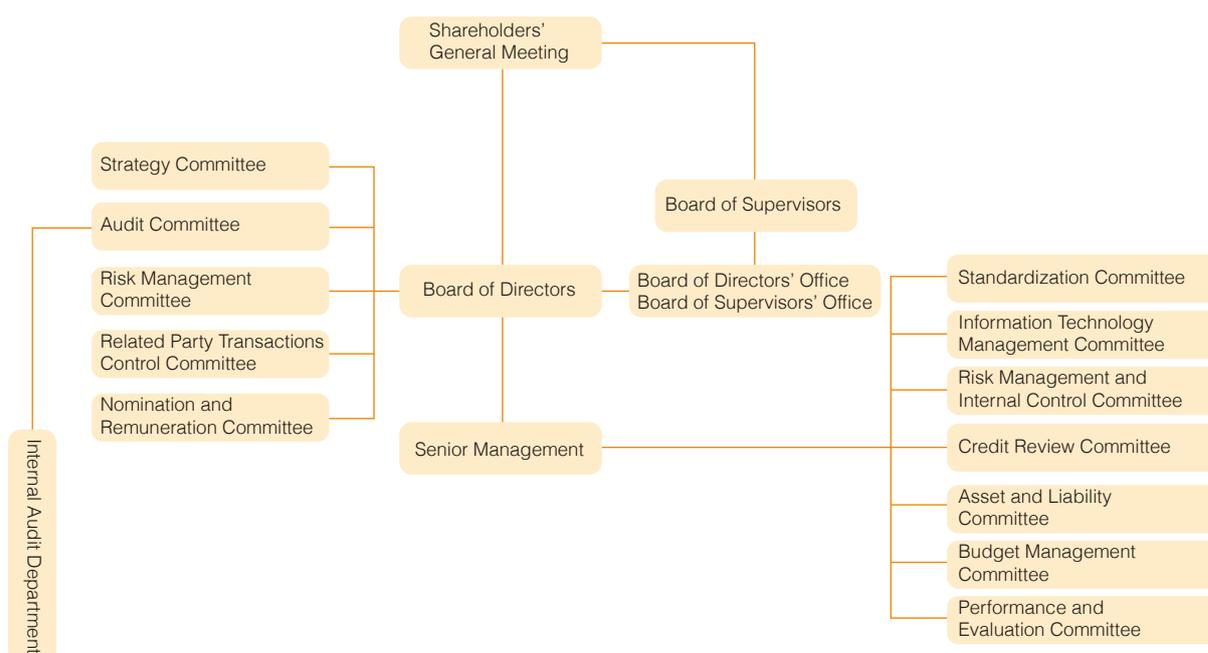
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No.	Head Office Branch/Branches				Business Networks				
	Name	Address	Post Code	Telephone	Fax	Name	Address	Post Code	Telephone
40						Operation Department	Changqingsulige Building B, No. 73 Fengchengsi Road, Weiyang District, Xi'an, Shanxi	710021	029-86978970
41						Xinglongyuan Sub-Branch	1st floor, Elder Activity Center, Fengchengsi Road, Xi'an, Shanxi	710021	029-86978934
42						High-Tech Development Area Sub-Branch	South Part of 1-2 Floor High-Tech Electronic Communication Square, No. 56 Gaoxin Road, Xi'an, Shanxi	710075	029-88993325
43	Xi'an Branch	Changqingsulige Building B, No. 73 Fengchengsi Road, Weiyang District, Xi'an, Shanxi	710021	029-86978855	029-86978910	Jinghe Industrial Park Sub-Branch	1-2 Floor, North Part of Office Building of infrastructure service, Changqingjinghe Yuan, East Gate of Longfengyuan Subdistrict, Changqing Oilfield, Gaoling, Xi'an, Shanxi	710200	029-8602224
44						Jingwei Science and Technology Industrial Park Sub-Branch	South of West Gate, the 2nd Block, Jingxin Yuan, Jinghe Industrial Park, Gaoling, Xi'an, Shanxi	710200	029-86977316
45						Operation Department	Huayu Business Building, Renmin East Road, Korla, Xinjiang	841000	0996-2926000
46	Korla Branch	Huayu Business Building, Renmin East Road, Korla, Xinjiang	841000	0996-2926901	0996-2926908	Xincheng Sub-Branch	Complex Building, Tarim frontline Directing Department of BGP, Xincheng District, Korla, Xinjiang	841000	0996-2192310
47						Taxinan Fossil Oil Sub-Branch	No. 8-2 Yingbin Road, Kuiyibage Town, Zepu, Kashi, Xinjiang	844804	0996-7522297
48						Tarim Fossil Oil Sub-Branch	Multifunctional hall, Fossil Oil Subdistrict, Korla, Xinjiang	841000	0996-2176690

10. Corporate Governance Report

10.1 Corporate Governance Framework

In accordance with laws and regulations such as Company Law and Commercial Bank Law and requirements of regulators as well as the principle of “scientific decision-making, effective supervision, steady operation”, the Bank has established the corporate governance structure composed of Shareholders’ General Meeting, Board of Directors, Board of Supervisors and Senior Management, whose respective roles are the highest authority organ, decision-making organ, supervisory organ and executive organ. The Bank makes a sustained effort to perfect the deployment of organs and professionals, in order to ensure the operation featuring “clearly-defined responsibilities and accountability, coordination and effective checks and balances”, providing a strong guarantee of the scientific and healthy development of the Bank.



10.2 Overview of Corporate Governance

Sound corporate governance not only is the key factor in guaranteeing stable operation and healthy development of a bank, but also undertakes essential mission of continual and well protection of interests of investors. In 2013,

the Bank strictly complied with relative laws, regulations and regulatory requirements and insisted on enhancing the corporate governance as a major step for further development. It kept on optimizing the operating mechanism of corporate governance, underlined scientific decision-making and effective checks and balances, further amended the articles of association and other governance systems of the company, completed personnel adjustment of Board of Directors and Senior Management and continuously rationalized system and organization structure of corporate governance. Furthermore, the Bank strengthened the construction of Directors' and Supervisors' resumption initiated performance evaluation of Directors, Supervisors and Senior Management and organized plentiful trainings, surveys and interbank exchange activities. Further efforts were made in information disclosure and investor relationship management. Management efficiency of the Bank was improved, interests of all parties had been protected effectively and the work of corporate governance was fruitful.

Construction of the Organizational Framework of Corporate Governance

The Bank made timely replacement and adjustment of members of the Board of Directors and optimized the deployment of Senior, ensuring compliance and smoothness of corporate governance.

During the reporting period, three Directors ceased their performance due to retirement or occupational mobility. After strict election and full deliberation, three new Directors were chosen to supplement the vacancy and a new Vice Chairman was elected. Their appointments were approved by regulators and started their terms which ensured the stable and orderly operation of the Board of Directors. According to the personnel changing of the Board of Directors, considering the requirements of Corporate Governance of Commercial Banks, the Bank made corresponding personnel adjustment of the special committees under the Board of Directors to further reinforce the expertise of the committees. In accordance with the regulatory requirements, the Bank adjusted the positions of three senior managers and further perfected the structure of the Senior Management.

Construction of Corporate Governance Mechanism

The Bank gave play to the strategic decision-making role of the Board of Directors. During the reporting period, the Bank made the development plan for the year 2014-2015 and the long-term plan of the 13th five-year. With the theme of "adjusting structure, increasing efficiency and promoting development" and the main point of improving core competitiveness, the Bank made the development countermeasures and set the goals of new period after appropriate researches. In accordance with the requirements of sustainable development and capital adequacy ratio, the Bank actively promoted the capital increase and share expansion in 2013, totaling RMB1.90 billion. The responsibilities of the Board of Directors and the Senior Management were further clarified; the management of the Senior Management's performance appraisal, performance evaluation and authorization was strengthened. The operating budget, the plan for the development of branches and outlets and the investment proposal of 2014 had been approved in the meeting. The approved documents would help to urge the Senior Management to lay more emphasis on risk control and fraud prevention, and guided the Bank to operate steady and orderly.

The Bank gave play to the supervisory function of the Board of Supervisors. In 2013, the Board of Supervisors of the Bank duly performed its function and supervisory responsibility, actively participated in review of major decision making and supervised financial activities with lots of precious comments and suggestions. By deepening the supervision and

evaluation on the performance of the members of the Board of Directors, the Board of Supervisors and the Senior Management, and by continuous inspection on risk management, internal control compliance, internal and external audit and related party transaction, the Board of Supervisors played an important role in enhancing corporate governance, prompting operation management in compliance, and realizing the steady development of the Bank.

The Bank effectively enhanced the performance level of the Directors and the Supervisors. Plenty of training and surveys were held, timely and comprehensive information was provided and internal and external communication was propelled. For instance, experts from regulatory departments and Academy of Social Sciences Institute were invited to give lectures on topics, such as macroeconomic situation, related party transaction management, corporate governance guidelines and interest rate liberalization. The Directors and the Supervisors were organized to do research in Urumqi Branch, Tacheng Rural Bank and China Minsheng Bank. Journals including Financial News, Daily Financial Information, Monographic Study, Operating Development and the Newspaper of Bank of Kunlun were regularly published so that it was convenient for the Directors and the Supervisors to have knowledge of the supervision situation, industry development and the operating status of the Bank, ultimately improving their decision-making ability and performance level.

Internal control, compliance and risk control have been greatly improved. In 2013, the Bank endeavored to foster risk compliance culture, focused on credit management, and strengthened the control over important links of operational risk and internal control compliance management, progress in asset preservation was made. With all the employees' awareness of risk and compliance obviously growing, the capability of controlling risk and compliance has been steadily improved.

The Bank reinforced the supervising and supporting functions of the audit. In 2013, adhering to the guideline of "auditing according to law, serving overall interests, focusing on central task, highlighting significant points, staying realistic and pragmatic", internal audit work accorded with the strategic target of the Bank and the operating management concept of "market-oriented, customer-centered, and taking efficiency as the core while risk as the thread" on the base of the work position of "seeking loopholes, preventing risks and serving development". The supervising and supporting functions of the audit were exerted earnestly, and internal audit system construction kept perfecting, successfully fulfilling the "immune system" function of audit.

With regard to the incentive and disciplinary mechanism, the Board of Directors intensified the performance assessment and appraisal of the Senior Management, established the fair and transparent incentive and disciplinary mechanism of the Senior Management, including performance evaluation standards and procedures, attached importance to the performance of whether the major regulatory indicators met criteria or not, the asset quality or profitability, risk control, and compliance with laws, regulations and the Articles of Association. The Management Layer regularly reported to the Board of Directors on its performance and operating management, including implementation of authorized matters, completion of annual target, risk control and so on.

Information disclosure and investor-relationship management have been strengthened. In 2013, the Bank further enhanced information disclosure and investor-relationship management via constant improvement of the website

of investor relations, aiming at providing information for the investors more accurately, timely and effectively. And more information was disclosed on the Bank's website of English version, enriching disclosure content and dredging communication channels. Based on previous experience and industry advanced practice, the Bank optimized the overall framework of 2013 annual report further, which disclosed information more comprehensively, emphasized more on integration of banking and oil and gas industry, and exhibited the characters of the Bank to investors and the society.

Construction of Corporate Governance Regulations

In 2013, the Bank was committed to becoming a bank with good corporate governance by pushing forward the construction of the corporate governance regulations. According to the Guidelines on the Board of Supervisors of Commercial Banks and the Guidelines on Corporate Governance of Commercial Banks newly issued by CBRC, the Bank amended the Articles of Association, which was approved by the Board of Directors. In addition, it further clarified management requirements and improved management process by amending the Rules for Share Management of Bank of Kunlun (Provisional), the Rules for Director Performance Evaluation of Bank of Kunlun (Provisional), the Rules for Supervisor Performance Evaluation of Bank of Kunlun (Provisional), the Rules for Equity Investment Management of Bank of Kunlun (Provisional), and the Rules for Investment Management of Bank of Kunlun (Provisional), and formulating the Detailed Rules for Related Party Transaction Management. Furthermore, the Bank specified the appointment procedures of members of the Senior Management, defined the responsibility boundary of the Board of Directors and the Senior Management, and made management requirements in aspects of authorization of the Board of Directors, annual objectives of the Management, risk preference of the Bank and the performance appraisal and evaluation of the Management.

10.3 The Shareholders' General Meeting

10.3.1 Responsibilities of the Shareholders' General Meeting

As the highest authority organ of the Bank, the Shareholders' General Meeting involves all shareholders. The Shareholders' General Meeting is responsible for, among others, deciding on business policies and material investment plans of the Bank, the consideration and approval of the proposals on the annual financial budget, final accounts, profit distribution plans and losses recovery plans, the election and replacement of directors, shareholder supervisors and external supervisors, the consideration and approval of the work report of the Board of Directors and the work report of the Board of Supervisors, the adoption of resolutions on merger, division, dissolution, liquidation, change of corporate form, increase or decrease of registered capital, issuance and listing of corporate bonds or other negotiable securities and repurchase of stocks, and the amendment of the Articles of Association of the Bank.

10.3.2 Meetings of the Shareholders' General Meeting

During the reporting period, the Bank convened one annual general meeting and one extraordinary general meeting, at which 3 reports were heard and 17 proposals were considered and approved. The agenda and proposals for the meeting were arranged by the Board of Directors legally, fairly and reasonably to ensure the full discussion of every proposal. Each meeting was convened in compliance with relevant legal procedures, which assured shareholders'

participation and exercise of rights. The Bank engaged lawyers to witness these meetings and issue legal opinions. Details of the meetings are as follows:

Annual General Meeting

The Annual General Meeting of 2012 was held as a video conference in Beijing, Karamay and Urumqi simultaneously on 28 March 2013, at which three reports were heard, such as reports on engagement of auditors, management of related party transactions and performance evaluation of Directors and Supervisors, and 11 proposals were considered and approved, including 2012 annual report, 2012 profit distribution plan, 2013 capital increase implementation plan, amendments to the rules of share management, amendments to the rules of equity investment management and amendments to the rules of investment management, etc. It made arrangements of significant matters, effectively exerting the functions of the Shareholders' General Meeting.

Extraordinary General Meeting

The first extraordinary general meeting was held as a video conference in Beijing, Karamay and Urumqi simultaneously on 8 January 2013. 6 proposals were reviewed and approved, including proposals on 2013 operating budget plan, 2013 investment suggestion plan, 2013 capital increase framework plan, election of Directors, amendments to performance evaluation of Directors and Supervisors.

10.4 Board of Directors and Special Committees

10.4.1 Responsibilities of the Board of Directors

As the decision-making organ of the Bank, the Board of Directors of the Bank is accountable to, and shall report to, the Shareholders' General Meeting. The Board of Directors is responsible for, among others, convening the Shareholders' General Meeting, implementing resolutions of the Shareholders' General Meeting, making development strategies and supervising the implementation of these strategies, deciding on plans for development, business and investment, formulating annual financial budgets, final accounts, profit distribution plans, losses recovery plans and proposals on the increase or decrease of registered capital of the Bank, deciding on setting up internal management institutions and branches of the Bank, appointing or removing the President and the Board Secretary, formulating fundamental management rules, listening to performance reports of the Bank and inspecting the President's work, etc.

10.4.2 Composition of the Board of Directors

As at the end of the reporting period, the Board of Directors of the Bank consisted of nine directors, including six Equity Directors: Mr. Wang Guoliang, Mr. Jiang Shangjun, Mr. Yu Yibo, Mr. Wan Haichuan, Mr. Xu Weixi, and Mr. Wang Zhonglai; three Independent Directors: Ms. Pang Yueying, Mr. Yu Zengbiao and Mr. Shi Junzhi. Chairman of the Board of Directors of the Bank was Mr. Wang Guoliang, and Vice Chairman was Mr. Jiang Shangjun. All Equity Directors have long-term work experience in banking business management or financial management with extensive professional expertise. Meantime, parts of the Directors have years of work experience in petroleum and natural gas industry. The Independent Directors are experts in finance and accounting, who are familiar with corporate finance and financial management.

10.4.3 Operation of the Board of Directors

The Board of Directors of the Bank exercised its functions in accordance with laws, administrative regulations, regulations and articles of the Bank as well as the resolutions and authorization of the Shareholders' General Meetings. Meetings of the Board of Directors were composed of regular meetings and extraordinary meetings. Regular meetings were convened at least one time each quarter.

The institution under the Board of Directors was the Board of Directors' Office, responsible for providing support and services to the Board of Directors, special committees and all Directors, and furnishing the decision-making of the Board of Directors with accurate and solid basis.

10.4.4 Meetings of the Board of Directors

In 2013, the Board of Directors held 4 regular meetings and 2 interim meetings, during which 3 reports were heard and 41 proposals were reviewed and approved. The main reports and proposals were set out below:

At the 4th meeting of the third session of the Board of Directors held on 2 March 2013, 3 reports were heard and 22 proposals were reviewed and approved. The Directors listened to reports on audit of operating and related party transactions for 2012, considered and approved proposals on 2012 President's report, 2012 financial statements, 2012 profit distribution plan, 2012 external audit engagement, 2013 implementation plan of capital increase, amendments of the rules for share management, amendments of the rules for equity investment management, amendments of the rules for investment management, election of the Vice Chairman of the third session of board, and nomination of the Directors and other motions.

At the 5th meeting of the third session of the Board of Directors held on 29 May 2013, 3 reports were heard and 3 proposals were reviewed and approved. The Directors listened to reports on implementation of resolutions of the 4th meeting of the third session of the Board of Directors, operation of the first quarter in 2013 and title adjustments of deputy leaders, reviewed and approved proposals on changes of part of investors in capital increase implementation plan and adjustment of members in special committee of the Board of Directors and other motions.

At the 6th meeting of the third session of the Board of Directors held on 25 July 2013, 3 reports were heard, including reports on implementation of resolutions of the 5th meeting of the third session of the Board of Directors, operation in the first half of 2013 and the internal audit.

At the 7th meeting of the third session of the Board of Directors held on 29 November 2013, 4 reports were heard and 13 proposals were reviewed and approved. The Directors listened to reports on operation of the third quarter in 2013, significant events, the Vice Chairman's authorization by the Chairman and performance of the Senior Management, considered and approved proposals on 2013 budget implementation and 2014 operating budget arrangement, the engagement of external auditors, the amendment of the Articles of Association, the development plan for year 2014-2015 and the 13th five-year long-term plan and other motions.

The first extraordinary meeting of the Board of Directors of 2013 held on 20 December 2013, reviewed and approved the proposals on election of the Chairman and adjustment of the date of the first extraordinary Shareholders' General Meeting of 2014.

The second extraordinary meeting of the Board of Directors of 2013 held on 31 December 2013, reviewed and approved the proposal on the nomination of Mrs. Su Ming as the Director of the Bank.

The following table shows the attendance of the Directors in the Board of Directors meetings (including extraordinary meetings) during year 2013:

Directors	Number of actual attendance/ Number of planed attendance
Wang Guoliang ⁽¹⁾	6/6
Xie Geguo ⁽²⁾	1/1
Jiang Shangjun	6/6
Yu Yibo ⁽³⁾	4/4
Wan Haichuan	6/6
Tang Jian ⁽⁴⁾	1/1
Xu Weixi ⁽⁵⁾	4/5
Wang Zhonglai	6/6
Pangyueying	6/6
Yu Zengbiao	6/6
Shi Junzhi	6/6

Note:

(1) Chairman Wang Guoliang authorized Vice Chairman Jiang Shangjun to exercise the rights of chairman on behalf of him since December 2013.

(2) Mr. Xie Geguo no longer served as Director of the Bank for age reasons since March 2013.

(3) Mr. Yu Yibo has served as Directors of the Bank since July 2013.

(4) Mr. Tang Jian no longer served as Director of the Bank for age reasons since May 2013.

(5) Mr. Xu Weixi has served as Directors of the Bank since July 2013.

During the reporting period, all the Directors of the Bank cautiously, diligently, and conscientiously exercised their rights, devoted enough time and energy to dealing with internal affairs of the Bank, in order to ensure that business behaviors of the Bank accorded with national laws, regulations and relative policy requirements. In addition, the Directors understood the operation of the Bank in time, and fulfilled other obligations stipulated by laws and the Articles of Association of the Bank.

10.4.5 Implementation of Resolutions of the Shareholders' General Meeting by the Board of Directors

The Board of Directors implemented relevant resolutions reviewed and approved by the shareholders' general meetings in reporting period seriously, comprehensively and strictly, and reported to the Shareholders' General Meeting in the form of annual report. During the reporting period, no item was approved beyond the scope of the approval authority of the Board of Directors.

10.4.6 Independence and Performance of Independent Directors

During the reporting period, three Independent Directors, following the diligent and responsible attitude and principle, devoted plenty of time to performing their duties. They attended all the meetings of the Board of Directors punctually, gave independent and objective advice on important decisions according to provisions of relevant documents, including the related party transactions, profit distribution plan and so forth. They actively attended the meetings of special committees, participated in routine work, and conscientiously fulfilled their duties. In addition, they zealously took part in interbank communication with China Minsheng Bank organized by the Bank, internal research of Urumqi Branch and Tacheng Rural Bank, and trainings on macroeconomic situations, related-party transaction management, corporate governance guidelines and interest rate liberalization. They were informed of macroeconomic situation and the operation of the Bank through internal regular journals such as Financial News and Operating Development. They accepted legit supervision and reasonable suggestions from the Board of Supervisors and external regulatory authorities, and provided relevant information and materials to them truthfully.

10.4.7 Special Committees of the Board of Directors

The Board of Directors consisted of five special committees, namely the Strategy Committee, the Audit Committee, the Nomination and Compensation Committee, the Risk Management Committee and the Related Party Transactions Control Committee. They were responsible to the Board of Directors and authorized by it, providing professional advice to it and making decisions on professional matters. The special committees regularly communicated with the Senior Management and departments on operating and risk conditions of the Bank, and corresponding give opinions and suggestions.

During the reporting period, the Board of Directors made adjustments to the special committees. Consequently, the number of members in special committees further increased, and the personnel structure became more reasonable. The composition and performance of all special committees are set out below:

Strategy Committee

The Strategy Committee is mainly responsible for considering the Bank's medium-term and long-term development strategies, business philosophy, development plan and major investment plan, and making recommendations to the Board. As at the end of the reporting period, the Strategy Committee of the Bank consisted of 5 Directors, including Mr. Wang Guoliang, Mr. Jiang Shangjun, Mr. Wan Haichuan, Mr. Xu Weixi and Mr. Shi Junzhi. Chairman of the Board of Directors Mr. Wang Guoliang was the chairman of the committee.

During the reporting period, the Strategy Committee held 3 meetings, and considered 11 proposals including 2013 implementation plan of capital increase, amendments of the rules for equity investment management, amendments of the rules for investment management, plan for capital adequacy ratio during transitional period, 2014 investment suggestion plan, the development plan for year 2014-2015 and the 13th five-year long-term plan and other motions. The Strategy Committee provided vigorous support to strategic decision-making of the Board of Directors by actively promoting the formulation and implementation of strategic plan of the Bank.

Audit Committee

The Audit Committee is mainly responsible for the supervision, inspection and evaluation of internal control, financial information and internal audit of the Bank. As at the end of the reporting period, the Audit Committee of the Bank consisted of 4 Directors, including Mr. Shi Junzhi, Mr. Yu Yibo, Ms. Pang Yueying, and Mr. Wan Haichuan. Independent Director Mr. Shi Junzhi was the chairman of the committee.

During the reporting period, the Audit Committee held 4 meetings, heard 12 reports including regular reports on internal audit, internal control compliance and operation for 2013, and considered 6 proposals including 2012 financial statements, 2012 profit distribution plan, 2012 external audit engagement, and 2013 budget execution and 2014 operating budget arrangement. The Audit Committee deepened the supervision of the Bank's operation and management, continually assessed internal control systems, supervised and evaluated the independence of the internal and external auditors, and promoted communication and cooperation between internal and external auditors, supporting the Board of Directors.

Nomination and Compensation Committee

The Nomination and Compensation Committee is mainly responsible for making recommendations to the Board of Directors on candidates for Directors and Senior Management members, the procedures and standards for selection and appointment of them, formulating remuneration policies and plans, performance evaluation and assessment system for Directors, Supervisors as well as Senior Management, and putting forward proposals on performance assessment and evaluation for Directors and the Management. As at the end of the reporting period, the Nomination and Compensation Committee of the Bank consisted of 3 Directors, including Ms. Pang Yueying, Mr. Jiang Shangjun and Mr. Yu Zengbiao. Independent Director Ms. Pang Yueying was the chairman of the committee.

During the reporting period, the Nomination and Compensation Committee held 3 meetings, heard 1 report on performance of the Senior Management, and considered 12 proposals, including 2013 performance appraisal indicators of the Senior Management, election of the Vice Chairman, appointment of middle management, nomination of Directors and title adjustments of deputy leaders. The Nomination and Compensation Committee played an important role in the appointment and performance assessment of Directors and the Senior Management.

Risk Management Committee

The Risk Management Committee is primarily responsible for controlling, managing, supervising and evaluating risks of the Bank. As at the end of the reporting period, the Risk Management Committee of the Bank consisted of 4 Directors, including Mr. Shi Junzhi, Mr. Yu Yibo, Mr. Wang Zhonglai, and Mr. Yu Zengbiao. Independent Director Mr. Shi Junzhi was the chairman of the committee.

During the reporting period, the Risk Management Committee held 4 meetings, heard 5 reports including regular reports on risk management and significant events of the Bank for 2013, and considered 1 proposal on 2012 work report of information technology. The Risk Management Committee supervised and guided the operation of the Bank's risk management system, researched on risk management countermeasures, and promoted effective running of the risk management system.

Related Party Transactions Control Committee

The Related Party Transactions Control Committee is mainly responsible for inspecting, monitoring, reviewing and approving the Bank's related party transactions, identifying the Bank's related parties, reviewing major related party transactions, receiving the reporting information of general related party transactions, and controlling the risks of related party transactions. As at the end of the reporting period, the Related Party Transactions Control Committee of the Bank consisted of 5 Directors, including Mr. Yu Zengbiao, Mr. Yu Yibo, Ms. Pang Yueying, Mr. Xu Weixi, and Mr. Wang Zhonglai. Independent Director Mr. Yu Zengbiao was the chairman of the committee.

During the reporting period, the Related Party Transactions Control Committee held 4 meetings, heard 4 reports including regular reports on 2013 related party transactions management, and considered 5 proposals, including proposals on update of the related party checklist and formulating the Detailed Rules for Related Party Transaction Management.

10.5 Board of Supervisors

10.5.1 Responsibilities of the Board of Supervisors

As the supervisory organ of the Bank, the Board of Supervisors is accountable to, and shall report to, the Shareholders' General Meeting. The Board of Supervisors is responsible for reviewing periodic reports formulated by the Board of Directors; supervising the performance and due diligence of Directors and Senior Management members. And it should also attend the meetings of the Board of Directors, examine and supervise the Bank's financial activities, propose to convene Shareholders' General Meetings and presenting proposals, require the Board of Directors and the Senior Management to correct, or even file a lawsuit on, any misconduct that might affect the Bank's interests, investigate the operation of the Bank, and propose to convene extraordinary meetings of the Board of Directors, etc.

10.5.2 Composition of the Board of Supervisors

As at the end of the reporting period, the Board of Supervisors of the Bank consisted of 4 members, including 2 External Supervisors, namely Mr. Gao Jun and Mr. Yang Jiasi, 1 Shareholder Supervisors, namely Mr. Wei Guoliang, and 1 Employee Supervisor, namely Mr. Wang Wei. The Chief Supervisor of the Bank was Mr. Gao Jun. All supervisors of the Bank possessed abundant management experience and professional knowledge of finance and accounting.

10.5.3 Operation of the Board of Supervisors

The Board of Supervisors of the Bank performs its duty in accordance with laws, administrative regulations, the Articles of Association, and the resolutions and authorization of the Shareholders' General Meeting. The Board of Supervisors discusses the official matters at the meeting of the Board of Supervisors, which includes regular meeting and special meeting. Regular meetings shall be held at least one time each quarter, and interim meetings shall be convened if necessary.

The institution under the Board of Directors is the Board of Supervisors' Office, responsible for providing support and services to the Board of Supervisors and Supervisors, and furnishing the decision-making of the Board of Directors with basis.

10.5.4 Meetings of the Board of Supervisors

In 2013, the Board of Supervisors of the Bank held 4 meetings, listened to 26 reports and approved 8 proposals. The main reports and proposals were set out below:

The 4th meeting of the third session of the Board of Supervisors of the Bank held on 2 March 2013, heard reports on 2012 risk management, 2012 internal control compliance, 2012 internal audit and 2012 external audit, considered and approved 2012 financial statements, 2012 profit distribution plan, 2012 annual report and its abstract, 2012 payment of remuneration to External Supervisors, and 2013 performance evaluation indicators for the Senior Management, etc.

The 5th meeting of the third session of the Board of Supervisors of the Bank held on 29 May 2013, heard work reports on the operation, risk management, internal control compliance management, internal audit, and related party transactions of the first quarter in 2013.

The 6th meeting of the third session of the Board of Supervisors held on 25 July 2013, heard reports on the implementation of resolutions of the 5th meeting of the third session of the Board of Supervisors, and the work reports on the operation, risk management, internal control compliance, internal audit, and related party transactions in the first half of 2013.

The 7th meeting of the third session of the Board of Supervisors held on 29 November 2013, heard reports on the implementation of resolutions of the 6th meeting of the third session of the Board of Supervisors, and the work reports on the operation, risk management, internal control compliance, internal audit, and related party transactions of the third quarter in 2013.

The following table shows the attendance of the Supervisors in the Board of Supervisors meetings during year 2013:

Supervisors	Number of actual attendance/ Number of planned attendance
Gao Jun	4/4
Wei Guoliang	3/4
Yang Jiasi	4/4
Wang Wei	3/4
Liu Li	2/4

Note:

Ms. Liu Li no longer served as Supervisor of the Bank for position change since December 2013.

10.5.5 Performance of External Supervisors

External Supervisors of the Bank, Mr. Gao Jun and Mr. Yang Jiasi performed their duties in accordance with the Company Law and the Articles of Associations of the Bank. They actively attended all the meetings of the Board of Supervisors, regular meetings and presenting independent opinions on proposals, zealously took part in interbank communication with China Minsheng Bank organized by the Bank, internal research of Urumqi Branch and

Tacheng Rural Bank, and trainings on macroeconomic situations, related party transaction management, corporate governance guidelines and interest rate liberalization. They also kept informed of the macroeconomic situations and the operation of the Bank through internal regular journals such as Financial News and Operating Development, and played an effective role in independent supervision.

10.6 Senior Management

10.6.1 Composition and Responsibilities of the Senior Management

As the executive organ of the Bank, the Senior Management is accountable to the Board of Directors. It was composed of 5 members, including President Mr. Wang Zhonglai, Vice President and Board Secretary Ms. Xu Xinyuan, Vice President Mr. Jing Lin, Vice President Mr. Xie Pengfei, Vice President Mr. Xie Haibing. Division of duties between the Senior Management and the Board of Directors was strictly compliant with the corporate governance documents such as the Articles of Association, the rules for authorization of the Board of Directors and so forth.

In line with laws and regulations, the Articles of Association and the authorization of the Board, the President, headed by the Board, is responsible for taking charge of daily operation and management, organizing the implementation of resolutions of the Board, drafting plans for the establishment, dismantling and merging of internal management organs and branches, formulating annual business plans and investment schemes, and drawing up basic management regulations and specific rules. Vice President and other Senior Management members should assist the President, undertake their individual responsibilities according to the President's authorization, and be accountable to the President.

The Senior Management of the Bank presided over the Standardization Committee, the Information Technology Management Committee, the Risk Management and Internal Control Committee, the Credit Review Committee, the Asset and Liability Committee, the Budget Management Committee, and the Performance and Evaluation Committee.

During the reporting period, the Senior Management accomplished the operating goals set by the Board of Directors successfully.

10.6.2 Establishment and Implementation of the Performance Evaluation and Incentive Mechanism for Senior Management

In accordance with the Rules for Performance Evaluation of Senior Management of Bank of Kunlun, the Bank mainly conducted yearly performance evaluation of Senior Management. At the beginning of the year, the Board set operating indicators and work objectives of the next year, and accordingly make and sign the performance contract for Senior Management. The Management implements various work in the light of performance contract and gives reports to the Board. The performance evaluation result of the Senior Management is pegged to their performance bonus.

10.7 Internal Control

To ensure the security, effectiveness and stability of business operation management, to control financial risks, and to

perfect internal control mechanism, the Bank established Internal Control Management Committee. Risk Management Committee and Internal Control Management Committee merged into Risk and Internal Control Management Committee, which was responsible for leading risk management work of the Bank, formulating risk management strategy, management framework, regulations and system of the Bank, reviewing and drafting risk management policies, system and plans, and general reviewing and arranging the construction and evaluation of internal control, compliance risk management, policies, the procedures and related management regulations of anti-money laundering and fraud prevention.

The head office established the risk and compliance department, and each branch set up an internal control compliance department, which is responsible for legal management, internal control management, compliance management and risk management in operating activities respectively. Each department of the head office appointed a contact person of internal control, who was in charge of liaison of the internal control system construction.

During the reporting period, in accordance with the Basic Standard for Enterprise Internal Control and its supporting guidelines issued by MOF and other four Ministries, and the Guidelines for Internal Control of Commercial Banks promulgated by CBRC, the Bank continued to complete the development of the internal control system.

The Internal control environment has been further improved. The Bank formulated and released internal control system including the Rules for Internal Control of Bank of Kunlun, the Rules for Compliance Risk Management of Bank of Kunlun, the Rules for Regulation Management of Bank of Kunlun, and the Rules for Risk Management of Bank of Kunlun (Provisional), etc. Meanwhile, according to the progress of internal control work and the operation of internal control system, the Bank organized the self-test on internal control. According to the situation of the self-test and the Report on Effectiveness of Internal Control, the whole Bank was informed about the self-test results of each department, effectively boosting further perfection of the internal control system.

The capability of risk identification and evaluation has been further improved. The Bank formulated and implemented rules and regulations, such as the Rules for Comprehensive Risk Management of Bank of Kunlun, the Rules for discussion procedures of Risk Management Committee, and the Rules for Risk Management Reporting, etc. By formulating and issuing the rules for risk preference management and risk preference, and incorporating risk management related indicators into performance evaluation, a clearer risk management strategy has been formed.

Internal control measures have been further intensified. Firstly, the Bank revised internal control handbook. On the base of 2012 Internal Control Management Handbook of Bank of Kunlun, the newest development situation of the Bank's business and management, regulations made and revised by departments of the head office, and problems found in daily internal control inspection, the Bank organized revision and update of the internal control handbook. Secondly, the Bank proceeded to deepen regulation system construction. It initiated the system framework streamlining, perfected top-level design and hierarchy maintenance of the system, reinforced construction, plan and management of regulations and system, launched system management enhancement and system investigation work, and improved system quality. Thirdly, the Bank streamlined procedures. It streamlined the business process of the Bank in a comprehensive and systematic manner, introduced process description into the business without

process, revised the existing process that remained unmatched with actual practice, and carried out on-the-spot research on key business processes in order to promote further optimization of business process.

Information exchange and communication have become smoother. Firstly, the Bank strengthened trainings on internal control. It held training classes on the fraud prevention of internal control, and invited experts from other banks, who were experienced and familiar with internal control to give lectures. Each department of the head office and elites from branches attended the trainings. Secondly, grasping the opportunity of management enhancement activities, the Bank strengthened cultivation of internal control management culture. Through the propaganda and training of control measures for branches, the Bank improved executive capability of system and process, and assured operators' self-conscious enforcement of policies and regulations.

Supervision and evaluation have been further strengthened. The Bank conscientiously intensified tests, inspection and evaluation of internal control, strictly accomplished work according to the annual inspection plan, and issued the rules for compliance inspection and penalty standards. It primarily inspected credit business, bill business and international business, and informed the whole Bank about inspection results. It conducted responsibility conformation and inflicted punishment on inspections that had been carried out, and also supervised corrections of relevant problems.

Declaration of the Board of Directors on internal control responsibility: to establish, improve and effectively implement internal control and to evaluate the effectiveness of the internal control.

The targets for internal control of the Bank: ensure thorough implementation of national laws, regulations and internal rules of the Bank; reasonably assure the timelines, authenticity and completeness of its business record, financial information and other management information; improve the effectiveness of internal control management system; facilitate comprehensive implementation and realization of development strategy and operating targets of the Bank. Due to the inherent limitation of internal control, only reasonable assurance can be provided for the above targets.

In accordance with the Basic Standard for Enterprise Internal Control and its supporting guidelines issued by MOF and other four Ministries, and the Guidelines for Internal Control of Commercial Banks promulgated by CBRC, the Bank conducted a self-assessment on the establishment, operation and effectiveness of the Bank's internal control during the reporting period, which covered all the important business areas. No material or significant deficiencies were detected in the Bank's internal control system during the assessment. Risks that might arise from ordinary deficiencies were controllable and the corrective actions had been taken, so that there was no material impact on the quality of operating activities and fulfillment of financial reporting objectives of the Bank. The self-assessment results suggested that the Bank's internal control system was sound and effectively implemented during the reporting period.

10.8 Internal Audit

The Bank established an independent and vertical internal audit management system which is responsible for the Board of Directors. During the reporting period, according to the development strategy and central tasks of the Bank, adhering to the guideline of “auditing according to law, serving overall interests, focusing on central task, highlighting significant points, staying realistic and pragmatic”, internal audit exerted supervising and supporting functions, and organized audit programs on the base of the position of “seeking loopholes, preventing risks and serving development”.

During the reporting period, the risk inspection covered the major areas of the Bank’s operation and management including credit business, risk management, related-party transactions, remuneration management, information system security, and performance of duties of Senior Management members. By finding problems, making recommendations, and supervising their corrections, internal audit effectively prompted the Bank’s stable operation and sustainable development.

The Bank constantly improved the internal audit system, perfected its audit rules and regulations, propelled the optimization of reporting path, strengthened internal control management and supervision, and vigorously promoted further enhancement of the audit management level. Internal audit information construction accelerated, non-on-the-spot audit application was pushed forward, and audit means was enriched.

In 2013, the Bank reinforced the professional construction of internal auditing team, optimized personnel structure, and organized different trainings, so that comprehensive quality of auditors was effectively strengthened, the results and duty diligence of internal audit was further upgraded.

10.9 Annual Audit Engagement

In 2013, the Bank continued to engage BDO China Shu Lun Pan Certified Public Accountants LLP to provide annual audit services for the Bank and the rural banks it controlled. The total audit fee aggregated at RMB1.21 million.

11. Report of the Board of Directors

The Board of Directors of the Bank herein presents the Report of Board of Directors and the reviewed and approved financial statements as at 31 December 2013.

Principal Business

The principal business of the Bank and its subsidiaries is the provision of banking and related financial services. The operating positions presented in the section headed “Management Review-Business Overview” of this Annual Report.

Profits and Dividends Distribution

The profits and financial status of the Bank as at 31 December 2013, are presented in the section of independent auditors’ report and financial statements of this Annual Report.

Approved at the 2012 annual shareholders’ general meeting, the cash dividends distributed to all the shareholders registered as at 31 December 2012 amounted to a total of RMB570.88 million (pre-tax).

Approved at the 2013 annual shareholders’ general meeting, the dividends to shareholders should be distributed at RMB1.03 per 10 shares (pre-tax) and that total amount should be RMB760.19 million (pre-tax), which accounted for 29.56% of the net profit realized in 2013.

Reserves

Changes in the reserves of the Bank as at 31 December 2013 are set out in “Consolidated Statement of Changes in Equity in the Independent Auditors’ Report” of this Annual Report.

Summary of Financial Information

The three-year summary of the operating performance, assets and liabilities as at 31 December 2013 are set out in the section headed “Financial Highlights” of this Annual Report.

Fixed Assets

The changes in fixed assets as at 31 December 2013 are presented in Note 5 (Item 11) among the Notes to Financial Statement in the Independent Auditors’ Report of this Annual Report.

Subsidiaries

The details about subsidiaries of the Bank as at 31 December 2013 are presented in Note 4 among the Notes to Financial Statement in the Independent Auditors' Report of this Annual Report.

Major Customers

In 2013, the aggregate interest income and other operating income from top five customers of the Bank did not exceed 30% of the interest income and other operating income of the Bank during the year.

Directors, Supervisors and Senior Management

The information of the directors, supervisors and senior management is presented in the section of "Directors, Supervisors, Senior Management, Employees and Branches and sub-branches" in this Annual Report.

Directors' and Supervisors' Interests in Contracts of Significance

During the reporting period, none of the Directors or Supervisors of the Bank had any material interests, directly or indirectly, in any contract of significance regarding the Bank's business. None of the Directors or Supervisors of the Bank has entered into any service contract with the Bank which is not determined by the Bank within one year without payment of compensation (other than statutory compensation).

Equity of Directors and Supervisors in Competing Business

None of the Directors and Supervisors of the Bank had any business competing interests or potential direct or indirect competition against the business of the Bank.

Related Party Transactions

In 2013, in order to improve the management of related party transactions and prevent the Bank from the risk arising from related party transactions, the Bank instituted Rules for the Implementation of Connected Transaction Management. The Related Parties Checklist was amended quarterly, issued and executed. Special training activities were launched for connected transaction management. All the related-party transactions occurred in 2013 strictly followed the internal procedure of approval and regulatory filing process and various measures were taken to control the number of related party transactions.

Please refer to "Financial Statements: Related Party Disclosures" for particulars on the related-party transactions defined under relevant laws, regulations and accounting standards.

Statement of the Board of Directors on the Internal Control Responsibilities

All the members of the Board of Directors are responsible for the establishment and implementation of internal control. The Senior Managements are responsible for leading daily operation of the internal control.

Auditors

BDO China Shu Lun Pan Certified Public Accountants LLP has audited the 2013 annual financial report prepared by

the Bank in accordance with the Chinese Auditing Standards, and issued standard auditors' reports with unqualified opinions. BDO China Shu Lun Pan Certified Public Accountants LLP has been providing auditing services to the Bank since 2009.

By order of the Board of Directors

Wang Guoliang

Chairman

5 March 2014

12. Report of the Board of Supervisors

12.1 Work of the Board of Supervisors

In 2013, pursuant to the Company Law, the Articles of Association and Rules for discussion of the Board of Supervisors, in line with the attitude of responsibility for all shareholders, the Board of Supervisors focused on the strategic objectives and the key work of the Bank, conscientiously supervised finance, risk management, internal control, the performance of duties and other aspects, strengthened grass-roots surveys and interbank exchanges and communicated with regulators actively, playing a significant role in the improvement of corporate governance and stable development of the Bank.

The supervision on major financial operating activities was enhanced. The Board of Supervisors reviewed the annual financial report, profits distribution plan and other motions, looked into the changes in major financial data and pertinent reasons, and intensified supervision on external audit quality.

The supervision on internal control and risk management was reinforced. The Board of Supervisors intensified analysis of changes and effects of national macroeconomic trend and regulatory requirements, paid close attention to the process of interest rate liberalization and listened to reports including risk management, internal control compliance, internal audit and related party transactions on a regular basis to strengthen the supervision on risk management and internal control.

The supervision on the performances of the Directors and Senior Management was enhanced. By means of attending the meetings of the Board of Directors as a nonvoting delegate and attending the shareholders' general meeting, the Board of Supervisors carried out supervision on whether the Board of Directors and the Senior Management perform management duties, revised Rules for Performance Assessment of Directors and launched corresponding performance evaluation, consolidating the supervision on the performance of directors. Moreover, the Board of Supervisors reviewed the proposal of performance evaluation indicators of the Senior Management in 2013, listened to the operating performance report and got information of the operation of the Bank on a regular basis, strengthening the supervision on the Senior Management.

The team building got greatly strengthened. In 2013, the Board of Supervisors revised Rules for Performance Assessment of Supervisors, reinforcing the construction of system and organization. It also conducted surveys in

Urumqi Branch and Tacheng Kunlun Rural Bank, discussed issues of payroll management, performance evaluation, risk prevention and control and others, found out important and difficult problems branches and sub-branches faced with and stepped up communication with peers, from which the Bank learned advanced practice. Meanwhile, the Board of Supervisors invited specialists from Finance Institute of Chinese Academy of Social Sciences and CBRC to carry out trainings with the subjects of macroeconomic situation, related party transaction management, guidelines of corporate governance and interest rate liberalization, enhancing performance capability of supervisors effectively.

During the reporting period, the Board of Supervisors attended all the meetings of the Board of Directors, supervised the resolution formulated at the meetings, performance of fiduciary duties and operating activities of the bank. We deemed that the Bank's leader group was diligent and conscientious in performing resolutions of the Board of Directors and no irregularities were discovered during business operations.

12.2 Independent Opinions of the Board of Supervisors on Related Matters

Operation in accordance with the law

During the reporting period, the Bank operated in accordance with the Company Law, the Commercial Bank Law and the Articles of Association of the Bank. The whole procedure of decision-making was legally conducted; The Board of Supervisors did not find any violation of laws and regulations and the Articles of Association of the Bank or any act that contravened the interests of the Bank and shareholders in the performance of duties of Directors and the Senior Management.

Authenticity of the Financial Report

During the reporting period, the financial statement of the Bank complied with related regulations and could reflect the real financial position and operating results of the Bank.

Use of Proceeds from Fundraising Activities

During the reporting period, the use of proceeds from the Bank's fundraising activities was consistent with the purpose in capital increase plan, and there was no change in actual investment items.

Purchase and Sale of Assets

During the reporting period, the Board of Supervisors did not find any insider trading or any act that contravened the shareholders' interests or caused the losses of the Bank's assets in the process of the Bank's purchase or sale of assets.

Related Party Transactions

During the reporting period, the Bank's related party transactions observed The Administrative Measures for the Connected Transactions between the Commercial Banks and Their Insiders or Shareholders issued by CBRC and commercial principles. No conducts had been discovered that would cause damage to the Bank or shareholders.

Auditors' Report

BDO China Shu Lun Pan Certified Public Accountants LLP issued standard auditors' report with unqualified opinions on the financial position and operation performances in 2013. The Board of Supervisors had no objection to this report.

Implementation of Resolutions Passed at the Shareholders' General Meeting

During the reporting period, the Board of Supervisors of the Bank carried out supervision on the implementation of resolutions passed at the Shareholders' General Meeting. The Board of Supervisors thought that the Board of Directors could earnestly implement relevant resolutions of the Shareholders' General Meeting and there were no conducts damaging the shareholder's interests.

Information Disclosure

During the report period, the Bank strengthened information disclosure voluntarily. There were no false records, misleading statements nor material omissions.

Internal Control and Risk Management

During the reporting period, the Bank revised the internal control booklet, the process of internal control advancing further. It perfected the organizational structure of fraud prevention and control, and strengthened legal review of business, achieving an effective prevention of risks.

Social Responsibility

During the reporting period, the Bank proactively fulfilled the social responsibilities, implemented the national strategy of economic structure adjustment and development model transformation, made active efforts in aspects of economy, society and environment, optimized the credit structure, strengthened the credit support for agriculture, rural areas and farmers and "Small and Micros Enterprises", upgraded service quality and showed enormous enthusiasm in public welfare cause, promoting the coordinated development of regional economy.

By order of the Board of Supervisors

Gao Jun

Chief Supervisor

5 March 2014

13. Significant Events

13.1 Top Ten Shareholders and Changes during the Reporting Period

The changes in top ten shareholders as at 31 December 2013 are presented in the section headed “Changes in Share Capital and Shareholders—Top 10 Shareholders of the Bank”.

13.2 Increase or Decrease of Share Capital

In 2013, the Bank increased registered capital of RMB0.66 billion. The details about registered capital as at 31 December 2013 are presented in the section headed “Changes in Share Capital and Shareholders—Changes in Share Capital during the Reporting Period”.

13.3 Division or Merger

None.

13.4 Material Investment

None.

13.5 Material Asset Acquisition and Sale

None.

13.6 Material Contracts and Performance of Obligations

During the reporting period, the Bank had not held on trust to a material extent or entered into any material subcontract or lease arrangement in respect of assets of other corporations, and no other corporation had held on trust to a material extent or entered into any material sub-contract or lease arrangement in respect of the Bank's assets. The provision of guarantees is in the ordinary course of business of the Bank. During the reporting period, the Bank did not have any material guarantee that needed to be disclosed except for the financial guarantee services within the approved business scope. Accordingly, the Bank had no material contracts which ought to be disclosed.

13.7 Material Legal Proceedings and Arbitration

As at 31 December 2013, there were 2 pending proceeding cases which the Bank acted as prosecution, adding up to RMB540.00 million. The Bank does not expect any material effect from the final rulings of abovementioned pending legal proceeding cases on the Bank's operating results.

13.8 Material Related Party Transactions

The Bank attached great importance to routine monitor and management of credit related party transactions through varied measures, for instance, strengthening process management, tightening risk approval and consolidating post-lending management, to ensure the compliance with laws and regulations. Credit related party transactions of the Bank mainly include loans, banker's acceptances and letters of guarantees.

In 2012, Proposal on "Granting CNPC the Highest Limit of Credit RMB3.60 billion" was approved at the Board of Directors. The ratified credit rating of CNPC was AAA and the highest limit of credit was RMB3.60 billion, all of which was non-special-purpose credit for business loan of CNPC and its subsidiaries in RMB and foreign currency, and in on- and off-balance sheet credits, this credit is valid for 2 years.

By the end of 2013, the balance of loans for subsidiaries of CNPC was RMB2.32 billion, whose guarantee was pledged bank deposit certificates or security equivalent to the amount of the loan, which was deducted in calculating the credit balance. The balance of banker's acceptances amounted to RMB0.72 billion, of which RMB0.38 billion was fully secured, which was deducted in calculating the credit balance. The balance of letters of guarantees in RMB and foreign currency reached RMB2.67 billion, of which RMB1.21 billion was fully secured, which was deducted in calculating the credit balance. The usage of credit limit of CNPC was controlled by our International Business Department which strictly guaranteed compliant business operation within the credit limit.

Related party transactions of the Bank adhered to general business principles, under the conditions not better than trade with non-related parties.

By the end of 2013, the credit balance of related party transactions was RMB1.74 billion, and net capital amounted to RMB17.32 billion. The credit balance didn't exceed 15% of net capital, meeting the regulatory requirements.

The details about related party transactions are presented in Note 6 among the Notes to Financial Statement in the Independent Auditors' Report of this Annual Report.

13.9 Sanctions

None.

14. Independent Auditor's Report and Financial Statements

The 2013 annual report of the Bank has been audited by BDO China Shu Lun Pan Certified Public Accountants LLP according to the Independent Auditing Standards of China's Certified Accountants, with a standard auditors' report with unqualified opinions.

1. Independent Auditor's Report
2. Audited Financial Statements
3. Notes

15. Documents Available for Inspection

1. Financial statements signed by legal representative, President, Chief Finance Officer and officer in charge of finance;
2. The original of Independent Auditors' Report with the accounting firm seal and CPAs' seals;
3. The original of files and notices disclosed in Financial Times during the reporting period;
4. The Articles of Association of the Bank.

16. Confirmation of the 2013 Annual Report by the Directors and Senior Executives

According to “the Guidelines on Corporate Governance of Commercial Banks”, we, as the directors and senior executives of the Bank of Kunlun Co., Ltd., after having an overall understanding and review of the 2013 Annual Report and its abstract, give the following opinion:

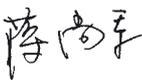
First, the Bank operated strictly in conformance to the Accounting Standards for Business Enterprises, and the 2013 Annual Report fairly reflects the financial position and the achievements of operation.

Second, the 2013 financial report of the Bank has been audited and issued with a standard and clean opinion by BDO CHINA SHU LUN PAN Certificated Public Accountants LLP.

Third, we are hereby of the view that the information disclosed hereof is free from any false record, misleading representation or material omissions, and undertake the individual and joint liability.

Signatures of Directors and Senior Executives:

Wang Guoliang 

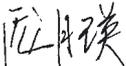
Jiang Shangjun 

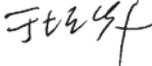
Yu Yibo 

Wan Haichuan 

Xu Weixi 

Wang Zhonglai 

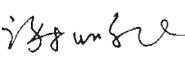
Pang Yueying 

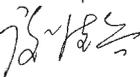
Yu Zengbiao 

Shi Junzhi 

Xu Xinyuan 

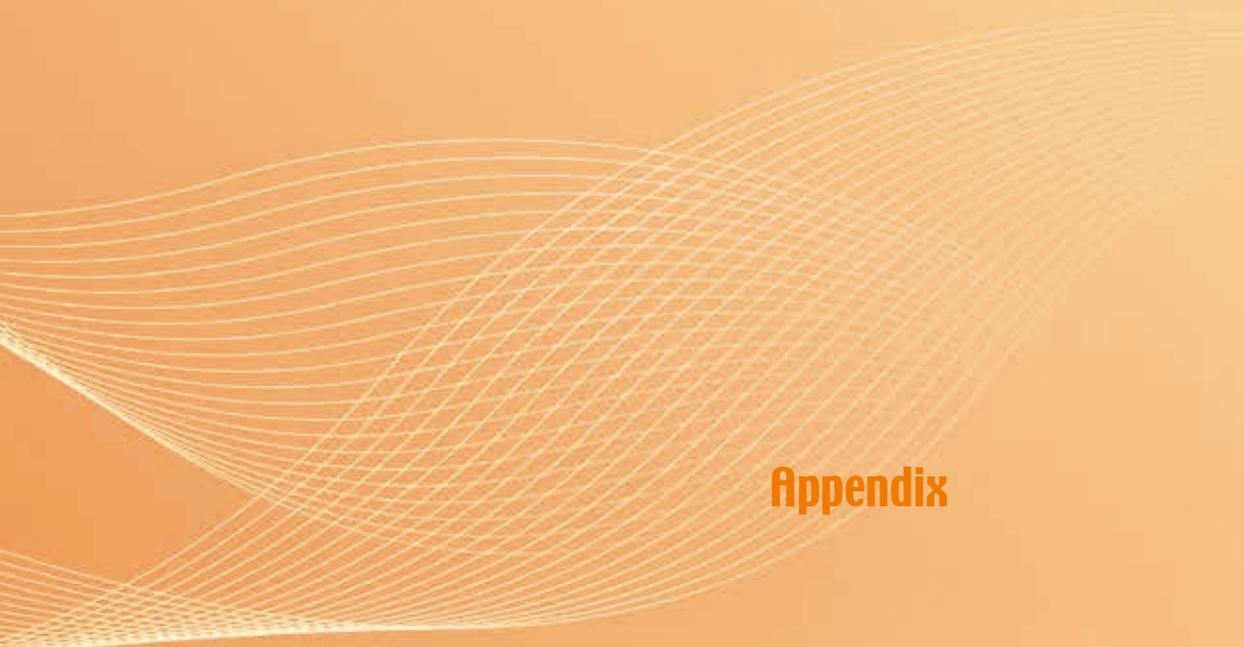
Jing Lin 

Xie Pengfei 

Xie Haibing 

Bank of Kunlun Co., Ltd.

5 March 2014



Appendix



Independent Auditor's Report

PCPAR [2014] NO: 130030

To Bank of Kunlun Co., Ltd.,

We have audited the financial statements of Bank of Kunlun Co., Ltd. (hereinafter referred to as "the Company"), which comprise the Bank's and the consolidated statements of financial position as at 31 December 2013, the Bank's and the consolidated income statement, the Bank's and the consolidated statement of cash flows, the Bank's and the consolidated statement of changes in equity for the year then ended, and notes to financial statements.

I. Management's Responsibility for the Financial Statements

The management of the Company is responsible for the preparation and fair presentation of the financial statements. The responsibilities include: (1) prepare the financial statements that give a fair view in accordance with PRC GAAP; (2) design, implement and maintain necessary internal control to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error.

II. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Chinese Certified Public Accountants Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 that give a true and fair view 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.

III. Opinion

In our opinion, the financial statements of the Company have been properly prepared in all material aspects in accordance with the requirements of PRC GAAP, and give a fair view of the financial position of the Company as at 31 December 2013 and of the financial performance and cash flows for the year then ended.



BDO China ShuLun Pan

CICPA:童冰薇



Certified Public Accountants LLP

CICPA:朱海平



Shanghai China

19 January 2014

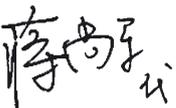
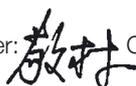
Bank of Kunlun Co., Ltd.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In RMB Yuan)

Item	Note 5	31 December 2013	31 December 2012
Assets			
Cash and deposits with central bank	5.1	31,331,307,906.83	24,306,759,841.35
Deposits with banks and non-bank financial institutions	5.2	66,388,475,505.01	48,513,427,457.97
Placements with banks and non-bank financial institutions	5.3	868,900,000.00	—
Financial assets held for trading	5.4	5,456,600,520.00	1,098,150,138.36
Financial assets held under resale agreements	5.5	11,204,937,500.00	12,992,347,571.24
Interest receivable	5.6	1,852,548,148.48	1,684,251,148.72
Loans and advances to customers	5.7	61,037,458,901.99	40,377,721,272.35
Available-for-sale financial assets	5.8	24,772,653,819.98	21,623,774,404.99
Held-to-maturity investments	5.9	17,754,952,246.16	19,966,105,008.30
Accounts receivable	5.10	24,770,528,711.69	13,687,603,263.89
Long-term equity investments		—	—
Fixed assets	5.11	297,941,459.19	282,966,722.09
Constructions in progress	5.12	64,586,903.85	50,544,397.88
Intangible assets	5.13	84,447,629.21	63,992,638.98
Deferred income tax assets	5.14	449,279,605.95	91,254,958.86
Other assets	5.15	118,138,302.05	76,366,929.70
Total assets		246,452,757,160.39	184,815,265,754.68
Liabilities and shareholders' equity			
Deposits from central bank	5.17	45,000,000.00	25,000,000.00
Deposits from banks and non-bank financial institutions	5.18	89,571,546,272.82	48,823,655,268.44
Placements from banks and non-bank financial institutions	5.19	—	2,000,000,000.00
Financial assets sold under repurchase agreements	5.20	1,462,739,097.54	10,673,481,666.99
Deposits from customers	5.21	130,425,268,984.04	104,829,692,590.07
Payroll payable	5.22	2,307,263.50	947,364.22
Taxes payable	5.23	398,998,774.94	219,566,717.86
Interest payable	5.24	1,716,633,741.03	1,183,515,721.29
Estimated Liabilities		—	—
Bonds payable		—	—
Deferred income tax liabilities		—	—
Other liabilities	5.25	5,379,856,785.70	2,518,797,658.14
Total liabilities		229,002,350,919.57	170,274,656,987.01
Shareholders' equity			
Share capital	5.26	7,380,523,495.35	6,716,187,831.01

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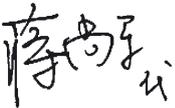
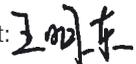
Item	Note 5	31 December 2013	31 December 2012
Capital reserve	5.27	4,479,365,089.08	4,255,284,233.67
Surplus reserve	5.28	658,524,833.01	401,365,644.24
General reserve	5.29	2,346,492,863.71	1,542,640,605.76
Retained earnings	5.30	2,551,281,243.85	1,598,021,122.20
Shareholders' equity attributable to owners of the parent		17,416,187,525.00	14,513,499,436.88
Non-controlling interests		34,218,715.82	27,109,330.79
Total shareholders' equity		17,450,406,240.82	14,540,608,767.67
Total liabilities and shareholders' equity		246,452,757,160.39	184,815,265,754.68

Legal Representative:  President:  Chief Finance Officer:  Chief Accountant: 

Bank of Kunlun Co., Ltd.
CONSOLIDATED INCOME STATEMENT

(In RMB Yuan)

Item	Note 5	2013	2012
1. Operating income	5.31	5,658,432,343.68	3,886,658,617.15
Net interest income	1	4,627,531,843.07	2,955,742,590.14
Interest income		8,594,667,475.88	5,974,889,423.19
Interest expenses		3,967,135,632.81	3,019,146,833.05
Net fee and commission income	2	845,511,845.43	690,888,907.44
Fee and commission income		904,904,322.79	740,950,330.86
Fee and commission expenses		59,392,477.36	50,061,423.42
Investment income/(losses)	3	53,798,189.99	63,089,712.90
Gain/(losses) from fair value change	4	(181,332,419.05)	4,006,460.00
Gain/(losses) on foreign exchange	5	312,213,529.19	172,399,129.79
Other operating income	6	709,355.05	531,816.88
2. Operating expenses	5.32	2,604,257,841.59	1,556,469,180.98
Business tax and surcharges	1	224,990,672.32	144,590,673.75
General operating and administrative expenses	2	1,148,935,436.23	827,851,313.89
Impairment losses on assets	3	1,230,151,201.84	583,961,810.34
Other operating expenses		180,531.20	65,383.00
3. Operating profit		3,054,174,502.09	2,330,189,436.17
Add: Non-operating income	5.33	14,247,556.34	15,992,296.13
Less: Non-operating expenses	5.34	6,010,795.40	9,125,584.36
4. Profit before tax		3,062,411,263.03	2,337,056,147.94
Less: Income tax expenses	5.35	470,154,517.35	391,869,314.72
5. Net profit		2,592,256,745.68	1,945,186,833.22
Net profit attributable to owners of the parent		2,585,147,534.01	1,943,597,633.32
Net profit attributable to non-controlling interests		7,109,211.67	1,589,199.90
6. Earnings per share	5.36		
(1) Basic earnings per share		0.38	0.29
(2) Diluted earnings per share		0.38	0.29
7. Other comprehensive income	5.38	(1,011,583,306.89)	156,336,063.69
8. Total comprehensive income		1,580,673,438.79	2,101,522,896.91
Total comprehensive income attributable to owners of the parent		1,573,564,053.76	2,100,987,613.21
Total comprehensive income attributable to non-controlling interests		7,109,385.03	535,283.70

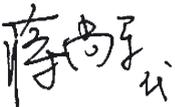
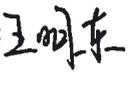
Legal Representative:  President:  Chief Finance Officer:  Chief Accountant: 

Bank of Kunlun Co., Ltd.
CONSOLIDATED STATEMENT OF CASH FLOWS

(In RMB Yuan)			
Item	Note 5	2013	2012
1. Cash flows from operating activities			
	5.39		
Net increase in deposits from customers and other banks		66,876,468,355.37	53,422,820,833.58
Net increase in deposits from central bank		20,000,000.00	25,000,000.00
Net increase in placements from banks and non-bank financial institutions		—	2,000,000,000.00
Interest, fee and commission received		6,143,695,091.01	4,284,804,669.43
Cash received from other operating activities	1	3,627,549,891.47	1,990,488,584.45
Subtotal of cash inflows from operating activities		76,667,713,337.85	61,723,114,087.46
Net increase in loans and advances to customers		21,704,773,211.67	20,368,656,922.84
Net increase in deposits with central bank and other banks		14,292,653,117.48	10,699,969,224.91
Net decrease in deposits from customers and other banks		—	—
Net decrease in placements from banks and non-bank financial institutions		20,592,619,795.47	7,415,688,606.99
Interest, fee and commission paid		3,486,879,028.90	2,576,355,505.93
Cash paid to and for employees		497,041,604.53	373,624,643.89
Tax payments		699,930,112.03	492,904,705.63
Cash paid for other operating activities	2	210,520,294.91	170,401,231.58
Subtotal of cash outflows from operating activities		61,484,417,164.99	42,097,600,841.77
Net cash flows from operating activities		15,183,296,172.86	19,625,513,245.69
2. Cash flows from investing activities			
Cash received from disposal of investments		43,712,588,348.24	31,172,726,905.54
Cash received from investment income		3,233,728,254.17	2,155,863,640.06
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		—	—
Cash received from other investing activities		—	—
Subtotal of cash inflows from investing activities		46,946,316,602.41	33,328,590,545.60
Cash paid for purchase of fixed assets, intangible assets and other long-term assets		223,482,388.90	248,024,282.48
Cash paid for investments		61,584,226,375.49	47,756,803,134.00
Subtotal of cash outflows from investing activities		61,807,708,764.39	48,004,827,416.48
Net cash flows from investing activities		(14,861,392,161.98)	(14,676,236,870.88)
3. Cash flows from financing activities			
Cash received from capital contribution		1,900,000,000.00	14,000,000.00
Including: Capital contribution by subsidiaries		—	14,000,000.00
Cash received from issuance of debt securities		—	—
Cash received from other financing activities		—	—
Subtotal of cash inflows from financing activities		1,900,000,000.00	14,000,000.00
Cash paid for dividend, profit distribution or interest payment		570,875,593.97	360,950,162.82
Cash paid for other financing activities		—	—

Continued

Item	Note 5	2013	2012
Subtotal of cash outflows from financing activities		570,875,593.97	360,950,162.82
Net cash flows from financing activities		1,329,124,406.03	(346,950,162.82)
4. Effect of foreign exchange rate changes on cash		(811,471,762.11)	(33,687,588.75)
5. Net increase in cash and cash equivalents	5.40	839,556,654.80	4,568,638,623.24
Add: the balance of cash and cash equivalents at the beginning of the year		51,457,483,549.84	46,888,844,926.60
6. The balance of cash and cash equivalents at the end of the year		52,297,040,204.64	51,457,483,549.84

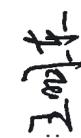
Legal Representative:  President:  Chief Finance Officer:  Chief Accountant: 

Bank of Kunlun Co., Ltd.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Item	2013						Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	
1. Balance as at 31 December 2012	6,716,187,831.01	4,255,284,233.67	401,365,644.24	1,542,640,605.76	1,598,021,122.20	27,109,330.79	14,540,608,767.67
Add: Changes in accounting policies	-	-	-	-	-	-	-
Corrections of previous errors	-	-	-	-	-	-	-
2. Balance as at 1 January 2013	6,716,187,831.01	4,255,284,233.67	401,365,644.24	1,542,640,605.76	1,598,021,122.20	27,109,330.79	14,540,608,767.67
3. Net changes for the year	664,335,664.34	224,080,855.41	257,159,188.77	803,852,257.95	953,260,121.65	7,109,385.03	2,909,797,473.15
a. Net profit	-	-	-	-	2,585,147,534.01	7,109,211.67	2,592,256,745.68
b. Other comprehensive income	-	(1,011,583,480.25)	-	-	-	173.36	(1,011,583,306.89)
Subtotal of (1) and (2)	-	(1,011,583,480.25)	-	-	2,585,147,534.01	7,109,385.03	1,580,673,438.79
c. Capital contributed and reduced by shareholders	664,335,664.34	1,235,664,335.66	-	-	-	-	1,900,000,000.00
i. Capital contributed and reduced by shareholders	664,335,664.34	1,235,664,335.66	-	-	-	-	1,900,000,000.00
ii. Amount of share payment registered into shareholders' equity	-	-	-	-	-	-	-
iii. Others	-	-	-	-	-	-	-
d. Profit distribution	-	-	257,159,188.77	803,852,257.95	(1,631,887,412.36)	-	(570,875,965.64)
i. Appropriation to surplus reserve	-	-	257,159,188.77	-	(257,159,188.77)	-	-
ii. Appropriation to general reserve	-	-	-	803,852,257.95	(803,852,257.95)	-	-
iii. Cash dividends	-	-	-	-	(570,875,965.64)	-	(570,875,965.64)
iv. Others	-	-	-	-	-	-	-
e. Internal transfer of shareholders' equity	-	-	-	-	-	-	-

Continued

Item	2013							Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	shareholders' equity	
i. Capital surplus transferred to share capital	-	-	-	-	-	-	-	-
ii. Surplus reserve transferred to share capital	-	-	-	-	-	-	-	-
iii. Surplus reserve offsetting losses	-	-	-	-	-	-	-	-
iv. Others	-	-	-	-	-	-	-	-
f. Special reserve	-	-	-	-	-	-	-	-
i. Special reserve extracted during the year	-	-	-	-	-	-	-	-
ii. Special reserve used during the year	-	-	-	-	-	-	-	-
4. Balance as at 31 December 2013	7,380,523,495.35	4,479,365,089.08	658,524,833.01	2,346,492,863.71	2,551,281,243.85	34,218,715.82	17,450,406,240.82	

Legal Representative: President: Chief Finance Officer: Chief Accountant: 

Bank of Kunlun Co., Ltd.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Item	2012						Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	
1. Balance as at 31 December 2011	6,716,187,831.01	4,097,894,253.78	207,311,532.36	939,332,671.52	812,737,981.82	12,574,047.09	12,786,038,317.58
Add: Changes in accounting policies	-	-	-	-	-	-	-
Corrections of previous errors	-	-	-	-	-	-	-
2. Balance as at 1 January 2012	6,716,187,831.01	4,097,894,253.78	207,311,532.36	939,332,671.52	812,737,981.82	12,574,047.09	12,786,038,317.58
3. Net changes for the year	-	157,389,979.89	194,054,111.88	603,307,934.24	785,283,140.38	14,535,283.70	1,754,570,450.09
a. Net profit	-	-	-	-	1,943,597,633.32	1,589,199.90	1,945,186,833.22
b. Other comprehensive income	-	157,389,979.89	-	-	-	(1,053,916.20)	156,336,063.69
Subtotal of (1) and (2)	-	157,389,979.89	-	-	1,943,597,633.32	535,283.70	2,101,522,896.91
c. Capital contributed and reduced by shareholders	-	-	-	-	-	14,000,000.00	14,000,000.00
i. Capital contributed and reduced by shareholders	-	-	-	-	-	14,000,000.00	14,000,000.00
ii. Amount of share payment registered into shareholders' equity	-	-	-	-	-	-	-
iii. Others	-	-	-	-	-	-	-
d. Profit distribution	-	-	194,054,111.88	603,307,934.24	(1,158,314,492.94)	-	(360,952,446.82)
i. Appropriation to surplus reserve	-	-	194,054,111.88	-	(194,054,111.88)	-	-
ii. Appropriation to general reserve	-	-	-	603,307,934.24	(603,307,934.24)	-	-
iii. Cash dividends	-	-	-	-	(360,952,446.82)	-	(360,952,446.82)
iv. Others	-	-	-	-	-	-	-
e. Internal transfer of shareholders' equity	-	-	-	-	-	-	-
i. Capital surplus transferred to share capital	-	-	-	-	-	-	-
ii. Surplus reserve transferred to share capital	-	-	-	-	-	-	-

Continued

Item	2012						Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	
iii. Surplus reserve offsetting losses	-	-	-	-	-	-	-
iv. Others	-	-	-	-	-	-	-
f. Special reserve	-	-	-	-	-	-	-
i. Special reserve extracted during the year	-	-	-	-	-	-	-
ii. Special reserve used during the year	-	-	-	-	-	-	-
4. Balance as at 31 December 2012	6,716,187,831.01	4,255,284,233.67	401,365,644.24	1,542,640,605.76	1,598,021,122.20	27,109,330.79	14,540,608,767.67

Legal Representative:

President:

Chief Finance Officer:

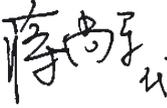
Chief Accountant:

Bank of Kunlun Co., Ltd.
STATEMENT OF FINANCIAL POSITION

(In RMB Yuan)			
Item	Note 10	31 December 2013	31 December 2012
Assets			
Cash and deposits with central bank	10.1	31,165,901,587.46	24,198,016,166.02
Deposits with banks and non-bank financial institutions	10.2	66,384,338,492.51	48,531,560,960.63
Placements with banks and non-bank financial institutions		868,900,000.00	—
Financial assets held for trading		5,456,600,520.00	1,098,150,138.36
Financial assets held under resale agreements		11,204,937,500.00	12,992,347,571.24
Interest receivable	10.3	1,848,902,037.42	1,679,809,549.63
Loans and advances to customers	10.4	60,322,903,534.41	39,997,211,177.38
Available-for-sale financial assets		24,772,653,819.98	21,623,774,404.99
Held-to-maturity investments		17,754,952,246.16	19,966,105,008.30
Accounts receivable		24,770,528,711.69	13,687,603,263.89
Long-term equity investments	10.5	57,500,000.00	57,500,000.00
Fixed assets	10.6	294,244,392.70	280,417,759.83
Constructions in progress		64,586,903.85	50,451,597.88
Intangible assets	10.7	84,447,629.21	63,992,638.98
Deferred income tax assets	10.8	445,590,207.15	89,791,458.49
Other assets	10.9	116,721,491.77	75,070,529.33
Total assets		245,613,709,074.31	184,391,802,224.95
Liabilities and shareholders' equity			
Deposits from banks and non-bank financial institutions		89,833,609,711.69	49,109,269,480.73
Placements from banks and non-bank financial institutions		—	2,000,000,000.00
Financial assets sold under repurchase agreements		1,462,739,097.54	10,673,481,666.99
Deposits from customers	10.10	129,435,462,474.01	104,186,382,838.86
Payroll payable		2,277,057.29	926,739.31
Taxes payable		396,213,248.51	218,277,110.84
Interest payable		1,710,086,972.17	1,179,016,928.12
Estimated Liabilities		—	—
Bonds payable		—	—
Deferred income tax liabilities		—	—
Other liabilities		5,375,159,009.16	2,515,418,571.31
Total liabilities		228,215,547,570.37	169,882,773,336.16
Shareholders' equity			
Share capital		7,380,523,495.35	6,716,187,831.01
Capital reserve		4,478,311,346.24	4,254,230,317.47
Surplus reserve		658,524,833.01	401,365,644.24
General reserve		2,339,185,261.76	1,539,582,382.50

Continued

Item	Note 10	31 December 2013	31 December 2012
Retained earnings		2,541,616,567.58	1,597,662,713.57
Total shareholders' equity		17,398,161,503.94	14,509,028,888.79
Total liabilities and shareholders' equity		245,613,709,074.31	184,391,802,224.95

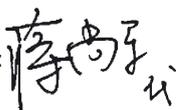
Legal Representative:  President:  Chief Finance Officer:  Chief Accountant: 

Bank of Kunlun Co., Ltd.

INCOME STATEMENT

(In RMB Yuan)			
Item	Note 10	2013	2012
1. Operating income	10.11	5,610,436,991.55	3,864,107,377.97
Net interest income	1	4,579,326,989.08	2,933,072,132.36
Interest income		8,538,566,350.49	5,949,403,365.51
Interest expenses		3,959,239,361.41	3,016,331,233.15
Net fee and commission income	2	845,724,728.58	691,008,126.04
Fee and commission income		904,266,994.74	740,564,972.48
Fee and commission expenses		58,542,266.16	49,556,846.44
Investment income/(losses)		53,798,189.99	63,089,712.90
Gain/(losses) from fair value change		(181,332,419.05)	4,006,460.00
Gain/(losses) on foreign exchange		312,213,529.19	172,399,129.79
Other operating income		705,973.76	531,816.88
2. Operating expenses		2,570,795,668.33	1,535,498,848.36
Business tax and surcharges		223,269,428.09	143,847,029.79
General operating and administrative expenses		1,129,563,162.11	815,831,331.82
Impairment losses on assets		1,217,783,478.13	575,755,103.75
Other operating expenses		179,600.00	65,383.00
3. Operating profit		3,039,641,323.22	2,328,608,529.61
Add: Non-operating income		6,429,426.06	12,752,047.71
Less: Non-operating expenses		6,008,357.17	9,071,714.90
4. Profit before tax		3,040,062,392.11	2,332,288,862.42
Less: Income tax expenses		468,470,504.43	391,747,743.50
5. Net profit		2,571,591,887.68	1,940,541,118.92
6. Earnings per share			
(1) Basic earnings per share		0.38	0.29
(2) Diluted earnings per share		0.38	0.29
7. Other comprehensive income		(1,011,583,306.89)	156,336,063.69
8. Total comprehensive income		1,560,008,580.79	2,096,877,182.61

Legal Representative:



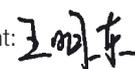
President:



Chief Finance Officer:



Chief Accountant:



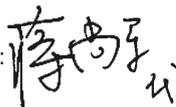
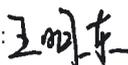
Bank of Kunlun Co., Ltd.
STATEMENT OF CASH FLOWS

(In RMB Yuan)

Item	Note 10	2013	2012
1. Cash flows from operating activities	10.12		
Net increase in deposits from customers and other banks		65,973,419,866.11	53,537,139,344.58
Net increase in placements from banks and non-bank financial institutions		—	2,000,000,000.00
Net decrease in deposits with central bank and other banks		—	—
Interest, fee and commission received		6,092,692,211.07	4,259,981,121.76
Cash received from other operating activities		3,618,368,486.51	1,983,935,714.33
Subtotal of cash inflows from operating activities		75,684,480,563.69	61,781,056,180.67
Net increase in loans and advances to customers		21,358,360,215.35	20,109,386,759.53
Net increase in deposits with central bank and other banks		14,226,211,656.45	10,546,998,709.71
Net decrease in deposits from customers and other banks		—	—
Net decrease in placements from banks and non-bank financial institutions		20,592,619,795.47	7,415,688,606.99
Interest, fee and commission paid		3,486,711,583.52	2,575,495,955.60
Cash paid to and for employees		486,700,858.07	367,480,407.32
Tax payments		695,737,061.70	491,626,571.64
Cash paid for other operating activities		202,196,643.82	164,902,272.92
Subtotal of cash outflows from operating activities		61,048,537,814.38	41,671,579,283.71
Net cash flows from operating activities	1	14,635,942,749.31	20,109,476,896.96
2. Cash flows from investing activities			
Cash received from disposal of investments		43,712,588,348.24	31,172,726,905.54
Cash received from investment income		3,233,728,254.17	2,155,863,640.06
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		—	—
Cash received from other investing activities		—	—
Subtotal of cash inflows from investing activities		46,946,316,602.41	33,328,590,545.60
Cash paid for purchase of fixed assets, intangible assets and other long-term assets		221,621,620.54	246,748,798.96
Cash paid for investments		61,584,226,375.49	47,756,803,134.00
Subtotal of cash outflows from investing activities		61,805,847,996.03	48,003,551,932.96
Net cash flows from investing activities		(14,859,531,393.62)	(14,674,961,387.36)
3. Cash flows from financing activities			
Cash received from capital contribution		1,900,000,000.00	—
Cash received from issuance of debt securities		—	—
Cash received from other financing activities		—	—
Subtotal of cash inflows from financing activities		1,900,000,000.00	—
Cash paid for dividend, profit distribution or interest payment		570,875,593.97	360,950,162.82
Cash paid for other financing activities		—	—

Continued

Item	Note 10	2013	2012
Subtotal of cash outflows from financing activities		570,875,593.97	360,950,162.82
Net cash flows from financing activities		1,329,124,406.03	(360,950,162.82)
4. Effect of foreign exchange rate changes on cash		(811,471,762.11)	(33,687,588.75)
5. Net increase in cash and cash equivalents	2	294,063,999.61	5,039,877,758.03
Add: the balance of cash and cash equivalents at the beginning of the year		51,550,522,636.03	46,510,644,878.00
6. The balance of cash and cash equivalents at the end of the year		51,844,586,635.64	51,550,522,636.03

Legal Representative:  President:  Chief Finance Officer:  Chief Accountant: 

Bank of Kunlun Co., Ltd.
STATEMENT OF CHANGES IN EQUITY

Item	2013						Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	(In RMB Yuan)	
1. Balance as at 31 December 2012	6,716,187,831.01	4,254,230,317.47	401,365,644.24	1,539,582,382.50	1,597,662,713.57	14,509,028,888.79	
Add: Changes in accounting policies	—	—	—	—	—	—	
Corrections of previous errors	—	—	—	—	—	—	
2. Balance as at 1 January 2013	6,716,187,831.01	4,254,230,317.47	401,365,644.24	1,539,582,382.50	1,597,662,713.57	14,509,028,888.79	
3. Net changes for the year	664,335,664.34	224,081,028.77	257,159,188.77	799,602,879.26	943,953,854.01	2,889,132,615.15	
(1) Net profit	—	—	—	—	2,571,591,887.68	2,571,591,887.68	
(2) Other comprehensive income	—	(1,011,583,306.89)	—	—	—	(1,011,583,306.89)	
Subtotal of (1) and (2)	—	(1,011,583,306.89)	—	—	2,571,591,887.68	1,560,008,580.79	
(3) Capital contributed and reduced by shareholders	664,335,664.34	1,235,664,335.66	—	—	—	1,900,000,000.00	
a. Capital contributed and reduced by shareholders	664,335,664.34	1,235,664,335.66	—	—	—	1,900,000,000.00	
b. Amount of share payment registered into shareholders' equity	—	—	—	—	—	—	
c. Others	—	—	—	—	—	—	
(4) Profit distribution	—	—	257,159,188.77	799,602,879.26	(1,627,638,033.67)	(570,875,965.64)	
a. Appropriation to surplus reserve	—	—	257,159,188.77	—	(257,159,188.77)	—	
b. Appropriation to general reserve	—	—	—	799,602,879.26	(799,602,879.26)	—	
c. Cash dividends	—	—	—	—	(570,875,965.64)	(570,875,965.64)	
d. Others	—	—	—	—	—	—	
(5) Internal transfer of shareholders' equity	—	—	—	—	—	—	
a. Capital surplus transferred to share capital	—	—	—	—	—	—	
b. Surplus reserve transferred to share capital	—	—	—	—	—	—	
c. Surplus reserve offsetting losses	—	—	—	—	—	—	
d. Others	—	—	—	—	—	—	
(6) Special reserve	—	—	—	—	—	—	
a. Special reserve extracted during the year	—	—	—	—	—	—	

Continued

2013

Item	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total shareholders' equity
b. Special reserve used during the year	—	—	—	—	—	—
4. Balance as at 31 December 2013	7,380,523,495.35	4,478,311,346.24	658,524,833.01	2,339,185,261.76	2,541,616,567.58	17,398,161,503.94

Legal Representative: 

President: 

Chief Finance Officer: 

Chief Accountant: 

Bank of Kunlun Co., Ltd.
STATEMENT OF CHANGES IN EQUITY

Item	2012						(In RMB Yuan)
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total shareholders' equity	
1. Balance as at 31 December 2011	6,716,187,831.01	4,097,894,253.78	207,311,532.36	939,105,270.59	812,605,265.26	12,773,104,153.00	
Add: Changes in accounting policies	-	-	-	-	-	-	
Corrections of previous errors	-	-	-	-	-	-	
2. Balance as at 1 January 2012	6,716,187,831.01	4,097,894,253.78	207,311,532.36	939,105,270.59	812,605,265.26	12,773,104,153.00	
3. Net changes for the year	-	156,336,063.69	194,054,111.88	600,477,111.91	785,057,448.31	1,735,924,735.79	
(1) Net profit	-	-	-	-	1,940,541,118.92	1,940,541,118.92	
(2) Other comprehensive income	-	156,336,063.69	-	-	-	156,336,063.69	
Subtotal of (1) and (2)	-	156,336,063.69	-	-	1,940,541,118.92	2,096,877,182.61	
(3) Capital contributed and reduced by shareholders	-	-	-	-	-	-	
a. Capital contributed and reduced by shareholders	-	-	-	-	-	-	
b. Amount of share payment registered into shareholders' equity	-	-	-	-	-	-	
c. Others	-	-	-	-	-	-	
(4) Profit distribution	-	-	194,054,111.88	600,477,111.91	(1,155,483,670.61)	(360,952,446.82)	
a. Appropriation to surplus reserve	-	-	194,054,111.88	-	(194,054,111.88)	-	
b. Appropriation to general reserve	-	-	-	600,477,111.91	(600,477,111.91)	-	
c. Cash dividends	-	-	-	-	(360,952,446.82)	(360,952,446.82)	
d. Others	-	-	-	-	-	-	
(5) Internal transfer of shareholders' equity	-	-	-	-	-	-	
a. Capital surplus transferred to share capital	-	-	-	-	-	-	
b. Surplus reserve transferred to share capital	-	-	-	-	-	-	

Continued

Item	2012					Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	
c. Surplus reserve offsetting losses	-	-	-	-	-	-
d. Others	-	-	-	-	-	-
(6) Special reserve	-	-	-	-	-	-
a. Special reserve extracted during the year	-	-	-	-	-	-
b. Special reserve used during the year	-	-	-	-	-	-
4. Balance as at 31 December 2012	6,716,187,831.01	4,254,230,317.47	401,365,644.24	1,539,582,382.50	1,597,662,713.57	14,509,028,888.79

Legal Representative: 

President:



Chief Finance Officer:



Chief Accountant:



BANK OF KUNLUN CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS FOR 2013
(Expressed in RMB Yuan, unless otherwise stated)

1. Company Information

1.1 History

Bank of Kunlun Corporation Limited, originally called Karamay City Commercial Bank Corporation Limited, and formerly known as Urban Credit Cooperatives of Karamay City, was established with the merger of Maoyuan Urban Credit Cooperatives and Rongxing Urban Credit Cooperatives in Karamay City in December 2002. KYJ [2002] No. 173 issued by PBOC Karamay Urban Branch allowed Urban Credit Cooperatives of Karamay City to start business, thus the Bank started its business with a registered capital of RMB55.22 million.

In December 2005, in accordance with KYJF [2005] No. 33 Approval of Establishing Karamay City Commercial Bank issued by CBRC Karamay Branch, the Bank was restructured into commercial bank with a registered capital of RMB100.67 million. On 17 May 2006, in accordance with XYJF [2006] No. 128 Approval of Giving Consent to Start Business of Karamay City Commercial Bank issued by CBRC Xinjiang Bureau, the Bank started its business and got registered in Karamay City Administration for Industry and Commerce on 30 May 2006.

In December 2008, in accordance with YJF [2008] No. 552 approved by CBRC and XYJF [2008] No. 216 approved by CBRC Xinjiang Bureau, the Bank enlarged its capital and shares again with a registered capital of RMB180.67 million.

In accordance with Approval of Capital Increase Plan of Karamay City Commercial Bank (XYJF [2009] No. 13) issued by CBRC Xinjiang Bureau on 22 January 2009, Approval of Related Issues on the Investment of China National Petroleum Corporation on Karamay City Commercial Bank (GZCQ [2009] No. 188) issued by the State-owned Assets Regulatory Commission on 23 March 2009, and the Approval of the Investment of China National Petroleum Corporation on Karamay City Commercial Bank (YJF [2009] No. 108) issued by CBRC on 15 April 2009, CNPC invested RMB2.81 billion, of which registered capital increased by RMB2.08 billion. After the capital increase, registered capital of the Bank reached RMB2.26 billion.

In accordance with Approval of Capital Increase Plan of Karamay City Commercial Bank (XYJF [2010] No. 71) issued by CBRC Xinjiang Bureau on 2 April 2010, registered capital of the Bank increased to RMB4.20 billion, of which CNPC invested RMB3.66 billion.

On 20 April 2010, in accordance with YJF [2010] No. 165 issued by CBRC, the Bank's name was changed from Karamay City Commercial Bank Co., Ltd. to Bank of Kunlun Co., Ltd. officially, abbreviated to "Bank of Kunlun". The Bank registered in Karamay City Administration for Industry and Commerce on 7 May 2010, and obtained the business license numbered 650200040000052.

On 2 April 2011, in accordance with XYJF [2011] No. 67 Approval of Capital Increase Plan of Kunlun Bank Co. Ltd for 2011 issued by CBRC Xinjiang Bureau, registered capital of the Bank increased to RMB6.72 billion, of which CNPC invested RMB5.51 billion.

On 7 May 2013, in accordance with XYJF [2013] No. 55 Approval of Capital Increase Plan of Kunlun Bank Co. Ltd for 2013 issued by CBRC Xinjiang Bureau, the Bank issued new shares of RMB664.34 million. Afterwards, registered capital increased to RMB7.38 billion, of which CNPC invested RMB5.69 billion.

The registered address of the Bank is: No. 7, Century Avenue, Karamay. The Bank's legal representative is Wang Guoliang. The Corporate Business License Registration Number is 650200040000052. The Financial Business License Number is B0226H265020001.

1.2 Branches and Subsidiaries

As at 31 December 2013, the Bank owned six branches including Karamay Branch, Urumqi Branch, Turpan-Hami Branch, Korla Branch, Daqing Branch and Xi'an Branch.

As at 31 December 2013, the Bank owned two subsidiaries including Tacheng Kunlun Rural Bank and Leshan Kunlun Rural Bank.

1.3 Principal Business Activities and Services

The principal business activities and services of the Bank: deposit-taking from the public, provision of short-term, medium-term and long-term loans, domestic and international banking settlement, bill acceptance and discounting, issuance of debt securities and acting as an agent for the issuance, redemption and underwriting of government bonds, trading government bonds and debt securities; interbank placements; trading foreign exchange on its own or acting as an agent; bank card business and service; accrediting and guarantee services; acting as an agent for the payment or receipt of money as well as insurance business; safekeeping service; and any other business activities and services under the CBRC's seal of approval.

2. Significant Accounting Policies, Accounting Estimates and Prior Period Errors

2.1 Statement of Compliance with Accounting Standards for Business Enterprises

The financial statements of the Bank have been properly prepared in accordance with the requirements of 2.2 "Basis of preparation for financial statements", and give a true and complete view of the financial positions, financial performance and cash flows of the Company.

2.2 Basis of Preparation for Financial Statements

The Bank prepares its financial statements on a going concern basis, and recognizes and measures its accounting items in compliance with the Accounting Standards for Business Enterprises (2006) on the basis of actual transactions and events.

2.3 Accounting Period

The accounting year is from 1 January to 31 December. The reporting period of the financial statements is from 1 January 2013 to 31 December 2013.

2.4 Recording Currency

The recording currency of the Bank is RMB.

2.5 Measurement Attributes Applied in the Accounting Measurement

The recognition, measurement and reporting of the Bank's financial accounting are conducted on the accrual basis. Except the fair value, net realizable value and present value involved in the notes, the rest follows the historical cost convention as the measurement principle of the accounting elements.

There was no change in the measurement attributes for the reporting period.

2.6 Preparation Method of Consolidated Financial Statements

The consolidation scope of the Bank's consolidated financial statements is determined on the base of control, and all subsidiaries are included in the consolidated financial statements.

The accounting policies adopted by all subsidiaries included in the scope of consolidated financial statements are consistent with those of the Bank.

The consolidated financial statements are based on the financial statements of the Bank and its subsidiaries, and prepared by the Bank in accordance with other relevant information and the long-term equity investments in subsidiaries adjusted by equity method.

In preparing the consolidated financial statements, the quantitative effects arising from the internal transactions between the Bank and its subsidiaries, and between the subsidiaries on the consolidated statement of financial position, consolidated income statement, consolidated statement of cash flows, consolidated statement of changes in equity are offset.

2.7 Accounting for Transactions Denominated in Foreign Currency

Separate account system is adopted in accordance with different currencies involved in different business, and the financial statements are prepared in Renminbi at the end of the period. The principle to prepare the financial statements which are converted to Renminbi is: first the financial statements are prepared respectively in their original currencies, and then the amounts of original currencies are converted into USD, which will finally be converted into Renminbi.

At the balance sheet date, foreign currency monetary items are converted into the reporting currency in accordance

with the exchange rate on the balance sheet date, and the resulting exchange differences are charged to profit or losses for the current period. Foreign currency non-monetary items measured at historical costs shall still be converted at the spot exchange rates on the initial transaction date. Foreign currency non-monetary items measured at fair values shall still be converted at the spot exchange rates on the date when the fair values are determined. The differences between the amount of converted functional currency and original functional currency belong to foreign currency non-monetary items in available-for-sale financial assets, and shall be charged to capital reserves. The difference arising from other items shall be charged to profit or losses for the current period.

2.8 Cash and Cash Equivalents

Cash means cash in hand and deposit that can be used to pay without restrictions, including cash in hand, non-limited deposits with central bank that can be used to pay, the current deposits due from banks and the 3-months period current deposits due from banks. Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, including bond investments and securities purchased under resale, etc.

2.9 Financial Assets and Liabilities

(1) Classification, Recognition and Measurement of Financial Assets

Financial assets are classified into four categories according to the purpose of acquisition: the financial assets measured at fair value through current profit and losses, including financial assets held for trading and those financial assets directly designated under this category, held-to-maturity investments, loans and receivables, available-for-sale financial assets. Financial assets are initially measured at fair value when acquired. For the financial assets which are not measured at fair value through current profit and losses, the relevant transaction costs directly attributable to the acquisition of the financial assets should be added when they are initially recognized.

A. Financial Assets Held for Trading

The financial assets held for trading include financial assets held for trading and those financial assets directly designated under this category. The income during the holding period and changes in fair value at year end are charged to profit or losses for the current period. Differences between the fair values and initial book values are recognized as investment income upon disposal, and profit or losses on changes in fair value is adjusted at the same time.

B. Held-to-Maturity Investments

Held-to-maturity investments refer to non-derivative financial assets with fixed or determinable recovery amount and fixed maturity, which the Bank has the positive intent and ability to hold to maturity. Held-to-maturity investments are calculated at amortized cost (calculated by the effective interest method) less allowance for impairment losses. The gains or losses on the amortization, impairment or de-recognition of the held-to-maturity investments shall be charged to profit or losses for the current period.

If the Bank sold or reclassified the held-to-maturity investments of large amount in the current accounting period or in the previous two fiscal years before the due date (large amount refers to the total amount before disposal or re-

classification), such kind of financial assets shall not be classified as held-to-maturity investments, except those satisfying the following conditions: the date of disposal or re-classification is so close to the investment maturity date or expiration date (for example, three months before the expiration date) that changes in the market interest rates have no significant effect on the fair value of the investment; the disposal or reclassification occurred after almost all the initial capital of the investment has been recovered in accordance with the agreed payment or prepayment method; disposal or re-classification can be attributed to an independent event that the Bank cannot control, or it is expected that it will not recur and its amount is difficult to be reasonably estimated.

C. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments but without an active market.

Loans and receivables of the Bank include loans and advances, deposits with central banks, deposits due from banks, financial assets purchased under resale agreements and other receivables. Loans and advances of the Bank include general loans, discount, advances (bank acceptance bill advances, letter of credit advances, secured advances, etc.), trade finance and credit card overdrafts, etc.

Overdue loans refers to the loans which can't be recovered on the maturity date (or extended maturity date) due to the reasons of borrowers; discount which cannot be paid by the bill acceptor as scheduled and passive advances arising from the insufficient funds of discount applicant; maturity bills accepted by the Bank and the passive advances arising from insufficient funds of acceptance applicant; overdue trade financing or advances for such off-balance sheet business items as letters of credit and guarantees. Such advances shall be converted into overdue loans from the date of advance.

The value of loans and receivables is measured at amortized cost (calculated by effective interest method) less allowance for impairment losses. Gains or losses arising from amortization, impairment or de-recognition of loans and receivables shall be charged to profit or losses for the current period.

D. Available-for-Sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets designated as available-for-sale financial assets, investments not classified as loans and receivables, held-to-maturity investments or financial assets measured at fair value through current profit or losses. During the subsequent measurement, financial assets are measured at fair value. Unrealized gains and losses arising from changes in fair value of available-for-sale financial assets are included in capital reserve (other capital reserve) before the financial asset is derecognized or impaired. Previously accumulated changes in fair value included in capital surplus should be transferred to profit or losses for the current period when the financial asset is derecognized or impaired. The interest income related to the available-for-sale financial assets is recognized as profit or losses for the current period.

(2) Classification, Recognition and Measurement of Financial Liabilities

Financial liabilities are classified into the financial liabilities measured at fair value through current profit and losses, as well as other financial liabilities according to the purpose of acquisition.

A. The Financial Liabilities at Fair Value through Current Profit or Losses

Financial liabilities at fair value through current profit or losses are divided into financial liabilities held for trading and those financial liabilities directly designated by the management at the initial recognition as financial liabilities measured at fair value through current profit or losses. The above financial liabilities are initially measured at fair value when acquired, and the relevant transaction costs are charged to profit or losses for the current period. The costs during the holding period and changes in fair value at year end are charged to profit or losses for the current period. Differences between the fair values and initial book values are recognized as investment income upon disposal, and profit or losses on changes in fair value is adjusted at the same time.

B. Other Financial Liabilities

Except for the designated financial liabilities held for trading or financial liabilities measured at fair value through current profit or losses, deposits with banks and other financial institutions, customer deposits, financial assets sold under repurchase agreements, bonds payable and other payables are classified as other financial liabilities which are initially recognized at fair values plus transaction costs. The subsequent measurement is based on amortized costs.

(3) Measurement of Fair Values of Financial Assets and Liabilities

For financial assets/liabilities measured at fair value, the fair values are measured with direct reference to the quoted prices in the active market.

(4) The Transfer and De-recognition of Financial Assets and Liabilities

A. Financial Assets

When a contractual right to receive future cash flows of the financial asset ended, or the Bank has transferred almost all the risks and rewards related to financial assets, or although there is no transfer or retention of almost all of the risks and rewards related to the ownership of financial assets, the control over the financial assets has been given up, the financial asset shall be derecognized.

In case of financial asset transfer, if nearly all of the risks and rewards are retained in the ownership of the financial asset, the financial asset is not derecognized. If the Bank has neither transferred nor retained the risks and rewards of financial assets, and does not give up the financial control of assets, the related financial assets and liabilities shall be recognized to the extent of the Bank's continuing involvement in the transferred financial assets.

B. Financial Liabilities

When all or part of the current obligations derived from the financial liabilities have been complied, expired or discharged, the financial liabilities shall be derecognized in whole or in part.

2.10 Long-term Equity Investments

(1) Measurement of the Initial Investment Costs

The initial costs of a long-term equity investments obtained by payments of cash shall be the purchase prices actually paid.

(2) Subsequent Measurement and Recognition of Gain and Losses

A. Subsequent Measurement

Investments in subsidiaries are measured under the cost method, and are adjusted under the equity method for the purpose of preparing consolidated financial statements.

For long-term equity investments in which the investors have no joint control or significant influence over the investees, and for which there are no quoted prices in the active market, nor can their fair value be reliably measured, they are measured by the cost method.

B. Recognition of Gain and Losses

Under the cost method, the Company's share of cash dividends or profits declared by the investees shall be recognized as the investment income of the current period, except cash dividends or profits declared but not yet distributed which are included in the payments or consideration of the investments.

(3) Definition of Joint Control Significant Influence over the Investees

The contractually agreed sharing of control over an economic activity, which exists only when the investing parties involved in the economic activity reach a consensus on sharing control over critical financial and operating policies concerning that activity, is considered as joint control over the invested entity and other parties. It should be considered that the investing enterprise has significant influence in the investee if the company has the power to participate in decision-making on the financial and operating policies of an investee, although it has no control or joint control over the formulation of these policies.

2.11 Accounting Methods of Fixed Assets

(1) Recognition Criteria of Fixed Assets

Fixed assets refer to tangible assets held for the purpose of providing services, renting or business management with useful lives exceeding one accounting year. Fixed assets are recognized when all the following criteria are satisfied:

- A. It is probable that the economic benefits relating to the fixed assets will flow into the company.
- B. The costs of the fixed assets can be measured reliably.

(2) Classification of Fixed Assets

Fixed assets are classified as buildings and constructions, machinery equipments, vehicles, electronic and office equipments.

(3) Initial Measurement of Fixed Assets

When fixed assets are obtained, initial measurement is conducted according to the actual cost.

The cost of purchased fixed assets is measured by the purchase price, related taxes, transportation costs, handling costs, installation costs and professional service fees attributable to the fixed assets incurred before the fixed assets can be put into its actual intended use.

If the payment of the purchased fixed assets defers beyond the normal credit terms, and actually is of a financing nature, the cost of the fixed assets is basically determined by the present value of the purchase price.

The cost of self-constructed assets is composed of the necessary expenses incurred before the constructed assets can be put into its actual intended use.

As for the fixed assets which are used by debtor to settle debts by debt restructuring, the recorded value is determined based on the fair value of fixed assets, and the difference between the book value of the restructured debts and the fair value of the fixed assets used to settle debts is recorded in profit and losses.

Under the premise that the non-monetary assets exchange has commercial substance and the fair value of the assets traded in and assets traded out can be reliably measured, the recorded value of the fixed assets traded in is determined based on the fair value of assets traded out, unless there is conclusive evidence to indicate that the fair value of the assets traded in is more reliable; as for the non-monetary assets exchange which does not meet the above premise, the book value of the assets traded out and the related tax to be paid are considered as the cost of the assets traded in, and no profit or losses is recognized.

(4) Depreciation and Provision Methods of Fixed Assets

Depreciation is provided on a category basis using the straight-line method. The residual value of fixed assets is estimated at 5% of the original value of assets. The depreciation rates are determined according to the categories, estimated useful lives and estimated net residual rates of fixed assets.

Depreciation period and annual depreciation rate of the main category of fixed assets:

Category	Depreciation period	Annual depreciation rate
Buildings and constructions	20years, 30years, 40 years	4.75%、3.17%、2.38%
Machinery equipments	5years, 10 years	19.00%、9.50%
Vehicles	5years, 8 years	19.00%、11.88%
Electronic and office equipment	4years, 5years, 10years, 12 years	23.75%、19.00%、9.50%、7.92%

2.12 Measurement of Construction in Progress

(1) Classification of Construction in Progress

Construction in progress is measured on an individual project basis.

(2) Criteria and Timing of Transfer from Construction in Progress to Fixed Assets

The initial book values of the fixed assets are stated at total expenditures incurred before reaching working condition for their intended use. For construction in progress that has reached working condition for intended use but relevant budgets for the completion of projects have not been completed, the estimated values of project budgets, prices, or actual costs should be included in the costs of relevant fixed assets, and depreciation should be provided according to relevant policies of the Bank when working condition is reached. After the completion of budgets needed for the completion of projects, the estimated values should be substituted by actual costs, but depreciation already provided is not adjusted.

2.13 Measurement of Intangible Assets

(1) Valuation Method of Intangible Assets

Intangible assets are stated at actual cost on acquisition.

Costs of purchased intangible assets include purchase prices, relevant taxes and other expenditures that are directly attributable to the intangible assets before they reach working conditions for their intended use. If payments for the purchase of intangible assets are extended beyond the normal credit terms with financing nature, the costs of intangible assets are determined on the basis of present values of the purchase prices.

For intangible assets obtained from debtors in settlement of his liabilities in case of debt restructuring, they should be initially stated at their fair values. Differences between the book values and the fair values of the intangible assets are charged to profit or losses for the current period.

If the exchange of non-monetary assets has commercial substance, and the fair values of the assets traded in and traded out can be measured reliably, the book values of intangible assets traded in are based on the fair values of the intangible assets traded out unless there is any conclusive evidence that the fair values of the assets traded in are more reliable. If the exchange of non-monetary assets does not meet the above criteria, the costs of the intangible assets traded in should be the book values of the assets traded out and relevant taxes and surcharges paid, and no profit or losses shall be recognized.

The costs of internally developed intangible assets include: the materials consumed during the development, labor costs, registration fees, amortization of other patents, and licenses applied during the development, interest expenses eligible for capitalization, as well as other direct costs incurred for the intangible assets to reach working condition for their intended use.

(2) Estimated Useful Lives and Amortization of Intangible Assets

All the intangible assets of the Bank are those with limited useful lives. They are amortized over their expected useful lives on a straight line basis since the month when they are acquired by the Bank.

The expected useful lives of intangible assets with limited useful lives of the Bank are:

Item	Expected useful lives
Land use right	30 years
Software	5–10 years

The Bank shall review the useful lives and amortization methods of intangible assets with limited useful lives at each year end.

The useful lives and amortization methods of intangible assets at the end of the current year are not different from previous estimates after review.

(3) Criteria of Classification into the Research Phase and the Development Phase on Internal Research and Development Projects

Research phase: Research is original and planned investigation, undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Development phase: Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, or products before the start of commercial production or use.

Expenditures incurred during the research phase of internal research and development projects shall be written off to profit or losses for the current period.

(4) Criteria for Capitalization of Qualifying Expenditures during the Development Phase

Expenditures arising from development phase on internal research and development projects must be capitalized if the Bank can satisfy all of the following criteria:

- A. There is technical feasibility of completing the intangible assets, so that they will be available for use or sale;
- B. There is intention to complete and use or to sell the intangible assets;
- C. The method that the intangible assets generate economic benefits, including existence of a market for products produced by the intangible assets or for the intangible assets themselves, shall be proved. Or, if to be used internally, the usefulness of the assets shall be proved;
- D. Adequate technical, financial, and other resources are available to complete the assets, and the Bank has the ability to use or sell the assets;
- E. The costs of the assets can be measured reliably.

The Bank will charge the expenses during the research phase to the item of construction in progress in this accounting year.

2.14 Long-term Deferred Expenses

Long-term deferred expenses refer to the spent expenses with the benefit term of more than 1 year (excluding 1 year). It is recorded on the actual cost and amortized in accordance with the benefit period.

2.15 Entrusted Business

The main entrusted business is entrusted loan. Entrusted loan refers to the loans in which the capital is provided by the principal and that the Bank shall issue, supervise, use, and assist in recovering, with the loan recipient, purpose, terms and interest rate determined by the principal. All risks, gain or losses, and responsibility of the entrusted business are assumed to the principal, and the Bank just earns handling charge.

2.16 The Accounting Method of Financial Assets Held under Resale Agreements and Financial Assets Sold under Repurchase Agreements

Transaction of financial assets held under resale agreements refers to the transactions conducted according to the contract or agreement, by which the related assets (including bonds and bills) are purchased from the transaction party at a certain price, and resold at the contract price on the maturity date of the contract or agreement. Financial assets purchased under resale agreements are stated at the actual cost on the date of purchase, and presented in the item of financial assets purchased under resale agreements in the statement of financial position. Purchase of such kinds of financial products is considered as a secured financing transaction and the purchased financial product is considered as the security for the financing transaction.

Transaction of financial assets sold under repurchase agreements refers to the transactions conducted according to the contract or agreement, by which the related assets (including bonds and bills) are sold to the counterparty at a certain price, and bought back at the contract price on the maturity date of the contract or agreement. Financial assets sold under repurchase agreements are stated at the actual proceeds on the date of sale, and presented in the item of financial assets sold under repurchase agreements in the statement of financial position. For financial assets sold under repurchase agreements, they are presented continuously in the statement of financial position, and measured in accordance with related accounting policies.

For financial assets purchased under resale agreements and financial assets sold under repurchase agreements, the price differences are recognized on average as interest income or expenses at effective interest rate during the period of resale or repurchase.

2.17 Impairment of the Main Assets

(1) Financial Assets

The Bank checks the book value of financial assets other than financial assets held for trading at each balance sheet date to determine whether the financial assets have suffered impairment due to one or more incidents. If there is objective evidence that the financial assets are impaired, allowance for impairment losses shall be made. Impairment incidents refer to those that occur after the initial recognition, have impact on future cash flows and those impact can be reliably measured.

A. Financial Assets Carried at Amortized Cost

If there is any objective evidence that an impairment losses on the financial assets (including loans and receivables, held-to-maturity investments) carried at amortized cost has been incurred, the carrying amount of the financial assets should be written down to the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The written down amount shall be recognized as impairment losses on financial assets and charged to profit or losses for the current period. The present value of expected future cash flow shall be obtained by discount at the original effective interest rate, and the value of related collateral (deducting the costs upon acquisition and sale of the collateral) shall be taken into account. The original effective interest rate is the one calculated when the financial assets are recognized initially. For the Company's loan, accounts receivable, held-to-maturity investments

subject to floating interest rate, the current effective interest rate agreed in the contract can be taken as the discount rate when calculating the recoverable amount.

The Bank individually assesses whether objective evidence of impairment exists for financial assets that are individually material, and individually or collectively for financial assets that are not individually material. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial assets, whether material or not, it shall be included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment losses is or continues to be recognized are not included in a collective assessment of impairment. For the financial assets assessed individually for impairment, if there is objective evidence that impairment exists, the impairment losses is recognized and provision for preparation is made according to the difference between the present value of expected future cash flows and their book value. For the financial assets that are collectively assessed, the future cash flows are estimated with reference to the historical losses experience of the financial assets with similar credit risk characteristics and the current economic conditions.

After the Bank recognizes the allowance for impairment losses of the financial assets carried at amortized cost, if there is objective evidence that the value of financial assets has been restored, which is objectively related to an event occurring after the impairment was recognized (such as the debtor's credit rating has been increased), the previously recognized impairment losses shall be reversed through profit or losses. However, the book value after the reversal should not exceed the amortized cost at the reversal date given that no allowance for impairment losses is made.

B. Available-for-sale Financial Assets

If the fair value of available-for-sale financial assets decreased substantially at the end of the period, or it is expected that this downward trend is not temporary considering all relevant factors, impairment shall be recognized. Even if the financial assets are not derecognized, the accumulated losses arising from the decline in fair value originally recorded into the capital reserve shall be transferred to profit or losses. The transferred amount of the accumulated losses shall be the difference between the initial acquisition cost (deducting principal recovered and accumulated amortization) and the current fair value minus all the original impairment losses previously recognized in profit or losses.

Once the impairment losses of equity instrument classified as available-for-sale financial assets has been recognized, it shall not be reversed through profit or losses. If, in a subsequent period, the fair value of the financial assets increases and the increase can be related objectively to events occurring after the impairment recognized, the previously recognized impairment losses shall be reversed to profit or losses for the current period.

C. Financial Assets Carried at Cost

If there is any objective evidence that an impairment losses 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 the impairment losses should be measured at the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed once recognized.

If the long term equity is calculated according to the cost method in accordance with the Accounting Standards for Enterprises No. 2-Long-Term Equity Investment, and has no quoted price in the active market and its fair value cannot be measured reliably, the impairment shall also be treated in accordance with the above principle.

(2) Fixed Assets, Construction in Progress, Intangible Assets and other Long-Term Non-Financial Assets

For fixed assets, construction in progress, intangible assets and other long-term non-financial assets, the Bank assesses whether evidence of impairment exists at each end of the period.

If impairment of asset exists, the recoverable amount is estimated. The recoverable amount is the higher of the net amount of asset's fair value minus the disposal expenses or the present value of future cash flows.

If the measurement of recoverable amount shows that the asset's recoverable amount is less than its book value, then book value of assets shall be written down to their recoverable amount. The written down amount is recognized as an impairment losses and charged to profit or losses, and corresponding provision for asset impairment is made at the same time.

After the asset impairment losses is recognized, depreciation of the impaired assets or amortization expenses shall be adjusted accordingly in future periods so that the book value (deducting expected net residual value) of assets is adjusted and amortized systematically over their remaining use lives.

When impairment losses of the long-term non-financial assets is recognized, it cannot be reversed in future accounting periods.

The recoverable amount of the impairment losses of the long-term non-financial assets is estimated individually.

2.18 Employee Benefits

Employee benefits are all forms of considerations given by the Bank in exchange for service rendered by the employees. During the accounting period when employees offer service, employee benefits payable shall be recognized as a liability. The Bank participates in social security system which is established by government, including basic endowment insurance, medical insurance, housing fund and other social security systems. The corresponding expenses is charged into current expenses.

The Bank establishes enterprise annuity, which is paid by both the Bank and individual. The part paid by the Bank is provided at 5% of the annual payroll of the last year, and recognized as the cost of the Bank. The part paid by the individual is provided at 1% of the primary endowment insurance in the current year, and is deducted by the Bank from the wages of the employees.

2.19 Interest Income and Expenses

For financial instruments carried at amortized cost and interest generating financial instruments within the category

of available-for-sale financial assets, the interest income and expenses are recorded in the income statement at the effective interest rate of the underlying financial instruments on an accrual basis.

The effective interest method is a method of calculating amortized cost of a financial asset or liability and amortizing interest income and expenses during the relevant period. Effective interest rates are the rates used to discount future cash flows on the date of expected maturity to obtain the net book value or during a proper shorter period of the financial instruments. When estimating the future cash flows, the Bank will consider all contractual terms of the financial instruments, but will not consider future credit losses. When calculating the actual interest rate, the transaction costs, discounts, premiums and all expenses related to actual interest rate paid and received between the contractual parties will be taken into account.

If the financial asset is impaired, the related interest income is measured at the discount rate of future cash flows taking account of impairment losses.

2.20 Fee and Commission Income

Fee and commission income is usually recognized on an accrual basis when offering related services.

2.21 Operating Leases Commitment

The lease where the lessor retains the main risks and rewards of the leased assets is classified by the Bank as an operating lease. The operating lease of the Bank includes the rented operating place and equipment, and the rental payments are amortized in the operating expenses on a straight-line basis during the lease period.

The rental fee received from leasing out assets by the Bank is amortized on a straight-line basis over the whole lease period including the rental-free period and recognized as rental income. The initial direct expenses related to leasing transaction paid by the Bank shall be recorded in the current expenses; if the amount is relatively large, it should be capitalized and recorded in current profit over the same lease period as the rental income.

When the Bank assumes the expenses related to lease that should be assumed by lessee, the Bank will deduct this part of expenses from total rental income and amortize the remaining part over the lease period.

2.22 Accounting Methods of Income Tax Expenses

Income tax includes current income tax and deferred income tax. Except the transactions or events directly recorded in shareholders' equity, the rest are recorded in current profit or losses as income tax expenses or income.

The Bank calculates the taxes payable and current income tax on the basis of the applicable income tax rate and the profit before tax recognized in the income statement, together with the assessment and adjustment of tax-free income and non-deductible expenses in accordance with the current tax regulations and interpretations.

Temporary difference will arise due to the difference between carrying amounts and tax bases of assets and liabilities.

Deferred tax assets or liabilities are recognized on the basis of temporary difference by using liability method, and it will generate taxable income in the future. Temporary difference refers to the difference between book value of the asset or liability and its tax base; for the items not recognized as asset or liability, if the tax base can be determined in accordance with tax law, the difference between tax base and its book value is also a temporary difference.

The Bank checks the book value of deferred tax assets at each balance sheet date. When it is no longer likely to have sufficient taxable income to reverse part or all the deferred tax assets in the future, deferred tax assets shall be deducted by the part that cannot be reversed.

2.23 Business Segments

Business segments refer to a specific combination made up by a group of assets and operating activities facing different levels of risks and benefits from those in other business segments. The Bank uses business segment as a main reporting unit, transfer prices between segments are determined in accordance with the capital sources and their effective duration matching to interest rates of deposits and loans announced by People's Bank of China and market interbank offered rates, and the expenses are distributed among different segments according to the benefits they receive respectively. The Bank's businesses are mainly divided into five aspects: corporate banking services, personal banking services, fund services, international services and other services.

2.24 Critical Accounting Estimates and Judgments Made in Implementing Accounting Policies

Based on historical experience and other factors, including the reasonable expectation of future events, the Bank makes continuous evaluation of significant estimates and key assumptions. The critical accounting estimates and key assumptions which are likely to result in significant adjustments of the book value of assets and liabilities in the next accounting year are as follows:

(1) Impairment Losses of Loans and Advances

In addition to the individual assessment of impairment losses on recognized company bad loans, the Bank also collectively estimates impairment losses on grant of loans and advances regularly. If the impairment losses occurs, the Bank will estimate the amount of impairment losses. The amount of impairment losses is the difference between the book value of grant of loans and advances and present value of expected future cash flows. When estimating the amount of impairment losses, it is necessary to make important judgment whether there is objective evidence that impairment losses of grant of loans and advances has already happened and to make a major estimate on the present value of future cash flows.

(2) Income Tax Expenses

The final tax treatment of many transactions is subject to uncertainty in daily operational activities. Therefore, the Bank needs to make a large amount of estimates according to the historical experience to calculate the income tax. For the expected tax issues, the Bank recognizes the corresponding liabilities based on its estimates of whether it is necessary to pay additional taxes. If there is difference between the final result of these tax issues and previous estimates, the difference will have an impact on the recognition of income tax and deferred tax amounts during the underlying period.

(3) Basis for Classification as Held-to-Maturity Investments

The Bank classifies the non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity investments. This classification involves significant judgment. When making the relevant judgment, the Bank will consider its own willingness and ability to hold such investments to maturity date. If the Bank sells held-to-maturity investments with material amount before the maturity date, it should classify the whole held-to-maturity investments as available-for-sale investments, and measure the investments at fair value rather than amortized cost.

2.25 Change and Influence in Major Accounting Policies and Accounting Estimates

- (1) There is no major change in accounting policies in 2013.
- (2) There is no significant change in accounting estimates in 2013.

2.26 Adjustments for Correction of Accounting Errors in Prior Periods

There are no adjustments for correction of accounting errors in prior periods in 2013.

3. Taxations

The applicable taxes and tax rates are as follows:

3.1 Business Tax

Business tax is paid at 5% of operating incomes by the Bank, and at 3% by its subsidiaries. Operating income includes loan interest income, intermediary business income and other operating income, but does not include income arising from the business between financial institutions.

3.2 Income Tax

The business income tax of western areas of the Bank was levied at the reduced rate of 15% in 2012. The regions outside the scope referred in the letter were levied the business income tax at the rate of 25%. The Bank estimates that in 2013 it would continue to enjoy the preferential policy. Therefore, the business income tax was calculated according to the rate in 2012.

The subsidiary Leshan Kunlun Rural Bank was levied at the rate of 25% for the business income tax.

The subsidiary Tacheng Kunlun Rural Bank meets the requirement of the List of Preferences in the Business Income Tax to Encourage the Industrial Development in the Developing Region of Xinjiang (Provisional). With the agreement of the tax bureau of Emin Town, the Tacheng Kunlun Rural Bank can enjoy the beneficial policy from 1 January 2012 and has been exempted from the business income tax in the year of 2013.

4. Company Merger and Consolidated Financial Statements

4.1 Information of the Subsidiary Acquired Through Establishment

Name of the subsidiary	Type of the enterprise	Registered capital	Actual investment of the Bank as at 31 December 2013	Total share holdings proportion of the Bank (%)	Total voting proportion of the Bank (%)	Consolidated financial statement or not
Leshan Kunlun Rural Bank Co., Ltd.	Domestic financial enterprises	50,000,000.00	40,000,000.00	80.00	80.00	Yes
Tacheng Kunlun Rural Bank Co., Ltd.	Domestic financial enterprises	32,068,700.00	17,500,000.00	54.57	54.57	Yes

4.2 Scope and Change in Consolidated Financial Statements

Bank of Kunlun Co., Ltd., its subsidiaries Leshan Kunlun Rural Bank Co., Ltd., and Tacheng Kunlun Rural Bank Co., Ltd. were included in the consolidated financial statements in 2013.

There were no changes in the current period of the consolidated scoping compared with 2012.

5. Notes to Consolidated Financial Statements (Negative Number is Expressed with ())

5.1 Cash and Deposits with Central Bank

Item	31 December 2013	31 December 2012
Cash in hand	318,633,384.72	255,747,431.75
Statutory deposit reserve with central bank	22,397,451,224.65	17,448,638,300.96
Surplus deposit reserve with central bank	8,594,675,297.46	6,562,390,108.64
Fiscal deposits with central bank	20,548,000.00	39,984,000.00
Total	31,331,307,906.83	24,306,759,841.35

(1) See Note 5.40/2 for deposits with the central bank included in cash and cash equivalents as at 31 December 2013.

(2) According to the regulations, Renminbi and foreign currency deposit reserves as well as finance deposit in the PBOC cannot be used in daily business. On 31 December 2013 and 31 December 2012, the deposits reserve ratio of Renminbi was 18% and 18%, respectively. On 31 December 2013 and 31 December 2012 the deposit reserve ratio of foreign currency was 5% and 5%, respectively. Renminbi and foreign currency deposit reserves include the deposit from authorities and organizations, extra-budgetary deposit, individual deposit, company deposit, margin deposit, credit balance obtained by deducting asset from liability and other deposits.

5.2 Deposits with Banks and Non-bank Financial Institutions

Item	31 December 2013	31 December 2012
Deposits with domestic banks	66,381,491,825.64	48,506,525,313.29
Deposits with overseas banks	6,983,679.37	6,902,144.68

Continued

Item	31 December 2013	31 December 2012
Less: Allowance for impairment losses	–	–
Book value of deposits with banks and non-bank financial institutions	66,388,475,505.01	48,513,427,457.97

See Note 5.40/2 for deposits with banks and non-bank financial institutions included in cash and cash equivalents as at 31 December 2013.

5.3 Placements with Banks and Non-bank Financial Institutions

Item	31 December 2013	31 December 2012
Placements with banks and non-bank financial institutions	868,900,000.00	–

5.4 Financial Assets Held for Trading

(1) Financial Assets Held for Trading

Category	31 December 2013	31 December 2012
Bonds	4,519,323,520.00	1,098,150,138.36
Financial assets held for trading	937,277,000.00	–
Total	5,456,600,520.00	1,098,150,138.36

(2) Bond category of financial assets held for trading

Category	31 December 2013		
	Bond cost	Change in fair value	Fair value
Financial bonds	1,429,230,540.00	(9,030,650.00)	1,420,199,890.00
Corporate bonds	3,276,067,439.05	(176,943,809.05)	3,099,123,630.00
Total	4,705,297,979.05	(185,974,459.05)	4,519,323,520.00

Category	31 December 2012		
	Bond cost	Change in fair value	Fair value
Corporate bonds	1,102,792,178.36	(4,642,040.00)	1,098,150,138.36

5.5 Financial Assets Held under Resale Agreements

(1) By Collateral Security

Item	31 December 2013	31 December 2012
Bond	529,650,000.00	8,628,600,000.00
Bill	307,287,500.00	4,363,747,571.24
Loan	10,368,000,000.00	–
Total	11,204,937,500.00	12,992,347,571.24

(2) By Counterparty

Counterparty	31 December 2013	31 December 2012
Rural credit cooperative association	–	7,003,247,571.24
Bank	5,404,937,500.00	5,516,100,000.00
Others	5,800,000,000.00	473,000,000.00
Total	11,204,937,500.00	12,992,347,571.24

(3) See Note 5.40/2 for financial assets held under resale agreements included in cash and cash equivalents as at 31 December 2013.

5.6 Interest Receivable

(1) Interest Receivable Breakdown

Item	31 December 2013	31 December 2012
Interest receivable on loans and advances	107,553,310.15	75,109,991.35
Interest receivable on deposits with central bank and other banks and non-bank financial institutions	303,786,192.08	407,098,595.29
Interest receivable on bond investments	1,421,579,569.40	1,199,993,935.56
Interest receivable on financial assets held under resale agreements	19,629,076.85	2,048,626.52
Book value of interest receivable	1,852,548,148.48	1,684,251,148.72

(2) Overdue Interest

Item	Overdue date	31 December 2013	31 December 2012
Corporate loans	Within 3 months	6,845,110.72	9,018,522.22
Personal loans	Within 3 months	1,630.21	–
Total		6,846,740.93	9,018,522.22

(3) Aging Analysis

Aging	31 December 2013		31 December 2012	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	1,852,548,148.48	100.00	1,684,251,148.72	100.00

(4) As at 31 December 2013, there was no interest payable owed to the shareholders who held equal to or more than 5% of the Bank's shares.

5.7 Loans and Advances to Customers

(1) Composition of Loans and Advances

A. Classified by Corporate and Personal

Category	31 December 2013		31 December 2012	
	Amount	Proportion (%)	Amount	Proportion (%)
Loans and advances	63,034,600,344.75	100.00	41,363,362,447.08	100.00

Continued

Category	31 December 2013		31 December 2012	
	Amount	Proportion (%)	Amount	Proportion (%)
Including: Corporate	60,548,988,710.57	96.06	40,091,101,929.59	96.92
Personal	2,485,611,634.18	3.94	1,272,260,517.49	3.08
Less: Allowance for impairment losses	1,997,141,442.76	100.00	985,641,174.73	100.00
Including: Corporate	1,935,104,823.44	96.89	959,388,315.26	97.34
Personal	62,036,619.32	3.11	26,252,859.47	2.66
Net value of loans and advances	61,037,458,901.99	100.00	40,377,721,272.35	100.00
Including: Corporate	58,613,883,887.13	96.03	39,131,713,614.33	96.91
Personal	2,423,575,014.86	3.97	1,246,007,658.02	3.09

B. Regional Distribution of Loans and Advances

Regional distribution	31 December 2013		31 December 2012	
	Amount	Proportion (%)	Amount	Proportion(%)
South China	528,000,000.00	0.84	1,830,053,822.43	4.42
North China	8,887,708,000.00	14.10	2,232,398,290.44	5.40
East China	9,108,058,336.99	14.45	3,059,048,430.32	7.40
Northeast China	3,237,350,242.41	5.14	10,425,535,445.65	25.20
Northwest China	38,830,211,765.35	61.60	22,256,868,135.27	53.81
Southwest China	1,149,712,000.00	1.82	871,308,207.40	2.11
Central China	1,293,560,000.00	2.05	688,150,115.57	1.66
Total loans and advances	63,034,600,344.75	100.00	41,363,362,447.08	100.00
Less: Allowance for impairment losses	1,997,141,442.76	—	985,641,174.73	—
Including:				
Individual accrual	573,078,726.11	—	225,857,756.05	—
Collective accrual	1,424,062,716.65	—	759,783,418.68	—
Book value of loans and advances	61,037,458,901.99	—	40,377,721,272.35	—

C. Classified by Security Types

Security Type	31 December 2013		31 December 2012	
	Amount	Proportion (%)	Amount	Proportion (%)
Credit loans	19,302,589,581.96	30.61	10,423,816,197.04	25.20
Guarantee loans	9,939,694,575.22	15.77	6,671,875,538.11	16.13
Mortgage loans	3,597,269,946.48	5.71	1,783,948,520.08	4.31
Pledged loans	12,983,667,545.91	20.60	14,597,430,906.70	35.29
Discount of bank acceptance bills	14,307,558,695.18	22.70	6,501,532,714.44	15.72
Discount of corporate acceptance bills	2,903,820,000.00	4.61	1,384,758,570.71	3.35
Total	63,034,600,344.75	100.00	41,363,362,447.08	100.00

D. Movement of Corporate Overdue Loans

(a) Movement of Overdue Loan (Note)

Item	2013	2012
Opening balance	236,997,049.01	7,419,272.95
Increase	427,954,788.44	231,590,531.74
Decrease	105,768,341.20	2,012,755.68
Ending balance	559,183,496.25	236,997,049.01

Note: The above table of overdue loans shows the loan balance before allowance for impairment losses.

(b) Classified by Overdue Period

Item	31 December 2013				Total
	Overdue 1 day to 90 days (including 90 days)	Overdue 90 days to 360 days (including 360 days)	Overdue 360 days to 3 years (including 3 years)	Overdue above 3 years	
Guarantee loans	410,000,000.00	–	130,078,995.40	966,877.44	541,045,872.84
Mortgage loans	–	115,537.51	182,834.97	–	298,372.48
Pledged loans	17,839,250.93	–	–	–	17,839,250.93
Total	427,839,250.93	115,537.51	130,261,830.37	966,877.44	559,183,496.25

Item	31 December 2012				Total
	Overdue 1 day to 90 days (including 90 days)	Overdue 90 days to 360 days (including 360 days)	Overdue 360 days to 3 years (including 3 years)	Overdue above 3 years	
Guarantee loans	–	199,932,610.66	1,072,877.44	–	201,005,488.10
Mortgage loans	–	323,272.17	–	3,714,067.66	4,037,339.83
Pledged loans	15,000,000.00	–	–	–	15,000,000.00
Discount of bank acceptance bills	16,954,221.08	–	–	–	16,954,221.08
Total	31,954,221.08	200,255,882.83	1,072,877.44	3,714,067.66	236,997,049.01

E. Corporate Loans Classified by Industry

Industry	31 December 2013		31 December 2012	
	Amount	Proportion (%)	Amount	Proportion (%)
Agriculture, forestry, animal husbandry and fishery	263,600,000.00	0.44	361,120,382.59	0.90
Mining	11,407,880,000.00	18.84	5,772,614,880.37	14.40
Manufacturing	8,073,695,500.77	13.32	6,606,534,001.87	16.47
Production and supply of electric power, gas and water	6,077,273,731.82	10.04	5,804,825,552.99	14.48
Architecture	2,158,950,000.00	3.57	2,796,412,650.01	6.98
Transportation, storage and postal service	2,327,338,000.00	3.84	1,859,701,493.26	4.64
Information transmission, computer service and software	70,644,488.00	0.12	336,550,000.00	0.84
Commercial trade	9,579,387,276.27	15.82	1,220,364,592.11	3.04
Accommodation and catering	3,200,000.00	0.01	5,400,000.00	0.01

Continued

Industry	31 December 2013		31 December 2012	
	Amount	Proportion (%)	Amount	Proportion (%)
Financial services	14,336,371,594.22	23.68	6,286,893,424.47	15.68
Real estate	1,900,000,000.00	3.14	6,450,000,000.00	16.09
Lease and business services	1,949,708,119.49	3.22	1,034,191,329.23	2.58
Scientific research, technical service and geological survey	242,260,000.00	0.40	235,133,622.69	0.59
Water conservancy, environment, utility facilities management and investment	1,249,600,000.00	2.06	1,195,000,000.00	2.98
Residents service and other services	13,580,000.00	0.02	29,080,000.00	0.07
Health, social security and social welfare	7,100,000.00	0.01	6,500,000.00	0.02
Culture, sports and entertainment	143,000,000.00	0.24	90,780,000.00	0.23
Public management and social organization	745,400,000.00	1.23	—	—
Total of the company loans	60,548,988,710.57	100.00	40,091,101,929.59	100.00

F. Corporate Loans Classified by Nature

Nature	31 December 2013	31 December 2012
General loans	36,829,247,376.46	27,060,931,349.60
Discount	17,211,378,695.18	7,886,291,285.15
Trade financing	6,508,362,638.93	5,143,879,294.84
Total	60,548,988,710.57	40,091,101,929.59

G. Personal Loans Classified by Nature

Nature	31 December 2013		31 December 2012	
	Amount	Proportion (%)	Amount	Proportion (%)
Personal loans and advances				
—Personal housing mortgage loans	1,297,273,358.31	52.19	359,066,732.64	28.22
—Others	1,188,338,275.87	47.81	913,193,784.85	71.78
Total personal loans and advances	2,485,611,634.18	100.00	1,272,260,517.49	100.00

(2) Allowance for Impairment Losses

Item	2013			2012		
	Individual	Combination	Total	Individual	Combination	Total
Opening balance	225,857,756.05	759,783,418.68	985,641,174.73	4,642,132.38	397,032,642.97	401,674,775.35
Accrual	380,756,284.06	664,279,297.97	1,045,035,582.03	221,215,623.67	362,750,775.71	583,966,399.38
Other decrease	29,821,246.34	—	29,821,246.34	—	—	—
Write-off	3,714,067.66	—	3,714,067.66	—	—	—
Ending balance	573,078,726.11	1,424,062,716.65	1,997,141,442.76	225,857,756.05	759,783,418.68	985,641,174.73

(3) Analysis of Client Concentration

As at 31 December 2013, top 10 were as shown below:

Client	Industry	Balance	Proportion of total amount of loans and advances (%)
Client 1	Mining	1,400,000,000.00	2.22
Client 2	Real estate	1,160,000,000.00	1.84
Client 3	wholesale & retail business	1,000,000,000.00	1.59
Client 4	wholesale & retail business	1,000,000,000.00	1.59
Client 5	Mining	960,000,000.00	1.52
Client 6	Mining	900,000,000.00	1.43
Client 7	Water conservancy, environment, utility facilities management and investment	865,000,000.00	1.37
Client 8	Public management, social security and social organization	745,400,000.00	1.18
Client 9	Transportation, storage and postal service	700,000,000.00	1.11
Client 10	Production and supply of electric power, gas and water	697,000,000.00	1.11
Total		9,427,400,000.00	14.96

As at 31 December 2012, top 10 were as shown below:

Client	Industry	Balance	Proportion of total amount of loans and advances (%)
Client 1	Real estate	6,400,000,000.00	15.47
Client 2	Mining	1,000,000,000.00	2.42
Client 3	Water conservancy, environment, utility facilities management and investment	895,000,000.00	2.16
Client 4	Production and supply of electric power, gas, water	582,000,000.00	1.41
Client 5	Manufacturing	540,000,000.00	1.31
Client 6	Lease and business services	500,000,000.00	1.21
Client 7	Mining	500,000,000.00	1.21
Client 8	Mining	500,000,000.00	1.21
Client 9	Production and supply of electric power, gas, water	500,000,000.00	1.21
Client 10	Production and supply of electric power, gas, water	500,000,000.00	1.21
Total		11,917,000,000.00	28.82

(4) As at 31 December 2013, there were no loans to the shareholders who held more than 5% (including 5%) of the shares of the Bank.

5.8 Available-for-sale Financial Assets

Item	31 December 2013	31 December 2012
Financial bonds	4,076,495,600.00	2,780,930,300.00
Corporate bonds	20,696,158,219.98	18,842,844,104.99
Total	24,772,653,819.98	21,623,774,404.99

Category	31 December 2013		
	Bond cost	Change in fair value	Fair value
Financial bonds	4,400,294,037.09	(323,798,437.09)	4,076,495,600.00
Corporate bonds	21,588,519,036.89	(892,360,816.91)	20,696,158,219.98
Total	25,988,813,073.98	(1,216,159,254.00)	24,772,653,819.98

Category	31 December 2012		
	Bond cost	Change in fair value	Fair value
Financial bonds	2,779,792,006.71	1,138,293.29	2,780,930,300.00
Corporate bonds	18,870,043,644.18	(27,199,539.19)	18,842,844,104.99
Total	21,649,835,650.89	(26,061,245.90)	21,623,774,404.99

See Note 7.2/3 for the pledge of the financial asset available for sale as at 31 December 2013.

5.9 Held-to-maturity Investments

Item	31 December 2013	31 December 2012
National bonds	140,760,934.04	171,828,544.79
Financial bonds	2,510,662,128.06	3,200,843,660.64
Corporate bonds	15,103,529,184.06	16,573,433,392.03
Others	–	19,999,410.84
Total held-to-maturity investments	17,754,952,246.16	19,966,105,008.30
Less: Allowance for impairment losses	–	–
Book value of held-to-maturity investments	17,754,952,246.16	19,966,105,008.30

5.10 Accounts Receivable

Item	31 December 2013	31 December 2012
Trusted financial management products	24,492,795,847.76	7,306,079,930.55
Commissioned financial management products	369,956,563.93	6,281,523,333.34
Others	30,000,000.00	100,000,000.00
Less: Allowance for impairment losses	122,223,700.00	–
Book value of accounts receivable	24,770,528,711.69	13,687,603,263.89

5.11 Fixed Assets

(1) Details of Fixed Assets Balance

Item	31 December 2013	31 December 2012
Original cost	479,739,935.45	393,168,963.87
Accumulated depreciation	181,726,888.73	110,130,654.25
Allowance for impairment losses	71,587.53	71,587.53
Net amount of fixed assets	297,941,459.19	282,966,722.09

(2) Movement of Fixed Assets

Item	31 December 2012	Increases in 2013	Decreases in 2013	31 December 2013
1. Total original book value	393,168,963.87	86,570,971.58	—	479,739,935.45
Including: Buildings and constructions	87,415,757.20	—	—	87,415,757.20
Machinery equipment	3,495,177.90	3,000,896.98	—	6,496,074.88
Vehicles	13,762,049.00	989,595.06	—	14,751,644.06
Electronic and office equipment	288,495,979.77	82,580,479.54	—	371,076,459.31
2. Total accumulated depreciation	110,130,654.25	71,596,234.48	—	181,726,888.73
Including: Buildings and constructions	7,444,161.77	3,113,524.69	—	10,557,686.46
Machinery equipment	830,288.65	76,147.63	—	906,436.28
Vehicles	5,467,310.00	1,294,472.01	—	6,761,782.01
Electronic and office equipment	96,388,893.83	67,112,090.15	—	163,500,983.98
3. Total impairment losses on assets	71,587.53	—	—	71,587.53
Including: Buildings and constructions	71,587.53	—	—	71,587.53
Machinery equipment	—	—	—	—
Vehicles	—	—	—	—
Electronic and office equipment	—	—	—	—
4. Total net book value	282,966,722.09	—	—	297,941,459.19
Including: Buildings and constructions	79,900,007.90	—	—	76,786,483.21
Machinery equipment	2,664,889.25	—	—	5,589,638.60
Vehicles	8,294,739.00	—	—	7,989,862.05
Electronic and office equipment	192,107,085.94	—	—	207,575,475.33

As at 31 December 2013, the original value of buildings and constructions whose ownership certification is in progress is RMB31,772,273.32, with accumulated depreciation of RMB3,475,962.57, net value of RMB28,296,310.75.

5.12 Construction in Progress

Category	31 December 2012	Increase in 2013	Transfer to fixed assets	Other decreases	31 December 2013
Network construction	10,520,479.75	22,862,048.01	3,411,169.28	27,461,977.68	2,509,380.80
Non-installed equipment purchase	1,483,845.00	81,404,789.31	71,192,097.81	1,465,441.50	10,231,095.00
System development	37,321,508.13	88,510,838.98	—	78,221,453.06	47,610,894.05
Others	1,218,565.00	29,461,918.30	10,400,344.49	16,044,604.81	4,235,534.00
Total	50,544,397.88	222,239,594.60	85,003,611.58	123,193,477.05	64,586,903.85

5.13 Intangible Assets

(1) Details of Intangible Assets Balance

Item	31 December 2013	31 December 2012
Original cost	168,941,927.74	110,407,744.96
Accumulated amortization	83,137,245.20	45,058,052.65
Allowance for impairment losses	1,357,053.33	1,357,053.33
Net amount of intangible assets	84,447,629.21	63,992,638.98

(2) Movements of Intangible Assets

Item	31 December 2012	Increase	Decrease	31 December 2013
1. Original cost	110,407,744.96	58,694,182.78	160,000.00	168,941,927.74
Including: Software	110,338,234.55	58,694,182.78	160,000.00	168,872,417.33
Land use right	69,510.41	—	—	69,510.41
2. Accumulated amortization	45,058,052.65	38,079,192.55	—	83,137,245.20
Including: Software	45,028,950.45	38,076,851.53	—	83,105,801.98
Land use right	29,102.20	2,341.02	—	31,443.22
3. Accumulated provisions for impairment losses	1,357,053.33	—	—	1,357,053.33
Including: Software	1,357,053.33	—	—	1,357,053.33
Land use right	—	—	—	—
4. Book value	63,992,638.98	—	—	84,447,629.21
Including: Software	63,952,230.77	—	—	84,409,562.02
Land use right	40,408.21	—	—	38,067.19

5.14 Deferred Income Tax Assets

Item	31 December 2013	31 December 2012
Allowance for impairment losses on assets	238,959,548.99	86,649,465.97
Changes in fair value of the financial assets available for sale recorded in capital reserve	182,423,888.10	3,909,186.89
Net change in fair value of the financial assets held for trading	27,896,168.86	696,306.00
Total	449,279,605.95	91,254,958.86

5.15 Other Assets

(1) Other Assets Breakdown

Item	31 December 2013	31 December 2012
Currency swap	787,754.47	—
Other receivables	8,190,425.80	8,971,887.94
Deferred expenses	9,938,322.10	7,160,489.35
Long-term deferred expenses	79,652,869.68	60,234,552.41
Repossessed asset	19,568,930.00	—
Total	118,138,302.05	76,366,929.70

(2) Other Receivables

A. Other Receivables Breakdown

Item	31 December 2013	31 December 2012
Advances to clients	600,000.00	600,000.00
Advances for legal expenses	4,260,816.36	52,136.80
Guarantee deposit	1,197,100.00	1,109,300.00
Historical bad debts	86,587.60	355,492.89
Others	11,906,759.63	7,179,205.94
Total	18,051,263.59	9,296,135.63
Less: Other provisions for bad debts of accounts receivable	9,860,837.79	324,247.69
Net amount	8,190,425.80	8,971,887.94

B. Aging Analysis

Aging	31 December 2013			
	Amount	Proportion (%)	Provisions for bad debts	Net amount
Within 1 year	17,175,419.99	95.14	9,805,495.39	7,369,924.60
1 to 2 Years	687,000.00	3.81	—	687,000.00
2 to 3 Years	102,256.00	0.57	—	102,256.00
Over 3 years	86,587.60	0.48	55,342.40	31,245.20
Total	18,051,263.59	100.00	9,860,837.79	8,190,425.80

Aging	31 December 2012			
	Amount	Proportion (%)	Provisions for bad debts	Net amount
Within 1 year	8,838,386.74	95.08	—	8,838,386.74
1 to 2 Years	102,256.00	1.10	—	102,256.00
2 to 3 Years	—	—	—	—
Over 3 years	355,492.89	3.82	324,247.69	31,245.20
Total	9,296,135.63	100.00	324,247.69	8,971,887.94

C. As at 31 December 2013, there were no receivables to the shareholders who held more than 5% (including 5%) of the shares of the Bank.

(3) Long-term Deferred Expenses

Item	31 December 2012	Increases in 2013	Amortization for 2013	31 December 2013
Rent expenses	3,893,670.16	127,500.00	1,663,780.52	2,357,389.64
Improvement costs under operating lease fixed assets	45,223,687.28	16,890,116.60	13,553,882.54	48,559,921.34
Others	11,117,194.97	22,224,111.19	4,605,747.46	28,735,558.70
Total	60,234,552.41	39,241,727.79	19,823,410.52	79,652,869.68

(4) Repossessed asset

Item	31 December 2013	31 December 2012
Accounts receivable	131,719,258.76	—
Stock	19,568,930.00	—
Total	151,288,188.76	—
Less: allowances for impairment losses	131,719,258.76	—
Net amount	19,568,930.00	—

5.16 Assets Impairment

Item	2013					2012						
	Opening balance	Provision in 2013	Other increase	Recovered amount due to the increase of assets	Decrease	Ending balance	Opening balance	Provision in 2012	Other increase	Recovered amount due to the increase of assets	Decrease	Ending balance
1. Provision for bad debt of other receivables	324,247.69	9,805,495.39	—	8,974.36	—	9,860,837.79	328,836.73	—	—	4,589.04	—	324,247.69
2. Allowance for impairment losses of repossessed assets	—	53,095,398.78	78,623,859.98	—	—	131,719,258.76	401,674,775.35	583,966,399.38	—	—	—	985,641,174.73
3. Loan impairment reserves	985,641,174.73	1,045,035,582.03	—	—	—	1,997,141,442.76	1,357,053.33	—	—	—	—	1,357,053.33
4. Provision for bad debt of receivables	—	122,223,700.00	—	—	—	122,223,700.00	71,587.53	—	—	—	—	71,587.53
5. Allowance for impairment losses of intangible assets	1,357,053.33	—	—	—	—	1,357,053.33	987,394,063.28	1,230,160,176.20	78,623,859.98	8,974.36	3,973,998.59	2,262,373,880.17
6. Allowance for impairment losses of fixed assets	71,587.53	—	—	—	—	71,587.53	—	—	—	—	—	—
Total	987,394,063.28	1,230,160,176.20	78,623,859.98	8,974.36	3,973,998.59	2,262,373,880.17	403,432,252.94	583,966,399.38	—	4,589.04	—	987,394,063.28

5.17 Deposits from Central Bank

Item	31 December 2013	31 December 2012
Deposits from Central Bank	45,000,000.00	25,000,000.00

5.18 Deposits from Banks and Non-bank Financial Institutions

Item	31 December 2013	31 December 2012
Deposits from banks	87,169,295,001.64	45,273,655,268.44
Deposits from non-bank financial institutions	2,402,251,271.18	3,550,000,000.00
Total	89,571,546,272.82	48,823,655,268.44

5.19 Placements from Banks and Non-bank Financial Institutions

Item	31 December 2013	31 December 2012
Placements from banks and non-bank financial institutions	–	2,000,000,000.00

5.20 Financial Assets Sold under Repurchase Agreements

(1) Classified by Collateral Security

Item	31 December 2013	31 December 2012
Bond	499,200,000.00	6,085,600,000.00
Bill	963,539,097.54	4,587,881,666.99
Total	1,462,739,097.54	10,673,481,666.99

(2) Classified by Counterparty

Counterparties	31 December 2013	31 December 2012
Banks	1,462,739,097.54	10,673,481,666.99

5.21 Deposits from Customers

(1) Deposits from Customers Breakdown

Item	31 December 2013	31 December 2012
Corporate deposits	111,397,757,208.08	93,327,010,967.97
Personal deposits	18,090,234,775.96	11,502,681,622.10
Structural deposits	937,277,000.00	–
Total	130,425,268,984.04	104,829,692,590.07

(2) Corporate Deposits

Item	31 December 2013	31 December 2012
Current deposits	75,706,347,408.23	45,143,511,139.98
Time deposits	32,863,872,034.53	43,072,788,649.57
Fiscal deposits	440,087,971.17	1,690,315,329.53
Other deposits	21,750,933.67	2,808,751.99
Guarantee deposit	2,365,698,860.48	3,417,587,096.90
Total	111,397,757,208.08	93,327,010,967.97

(3) Personal Deposits

Item	31 December 2013	31 December 2012
Current deposits	7,510,475,642.54	5,872,562,480.63
Time deposits	10,579,759,133.42	5,630,119,141.47
Total	18,090,234,775.96	11,502,681,622.10

(4) See Note 6.8 for the amount of deposit of the shareholders who held shares of more than 5% (including 5%) as at 31 December 2013.

5.22 Payroll Payable

Item	31 December 2012	Increase	Payment	31 December 2013
1. Salaries, bonuses and subsidies	–	305,477,542.80	305,477,542.80	–
2. Staff welfare expenses	–	36,093,483.07	36,093,483.07	–
3. Social insurance premiums	–	75,048,669.95	75,048,669.95	–
Among which: Medical insurance	–	16,698,569.53	16,698,569.53	–
Basic Endowment Insurance	–	41,685,918.18	41,685,918.18	–
Pension payment cost	–	10,848,424.01	10,848,424.01	–
Unemployment insurance expenses	–	3,564,759.29	3,564,759.29	–
Industrial injury insurance premiums	–	1,015,632.44	1,015,632.44	–
Childbirth insurance premiums	–	1,235,366.50	1,235,366.50	–
4. Housing provident funds	–	33,036,506.72	33,036,506.72	–
5. Union expenses and employee training expenses	947,364.22	12,363,538.37	11,003,639.09	2,307,263.50
6. Non-monetary benefits	–	–	–	–
7. Others	–	36,381,762.90	36,381,762.90	–
Total	947,364.22	498,401,503.81	497,041,604.53	2,307,263.50

5.23 Taxes Payable

Item	31 December 2013	31 December 2012
Corporate income tax	297,847,045.83	167,702,817.16
Business tax	79,348,586.41	40,559,264.34
Urban construction tax	5,540,809.38	2,834,945.74
Educational surcharge	3,969,470.27	2,129,676.22
Individual income tax	10,962,676.14	4,394,345.04
Stamp duty	176,355.11	155,245.92
Other	1,153,831.80	1,790,423.44
Total	398,998,774.94	219,566,717.86

5.24 Interest Payable

(1) Interest Payable Breakdown

Item	31 December 2013	31 December 2012
Time deposit interest	1,020,988,829.55	608,910,938.66
Fixed savings account interest	248,807,686.60	86,490,695.05
Margin deposit interest	21,175,331.82	9,341,594.28
Current deposit interest	6,793,150.90	5,759,779.79
Current savings account interest	1,328,677.88	975,467.26
Deposits from banks and non-bank financial institutions interest	416,850,757.98	389,410,793.62
Placements from banks and non-bank institutions interest	–	1,407,083.33
Financial assets sold under repurchase agreements interest	689,306.30	81,219,369.30
Total	1,716,633,741.03	1,183,515,721.29

(2) See Note 6.8 for the amount of interest payable to the shareholders who held shares of more than 5% (including 5%) as at 31 December 2013.

5.25 Other Liabilities

(1) Other Liabilities Breakdown

Item	31 December 2013	31 December 2012
Other payables	5,373,649,516.62	2,516,093,673.92
Dividend payable	24,270.64	23,898.97
Entrusted deposits	5,361,132.50	2,147,799.17
Deferred income	821,865.94	532,286.08
Total	5,379,856,785.70	2,518,797,658.14

See Note 6.9 for the amount of entrust loans from the shareholders who held shares of more than 5% (including 5%) as at 31 December 2013.

(2) Other Payables

A. Other Payables Breakdown

Item	31 December 2013	31 December 2012
Payment not yet transferred	–	–
Payment suspended for long time	705,636.42	33,930.92
Other payables	5,197,935,741.56	2,436,927,663.45
Unsettled premiums on assets	152,346.00	46,480.00
Other agency businesses	155,887.48	387,633.52
Liquidation of interbank businesses	174,699,905.16	78,697,966.03
Total	5,373,649,516.62	2,516,093,673.92

B. As at 31 December 2013, there were no accounts payable to the shareholders who held shares of more than 5% (including 5%).

5.26 Share Capital

Name of investor	31 December 2012		Increase	Decrease	31 December 2013	
	Investment amount	Proportion (%)			Investment amount	Proportion (%)
China National Petroleum Corporation	5,507,274,021.41	82.00	182,867,597.22	–	5,690,141,618.63	77.10
Other state owned shareholders	883,266,564.37	13.15	478,251,283.91	–	1,361,517,848.28	18.45
Collectively owned shareholders	325,593,348.25	4.85	3,216,783.21	–	328,810,131.46	4.45
Individual shareholders	53,896.98	–	–	–	53,896.98	–
Total	6,716,187,831.01	100.00	664,335,664.34	–	7,380,523,495.35	100.00

On 10 May 2013, as examined by BDO China ShuLun Pan (Certified Public Accountants LLP) PCPAR [2013] NO: 130384 Capital Verification Report, the Company increased share capital by RMB664,335,664.34 to RMB7,380,523,495.35. Meanwhile, capital reserve increased by RMB1,235,664,335.66 as share premiums increased.

5.27 Capital Reserve

Item	31 December 2012	Increase/(Decrease)	31 December 2013
Share premiums	4,267,872,376.48	1,235,664,335.66	5,503,536,712.14
Other capital reserve:	(12,588,142.81)	(1,011,583,480.25)	(1,024,171,623.06)
(1) Fair value change in available-for-sale financial assets ⁽¹⁾	(26,061,245.90)	(1,190,098,008.10)	(1,216,159,254.00)
(2) Effect of income tax recognized in shareholders' equity ⁽²⁾	3,909,186.89	178,514,701.21	182,423,888.10
(3) Others	9,563,916.20	(173.36)	9,563,742.84
Total	4,255,284,233.67	224,080,855.41	4,479,365,089.08

Note:

(1) At the ending of the reporting period, the losses in fair value changes of available-for-sale financial assets accumulated to RMB1,216,159,254.00.

(2) The deferred income tax assets due to the losses in fair value changes of available-for-sale financial assets amounted to RMB182,423,888.10.

5.28 Surplus Reserve

Item	31 December 2012	Extraction in 2013	31 December 2013
Statutory surplus reserve	401,365,644.24	257,159,188.77	658,524,833.01

5.29 General Reserve

Item	2013	2012
Opening balance	1,542,640,605.76	939,332,671.52

Continued

Item	2013	2012
Increase	803,852,257.95	603,307,934.24
Decrease	—	—
Ending balance	2,346,492,863.71	1,542,640,605.76

In accordance with the Regulation of Extraction of Reserves for Financial Enterprises (CJ ([2012] No. 20) issued by the MOF on 30 March 2012, the balance of the general reserve should not below 1.5% of the ending balance of the risky capital. The Bank had extracted general reserve at 1.5% of the ending balance of underlying assets of risk in accordance with the above rules which amounted to RMB803,852,257.95.

5.30 Retained Earnings

Item	2013	2012
Opening balance	1,598,021,122.20	812,737,981.82
Add: Net profit	2,585,147,534.01	1,943,597,633.32
Less: Appropriation to statutory surplus reserve	257,159,188.77	194,054,111.88
Appropriation to general reserve	803,852,257.95	603,307,934.24
Cash dividends	570,875,965.64	360,952,446.82
Ending balance	2,551,281,243.85	1,598,021,122.20

In accordance with the resolution of the general meeting of shareholders, the Bank distributed cash dividends of RMB570,875,965.64 from profit in 2012 to shareholders.

5.31 Operating Income

(1) Net Interest Income

Item	2013	2012
Interest income:		
Deposits with banks and non-bank financial institutions	861,216,687.42	1,064,641,071.56
Deposits with central bank	351,653,524.21	265,980,126.82
Placements with banks and non-bank financial institutions	37,931,388.22	9,600,880.55
Loans and advances to customers	2,394,855,768.81	1,704,330,353.54
Discounted bills	851,937,210.16	333,143,938.75
Bond investments	2,173,744,879.36	1,815,411,525.88
Accounts receivable	1,228,889,400.85	356,023,305.06
Financial assets held under resale agreements	694,438,616.85	425,758,221.03
Subtotal	8,594,667,475.88	5,974,889,423.19
Interest expenses:		
Deposits from banks and non-bank financial institutions	1,285,725,047.15	941,794,985.56
Deposits from central bank	823,541.67	207,048.61
Placements from banks and non-bank financial institutions	8,182,152.79	1,407,083.33
Deposits from customers	2,341,447,357.39	1,797,157,313.42

Continued

Item	2013	2012
Financial assets sold under repurchase agreements	330,957,533.81	278,580,402.13
Subtotal	3,967,135,632.81	3,019,146,833.05
Net interest income	4,627,531,843.07	2,955,742,590.14

(2) Net Fee and Commission Income

Category	2013	2012
Fee and commission income:		
Domestic settlement fee	20,154,011.49	25,167,695.59
Agency service fee	334,347,137.75	447,887,141.00
Agency business fee	15,801,135.94	5,312,893.79
Other business fee	534,602,037.61	262,582,600.48
Subtotal	904,904,322.79	740,950,330.86
Fee and commission expenses:		
Agency service commission	2,269,034.10	8,846,764.97
Other business commission	57,123,443.26	41,214,658.45
Subtotal	59,392,477.36	50,061,423.42
Net fee and commission income	845,511,845.43	690,888,907.44

(3) Investment Income/ (Losses)

Item	2013	2012
Financial assets held for trading	51,631,461.24	28,409,810.00
Available-for-sale financial assets	2,166,728.75	34,679,902.90
Total	53,798,189.99	63,089,712.90

(4) Gain/ (losses) from Fair Value Changes

Item	2013	2012
Financial assets held for trading	(181,332,419.05)	4,006,460.00

(5) Gain/ (losses) on Foreign Exchange

Item	2013	2012
Foreign exchange	312,213,529.19	172,399,129.79

(6) Other Operating Income

Item	2013	2012
Rental income	322,000.00	402,000.00
Others	387,355.05	129,816.88
Total	709,355.05	531,816.88

5.32 Operating Expenses

(1) Business Tax and Surcharges

Item	2013	2012
Business tax	200,032,969.74	128,306,069.23
Urban maintenance and construction tax	13,951,105.82	8,963,069.07
Educational surcharges	10,002,035.08	6,438,349.50
Others	1,004,561.68	883,185.95
Total	224,990,672.32	144,590,673.75

(2) General and Administrative Expenses

Item	2013	2012
Employee expenses	498,401,503.81	372,198,787.18
Operating expenses	375,876,482.64	289,352,435.62
Depreciation of fixed assets	71,596,234.48	53,019,425.19
Amortization of long-term deferred expenses	19,823,410.52	12,919,181.64
Amortization of intangible assets	38,079,192.55	23,992,085.24
Tax and surcharges	4,526,502.36	2,240,184.02
Rental fee and property management fee	140,632,109.87	74,129,215.00
Total	1,148,935,436.23	827,851,313.89

(3) Allowance for Impairment Losses

Item	2013	2012
Allowance for impairment losses from loans and advances	1,045,035,582.03	583,966,399.38
Allowance for impairment losses of receivables	122,223,700.00	—
Allowance for impairment losses of repossessed assets	53,095,398.78	—
Bad debt of other receivables	9,796,521.03	(4,589.04)
Total	1,230,151,201.84	583,961,810.34

5.33 Non-operating Income

Item	2013	2012
Government grants	14,178,344.20	15,607,100.00
Others	69,212.14	385,196.13
Total	14,247,556.34	15,992,296.13

5.34 Non-operating Expenses

Item	2013	2012
Losses on disposal of non-current assets	—	—
Of which: Losses on disposal of fixed assets	—	—
Donation expenses	6,008,250.00	9,003,120.00
Penalties and overdue fines	2,545.40	71,114.90
Others	—	51,349.46
Total	6,010,795.40	9,125,584.36

5.35 Income Tax Expenses

Item	2013	2012
Current income tax expenses	649,664,463.23	448,870,306.58
Deferred income tax expenses	(179,509,945.88)	(57,000,991.86)
Total	470,154,517.35	391,869,314.72

5.36 Earnings per Share

(1) Earnings per Share

Item	2013		2012	
	Earnings per Share(RMB/share)		Earnings per Share(RMB/share)	
	Diluted earnings per share	Basic earnings per share	Diluted earnings per share	Basic earnings per share
Consolidated net profit attributable to ordinary equity holders of the parent company	0.38	0.38	0.29	0.29

(2) Return on Equity

Item	2013	2012
	Return on weighted average equity (%)	
Net profit attributable to ordinary equity holders of the company	16.19	14.25

5.37 Capital Adequacy Ratio

The Bank's core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio as at 31 December 2013 were calculated in accordance with Regulation about Capital Adequacy Ratio in Commercial Bank and its subsequent revision issued by CBRC. The details are as follows:

Item	31 December 2013
Core tier 1 capital adequacy ratio (BIII) (%)	11.49
tier 1 capital adequacy ratio (BIII) (%)	11.49
capital adequacy ratio (BIII) (%)	12.38

In addition, according to the requirements during transitional period, in accordance with Regulation about Capital Adequacy Ratio in Commercial Bank and its subsequent revision, capital adequacy ratio as at 31 December 2013:

Item	31 December 2013	31 December 2012
Core capital adequacy ratio (%)	12.98	13.72
Capital adequacy ratio (%)	12.97	13.72

5.38 Other Comprehensive Income

Item	2013	2012
1. Gain/(losses) on available-for-sale financial assets	(1,216,159,254.00)	(26,061,245.90)
Less: Influence of income tax arising from available-for-sale financial assets	(178,514,701.21)	27,588,717.12
Net amount transferred to current profit or losses from other comprehensive income in the prior period	(26,061,245.90)	(209,986,026.71)
Subtotal	(1,011,583,306.89)	156,336,063.69
2. Others	—	—
Total	(1,011,583,306.89)	156,336,063.69

5.39 Notes to the Consolidates Statement of Cash Flows

(1) Cash Received from Other Operating Activities

Item	2013	2012
Advance received to be transferred	3,612,980,335.13	1,974,094,288.32
Government grants	14,178,344.20	15,607,100.00
Rental income	322,000.00	402,000.00
Others	69,212.14	385,196.13
Total	3,627,549,891.47	1,990,488,584.45

(2) Other Cash Payments Related to Operating Activities

Item	2013	2012
Payment for settlement and liquidation	315,862.08	206,138.70
Operating expenses and gain on foreign exchange	204,095,529.65	160,873,077.29
Others	6,108,903.18	9,322,015.59
Total	210,520,294.91	170,401,231.58

5.40 Supplementary Information for the Consolidates Statement of Cash Flows

(1) Net Profit Adjusted to Cash Flow from Operating Activities

Item	2013	2012
Net profit belonging to parent company's shareholders	2,585,147,534.01	1,943,597,633.32
Minority shareholders' current earnings	7,109,211.67	1,589,199.90
Net profit	2,592,256,745.68	1,945,186,833.22
Add: Allowance for asset impairment losses	1,230,151,201.84	583,961,810.34
Depreciation of fixed assets	71,596,234.48	53,019,425.19
Amortization of intangible assets	38,079,192.55	23,992,085.24
Amortization of long-term deferred charges	19,823,410.52	12,919,181.64
Losses on disposal of fixed assets, intangible assets and other long-term assets	—	—
Losses on changes of fair value	181,332,419.05	(4,006,460.00)
Losses arising from investments	(3,456,432,470.20)	(2,234,524,543.84)
Decrease in deferred income tax assets	(179,509,945.88)	(57,000,991.86)
Increase in deferred income tax liabilities	—	—

Continued

Item	2013	2012
Decrease in loans and advances to customers	(21,704,773,211.67)	(20,368,656,922.84)
Increase in customer deposits and deposits with banks and non-bank financial institutions	25,595,576,393.97	30,605,535,170.87
Net increase in placements with banks and non-bank financial institutions	(20,592,619,795.47)	(5,415,688,606.99)
Decrease in operating receivables	(13,901,142,952.43)	(11,271,259,657.31)
Increase in operating payables	44,453,759,537.56	25,696,023,665.78
Decrease in other operating assets	(75,766,321.53)	(4,745,920.58)
Increase in other operating liabilities	910,965,734.39	60,758,176.83
Net cash flow from operating activities	15,183,296,172.86	19,625,513,245.69

(2) Cash and Cash Equivalents

Item	2013	2012
1. Cash	51,767,390,204.64	40,627,446,252.58
Including: Cash in hand	318,633,384.72	255,747,431.75
Deposits with central bank	8,594,675,297.46	6,562,390,108.64
Deposits with banks within 3 months	42,854,081,522.46	33,809,308,712.19
2. Cash equivalents	529,650,000.00	10,830,037,297.26
Including: Securities held under resale agreements due within 3 months upon acquisition	529,650,000.00	10,830,037,297.26
Available-for-sale financial assets due within 3 months upon acquisition	—	—
Held-to-maturity bonds investment due within 3 months upon acquisition	—	—
Financial assets held for trading due within 3 months upon acquisition	—	—
3. Ending balance of cash and cash equivalents	52,297,040,204.64	51,457,483,549.84

5.41 Operating Segments

The Bank's businesses mainly include four service segments:

Corporate banking refers to the services provided to the corporation clients, including deposits, loans, intermediary business, etc.

Personal banking refers to the services provided to the individual clients, including savings, person loans, settlement business, etc.

Fund business includes bond investment, repurchase, resale, etc.

International business includes all corporation, personnel and funding business transactions related to foreign currency.

Business segments in 2013

Item	Corporate banking	Personal banking	International business	Treasury	Total
Net interest income	2,282,299,635.33	352,774,821.31	743,668,703.86	1,248,788,682.57	4,627,531,843.07
Net fee and commission income	353,912,688.18	(3,960,937.64)	495,560,094.89	–	845,511,845.43
Investment income	–	–	–	53,798,189.99	53,798,189.99
Gain from fair value changes	–	–	–	(181,332,419.05)	(181,332,419.05)
Gain on foreign exchange	–	–	312,213,529.19	–	312,213,529.19
Other operating income/cost	528,823.85	–	–	–	528,823.85
Business tax and surcharges	164,179,133.85	9,349,196.44	48,449,643.39	3,012,698.64	224,990,672.32
General and administrative expenses	620,346,827.52	109,413,228.76	243,322,187.51	175,853,192.44	1,148,935,436.23
Allowance for impairment losses	1,072,143,741.96	35,783,759.88	–	122,223,700.00	1,230,151,201.84
Operating profit	780,071,444.03	194,267,698.59	1,259,670,497.04	820,164,862.43	3,054,174,502.09
Non-operating income	14,247,556.34	–	–	–	14,247,556.34
Non-operating expenses	6,010,795.40	–	–	–	6,010,795.40
Profit before tax	788,308,204.97	194,267,698.59	1,259,670,497.04	820,164,862.43	3,062,411,263.03
Income tax	139,716,336.30	34,431,166.56	150,644,542.02	145,362,472.47	470,154,517.35
Net profit	648,591,868.67	159,836,532.03	1,109,025,955.02	674,802,389.96	2,592,256,745.68

6. Related Party Relationships and Transactions

6.1 Related Party Relationships

(1) Information of the Parent Company

Name of the parent company	Registered address	Nature of business	Economic nature	Registered capital(in RMB billions)	Shareholding ratio (%)
China National Petroleum Corporation	Liupukang, Xicheng District, Beijing	Petroleum&gas exploitation	State-owned	379.86	77.10

Capital of Parent Company and Its Movement

(In RMB Billions)

Name	31 December 2012	Increase	Decrease	31 December 2013
China National Petroleum Corporation	379.86	—	—	379.86

Shareholding Ratio of Parent Company and Its Movement

(In RMB Ten Thousands)

Name	Shareholding amount		Shareholding ratio (%)	
	31 December 2012	31 December 2013	31 December 2012	31 December 2013
China National Petroleum Corporation	550,727.40	569,014.16	82.00	77.10

(2) Shareholders Who Held Voting Shares of More Than 5% (Including 5%)

As at 31 December 2013, there was no shareholder who held voting shares of more than 5% (including 5%) except the Bank's parent company.

6.2 Information of the Subsidiaries

See Note 4.1 for the information of subsidiaries as at 31 December 2013.

6.3 Directors, Supervisors and Senior Management of the Bank

6.4 Other Related Party Relationship

Name of companies	Relationship
PetroChina Company Limited	Same ultimate controller
Xinjiang Petroleum Administration Bureau	Same ultimate controller
Xinjiang Dushanzi Petrochemical General Factory	Same ultimate controller
Kunlun Contracting & Engineering Corp	Same ultimate controller
CNPC Transportation Co., Ltd	Same ultimate controller
China Petroleum Engineering Co.,Ltd.	Same ultimate controller
China Petroleum Northeast Refining & Chemical Engineering Co. Ltd.	Same ultimate controller

Continued

Name of companies	Relationship
Turpan-Hami Oil Exploration and Development Headquarters	Same ultimate controller
China Huanqiu Contracting & Engineering Corp	Same ultimate controller
China Petroleum Contracting & Engineering Corp	Same ultimate controller
Daqing Petroleum Administration Bureau	Same ultimate controller
CNPC Greatwall Drilling Co., Ltd.	Same ultimate controller
PetroChina Urumqi Petrochemical General Factory	Same ultimate controller
China Petroleum Technology Development Co., Ltd.	Same ultimate controller
CNPC West Pipeline Co., Ltd.	Same ultimate controller
CNPC Xibu Drilling Engineering Co., Ltd.	Same ultimate controller
CNPC Offshore Engineering Co., Ltd.	Same ultimate controller
Changqing Petroleum Exploration Bureau	Same ultimate controller
Chuanqing Drilling Engineering Co., Ltd.	Same ultimate controller
CNPC Logging Co., Ltd.	Same ultimate controller
Tarim Oil Exploration and Development Headquarters	Same ultimate controller
Beijing Jinyaguang Real Estate Management Co., Ltd.	Same ultimate controller
China National United Oil Co., Ltd.	Same ultimate controller
Baoji Petroleum Steel Pipe Factory	Same ultimate controller
CNPC Bohai Drilling Engineering Co., Ltd.	Same ultimate controller
Sinopetroleum Corporation	Same ultimate controller
CNPC Bohai Petroleum Equipment Manufacturing Co., Ltd.	Same ultimate controller
PetroChina Daqing Petrochemical General Factory	Same ultimate controller
Liaohe Petroleum Exploration Bureau	Same ultimate controller
Zhongyi Property Insurance Co., Ltd.	Same ultimate controller
Beijing Petroleum Machinery Factory	Same ultimate controller
CNPC Research Institute of Economics and Technology	Same ultimate controller
China Petroleum Pipeline Bureau	Same ultimate controller
China Petroleum Lanzhou Petrochemical Company	Same ultimate controller
Dagang Oilfield Group Limited Company	Same ultimate controller
Ningxia Chemical Plant	Same ultimate controller
China Petroleum Finance Co., Ltd.	Same ultimate controller
Kunlun Financial Leasing Co., Ltd.	Same ultimate controller
CNPC Exclusive Property Insurance Co., Ltd.	Same ultimate controller

6.5 Interest Paid to the Related Parties

(In RMB Ten Thousands)

Name of the company	Interest expenses in 2013	Interest expenses in 2012
PetroChina company limited	22,029.67	15,377.04
China National Petroleum Corporation	93,221.95	91,841.44
Other subsidiaries of the parent company	34,070.02	28,095.15

6.6 Interest Charged from the Related Parties

(In RMB Ten Thousands)		
Name of the company	Interest income in 2013	Interest income in 2012
PetroChina company limited	–	22,906.58
Other subsidiaries of the parent company	24,894.57	1,964.66

6.7 Rental Paid to the Related Parties

(In RMB Ten Thousands)		
Name of the company	Rental expenses in 2013	Rental expenses in 2012
Other subsidiaries of the parent company	4,250.34	–

6.8 Balance of the Related Party

(In RMB Ten Thousands)			
Name of the company	Account name	31 December 2013	31 December 2012
PetroChina company limited	Customer deposits and deposits from banks and non-bank financial institutions	304,038.10	171,730.26
	Interest payable	3,695.65	3,339.71
China National Petroleum Corporation	Customer deposits and deposits from banks and non-bank financial institutions	4,433,866.69	4,174,681.07
	Interest payable	58,871.13	16,862.76
Other subsidiaries of the parent company	Loans and advances to customers	231,900.00	692,989.00
	Deposits with banks and non-bank financial institutions	322,255.26	302,524.01
	Customer deposits and deposits from banks and non-bank financial institutions	1,976,556.09	1,808,628.96
	accounts payable-others	7,002.80	3,515.44
	Interest payable	14,086.88	23,428.46
	Interest receivable	1,095.18	1,287.35

6.9 Entrusted Deposits and Loans of the Related Parties

(In RMB Ten Thousands)		
Name of the company	31 December 2013	31 December 2012
China National Petroleum Corporation	7,396,424.00	8,516,000.00
PetroChina company limited	3,279,398.75	3,749,989.83
Other subsidiaries of the parent company	100,000.00	100,000.00

6.10 Guarantee Service

(In RMB Ten Thousands)		
Name of the company	31 December 2013	31 December 2012
Other subsidiaries of the parent company	267,267.79	267,417.61
Non-affiliate enterprises whose guarantor is CNPC	42.09	–

6.11 commission income

(In RMB Ten Thousands)			
Name of the company	Account	Commission income in 2013	Commission income in 2012
China National Petroleum Corporation	Entrusted loan business income	33,436.18	44,788.71

7. Contingencies, Commitments and Main Off-balance Events

7.1 Contingencies about Contentious Matters

By the end of 31 December 2013, as plaintiff, the Bank still had 6 pending litigations, involving an amount of RMB558.9833 million. As defendant, the Bank still had 1 pending litigation.

7.2 Commitments

(1) Capital Commitments

(In RMB Ten Thousands)		
Item	31 December 2013	31 December 2012
Contracted but not paid	5,267.70	8,577.41

The above commitments are the commitments of capital expenditure to build business offices, purchase facilities, develop systems, etc.

(2) Operating Lease Commitments

By the end of the year, the minimum lease payments according to irrevocable lease agreements of business venues, office buildings, and others are classified as follows:

Item	31 December 2013	31 December 2012
Within 1 year	149,700,422.15	19,963,654.46
1 to 2 years	27,167,904.59	14,968,554.96
2 to 3 years	20,928,216.87	14,282,966.91
3 to 4 years	16,563,176.80	11,323,247.48
4 to 5 years	14,240,950.63	7,916,409.28
More than 5 years	33,891,125.77	7,335,543.96
Total	262,491,796.81	75,790,377.05

(3) Commitments on Collateral Securities

Some bonds and notes were used as collateral securities for interbank transactions such as sale of financial assets under repurchase agreements. The related balances are as follows on the balance sheet date:

Item	31 December 2013	31 December 2012
Held-to-maturity investments	–	5,414,063,389.31
Of which: Financial bonds	–	998,360,239.91

Continued

Item	31 December 2013	31 December 2012
Corporate bonds	–	4,415,703,149.40
Available-for-sale financial assets	481,893,880.00	898,649,950.00
Of which : Financial bonds	481,893,880.00	599,999,650.00
Corporate bonds	–	298,650,300.00
Total	481,893,880.00	6,312,713,339.31

7.3 Main Off-balance Sheet Item of Contingent Risks

Item	31 December 2013		
	Amount	Amount of guarantee	Guarantee ratio(%)
Credit letter	–	–	–
Bank acceptance bill	3,420,800,397.79	950,293,384.90	27.78
Letter of guarantee	5,079,735,868.55	1,112,639,288.45	21.90

Item	31 December 2012		
	Amount	Amount of guarantee	Guarantee ratio(%)
Letter of credit	30,807,615.20	–	–
Bank acceptance bill	959,967,490.02	366,098,308.00	38.14
Letter of guarantee	4,487,389,416.78	2,356,384,720.27	52.51

Issuance of letter of credit is a kind of credit business that the Bank issues a written guarantee with a certain amount to the beneficiary as required by the applicant, to pay that amount to the beneficiary with prescribed bills at the designated location within a certain period.

Issuance of bank acceptance bill is a credit business that the Bank agrees to accept the commercial bill signed by the payee or payer (or applicant of acceptance), and submitted to the Bank by the applicant of acceptance.

Issuance of letter of guarantee is a credit business that the Bank makes a commitment to the beneficiary by way of issuing a letter of guarantee as required by the applicant or principal. If the applicant fails to fulfill the contractual responsibilities or commitments, the Bank will assume the debt or fulfill the responsibilities as agreed in the letter of guarantee.

8. Post Balance Sheet Events

None.

9. Risk Management

The Bank mainly carries out various deposit and loan businesses under the interest rate system established by the People's Bank of China.

The Bank's business activities make extensive use of financial instruments. The Bank absorbs deposits of different

maturities at fixed interest rates and invests them in high-quality assets to obtain above-average spreads. The Bank increases spreads by investing short-term funds in medium-term and long-term loans and bond investments with higher interest rates, meanwhile maintaining adequate liquidity in order to ensure timely repayments of debt upon maturity.

Such financial instruments include not only financial assets held for trading, grant of loans and advances, available-for-sale financial assets, held-to-maturity investments, financial assets held under resale agreements presented in the statement of financial position, but also include the provision of credit, guarantees or other commitments.

The Board of Directors is the highest decision making body of risk management of the Bank, responsible for determining the overall risk appetite, risk tolerance and risk control of the Bank; its Risk Management Committee and Related Party Transactions Control Committee are responsible for approval of risk management strategies, policies and procedures with the authorization of the Board of Directors. Within the management of the company, there are Risk Management Committee, Internal Control Management Committee and Assets and Liability Management Committee, which are responsible for approval for credit risk, market risk, and operational risk control, as well as related policies and procedures. Meanwhile, as for the implementation of specific business, the Bank defines monitoring of the financial risks by various internal departments: Risk Management Department and Credit Management Department are responsible for monitoring the credit risk; Risk Management Department and the Asset and Liability Management Department are responsible for monitoring market risk and liquidity risk; Risk Management, Legal Compliance Department, Operations Management Department and other departments are responsible for monitoring the operational risk. Risk Management Department is mainly responsible for the coordination and the establishment of a comprehensive risk management framework, the summary report of credit risk, market risk and operational risk, and directly reports to the Risk Management Committee.

During this process, the Bank will face various risks. Descriptions and analysis of several major risks are listed as follows:

9.1 Credit Risk

Credit risk represents the financial losses that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Bank. Credit risk is the most important risk which the Bank faces in operating activities. The Bank's credit risk arises mainly from grant of loans and advances, the off-balance-sheet credit commitments and other credit services, investment portfolio of bonds and bills not issued by China's Ministry of Finance and the People's Bank of China, portfolio of financial transactions with financial institutions other than the People's Bank of China, etc. In terms of credit risk management, the management follows the principle of prudence to manage credit risk exposure of credit assets in accordance with requirements of the Guidelines on Project Finance, Interim Measures for the Administration of Loans for Fixed Assets, Interim Measures for the Administration of Loans for Working Capital, Interim Measures for the Administration of Loan to Individuals and other rules promulgated by the CBRC.

The functions of the Bank's credit risk management have the following main features:

The Bank determines the risk levels of credit business based on its type, industry and scale, etc., and submits them to the Credit Review Committee of the head office and branches to decide. For significant related party transactions, there will

be an initial review by Related Party Transactions Control Committee of the Bank in accordance with the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders, and they will be submitted to the Board of Directors for further deliberation. The relevant related parties should withdraw from the voting. After the deliberation is passed, it will be submitted to China Banking Regulatory Commission for archival purpose. In the credit control procedures, risk management rules and procedures focus primarily on risk management in the credit service cycle, including client surveys, credit rating, authorized credit limits, loan review and approval, loan and credit monitoring, and are implemented in strict adherence to the requirements of “Three measures and one guideline” promulgated by the CBRC, especially the management of the borrowers’ entrusted payment.

With its unique business advantages, the Bank actively develops trade finance business and relevant project loans with China National Petroleum Corporation and the chain suppliers of its associated units, mainly secured by the suppliers’ accounts receivable from China National Petroleum Corporation and its associated units as collaterals of the credit assets, so this type of loans has a relatively low risk of losses. Besides, the Bank cooperates closely with the debtors of the loan clients, China National Petroleum Corporation and its associated units, to directly control the recovery of the accounts receivable.

In terms of the credit risk management of credit business, duties are segregated among various departments of the Bank. Risk Management Department is responsible for the formulation of basic policies, systems and procedures, methods of credit rating, credit authorization and debt evaluation for a variety of clients of the Bank, as well as the development, maintenance, and application of the relevant management information system, and monitoring and management of non-performing loans of the Bank; Credit Management Department is responsible for classification of quality of credit assets pertaining to the Bank’s individual clients, monitoring and analysis of quality and structure of credit assets pertaining to the Bank’s individual clients, implementation of credit risk management within the Bank as a whole, credit rating, authorization, review and approval, and project evaluation according to relevant authority of the head office, as well as supervision and inspection of credit management of the branches, in compliance with basic policies, rules and regulations concerning credit rating and authorization for corporate clients of the Bank, the project (collaterals) assessment, loan quality classification, post-loan management, etc.; Legal Compliance Department is responsible for management of legal compliance risks involved in corporate credit business; Asset and Liability Management Department is responsible for management of liquidity risk and interest rate risk of corporate credit business.

In the portfolio, based on the credit rating of the issuer of bonds and notes and the counterparty, risk preferences and risk tolerance of the investment will be configured according to the credit rating of the investment in financial instruments as well as counterparty trading limit.

(1) Measurement of Credit Risk

A. Grant of Loans and Advances

The Bank measures and manages the quality of its credit assets according to “Guidelines on Risk-Based Loan Classification” issued by the PBOC. These guidelines require the Chinese commercial banks to classify credit assets into five categories as pass, special mention, substandard, doubtful and losses, of which the latter three categories are regarded as non-performing loans. On that basis, the Bank develops a credit asset quality model to implement

a management system that classifies credit assets into twelve levels, which improves the quality management of credit assets, and will promote the risk management level of the Bank; at the same time, the Bank integrates the off-balance sheet business into the standard credit authorization system for clients, implements credit limit management, and classifies main off-balance sheet business types based on their risks pursuant to Guidelines on Risk-Based Loan Classification.

B. Bond Investments

The Bank sets credit limits for each financial client (including counterparty, bond issuers, etc.). Trade Department makes bond investments within these limits.

Renminbi bond investments mainly include treasury bonds issued by China's Ministry of Finance, notes issued in the open market by the People's Bank of China, financial bonds issued by state policy banks; other bonds credit entities must conform to requirements and basic conditions prescribed by the regulatory institutions and the Bank.

(2) Management of Risk Quotes and Mitigation Measures

The Bank analyzes current and potential clients' ability to repay the principal and interest, regularly adjusts the credit limit appropriately, and timely develops risk control measures to control credit risks mainly through the formulation and rigorous implementation of procedures including investigation, review, approval and grant. At the same time, access to collateral and guarantees is also a way adopted by the Bank to control credit risk.

A. Credit Limit Management

(a) Grant of Loans and Advances

The Bank has developed credit management policies for corporate clients, prescribing the credit limits for individual client, group, region or industry, as well as monitoring and management of specific clients. In accordance with the requirements of the Interim Measures for the Administration of Loans for Working Capital, the Bank predicts the loan clients' needs of the working capital, and gradually increases the level of credit risk management.

The Bank's Risk Management Department prepares credit risk management reports each quarter, analyzing the overall risk, strategic risk, industrial risk, regional risk, concentration risk, risk of new loans, and risk of stock loans, risk of non-performing loans and its causes with regard to the Bank's credit business, and proposing management strategies and policy measures of credit risk, including adjustment of authorization and business restructuring; in addition, Risk Management Department provides timely information about the effect arising from related party transactions with the Bank's clients and group clients subject to serious and systematic problems existing in the industry, region or business characterized by comprehensiveness, suddenness and tendency, as well as risk profile changes in major clients, analyzes causes of risks, deliberates and formulates policies and measures to prevent and control risks, and reviews implementation of the credit limits on a regular basis. The report is submitted to the Risk Management Committee on a quarterly basis for deliberation and relevant information is disclosed on a regular basis in accordance with disclosure requirements of the Bank and regulatory agencies.

The Bank manages its credit limits according to the credit types divided as personal business, corporate business,

syndicated loans and credit assets bought from other banks:

(i) Personal Business

The Bank's personal credit business mainly includes loans for personal consumption, personal business loans, housing loans to individuals and other services.

For the Bank's personal credit business, the business management department is responsible for the whole process of the personal credit control, strictly follows the hierarchical authority for approval, and implements real time risk control.

(ii) Corporate Business

Corporate credit business includes various types of in-balance sheet credit business such as short, medium and long term loans and discounting services, and off-balance sheet credit business such as issuance of bank acceptance bills, letters of credit, etc.

For the corporate credit risk management, the Bank carries out product marketing and business activities in accordance with the variety of credit products, business characteristics and risk control under the unified decisions and directions of the Risk Management Committee and under the unified credit authorization of the Credit Operation Department; the Bank implements internal horizontal and vertical authorization to loan granting decisions involved in various credit activities; besides, the Bank implements centralized and unified monitoring on the risks throughout the process of each credit activity involving steps such as admission, investigation, review, approval, grant and management after issuance led by the Credit Management Department in accordance with the key points of risk control.

(iii) Syndicated Loans or Credit Assets Bought from Other Banks

Syndicated loan is a form of loan business in which the leading bank signs a separate loan covenant with the borrower, and grants or promises to grant loans to the borrower; then the leading bank arranges other banks with willingness to grant loans through transfer of parts of loans granted or to be granted to these banks. The leading bank and banks with transferred loans comprise a bank syndicate, and the leading bank, also acting as an agency, is responsible for loan management. Sometimes such a loan is also termed participative syndicated loan.

Purchase of credit assets from other banks is a form of interbank financing business in which the undue credit asset is voluntarily and legally transferred to the Bank from other similar banking institutions within their operation range in accordance with the agreement.

The syndicated loans and credit assets bought from other banks in which the Bank is involved is approved by the Credit Management Department and Risk Management Committee. The Bank grants credit to borrowers independent of the leading bank or transferring bank. The limit of the transferred credit assets shall not exceed the borrower's credit limits identified by the Bank. In addition, the Bank will comply with the related requirements in Notice of China Banking Regulatory Commission on Further Regulating the Credit Asset Transfer Business of Banking Financial Institutions (YJF [2010] No. 102) issued by China Banking Regulatory Commission to further standardize the business related to the purchase of credit assets.

(b) Bond Investments

The Bank has set structural limits such as bond portfolio limits, issuer limits, single issuance limits to manage the credit risk of bonds on a portfolio basis.

B. Risk mitigation Measures

(a) Loan Guarantees and Collaterals

The Bank will require the borrower to provide guarantors or collaterals as risk mitigation in accordance with the extent of credit risk. Mortgage (pledge) as a kind of guarantee is widely adopted in the credit business. Mortgage (pledge) accepted by the Bank includes the priced bills, bonds, equities, real estates, land use rights, machinery and equipment, vehicles etc.

The Bank commissions professional intermediary assessment agencies to assess the value of the mortgage (pledge), and generally depends on the evaluation report issued by professional intermediaries as a major source of reference when making relevant decisions during the business review. The assessment result will be verified by Credit Review Committee and other review institutions authorized by the head office, and credit mortgage (pledge) rate will be finally determined.

For loans guaranteed by a third party, the Bank assesses the guarantor's financial condition, credit history and ability to fulfill their obligations with the same procedures and criteria as the main borrower.

(b) Credit Commitments

The main purpose of credit commitment is to ensure clients to get the funds needed. Issuing letters of guarantee or making an irrevocable assurance to accept bills means that the Bank will assume the same credit risk of the loan in case clients cannot fulfill their payment obligations to the third party. In some cases, the Bank will charge a margin to provide the service in order to reduce the credit risk assumed. The amount of margin is charged at a certain percentage of the committed amount in accordance with the extent of risks exposed to the Bank, such as the client's credit capacity and business credit rating.

(c) Analysis on Impairment of Credit Assets and Policies of Impairment Provisions

Credit service staffs of corporate loans classify the outstanding loans in accordance with the borrower's solvency, and such factors as the guarantee, mortgage or pledge, overdue period. Business departments initiate, propose the classification of the credit assets, the authorized personnel approves the classification. The Bank usually classifies the credit assets and revises their classification on a monthly basis based on information obtained from inspection by loan administration department. In addition for significant credit assets, the Bank will make timely adjustments to the classification of loans upon information obtained from loan administration department.

Five categories of personal loans are classified by the credit management staff based on their overdue periods, and then recognized by the credit management and asset management departments.

Under the current accounting policies, if objective evidence shows that the future cash flows of the loan are expected to reduce and the amount of reduction can be estimated, the Bank recognizes loans to that client have been

impaired, and allowance for impairment losses is made.

The criteria whether there is objective evidence of impairment include:

- (i) Default or delinquency on the interest or principal;
- (ii) The borrower undergoing financial difficulty (for example, deterioration of indicators such as debt to equity ratio and net profit margin);
- (iii) A breach of the terms of the contract by the debtor;
- (iv) Events that may result in collapse of the debtor;
- (v) Deterioration of the borrower's competitiveness;
- (vi) The credit rating is decreased below the investment grade.

Quality of financial assets with individually material amount should be reviewed at least once a quarter. For assets with separate allowance for impairment losses reserves, the Bank assesses their losses at the balance sheet date on an individual basis to determine the amount of provision. During the evaluation process, the Bank will normally consider the value of the collateral property and the expected future cash flows.

The Bank makes allowance for impairment losses reserve on the following portfolio in accordance with historical data, experience, judgment and statistical technique:

- (i) Portfolio of assets with individually immaterial amount and with similar credit risk characteristics;
- (ii) Assets to which losses has occurred but has not yet been identified.

The five categories of loans and advances at the balance sheet date are as follows:

Five categories	31 December 2013		31 December 2012	
	Loans and advances	Proportion (%)	Loans and advances	Proportion (%)
Subtotal of performing loans:	62,383,616,848.50	98.97	40,618,319,619.15	98.20
Pass	62,365,216,848.50	98.94	40,600,469,619.15	98.16
Special mention	18,400,000.00	0.03	17,850,000.00	0.04
Subtotal of non-performing loans:	650,983,496.25	1.03	745,042,827.93	1.80
Substandard	109,754,788.44	0.17	739,932,610.66	1.79
Doubtful	1,144,086.79	—	1,396,149.61	—
Losses	540,084,621.02	0.86	3,714,067.66	0.01
Total	63,034,600,344.75	100.00	41,363,362,447.08	100.00

Five categories of loans and advances and allowance for impairment losses at the end of the year:

Five categories	31 December 2013		
	Loans and advances	Proportion of provision (%)	Provision amount
Pass	62,365,216,848.50	2.28	1,422,867,933.14
Special mention	18,400,000.00	3.13	576,000.00
Substandard	109,754,788.44	30.00	32,926,436.53
Doubtful	1,144,086.79	60.00	686,452.07
Losses	540,084,621.02	100.00	540,084,621.02
Subtotal	63,034,600,344.75	3.17	1,997,141,442.76

Five categories of loans and advances and allowance for impairment losses at the beginning of the year:

Five categories	31 December 2012		
	Loans and advances	Proportion of provision (%)	Provision amount
Pass	40,600,469,619.15	1.87	758,574,134.10
Special mention	17,850,000.00	3.00	535,500.00
Substandard	739,932,610.66	30.00	221,979,783.20
Doubtful	1,396,149.61	60.00	837,689.77
Losses	3,714,067.66	100.00	3,714,067.66
Subtotal	41,363,362,447.08	2.38	985,641,174.73

Overdue and impaired loans and advances:

Item	31 December 2013	31 December 2012
Neither overdue nor impaired	62,383,616,848.50	40,586,365,398.07
Overdue but not impaired	1,089,074.61	33,077,195.38
impaired	649,894,421.64	743,919,853.63
Less: Allowance for impairment losses	1,997,141,442.76	985,641,174.73
Net amount	61,037,458,901.99	40,377,721,272.35

(i) In accordance with five categories, the specific forms of the credit risk of loans and advances not yet overdue and impaired are as follows:

Item	31 December 2013		
	Corporate loans	Personal loans	Total
Pass	59,885,494,288.93	2,484,522,559.57	62,370,016,848.50
Special mention	13,600,000.00	–	13,600,000.00
Substandard	–	–	–
Doubtful	–	–	–
Losses	–	–	–
Total	59,899,094,288.93	2,484,522,559.57	62,383,616,848.50
Less: allowance for impairment losses	1,362,026,097.33	61,417,835.81	1,423,443,933.14
Net amount	58,537,068,191.60	2,423,104,723.76	60,960,172,915.36

Item	31 December 2012		
	Corporate loans	Personal loans	Total
Pass	39,312,377,854.88	1,271,137,543.19	40,583,515,398.07
Special mention	2,850,000.00	–	2,850,000.00
Substandard	–	–	–
Doubtful	–	–	–
Losses	–	–	–
Total	39,315,227,854.88	1,271,137,543.19	40,586,365,398.07
Less: allowance for impairment losses	732,741,474.79	25,579,074.89	758,320,549.68
Net amount	38,582,486,380.09	1,245,558,468.30	39,828,044,848.39

(ii) Analysis of loans and advances overdue but not impaired:

Item	31 December 2013		
	Corporate loans	Personal loans	Total
Overdue for 1-90 days (including 90 days)	—	—	—
Overdue for 90-360 days (including 360 days)	—	115,537.51	115,537.51
Overdue for 360 days to 3 years (including 3 years)	—	182,834.97	182,834.97
Overdue over 3 years	—	790,702.13	790,702.13
Total	—	1,089,074.61	1,089,074.61
Allowance for impairment losses	—	618,783.51	618,783.51
Net amount	—	470,291.10	470,291.10

Item	31 December 2012		
	Corporate loans	Personal loans	Total
Overdue for 1-90 days (including 90 days)	31,954,221.08	—	31,954,221.08
Overdue for 90-360 days (including 360 days)	—	—	—
Overdue for 360 days to 3 years (including 3 years)	—	1,122,974.30	1,122,974.30
Overdue over 3 years	—	—	—
Total	31,954,221.08	1,122,974.30	33,077,195.38
Allowance for impairment losses	789,084.42	673,784.58	1,462,869.00
Net amount	31,165,136.66	449,189.72	31,614,326.38

(iii) Overdue and impaired loans and advances by security type:

Security	31 December 2013	31 December 2012
Credit loans	—	—
Guarantee loans	632,055,170.71	740,205,785.97
Mortgaged loans	—	—
Pledged loans	17,839,250.93	3,714,067.66
Total	649,894,421.64	743,919,853.63
Less: Allowance for impairment losses	573,078,726.11	225,857,756.05
Net amount	76,815,695.53	518,062,097.58

(3) Concentration of Credit Risk of Credit Assets

If the credit customer or counterparty is concentrated in a particular industry or region, or has common economic characteristics, credit risk is often greater.

(4) Maximum Credit Risk Exposure

The following table shows the maximum credit risk exposure of the Bank without consideration of collaterals and other credit enhancements on 31 December 2013. For balance sheet Item, the risk exposure of assets is the carrying value at the balance sheet date.

Item	31 December 2013	31 December 2012
Exposure to credit risk of balance sheet Item includes:		
Deposits with banks and non-bank financial institutions	66,388,475,505.01	48,513,427,457.97
Placements with banks and non-bank financial institutions	868,900,000.00	—
Financial assets held for trading	5,456,600,520.00	1,098,150,138.36
Financial assets held under resale agreements	11,204,937,500.00	12,992,347,571.24
Loans and advances to customers	61,037,458,901.99	40,377,721,272.35
Available-for-sale financial assets	24,772,653,819.98	21,623,774,404.99
Held-to-maturity investments	17,614,191,312.12	19,794,276,463.51
Accounts receivable investments	24,770,528,711.69	13,687,603,263.89
Interest receivable	1,838,651,336.51	1,672,296,940.39
Others	27,759,355.80	8,971,887.94
Subtotal	213,980,156,963.10	159,768,569,400.64
Off-balance-sheet credit commitments exposure includes:		
Letter of credit	—	30,807,615.20
Bank acceptance bill	3,420,800,397.79	959,967,490.02
Letter of guarantee	5,079,735,868.55	4,487,389,416.78
Subtotal	8,500,536,266.34	5,478,164,522.00
Total	222,480,693,229.44	165,246,733,922.64

(5) Investment Bonds

The following table shows the distribution of credit rating of the bonds held by the Bank assessed by external rating agencies on 31 December 2013.

Item	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments
Renminbi in long-term debt (repayment period of one year or above):			
AAA	1,999,116,470.00	10,661,793,540.00	14,120,903,717.32
AA- to AA+	845,850,770.00	9,680,233,990.00	632,690,491.75
Not rated	254,156,390.00	304,227,239.98	240,065,162.60
Treasury bond	—	—	140,760,934.04
Central bank bills	—	—	—
Financial bonds from policy banks	1,420,199,890.00	3,927,467,300.00	2,300,842,771.58
Other financial bonds	—	—	—
Subtotal	4,519,323,520.00	24,573,722,069.98	17,435,263,077.29
Renminbi in short-term debt (Overdue within one year):			
A-1(Short-term financing bills)	—	49,903,450.00	109,869,812.39
AAA	—	—	—
AA- to AA+	—	—	—
Not rated	—	—	—
Treasury bond	—	—	—
Central bank bills	—	—	—
Financial bonds from policy banks	—	149,028,300.00	209,819,356.48
Other financial bonds	—	—	—

Continued

Item	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments
Subtotal	–	198,931,750.00	319,689,168.87
Total	4,519,323,520.00	24,772,653,819.98	17,754,952,246.16

The following table shows the distribution of credit rating of the bonds held by the Bank assessed by external rating agencies on 31 December 2012.

Item	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments
Renminbi in long-term debt (repayment period of one year or above):			
AAA	967,778,750.00	6,308,412,160.00	14,305,483,084.48
AA- to AA+	110,143,570.00	8,819,713,945.00	635,906,001.04
Not rated	–	221,218,540.00	80,218,683.19
Treasury bond	–	–	141,830,411.20
Central bank bills	–	–	–
Financial bonds from policy banks	–	1,011,949,200.00	900,892,311.64
Other financial bonds	–	–	–
Subtotal	1,077,922,320.00	16,361,293,845.00	16,064,330,491.55
Renminbi in short-term debt (Overdue within one year):			
A-1(Short-term financing bills)	–	1,079,298,539.99	–
AAA	–	1,664,740,850.00	1,571,825,034.16
AA- to AA+	20,227,818.36	749,460,070.00	–
Not rated	–	–	–
Treasury bond	–	–	29,998,133.59
Central bank bills	–	249,889,750.00	2,078,115,755.87
Financial bonds from policy banks	–	1,519,091,350.00	221,835,593.13
Other financial bonds	–	–	–
Subtotal	20,227,818.36	5,262,480,559.99	3,901,774,516.75
Total	1,098,150,138.36	21,623,774,404.99	19,966,105,008.30

9.2 Liquidity Risk

Liquidity risk refers to the risk due to the mismatch between cash flows generated from assets and liabilities resulting in failure to fulfill some payment obligations. Liquidity risk may not only result from mismatch of assets and liabilities, the transformation from credit and market risks to liquidity risks, but can also derive from market liquidity's negative effects. The common liquidity risk events that the Bank may face include: withdrawal of customer deposits, repayment of client loans and advances, postpone of debtors, mismatch of assets and liability structures, difficulties of assets disposal and operating losses, etc.

(1) Maturity Analysis of the Assets and Liabilities as at 31 December 2013

The following table shows the analysis of the Bank's assets and liabilities classified by their period to maturity on 2013 balance sheet date.

Item	Overdue	Repayable on demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Asset items:							
Cash and deposits with central bank	–	8,933,856,682.18	–	–	–	22,397,451,224.65	31,331,307,906.83
Deposits with banks and non-bank financial institutions	–	24,429,601,462.03	26,897,974,042.98	13,300,900,000.00	1,760,000,000.00	–	66,388,475,505.01
Placements with banks and non-bank financial institutions	–	–	18,900,000.00	10,000,000.00	840,000,000.00	–	868,900,000.00
Financial assets held for trading	–	–	100,000,000.00	837,277,000.00	3,012,092,540.00	1,507,230,980.00	5,456,600,520.00
Financial assets held under resale agreements	–	–	3,064,937,500.00	2,020,000,000.00	6,120,000,000.00	–	11,204,937,500.00
Interest receivable	6,846,740.93	15,995,562.04	1,035,585,685.74	715,897,987.48	78,222,172.29	–	1,852,548,148.48
Loans and advances to customers	13,025,986.63	–	7,637,025,923.36	35,384,424,193.64	11,508,434,166.69	6,494,548,631.67	61,037,458,901.99
Available-for-sale financial assets	–	–	507,730,310.00	1,773,528,630.00	17,512,110,240.00	4,979,284,639.98	24,772,653,819.98
Held-to-maturity investments	–	–	2,929,562,256.51	2,613,013,055.70	11,155,154,179.38	1,057,222,754.57	17,754,952,246.16
Accounts receivable investments	–	–	990,821,148.47	12,137,559,068.73	11,642,148,494.49	–	24,770,528,711.69
Fixed assets	–	–	–	–	–	297,941,459.19	297,941,459.19
Construction in progress	–	–	–	–	–	64,586,903.85	64,586,903.85
Intangible assets	–	–	–	–	–	84,447,629.21	84,447,629.21
Deferred income tax assets	–	–	–	–	449,279,605.95	–	449,279,605.95
Other assets	–	787,754.47	16,239,163.01	1,889,584.89	79,652,869.68	19,568,930.00	118,138,302.05
Total assets	19,872,727.56	33,380,241,460.72	43,198,776,030.07	68,794,489,520.44	64,157,094,268.48	36,902,283,153.12	246,452,757,160.39
Liability items:							
Deposits from central bank	–	–	20,000,000.00	25,000,000.00	–	–	45,000,000.00
Deposits from banks and non-bank financial institutions	–	45,754,089,272.82	12,303,347,000.00	19,785,110,000.00	11,729,000,000.00	–	89,571,546,272.82
Placements from banks and non-bank financial institutions	–	–	–	–	–	–	–
Financial assets sold under repurchase agreements	–	–	1,264,497,937.54	198,241,160.00	–	–	1,462,739,097.54

Continued

Item	Overdue	Repayable on demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Deposits from customers	—	84,995,098,774.01	12,315,122,924.30	15,042,333,341.27	18,022,291,169.91	50,422,774.55	130,425,268,984.04
Payroll payable	—	2,307,263.50	—	—	—	—	2,307,263.50
Taxes payable	—	398,998,774.94	—	—	—	—	398,998,774.94
Interest payable	—	24,293,970.48	288,370,254.43	490,252,886.32	913,635,016.04	81,613.76	1,716,633,741.03
Deferred income tax liabilities	—	—	—	—	—	—	—
Other liabilities	—	5,375,159,009.16	—	4,697,776.54	—	—	5,379,856,785.70
Total liabilities	—	136,549,947,064.91	26,191,338,116.27	35,545,635,164.13	30,664,926,185.95	50,504,388.31	229,002,350,919.57
Net liquidity	19,872,727.56	(103,169,705,604.19)	17,007,437,913.80	33,248,854,356.31	33,492,168,082.53	36,851,778,764.81	17,450,406,240.82

(2) Maturity Analysis of the Assets and Liabilities as at 31 December 2012

The following table shows the analysis of the Bank's assets and liabilities classified by their period to maturity on 2012 balance sheet date.

Item	Overdue	Repayable on demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Asset items:							
Cash and deposits with central bank	–	6,858,121,540.39	–	–	–	17,448,638,300.96	24,306,759,841.35
Deposits with banks and non-bank institutions	–	28,153,244,994.91	11,517,588,000.00	8,742,594,463.06	100,000,000.00	–	48,513,427,457.97
Financial assets held for trading	–	–	–	20,227,818.36	484,484,620.00	593,437,700.00	1,098,150,138.36
Financial assets held under resale agreements	–	–	11,854,060,966.65	1,138,286,604.59	–	–	12,992,347,571.24
Interest receivable	9,018,522.22	8,455,694.92	701,740,073.78	965,036,867.80	–	–	1,684,251,148.72
Loans and advances to customers	171,676,423.96	39,200,000.00	8,205,345,958.58	18,181,864,005.14	9,275,554,433.75	4,504,080,450.92	40,377,721,272.35
Available-for-sale financial assets	–	–	1,119,364,979.99	4,143,115,580.00	14,487,665,025.00	1,873,628,820.00	21,623,774,404.99
Held-to-maturity investments	–	–	520,367,208.28	3,381,407,308.47	15,086,061,206.60	978,269,284.95	19,966,105,008.30
Accounts receivable	–	–	2,042,925,860.28	9,601,751,543.33	2,042,925,860.28	–	13,687,603,263.89
Fixed assets	–	–	–	–	–	282,966,722.09	282,966,722.09
Construction in progress	–	–	–	–	–	50,544,397.88	50,544,397.88
Intangible assets	–	–	–	–	–	63,992,638.98	63,992,638.98
Deferred income tax assets	–	–	–	–	91,254,958.86	–	91,254,958.86
Other assets	–	–	9,309,561.16	6,720,560.13	60,336,808.41	–	76,366,929.70
Total assets	180,694,946.18	35,059,022,220.22	35,970,702,608.72	46,181,004,750.88	41,628,282,912.90	25,795,558,315.78	184,815,265,754.68
Liability items:							
Deposits from central bank	–	–	–	25,000,000.00	–	–	25,000,000.00
Deposits from banks and non-bank financial institutions	–	24,543,494,188.75	10,981,182,349.09	13,298,978,730.60	–	–	48,823,655,268.44
Placements from banks and non-bank financial institutions	–	–	2,000,000,000.00	–	–	–	2,000,000,000.00
Financial assets sold under repurchase agreements	–	–	4,588,563,814.27	6,084,917,852.72	–	–	10,673,481,666.99
Deposits from customers	–	54,762,778,186.17	10,275,484,458.27	17,248,719,948.07	22,488,526,972.35	54,183,025.21	104,829,692,590.07
Payroll payable	–	947,364.22	–	–	–	–	947,364.22

Continued

Item	Overdue	Repayable on demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Taxes payable	—	219,566,717.86	—	—	—	—	219,566,717.86
Interest payable	—	371,130,034.00	122,733,569.94	536,583,626.61	152,700,743.83	367,746.91	1,183,515,721.29
Deferred income tax liabilities	—	—	—	—	—	—	—
Other liabilities	—	2,515,418,571.31	—	3,379,086.83	—	—	2,518,797,658.14
Total liabilities	—	82,413,335,062.31	27,967,964,191.57	37,197,579,244.83	22,641,227,716.18	54,550,772.12	170,274,656,987.01
Net liquidity	180,694,946.18	(47,354,312,842.09)	8,002,738,417.15	8,983,425,506.05	18,987,055,196.72	25,741,007,543.66	14,540,608,767.67

(3) Maturity Analysis of Off-balance Sheet Credit Commitments at the End of the Year

31 December 2013	Overdue	Repayable on demand	Within 3 months	3 months to 1 year	1 year to 5 years	Total
Letter of credit	—	—	—	—	—	—
Bank acceptance bill	21,742,181.68	—	1,936,955,600.00	1,462,102,616.11	—	3,420,800,397.79
Letter of guarantee	1,348,460,720.84	990,456,151.45	694,145,249.33	1,288,599,920.41	758,073,826.52	5,079,735,868.55
Total	1,370,202,902.52	990,456,151.45	2,631,100,849.33	2,750,702,536.52	758,073,826.52	8,500,536,266.34
31 December 2012	Overdue	Repayable on demand	Within 3 months	3 months to 1 year	1 year to 5 years	Total
Letter of credit	—	30,807,615.20	—	—	—	30,807,615.20
Bank acceptance bill	2,800,000.00	—	727,932,238.75	229,235,251.27	—	959,967,490.02
Letter of guarantee	3,063,879,097.56	—	487,274,067.81	780,186,729.40	156,049,522.01	4,487,389,416.78
Total	3,066,679,097.56	30,807,615.20	1,215,206,306.56	1,009,421,980.67	156,049,522.01	5,478,164,522.00

9.3 Market Risk

Market risk is the risk of losses, in respect of the on-balance sheet and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk may affect all market-risk-sensitive financial products, including loans, deposits, placements, securities and derivative financial instruments.

The Bank divides the business into trading accounts and bank accounts. Trading accounts include financial instruments and commodity positions held for trading purposes or for avoidance of the market risk of trading account which can be freely traded. The trading accounts are designed for profit from short-term price fluctuations. Bank accounts refer to the assets and liabilities out of the trading account. Risk Management Department is responsible for identification, measurement and monitoring of the market risk other than the interest rate risk of the bank account. Asset and Liability Management Department is responsible for monitoring and management of interest rate risk of the bank account.

Currently, the trading accounts of the Bank include financial assets held for trading. Other assets and liabilities are presented in the bank accounts.

The Bank's exchange rate risk concerns foreign exchange exposures that are subject to exchange rate fluctuations in the market, which include those arising from structural imbalances between foreign exchange assets and foreign exchange liabilities denominated in different currencies.

The Bank's interest rate risk includes the structural interest rate risk from the commercial banking and from financial transaction positions. Interest rate risk is the inherent risk of the various businesses of the Bank. The mismatch of repricing date of interest-earning assets and interest-bearing liabilities is the main source of interest rate risk; due to small bond positions of trading account, the market risk of changes in market prices in the portfolio is not significant. The Bank uses risk value measurement, sensitivity analysis, reprising exposure, concentration analysis of foreign exchange risk as the main tools for monitoring market risk management.

The Bank separately monitors the market risk of trading portfolios and other non-trading portfolios. Since 2011, the Bank adopts value at risk (the "VaR") as the main tool of measuring and monitoring the trading portfolio market risk and exchange rate risk of head office. The following section includes trading portfolio VaR of the head office calculated by risk category, as well as analysis based on the exchange rate exposure and interest rate risk exposure (including trading portfolio and non-trading portfolio).

(1) Value at Risk (VaR)

Value at Risk is a way to estimate the maximum possible losses at a given timeframe, relatively to a given confidence interval, due to changes in market interest rates, exchange rates or price. The Bank adopts the historical simulation method, selecting 250 days of historical market data on a daily basis and monitoring value at risk for the trading portfolio and exchange rate exposure (confidence interval is 99%, and the holding period is 1 day).

As at 31 December 2013, the market risk the Bank faces includes interest rate risk and exchange rate risk, and the trading account of the Bank is currency bonds, including financial bonds from policy banks, short-term financing bills, medium-term notes and corporate bonds. The businesses generating exchange rate risks are mainly foreign exchange settlement, foreign exchange trade, due from banks, deposits, international trade finance business, etc. At the end of 2013, the VaR of trading account Renminbi bonds calculated under the historical simulation method is RMB18.22 million, that is to say, the maximum losses that may arise in the trading account Renminbi bonds in the next day will be RMB18.22 million; The value of exchange rate risk (VaR) is RMB4.13 million, and the maximum possible exchange losses of foreign exchange positions in the next day will be RMB4.13 million.

(2) Exchange Rate Risk

In 2013, the international operations scale of the Bank increased rapidly, and the scope of business expanded, including deposits and placements in other banks and non-bank financial institutions of foreign exchange, letters of guarantee in foreign exchange, international trade finance, etc., among which interbank services in foreign exchange developed much rapidly.

The restriction on purchase of foreign exchange capital of the Bank approved by the State Administration of Foreign Exchange last year was USD50 million. Given the pressure of Renminbi appreciation, the Bank purchased foreign exchange capital in batches to avoid the risk of exchange rate fluctuations, so current foreign exchange capital purchased is USD20 million and the Bank mitigates foreign exchange risk by imposing limits on foreign exchange exposure.

In 2013, the exchange rate of Renminbi against the U.S. dollar, Euro and other major currencies mainly kept the trend of appreciation, so the exchange rate changes will affect the financial condition and cash flows to some extent, but the foreign currency transactions do not have a significant impact due to its relatively minor percentage to the scale of the whole business, and the impact of foreign currency exchange rate risk on the Bank is secondary.

(3) Interest Rate Risk

Cash flow interest rate risk is the risk of future cash flows of financial instruments that will fluctuate with changes in market interest rates. The interest rate risk of fair value is the risk of the value of certain financial instruments that will fluctuate with changes in market interest rates. The interest rate risk in the Bank arises from the mismatch of repricing date of the interest-earning assets and interest-bearing liabilities. The interest rate risks from fair value changes of the trading books of bonds are calculated through VaR.

Due to fluctuations in market interest rates, the spread of the Bank is likely to increase, but may also reduce or even generate losses due to unpredictable changes. The Bank mainly operates in accordance with the provisions of interest rate system in the central bank. Based on historical experience, the central bank generally adjusts the benchmark interest rate for interest-bearing loans and interest-bearing deposits on the same trend (but extent of fluctuation is not necessarily the same), so the Bank controls its interest rate risk primarily by controlling the distribution of maturity of loans and deposits.

In accordance with the provisions of the central bank, Renminbi lending rate is floating up and down around the benchmark interest rate. The discount rate of Renminbi bills is determined by the market, but cannot be lower than the rediscount rate quoted by the central bank. Renminbi deposit interest rate cannot be higher than benchmark interest rate of the central bank.

With the development of the Bank's foreign currency business, it pays close attention to local and foreign currency movements in interest rates, follows the changes in market interest rates, makes timely adjustments to the ratio of assets and liabilities in foreign currencies, and makes efforts to guard against interest rate risk.

The Bank makes a sensitivity analysis on the impact of changes in interest rates on its net income and equity.

Of which impact on the bank accounts by changes in interest rates:

(In RMB Ten Thousands)			
2013			
Item	Sensitivity of net interest income	Sensitivity of equity	The proportion of net change in net capital (%)
An increase of 200 basis points	(26,161.00)	(216,488.01)	(12.50)

(In RMB Ten Thousands)			
2012			
Item	Sensitivity of net interest income	Sensitivity of equity	The proportion of net change in net capital (%)
An increase of 200 basis points	11,461.00	(114,403.75)	(8.10)

Of which impact of changes in interest rates on the trading accounts:

(In RMB Ten Thousands)			
2013			
Item	Sensitivity of net interest income	Sensitivity of equity	The proportion of net change in net capital (%)
An increase of 200 basis points	—	(36,747.39)	(2.12)

(In RMB Ten Thousands)			
2012			
Item	Sensitivity of net interest income	Sensitivity of equity	The proportion of net change in net capital (%)
An increase of 200 basis points	25.00	(10,011.36)	(0.71)

The following table summarizes the Bank's interest rate risk exposure. Assets and liabilities in the table are classified by the earlier of the contractual re-pricing date or the maturity date. The financial assets are presented at book value.

Analysis of interest rate risk exposure classified by the earlier of the contractual re-pricing date or the maturity date of assets and liabilities as at 31 December 2013:

Item	Within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue/non-interest bearing	Total
Asset items:							
Cash and deposits with central bank	30,691,262,797.81	-	-	-	-	640,045,109.02	31,331,307,906.83
Deposits with banks and non-bank financial institutions	36,266,171,462.03	15,061,404,042.98	13,300,900,000.00	1,760,000,000.00	-	-	66,388,475,505.01
Placements with banks and non-bank financial institutions	-	18,900,000.00	10,000,000.00	840,000,000.00	-	-	868,900,000.00
Financial assets held for trading	-	100,000,000.00	837,277,000.00	3,012,092,540.00	1,507,230,980.00	-	5,456,600,520.00
Financial assets held under resale agreements	2,757,650,000.00	307,287,500.00	2,020,000,000.00	6,120,000,000.00	-	-	11,204,937,500.00
Interest receivable	-	-	-	-	-	1,852,548,148.48	1,852,548,148.48
Loans and advances to customers	2,550,283,007.82	5,086,738,915.54	52,783,922,161.45	603,119,285.98	369,544.57	13,025,986.63	61,037,458,901.99
Available for sale financial assets	89,869,450.00	417,860,860.00	1,773,528,630.00	17,512,110,240.00	4,979,284,639.98	-	24,772,653,819.98
Held-to-maturity investments	530,062,941.89	2,399,499,314.62	2,613,013,055.70	11,155,154,179.38	1,057,222,754.57	-	17,754,952,246.16
Account receivables	-	990,821,148.47	12,137,559,068.73	11,642,148,494.49	-	-	24,770,528,711.69
Fixed assets	-	-	-	-	-	297,941,459.19	297,941,459.19
Construction in progress	-	-	-	-	-	64,586,903.85	64,586,903.85
Intangible assets	-	-	-	-	-	84,447,629.21	84,447,629.21
Deferred income tax assets	-	-	-	-	-	449,279,605.95	449,279,605.95
Other assets	-	-	-	-	-	118,138,302.05	118,138,302.05
Total assets	72,885,299,659.55	24,382,511,781.61	85,476,199,915.88	52,644,624,739.85	7,544,107,919.12	3,520,013,144.38	246,452,757,160.39
Liability items:							
Deposits from central bank	-	20,000,000.00	25,000,000.00	-	-	-	45,000,000.00
Deposits from banks and non-bank financial institutions	51,870,503,229.84	6,386,933,042.98	19,585,110,000.00	11,729,000,000.00	-	-	89,571,546,272.82
Financial assets sold under repurchase agreements	909,037,500.04	355,460,437.50	198,241,160.00	-	-	-	1,462,739,097.54

Continued

Item	Within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue/non-interest bearing	Total
Deposits from customers	88,430,818,566.52	8,857,652,198.12	15,042,333,341.27	18,022,291,169.91	50,422,774.55	21,750,933.67	130,425,268,984.04
Payroll payable	–	–	–	–	–	2,307,263.50	2,307,263.50
Taxes payable	–	–	–	–	–	398,998,774.94	398,998,774.94
Interest payable	–	–	–	–	–	1,716,633,741.03	1,716,633,741.03
Deferred income tax liabilities	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	5,379,856,785.70	5,379,856,785.70
Total liabilities	141,210,359,296.40	15,620,045,678.60	34,850,684,501.27	29,751,291,169.91	50,422,774.55	7,519,547,498.84	229,002,350,919.57
Interest rate sensitivity gap	(68,325,059,636.85)	8,762,466,103.01	50,625,515,414.61	22,893,333,569.94	7,493,685,144.57	(3,999,534,354.46)	17,450,406,240.82

Analysis of interest rate risk exposure classified by the earlier of the contractual re-pricing date or the maturity date of assets and liabilities as at 31 December 2012:

Item	Within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue/non-interest bearing	Total
Asset items:							
Cash and deposits with central bank	23,676,866,087.60	–	–	–	–	629,893,753.75	24,306,759,841.35
Deposits with banks and non-bank financial institutions	34,463,244,994.91	5,207,588,000.00	8,742,594,463.06	100,000,000.00	–	–	48,513,427,457.97
Financial assets held for trading	–	–	20,227,818.36	484,484,620.00	593,437,700.00	–	1,098,150,138.36
Financial assets held under resale agreements	9,354,761,179.52	2,499,299,787.12	1,138,286,604.60	–	–	–	12,992,347,571.24
Interest receivable	–	–	–	–	–	1,684,251,148.72	1,684,251,148.72
Loans and advances to customers	3,295,945,582.28	4,948,600,386.97	31,297,323,894.39	128,442,414.00	535,732,570.75	171,676,423.96	40,377,721,272.35
Available-for-sale financial assets	439,749,499.99	679,615,480.00	4,143,115,580.00	14,487,665,025.00	1,873,628,820.00	–	21,623,774,404.99
Held-to-maturity investments	99,986,818.73	420,350,389.55	3,381,407,308.47	15,086,061,206.60	978,269,284.95	–	19,966,105,008.30
Account receivables	–	2,042,925,860.28	9,601,751,543.33	2,042,925,860.28	–	–	13,687,603,263.89
Fixed assets	–	–	–	–	–	282,966,722.09	282,966,722.09
Construction in progress	–	–	–	–	–	50,544,397.88	50,544,397.88

Continued

Item	Within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue/non-interest bearing	Total
Intangible assets	—	—	—	—	—	63,992,638.98	63,992,638.98
Deferred income tax assets	—	—	—	—	—	91,254,958.86	91,254,958.86
Other assets	—	—	—	—	—	76,366,929.70	76,366,929.70
Total assets	71,330,554,163.03	15,798,409,903.92	58,324,707,212.21	32,329,579,125.88	3,981,068,375.70	3,050,946,973.94	184,815,265,754.68
Liability items:							
Deposits from central bank	—	—	25,000,000.00	—	—	—	25,000,000.00
Deposits from banks and non-bank financial institutions	31,797,001,687.79	3,727,674,850.05	13,298,978,730.60	—	—	—	48,823,655,268.44
Placements from banks and non-bank financial institutions	—	2,000,000,000.00	—	—	—	—	2,000,000,000.00
Financial assets sold under repurchase agreements	5,423,055,000.00	—	5,250,426,666.99	—	—	—	10,673,481,666.99
Deposits from customers	54,760,583,015.37	10,255,026,821.68	17,248,719,948.07	22,488,526,972.35	54,183,025.21	22,652,807.39	104,829,692,590.07
Payroll payable	—	—	—	—	—	947,364.22	947,364.22
Taxes payable	—	—	—	—	—	219,566,717.86	219,566,717.86
Interest payable	—	—	—	—	—	1,183,515,721.29	1,183,515,721.29
Deferred income tax liabilities	—	—	—	—	—	—	—
Other liabilities	—	—	—	—	—	2,518,797,658.14	2,518,797,658.14
Total liabilities	91,980,639,703.16	15,982,701,671.73	35,823,125,345.66	22,488,526,972.35	54,183,025.21	3,945,480,268.90	170,274,656,987.01
Interest rate sensitivity gap	(20,650,085,540.13)	(184,291,767.81)	22,501,581,866.55	9,841,052,153.53	3,926,885,350.49	(894,533,294.96)	14,540,608,767.67

9.4 Agency Business

The Bank holds and manages assets for other organizations as an agent or as part of engagements in other commissioned businesses. The following financial information does not concern assets kept by the Bank as trustee, custodian or agent entrusted with the obligations of custody and return to the client at some time in the future, or gains generated thereof.

The Bank helps third-party client grant entrusted loans and make investments. As an intermediary, the Bank grants to the borrower the loan or investment in accordance with the requirements of the third-party principal who provides funds, and signs a contract with the third-party principal to be commissioned to manage and recover the loans or investments. The third-party principal determines the requirements and conditions of the loans or investments commissioned, including purposes, amounts, interest rates and repayment arrangements of loans or investments. The Bank charges fees on entrusted loans or investments and recognized as income when services are provided, but the risk of losses on the loans or investments will be assumed by the third party principal.

The amounts of entrusted loans and entrusted deposits of the Bank during the year are as follows:

Item	31 December 2013	31 December 2012
Entrusted deposits	111,421,885,526.89	149,349,968,340.33
Entrusted loans	111,416,524,394.39	149,347,820,541.16

Of which:

See Note 6.9 for entrusted deposits and entrusted loans of China National Petroleum Corporation and its controlled subsidiaries as at 31 December 2013.

10. Notes to Financial Statements

10.1 Cash and Deposits with Central Bank

Item	31 December 2013	31 December 2012
Cash in hand	307,481,384.31	246,269,774.47
Statutory deposit reserve with central bank	22,290,360,504.76	17,371,583,505.16
Surplus deposit reserves with central bank	8,547,511,698.39	6,540,178,886.39
Fiscal deposits with central bank	20,548,000.00	39,984,000.00
Total	31,165,901,587.46	24,198,016,166.02

10.2 Deposits with Banks and Non-bank Financial Institutions

Item	31 December 2013	31 December 2012
Deposits with domestic banks	66,377,354,813.14	48,524,658,815.95
Deposits with overseas banks	6,983,679.37	6,902,144.68
Less: Provision for bad debts with banks	—	—
Book value of deposits with banks and non-bank financial institutions	66,384,338,492.51	48,531,560,960.63

10.3 Interest Receivable

Item	31 December 2013	31 December 2012
Interest receivable on loans and advances	101,574,837.49	73,366,614.85
Interest receivable on deposits with central bank and other banks and non-bank financial institutions	306,118,553.68	404,305,288.44
Interest receivable on bond investments	1,421,579,569.40	1,199,993,935.56
Interest receivable on accounts receivable	—	—
Interest receivable on financial assets held under resale agreements	19,629,076.85	2,143,710.78
Less: Provision for bad debts of interest receivable	—	—
Book value of interest receivable	1,848,902,037.42	1,679,809,549.63

10.4 Loans and Advances to Customers

Loans and advances to customers are classified by corporate loans and personal loans

Category	31 December 2013		31 December 2012	
	Amount	Proportion (%)	Amount	Proportion (%)
Loans and advances to customers	62,297,920,584.36	100.00	40,973,095,683.01	100.00
Including: Corporate loans	60,430,388,710.57	97.00	40,039,601,929.59	97.72
Personal loans	1,867,531,873.79	3.00	933,493,753.42	2.28
Less: Allowance for impairment losses	1,975,017,049.95	100.00	975,884,505.63	100.00
Including: Corporate loans	1,931,522,823.44	97.80	958,100,815.26	98.18
Personal loans	43,494,226.51	2.20	17,783,690.37	1.82
Net loans and advances	60,322,903,534.41	100.00	39,997,211,177.38	100.00
Including: Corporate loans	58,498,865,887.13	96.98	39,081,501,114.33	97.71
Personal loans	1,824,037,647.28	3.02	915,710,063.05	2.29

10.5 Long-term Equity Investments

Item	31 December 2013	31 December 2012
Leshan Kunlun Rural Bank Co., Ltd.	40,000,000.00	40,000,000.00
Tacheng Kunlun Rural Bank Co., Ltd.	17,500,000.00	17,500,000.00
Less: Allowance for impairment losses	—	—
Book value	57,500,000.00	57,500,000.00

10.6 Fixed Assets

Item	31 December 2013	31 December 2012
Original cost	474,320,863.75	389,631,052.68
Accumulated depreciation	180,004,883.52	109,141,705.32
Allowance for impairment losses	71,587.53	71,587.53
Fixed Assets	294,244,392.70	280,417,759.83

10.7 Intangible Assets

Item	31 December 2013	31 December 2012
Original cost	168,941,927.74	110,407,744.96
Accumulated amortization	83,137,245.20	45,058,052.65
Allowance for impairment losses	1,357,053.33	1,357,053.33
Net intangible assets	84,447,629.21	63,992,638.98

10.8 Deferred Income Tax Assets

Item	31 December 2013		31 December 2012	
	Temporary differences	Deferred Income tax assets	Temporary differences	Deferred Income tax assets
Allowance for impairment losses	1,568,467,667.93	235,270,150.19	567,906,437.33	85,185,965.60
Changes in fair value of available-for-sale financial assets included in capital surplus	1,216,159,254.00	182,423,888.10	26,061,245.90	3,909,186.89
Net changes in fair value of financial assets held for trading	185,974,459.07	27,896,168.86	4,642,040.00	696,306.00
Total	2,970,601,381.00	445,590,207.15	598,609,723.23	89,791,458.49

10.9 Other Assets

Item	31 December 2013	31 December 2012
Liquidation of interbank businesses	787,754.47	—
Deferred expenses	9,197,090.54	6,833,127.65
Other receivables	8,128,425.80	8,868,784.26
Repossessed asset	19,568,930.00	—
Long-term deferred expenses	79,039,290.96	59,368,617.42
Total	116,721,491.77	75,070,529.33

10.10 Deposits from Customers

Item	31 December 2013	31 December 2012
Corporate deposits	110,815,517,423.63	92,918,206,146.16
Personal deposits	17,682,668,050.38	11,268,176,692.70
Structural deposits	937,277,000.00	—
Total	129,435,462,474.01	104,186,382,838.86

10.11 Operating Income

(1) Net Interest Income

Item	2013	2012
Interest income:		
Deposits with banks and non-bank financial institutions	858,674,999.16	1,063,645,858.18
Cash and deposits with central bank	350,020,405.42	265,174,267.28
Placements with banks and non-bank financial institutions	37,931,388.22	9,600,880.55

Continued

Item	2013	2012
Loans and advances to customers	2,342,929,450.47	1,680,776,568.78
Discounted bills	851,937,210.16	333,012,738.75
Bond investments	2,173,744,879.36	1,815,411,525.88
Accounts receivable	1,228,889,400.85	356,023,305.06
Financial assets held under resale agreements	694,438,616.85	425,758,221.03
Subtotal	8,538,566,350.49	5,949,403,365.51
Interest expenses:		
Deposits from banks and non-bank financial institutions	1,292,918,810.48	947,087,606.99
Placements from banks and non-bank financial institutions	8,182,152.79	1,407,083.33
Deposits from customers	2,327,180,864.33	1,789,256,140.70
Financial assets sold under repurchase agreements	330,957,533.81	278,580,402.13
Subtotal	3,959,239,361.41	3,016,331,233.15
Net interest income	4,579,326,989.08	2,933,072,132.36

(2) Net Fee and Commission Income

Category	2013	2012
Fee and commission income:		
Settlement fee	20,093,077.30	25,123,925.80
Agency service fee	334,347,137.75	447,874,800.00
Agency business fee	15,594,225.77	5,227,974.19
Other businesses fee	534,232,553.92	262,338,272.49
Subtotal	904,266,994.74	740,564,972.48
Fee and commission expenses:		
Agency service expenses	2,269,034.10	8,846,764.97
Other services expenses	56,273,232.06	40,710,081.47
Subtotal	58,542,266.16	49,556,846.44
Net fee and commission income	845,724,728.58	691,008,126.04

10.12 Supplementary Information of the Statement of Cash Flow

(1) Adjustments of Net Income to Cash Flow from Operating Activities

Item	2013	2012
Net profit (Negative Number is Expressed with ())	2,571,591,887.68	1,940,541,118.92
Add: Provisions for impairment losses on assets	1,217,783,478.13	575,755,103.75
Depreciation of fixed assets	70,863,178.20	52,438,827.89
Amortization of intangible assets	38,079,192.55	23,992,085.24
Amortization of long-term deferred expenses	19,498,646.40	12,674,805.36
Losses on disposal of fixed assets, intangible assets and other long-term assets	—	—
Losses on changes in fair values	181,332,419.05	(4,006,460.00)
Investment losses	(3,456,432,470.20)	(2,234,524,543.84)
Decrease in deferred income tax assets	(177,284,047.45)	(55,597,490.62)

Continued

Item	2013	2012
Increase in deferred income tax liabilities	–	–
Decrease in loans	(21,358,360,215.35)	(20,109,386,759.53)
Increase in deposits	25,249,079,635.15	30,220,217,047.31
Net increase of borrowing funds	(20,592,619,795.47)	(5,415,688,606.99)
Decrease in operating receivables	(14,183,562,427.44)	(10,812,007,092.36)
Increase in operating payable	44,220,359,885.34	25,858,850,566.88
Decrease in other operating assets	(75,352,451.67)	(4,539,781.88)
Increase in other operating liabilities	910,965,834.39	60,758,076.83
Net cash flows from operating activities	14,635,942,749.31	20,109,476,896.96

(2) Cash and Cash Equivalents

Item	2013	2012
1. Cash	51,314,936,635.64	40,720,485,338.77
Including: Cash in hand	307,481,384.31	246,269,774.47
Surplus deposit with central bank	8,547,511,698.39	6,540,178,886.39
Deposits with banks and non-bank financial institutions maturing within 3 months	42,459,943,552.94	33,934,036,677.91
2. Cash equivalents	529,650,000.00	10,830,037,297.26
Including: Bond investments maturing within three month (Securities held under resale agreements)	529,650,000.00	10,830,037,297.26
Bond investments maturing within three months (available-for-sale financial assets)	–	–
Bond investments maturing within three months (held-to-maturity investments)	–	–
Bond investments maturing within three months (financial assets held for trading)	–	–
3. Cash and cash equivalents	51,844,586,635.64	51,550,522,636.03

Bank of Kunlun Co., Ltd.

19 January 2014

