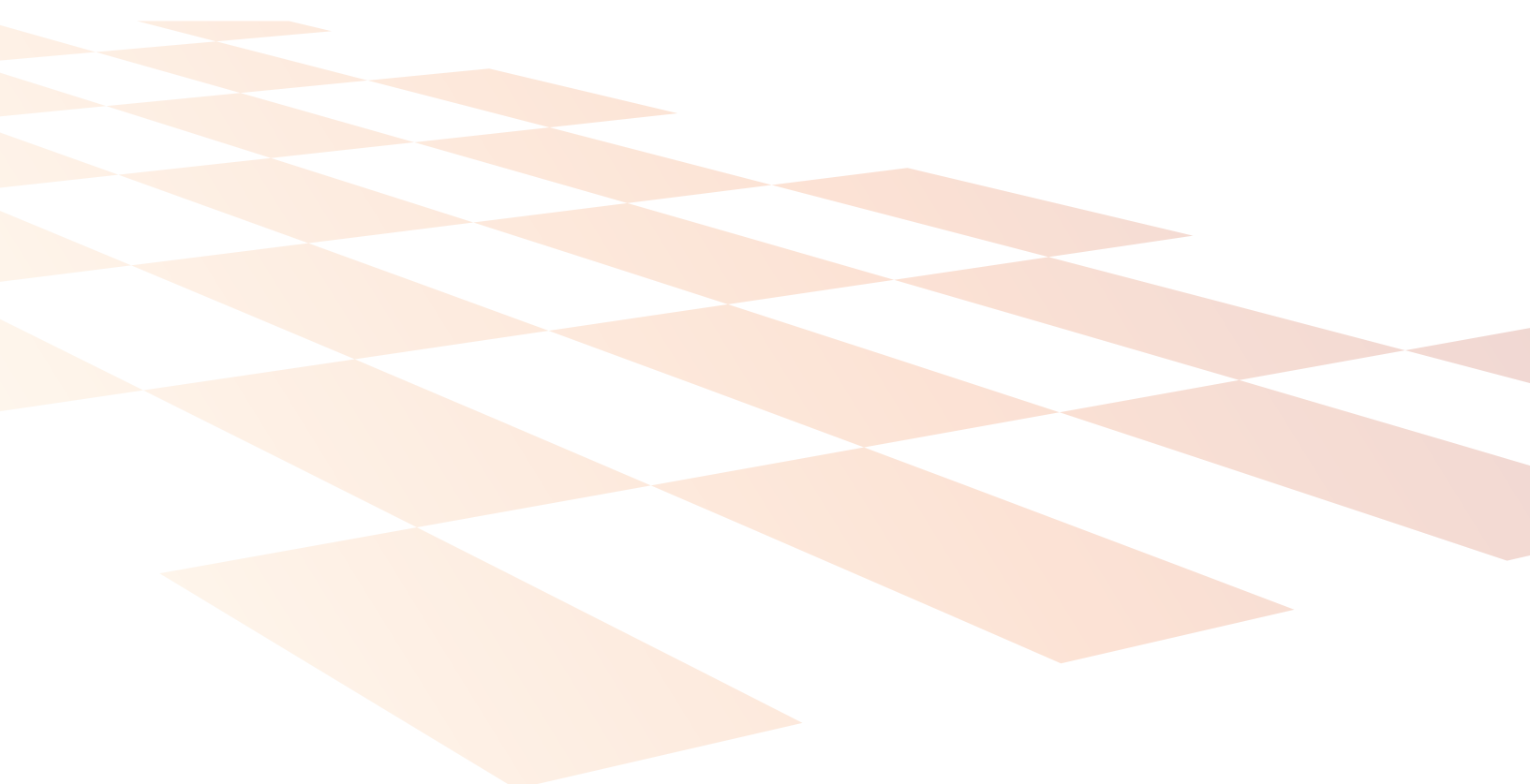




ANNUAL REPORT 2014



BANK OF KUNLUN CORPORATION LIMITED

Company Profile

Bank of Kunlun's predecessor is Karamay City Commercial Bank, which was established in 2006 via the restructuring of Karamay Urban Credit Cooperative. In April 2009, China National Petroleum Corporation (CNPC) took a controlling interest in Karamay City Commercial Bank with a sizable subscription of new capital. In April 2010, the Bank was renamed Bank of Kunlun. Since the restructuring, the Bank has pursued a business strategy of integration of banking and oil and gas industry, and stayed firmly on the path of differentiated positioning and specialty development.

In recent years, thanks to the guidance and support of regulatory authorities, local governments, shareholders and local communities, following the development blueprint of "incorporated in Xinjiang, specialized in energy, expanding national presence, advancing global reach", we have recalibrated corporate banking, international banking, financial markets and retail banking businesses. Our performance has successively hit new highs, our size and strength has enjoyed continuous growth, our core competencies have become more prominent, and our business vitality has been further unleashed.

As of year-end 2014, Bank of Kunlun has established 62 branches and functional units in Xinjiang, Heilongjiang, Shaanxi, Beijing and Sichuan, and sponsored the founding of Leshan Kunlun Village and Township Bank and Tacheng Kunlun Village and Township Bank. Bank of Kunlun has more than 2600 employees and total assets of RMB 278.3 billion, and generated an annual profit of RMB 3.5 billion. In the Banker Journal's 2014 Comprehensive Ranking of 146 City Commercial Banks, Bank of Kunlun was ranked among the top ten, and is one of China's fastest-growing banks in recent years. Six years after the restructuring, Bank of Kunlun has grown from a small regional city commercial bank to a mid-sized commercial bank with cross-regional operations and international presence.

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1. Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings 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
Restructuring	In April 2009, China National Petroleum Corporation (CNPC) restructured Karamay City Commercial Bank by taking a controlling interest in the Bank with a sizable subscription of new capital

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 deliberate omissions in this report.

The 2014 Annual Report of the Bank has been considered and approved at the 12th Meeting of the 3rd Session of the Board of Directors of the Bank held on March 25, 2015.

The 2014 financial statements have been audited by BDO China Shu Lun Pan Certified Public Accountants LLP with standard unqualified auditor's report being issued.

Board of Directors
Bank of Kunlun Co., Ltd

Mr. Jiang Shangjun, Legal Representative and Director 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 2014 Annual Report.

Notice on Material Risks

During the reporting period, the Bank did not identify any material risks that exerted negative impact on the Bank's business strategy and business objectives. The Bank has adopted effective measures to manage various risks. For further details please refer to the "Management Review – Risk Management" section of this report.

This report serves to enhance public understanding of Bank of Kunlun, and does not constitute a basis for commercial undertakings such as investments or transactions. Anyone using this report for commercial purposes is liable for the risks associated with such usage.

3. Basic Information

1. 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

2. Legal Representative: Jiang Shangjun

3. Registered Capital: RMB 7,380,523,495.35

Registered Address:

No.7 Century Ave, Karamay, Xinjiang

Postal Code: 834000

Customer Service and Complaint Hotline:

40066-96569

Website: <http://www.klb.cn/>

4. Secretary to Board of Directors: Xu Xinyuan

Telephone: 0990-6239370 010-89026988

Fax Number: 0990-6969902 010-89025406

Email Address: ir@klb.com.cn

5. 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

6. Legal Advisor: Jun He Law Offices

Address: 20/F, China Resources Building, No. 8 Jianguomen North Street, Dongcheng District, Beijing, PRC

7. Other Relevant Information:

Date of Incorporation: 2006

Date of Changing Registration Certificate:

December 30, 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

8. 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

9. Principal Business Activities and Services:

Deposit-taking from the public; Granting short-term, medium-term and long-term loans; Domestic and international banking settlement; Notes 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; Inter-bank lending and borrowing; Principal trading and agency trading in foreign exchange; Bank card business; Providing letters of credit and letters of guarantee; Acting as an agent for the payment or receipt of money as well as insurance business; Safety deposit box services; Other business activities and services under the CBRC's seal of approval.

This report is prepared in both Chinese and English. Should there be any discrepancy in interpretation, 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

(In RMB Ten Thousand)

Item	2014	2013	2012
Net interest income	621,564	462,753	295,574
Net fee and commission income	64,731	84,551	69,089
Operating income	738,414	565,843	388,666
General operating and administrative expenses	133,003	114,894	82,785
Impairment losses on assets	232,500	123,015	58,396
Operating profit	347,392	305,417	233,019
Profit before tax	349,688	306,241	233,706
Net profit	293,708	259,226	194,519
Net profit attributable to parent company shareholders	292,501	258,515	194,360
Accumulated other comprehensive income attributable to parent company shareholders	391,156	157,356	210,099
Net cash flows from operating activities	2,415,448	1,518,330	1,962,551

At the End of the Reporting Period

(In RMB Ten Thousand)

Item	December 31, 2014	December 31, 2013	December 31, 2012
Total assets	27,829,909	24,645,276	18,481,527
Loans and advances to customers	7,306,313	6,303,460	4,136,336
Allowance for impairment losses	277,915	199,714	98,564
Net investment	8,880,422	7,275,474	5,637,563
Total liabilities	25,768,816	22,900,235	17,027,466
Customer deposits	11,310,283	13,042,527	10,482,969
Due to banks and other financial institutions	12,425,848	8,957,155	4,882,366
Placements from banks and other financial institutions	160,000	-	200,000

Continued

Item	December 31, 2014	December 31, 2013	December 31, 2012
Total equity attributable to parent company shareholders	2,056,755	1,741,619	1,451,350
Share capital	738,052	738,052	671,619
Net core Tier 1 capital ⁽¹⁾	2,050,489	1,736,291	1,447,662
Net Tier 1 capital ⁽¹⁾	2,050,596	1,736,342	1,447,662
Net capital ⁽¹⁾	2,262,452	1,871,059	1,471,721
Risk-weighted assets ⁽¹⁾	18,532,299	15,111,438	11,042,328

Note:

(1) Calculated in accordance with the requirements in the *Capital Rules for Commercial Banks (Provisional)* issued by CBRC.

Per Share Data

(In RMB Yuan)

Item	December 31, 2014	December 31, 2013	December 31, 2012
Net assets value per share ⁽¹⁾	2.79	2.36	2.16
Basic earnings per share ⁽²⁾	0.40	0.38	0.29
Diluted earnings per share ⁽²⁾	0.40	0.38	0.29
Net cash flows per share from operating activities	3.27	2.06	2.92

Note:

(1) Calculated by dividing equity attributable to parent company shareholders 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	2014	2013	2012
Return on average total assets ⁽¹⁾ (%)	1.12	1.20	1.23
Return on weighted average equity ⁽²⁾ (%)	15.09	16.24	14.25
Return on weighted average equity after deducting non-operating gain/(loss) ⁽²⁾ (%)	14.89	16.21	14.20
Net interest spread ⁽³⁾ (%)	2.17	1.94	1.74
Net interest margin ⁽⁴⁾ (%)	2.42	2.13	1.98
Ratio of net fee and commission income to operating income (%)	8.77	14.94	17.78
Cost-to-income ratio ⁽⁵⁾ (%)	18.01	20.30	21.30

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 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.

(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	2014	2013	2012
Non-performing loans (NPL) ratio ⁽¹⁾ (%)	0.88	1.03	1.80
Provision coverage ratio ⁽²⁾ (%)	430.09	306.79	132.29

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	2014	2013	2012
Core Tier 1 capital adequacy ratio ⁽¹⁾ (%)	11.06	11.49	13.11
Tier 1 capital adequacy ratio ⁽¹⁾ (%)	11.06	11.49	13.11
Capital adequacy ratio ⁽¹⁾ (%)	12.21	12.38	13.33
Total equity to total assets ratio (%)	7.41	7.08	7.87

Note:

(1) Calculated in accordance with the *Rules for the Capital Rules for Commercial Banks (Provisional)* issued by CBRC



5. Chairman's Statement

In 2014, China's financial sector underwent profound changes. We witnessed the continuing progress of market-oriented reforms of interest rates and exchange rates, the issuance of new rules on interbank deposits, the further expansion of cross-border use of the Renminbi (RMB), the significant shift to internet finance from traditional means of financial services, further financial disintermediation across the board, and new advances in the entry of private sector capital into the banking industry.

Amid the banking industry's new trends of loan growth moderation, interest spread narrowing, and non-performing loan resurgence, the Company followed the general guidelines of strengthening fundamentals, streamlining structures, better managing risks, and facilitating growth". Striving to excel as a first-class modern commercial bank and meet the financial needs of the oil and gas sector, the Company stayed firmly on the path of industry-finance integration. With diligence and innovations, we withstood the challenges of slowing economic growth and intense market fluctuations, further unleashed the Company's business vitality, and continued to enhance the Company's size and strength, operating performance, services and growth.

As of year-end 2014, the Company's total assets amounted to RMB 278.299 billion, total deposits amounted to RMB 113.103 billion, and total loans amounted to RMB 73.063 billion. In 2014, the Company

generated net profit attributable to the owners of the parent company of RMB 2.925 billion, with return on assets of 1.12%, return on capital of 15.43%, capital adequacy ratio of 12.21%, and non-performing loan ratio of 0.88%. The Company has become one of the best performing city commercial banks in China. Our success despite various challenges were made possible by the guidance of the government and regulatory authorities, the support of our shareholders, customers and local communities, and the hard work of our entire staff. I would like to thank all of you on behalf of the Board of Directors.

Safeguarding key decision making processes, soundly navigating the Company's growth.

During this reporting period, the Board of Directors convened the General Meeting of Shareholders and Board Meetings and conducted in-depth analysis and rigorously discussed various issues relating to strategies and business approaches, capital and operations, risk and internal control, and incentives and constraints. We developed our sound business strategies, dynamically recalibrated our approaches, continuously improved our corporate governance. Following the election of a new Chairman of the Board of Directors, we made adjustments with respect to the division of responsibilities for members of the special committees of the Board of Directors, and made further clarifications in the boundaries of responsibilities of the Board of Directors, the Board of Supervisors, and the Management Team.

Focusing on the strategy of integrating banking and oil and gas industry, reinforcing the Company's business specialty.

Centering on the integration of banking and oil and gas industry, we have established comprehensive policies and procedures encompassing business processes in customer relationship management, product innovation, and due diligence and approval. We have also built specialized organizations and platforms, designed customized products, and initiated targeted marketing programs, with special focus on developing the "Kunlun Express" corporate banking brand and new businesses such as the Commercial Credit Program, covering multiple specialty products geared toward the oil and gas industry and further meeting the settlement and financing needs of supply chain customers. As of year-end 2014, outstanding amount of loans to oil and gas industry clients amounted to RMB 16.632 billion, up by 42.15% versus the beginning of the year. Its corresponding percentage is 34.55%, up by 7.58 percentage points.

Advancing further structural adjustments, enhancing the Company's business model.

Firstly, with full understanding of the interest spread narrowing trend, we proactively adjusted our profit model and improved our asset and liability structures and earnings composition. As of year-end 2014, bond investments accounted for 14.87% of all RMB assets, down by 8.97 percentage points versus the prior year. Secondly, we strove to enhance the structure of our client base, diligently cultivating core corporate clients in the oil and gas industry, which accounted for 37.53% of corporate clients as of year-end 2014. Among retail clients, high-end customers accounted for 9.52%, up by 0.48 percentage points versus the prior year.

Integrating online and offline distribution networks, improving the Company's quality of service.

We made new breakthroughs in expanding our footprint, successfully establishing our International Business

Settlement Center in Beijing and opening 12 new branches during the year, bringing the Company's total number of branches and functional units to 62, further strengthening our service capacity and expanding our service scope. Meanwhile, we vigorously built up our electronic channels, launching e-banking services such as cross-border settlement, wealth management and investment, and payment processing, enhancing the user interface of e-banking and mobile banking, and further improving the safety, user-friendliness and convenience of electronic channels. Corporate e-banking, personal e-banking and mobile banking enjoyed year-on-year client increases of 49.45%, 36.50% and 87.22% respectively, and the yearly transaction volume via the mobile channels enjoyed a year-on-year increase of 141.78%.

Strengthening risk management, bolstering the Company's development foundation.

With the rise of non-performing loans in China's banking industry, the Board of Directors further strengthened risk supervision and prevention. The Board of Directors thoroughly reviewed and enhanced risk management policies, formulating and revising more than 60 policies on credit risk, market risk, information technology risk and international business risk. We launched a campaign of "learning rules, applying rules, following rules" to effectively strengthen compliance awareness throughout the Company. We upgraded our customer rating management system, improved our fraud prevention and control processes, and kept credit risk and operational risk under control, with no occurrence of significant adverse incidents throughout the year. We strengthened our non-performing loan disposal, making collections of nearly RMB 100 million. As of year-end 2014, our non-performing loan balance and non-performing loan ratio are both lower than the prior year and better than the industry average.

Actively fulfilling social responsibilities, promoting the Company's brand image.

In 2014, the Company

followed national macro-economic policies, supported the industry structure upgrade and transformation, practiced financial inclusion, facilitated the growth of small and micro enterprises, increased lending in support of farmers, agricultural production and rural development, and actively implemented various policies to reduce financial service fees. In the meantime, we adhered to the "people first" principle, offering safer and faster financial services to our customers, providing more comprehensive career and health benefits to our employees, enhancing financial assistance to less privileged communities, actively contributing to public welfare, and striving to build a harmonious enterprise. The Company's excellence in business management, customer service and social responsibility practices has been widely recognized by the marketplace and the broader society, contributing to the continuous strengthening of our brand image and market influence.

Looking ahead into 2015, as the 12th Five Year Plan comes to completion, China is entering a key phase of its comprehensive and profound reform, and the Company will continue to develop amid opportunities and challenges. With the deceleration of economic growth and acceleration of structural adjustments, the Company will adapt to national macroeconomic policy adjustments and development plans, seize the opportunities that come with further national reforms, adhere to the theme of "reform, innovation, development", stay focused in the pursuit of quality, efficiency, moderate growth and coordinated development, strengthen the integration of banking and oil and gas industry, reform and enhance internal processes, reinforce the implementation of strategies, foster innovations, improve financial services, strive to further enhance the Company's distinct specialty and business vitality, and reward our shareholders and communities with our outstanding performance for their trust and support.



Chairman: Jiang Shangjun

March 25, 2015

6. President's Statement

In 2014, the Bank was in full compliance with regulatory requirements. The management team led the entire staff to execute the decisions and plans of the General Meeting of Shareholders and Board of Directors, and worked according to the general guidelines of "strengthening fundamentals, streamlining structures, better managing risks, and facilitating growth". Our operating performance steadily enhanced, core businesses consistently developed, management capability continuously improved, and new achievements were made in all business areas, especially in the integration of banking and oil and gas industry.

As of year-end 2014, we had total assets of RMB 278.299 billion, total deposits of RMB 113.103 billion, total loans of RMB 73.063 billion, and our asset size grew steadily. We achieved total profit of RMB 3.497 billion, net profit of RMB 2.937 billion, per capita profit of RMB 1.458 million, return on assets of 1.12%, and return on capital of 15.43%, with profit level reaching a new high. Our capital adequacy ratio was 12.21%, non-performing loan ratio was 0.88%, down by 0.15 percentage points versus the prior year. Our provision coverage ratio was 430.09%, up by 123.30 percentage points versus the prior year. Our service capacity steadily improved, with the total number of branches and functional units reaching 62 as of year-end 2014 and the launching of the International Business Settlement Center in Beijing on October 30, 2014.

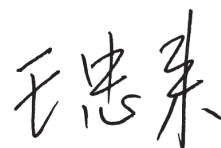
In our oil and gas banking business, we made firm strides with the establishment of the corresponding management system and business platform, the rollout of service plans such as the Commercial Credit Program, Oil Enterprise Program, Supply Purchasing Program and Corporate Account Overdraft Program, and the official launch of the "Kunlun Express" corporate banking brand. As of year-end 2014, we had 16,321 corporate clients, of which 6,126 were oil and gas industry clients, accounting for 37.53% of all corporate clients, our total corporate loan balance reached RMB 69.273 billion. In our personal banking business, we further strengthened our business fundamentals, with the total balance of savings deposits exceeding RMB 20 billion and the total number of bank cards exceeding one million, and year-end total savings deposits of RMB 22.976 billion, total bank cards of 1.2962 million, and total personal loans of RMB 3.790 billion. In our international business, we made substantial improvements in service capacity and efficiency as part of our business acceleration initiative, and launched the "Yilutong" brand. In our financial markets business, we fully upgraded our capacity in trading operations, funding and profit generation, expanding the breadth of our business, obtaining the approval for bond underwriting qualification, and achieving a 5 year high in operating performance.

We steadily enhanced our basic management and improved our internal control. To facilitate the development of multi-function branches and client management teams, we conducted 612 training sessions during the year with 18,600 attendees, contributing to the steady improvement of capabilities and expertise among the workforce throughout the firm. We also steadily strengthened our capability in risk management and effectiveness in risk compliance supervision, keeping credit risk under control with no occurrence of significant non-performing loans, and preventing the occurrence of any substantial operational risk incidents or fraud events. We also leveraged the audit surveillance function to ensure the healthy development of the enterprise. We achieved continuous upgrades in our channel service capability, solid reliability in operational technology support, sound operation of production systems, substantial improvement in business processing efficiency, further enhancement in the “Baoshi Flower” service, and steady improvement in service quality.

The aforementioned achievements would be impossible without the support of our shareholders and customers, the guidance of government and regulatory authorities, and the diligence of our staff. On behalf of all our staff, I would like to express my sincere gratitude to all those who have been caring about and helping with Kunlun Bank's development.

In 2015, China's economy is entering a transition period characterized by a “New Normal” centered on development model changes, structural adjustments and quality improvements, giving rise to new issues and new challenges in economics and finance. With the acceleration of financial industry reforms, profound changes are taking place in the financial system and industry trends. We will start with a careful reality check and pay increased attention to those internal and external factors that have close links with and relatively strong impact on our business development. We will further implement the management principle of consistently paying back our shareholders, adhere to the organic integration of risk management, return on capital and profit growth, strive for holistic balance and rigorous business decisions, create value to pay back our shareholders, staff and the society.

The time is ripe for developing the integration of banking and oil and gas industry, but it takes continuing efforts to win the eventual reward. We are fully confident that with the support of our shareholders and customers, the guidance of government and regulatory authorities, the leadership of the new Board of Directors, our entire firm will fully leverage our collective wisdom and diligence, and fully devote ourselves with commitment, perseverance, understanding and passion, and achieve the strategic goal of building a bank with a strong specialty for the integration of banking and oil and gas industry.



President: Wang Zhonglai

March 25, 2015

7. Management Review

7.1 Development Strategy

In 2009, the Bank established the core development strategy of “integration of banking and oil and gas industry” earlier than most domestic commercial banks. Relying on petroleum-based energy chain, the Bank has established the medium and long term strategic objective of “becoming the strongest commercial bank in the field of energy”, which is to advance banking business with the promotion of oil and gas industry, to facilitate oil and gas operations with banking service, so as to achieve synergetic development in both oil and gas industry and banking business.

The Bank's future development orientation is establishing a distinctive commercial bank integrating the banking industry with oil and gas industry. We will resolutely implement the development strategy of “integration of banking and oil and gas industry”, take the path of innovative development, take advantage of our special background in oil and gas industry, absorb new industry achievements, create core competitive ability with our character, try to become the most competitive specialized bank in petroleum and petrochemical energy field and an excellent bank with high value.

The Bank's strategy of “integration of banking and oil and gas industry” will focus on exploring the construction of the four major business system, taking business development as a driving force to drive the development of the control system and mechanism. Firstly, we will develop corporate banking services by emphasizing the China National Petroleum Corporation (CNPC) main business and the upstream and downstream industry customers chain; Secondly, we will expand international business by emphasizing international energy trade enterprises; Thirdly, we will develop the retail business by emphasizing China National Petroleum Corporation (CNPC) employees, employees family members, mining, oil and gas sales terminals; Fourthly, we will set up investment banking business by emphasizing China National Petroleum Corporation (CNPC) members and cooperative enterprises.

To achieve these goals and promote modern management ability, the Bank will focus on six major aspects in the future. First, the Bank will give attention to the characteristics of the Bank, by innovating products according to customers' demand and simplifying the working process. Second, the Bank will give attention to science and technology by continuously strengthening the research and development ability and improving work efficiency. Third, the Bank will give attention to risk management by establishing a sound risk management system. Fourth, the Bank will give attention to management innovation by improving the working and business process. Fifth, the Bank will give attention to talent cultivation by building a professional, wise, courageous talent pool. Sixth, the Bank will give attention to the construction of a clean and honest administration, while adhering to democratic centralism, the mass line, and anti-corruption.

7.2 Economic, Financial and Regulatory Environment

In 2014, the world economy showed a trend of modest recovery but the divergence in economic performance between major developed countries and emerging-market countries was widened. The structural inconsistencies and geopolitical risk influenced the stability and sustainability of economic recovery. According to the IMF research report, the real annual global economic growth rate was about 3.3% in 2014; the growth rate of the United States was 2.4%, higher than that of 2013, which was 2.2%; the growth rate of Euro zone was 0.8%, lower than expectation. These data indicate the economy of the United States continued to recover, while the economic recovery of Euro zone was weak. In addition, the GDP growth rate of emerging markets and developing economies was only 4.4%, lower than 4.7%, the rate in 2013. During the last year, the prices of international commodities such as gold, crude oil, soybean and corn continued to decline.

In 2014, the pressure of domestic economic downturn was high, which could be shown in following aspects: the old economic developing mode was unsustainable; China is facing the overlap of three periods, namely a period of economic slowdown, a period of structural adjustments, and a period of absorbing the effects of previous economic stimulation policies. Facing the complex international environment and arduous task of domestic reform and development, the Chinese government insisted on seeking improvement in stability, aiming to the smooth running in the new normal economy. The GDP of last year was RMB 63.65 trillion with a growth rate of 7.4% in comparable price, which is lower than 7.7% in 2013. However, the industrial structure was optimized through industrial adjustment, as the proportion of added value of service sector in GDP was 48.2%, increased 1.3% compared to that of 2013. Among service sectors, the financial industry realized an added value of 4.70 trillion with a year-to-year growth rate of 10.2%, much higher than other industries.

In 2014, the People's Bank of China (PBC) continued to implement a prudent monetary policy, supplemented and enhanced the monetary policy tools, and continued to promote the liberalization of interest rates. To encourage and guide the credit resources flowing to the farmers, agricultural production, rural development and the county, the PBC cut the deposit reserve ratio of county and rural commercial banks by 2 percent since April 25, 2014, and decreased that ratio of county and rural cooperative banks by 0.5 percent. On November 22, the PBC lowered the benchmark interest rate for loans and deposits, and adjusted financial institutions' ceiling of deposit interest rate range from 1.1 times base interest rate to 1.2 times base interest rate.

In 2014, in order to promote the adjustment of economic structure, the China Banking Regulatory Commission (CBRC) regulatory policies strongly restricted excess capacity industries while supporting the farmers, agricultural production and rural development and small and micro businesses. In March 2014, the CBRC issued Guidelines on Supporting the Industrial Structure Adjustment and Resolving Overcapacity (CBRC General Office [2014] No.55), urging the banking institutions to further improve the differentiated credit policy. New loans and returned loans will be made

with priority to the project which meets the national industry policy and structural adjustment, transformation and upgrading. In March 2014, the CBRC issued *Notice on Improving Rural Financial Services in 2014* (CBRC General Office [2014] No.42), requiring the banking institutions to continuously improve rural financial service, which was emphasized by the guidance of the central government's conference on rural work and the central government document No.1. On March 13, 2014, the CBRC issued a revised version of *Implementation Methods of Administrative Authorization for Small and Medium Sized Rural Financial Institutions* (Decree of CBRC [2014] No.4), which further simplified administrative approval processes. In July 2014, the CBRC issued *Notice on Enhancing and Innovating Small and Micro Enterprise Lending Service and Improving Financial Services for Small and Micro Enterprises* (CBRC General Office [2014] No.36), which was to encourage the banking financial institutions to improve and innovate the small and micro businesses loan service and enhance the efficiency of loan service.

In order to promote the stable operation of commercial banks, the CBRC and other regulatory departments issued new regulations about the channels of capital replenishment, liquidity risk and so on. On April 18, 2014, CBRC, China Securities Regulatory Commission (CSRC) jointly issued *Guidelines on the Issuance of Preferred Shares For Tier-1 Capital Replenishment of Commercial Banks* (CBRC General Office [2014] No.12), aiming to expand the commercial bank capital supplementary channel. On January 17, 2014, the CBRC issued the *Measures for Liquidity Risk Management of Commercial Banks (Interim)* (Decree of CBRC [2014] No.2), introducing new liquidity risk supervision standards of the Basel Committee and constructing new liquidity risk regulatory framework, which aimed to enhance the ability of commercial banks system to deal with the liquidity impact.

In 2014, as the first batch of 5 private banks was allowed preparing to establish, the banking industry will be more competitive. At the same time, the rapid development of the internet finance in payment settlement, wealth management products, micro-credit, and so on, has a remarkable impact on the traditional banking business. In spite of the small market size and unrecognized risk control system, the network P2P lending is becoming a strong alternative to the banking deposit and loan business, and formed a powerful challenge to the traditional banking industry. Despite the competition and challenges, Chinese banking institutions still have made certain achievements. As of year-end 2014, the total assets of China's banking financial institutions reached 16.82 trillion Yuan, a year-on-year growth of 13.6 percent. The outstanding RMB loans of financial institutions stood at 81.7 trillion Yuan, a year-on-year growth of 13.6%, the new loans were 9.78 trillion Yuan, increasing 890 billion Yuan from the level in 2013, which was a record high.

With the rapid development of internet finance and the process of interest rate liberalization, China's commercial banks will face more competition and challenges. Facing these competition and challenges, commercial banks need to fully understand the impact of world geopolitical risk, the domestic economic structural transformation and the evolution of financial form, in order to constantly enhance their management and operation capacity.

7.3 Financial Statements Analysis

7.3.1 Income Statement Analysis

Changes of Key Income Statement Items

The Company realized an operating income of RMB 7.38 billion in 2014, representing an increase of RMB 1.73 billion or 30.50% compared to the prior year. Operating expenses amounted to RMB 3.91 billion, representing an increase of RMB 1.31 billion or 50.15% compared to the prior year. The Bank achieved a net profit of RMB 2.94 billion, representing an increase of RMB 0.35 billion or 13.30% compared to the prior year.

(In RMB Ten Thousand)

Item	2014	2013	Increase/ (Decrease)	Rate of change (%)
Net interest income	621,564	462,753	158,811	34.32
Non-interest income	116,850	103,090	13,760	13.35
Operating income	738,414	565,843	172,571	30.50
Less: Operating expenses	391,022	260,426	130,596	50.15
Including: Business tax and surcharges	25,494	22,499	2,995	13.31
General operating and administrative expenses	133,003	114,894	18,109	15.76
Impairment losses on assets	232,500	123,015	109,485	89.00
Other operating expenses	25	18	7	38.09
Operating profit	347,392	305,417	41,975	13.74
Add: Net non-operating income	2,296	824	1,472	178.62
Profit before tax	349,688	306,241	43,447	14.19
Less: Income tax expenses	55,980	47,015	8,965	19.07
Net profit	293,708	259,226	34,482	13.30
Attributable to: Equity holders of the parent company	292,501	258,515	33,986	13.15

Net Interest Income

In 2014, net interest income of the Company increased by RMB 1.59 billion, or 34.32%, to RMB 6.22 billion, accounting for 84.18% of the operating income. In 2014, net interest margin increased by 29 basis points, mainly due to adjustments to the asset-liability structure and improvements in interest rate pricing management, as well as a sharp increase in the interest rates of foreign currency assets, compared with a decreasing RMB interest margin of the entire banking industry.

Non-interest Income

In 2014, non-interest income of the Company increased by RMB 0.14 billion or 13.35% from the prior year to RMB 1.17 billion, accounting for 15.82% of total operating income.

(In RMB Ten Thousand)

Item	2014	2013	Increase/ (Decrease)	Rate of change (%)
Fee and commission income	71,546	90,490	(18,944)	(20.93)
Less: Fee and commission expenses	6,815	5,939	876	14.75
Net fee and commission income	64,731	84,551	(19,820)	(23.44)

Continued

Item	2014	2013	Increase/ (Decrease)	Rate of change (%)
Other non-interest related gain/(loss)	52,119	18,539	33,580	181.13
Total	116,850	103,090	13,760	13.35

Net Fee and Commission Income

(In RMB Ten Thousand)

Item	2014		2013	
	Balance	Percentage (%)	Balance	Percentage (%)
Fee and commission income	71,546	100.00	90,490	100.00
Domestic settlement fee	2,159	3.02	2,015	2.23
Agency service fee	6,624	9.26	33,435	36.95
Agency business fee	2,129	2.98	1,580	1.75
Other business fee	60,634	84.75	53,460	59.07
Fee and commission expenses	6,815	100.00	5,939	100.00
Agency service expenses	-	-	227	3.82
Other business expenses	6,815	100.00	5,712	96.18
Net fee and commission income	64,731	-	84,551	-

Interest Expenses

Interest expenses on deposits of the Company amounted to RMB 2.37 billion, representing an increase of RMB 0.027 billion, or 1.15% compared to the prior year.

Operating Expenses

General Operating and Administrative Expenses

The Company exercised strict cost management and control. Operating expenses were RMB 1.33 billion, representing an increase of RMB 0.18 billion or 15.76% compared to that of the prior year.

Impairment Losses on Assets

Impairment losses on assets increased by RMB 1.10 billion, or 89.00%, to RMB 2.33 billion, of which impairment losses on loans increased by RMB 0.78 billion. On account of the principle of conservatism, the Company made impairment allowances of RMB 1.48 billion for investments booked under inter-bank accounts similar to loan receivables.

Income Tax Expenses

(In RMB Ten Thousand)

Item	2014	2013
Current income tax	86,482	64,966
Deferred income tax adjustment	(30,503)	(17,951)
Others	-	-
Total	55,979	47,0157

7.3.2 Balance Sheet Analysis

Assets

As of year-end 2014, the total assets of the Company was RMB 278.30 billion, representing an increase of RMB 31.85 billion or 12.92% from the end of the prior year, of which interest earning assets increased by RMB 32.16 billion or 13.20% to RMB 275.75 billion and noninterest-earning assets decreased by RMB 0.31 billion or 10.97% to RMB 2.55 billion.

Item	December 31, 2014		December 31, 2013	
	Balance	Percentage (%)	Balance	Percentage (%)
Loans and advances to customers	7,028,398	25.25	6,103,746	24.77
Financial assets held for trading	668,604	2.40	545,660	2.21
Held-to-maturity investments	1,247,378	4.48	1,775,495	7.20
Available-for-sale financial assets	1,698,232	6.10	2,477,265	10.05
Investments classified as receivables	5,266,209	18.92	2,477,053	10.05
Placements with banks and non-bank financial institutions	83,943	0.30	86,890	0.35
Due from banks and other financial institutions	6,771,792	24.33	6,638,848	26.94
Cash and deposits with central bank	2,442,043	8.77	3,133,131	12.71
Financial assets held under resale agreements	2,368,058	8.51	1,120,494	4.55
Total interest-generating assets	27,574,656	99.08	24,358,582	98.84
Non-interest-generating assets	255,253	0.92	286,694	1.16
Total Assets	27,829,909	100.00	24,645,276	100.00

Loans

As of year-end 2014, loans and advances of the Company amounted to RMB 73.06 billion, representing an increase of RMB 10.03 billion or 15.91% during the whole year, of which corporate loans increased by RMB 8.72 billion or 14.41% to RMB 69.27 billion and personal loans increased by RMB 1.30 billion or 52.47% to RMB 3.80 billion compared to the prior year.

Item	December 31, 2014		December 31, 2013	
	Balance	Percentage (%)	Balance	Percentage (%)
Loans and advances to customers	7,306,313	100.00	6,303,460	100.00
Including: Corporate loans	6,927,334	94.81	6,054,899	96.06
Personal loans	378,979	5.19	248,561	3.94
Less: Allowance for impairment losses	277,915	100.00	199,714	100.00
Including: Corporate loans	266,643	95.94	193,510	96.89
Personal loans	11,272	4.06	6,204	3.11
Net loans and advances	7,028,398	100.00	6,103,746	100.00
Including: Corporate loans	6,660,691	94.77	5,861,388	96.03
Personal loans	367,707	5.23	242,358	3.97

Liabilities

As of year-end 2014, the total liabilities of the Company amounted to RMB 257.69 billion, representing an increase of RMB 28.69 billion or 12.53% compared to the prior year, of which interest-bearing liabilities increased by RMB 30.32 billion or 13.69% to RMB 251.82 billion and non-interest-bearing liabilities decreased by RMB 1.63 billion or 21.74% to RMB 5.87 billion.

(In RMB Ten Thousand)

Item	December 31, 2014		December 31, 2013	
	Balance	Percentage (%)	Balance	Percentage (%)
Deposits from customers	11,310,283	43.89	13,042,527	56.95
Due to banks and other financial institutions	12,425,848	48.22	8,957,155	39.11
Placements from banks and non-bank financial institutions and deposits from central bank	162,500	0.63	4,500	0.02
Financial assets sold under repurchase agreements	1,283,415	4.98	146,274	0.64
Total interest-bearing liabilities	25,182,046	97.72	22,150,456	96.73
Non-interest-bearing liabilities	586,770	2.28	749,779	3.27
Total liabilities	25,768,816	100.00	22,900,235	100.00

Deposits from Customers

As of year-end 2014, the balance of deposits from customers was RMB 131.10 billion, representing a decrease of RMB 17.32 billion or 13.28% compared to the prior year. In terms of customer structure, the balance of corporate deposits decreased by RMB 24.17 billion or 21.70% to RMB 87.22 billion; and personal deposits increased by RMB 4.89 billion or 27.01% to RMB 22.98 billion. Structured deposits increased by RMB 1.97 billion or 209.62% to RMB 2.90 billion.

(In RMB Ten Thousand)

Item	December 31, 2014		December 31, 2013	
	Balance	Percentage (%)	Balance	Percentage (%)
1. Corporate deposits	8,722,437	77.12	11,139,776	85.41
Time deposits	3,004,158	26.56	3,286,387	25.20
Demand deposits	4,768,450	42.16	7,570,635	58.05
Fiscal deposits	37,792	0.33	44,009	0.34
Other deposits	5,280	0.05	2,175	0.02
Guarantee deposits	906,757	8.02	236,570	1.81
2. Personal deposits	2,297,648	20.31	1,809,023	13.87
Time deposits	1,435,004	12.69	1,057,975	8.11
Demand deposits	862,644	7.63	751,048	5.76
3. Structured deposits	290,198	2.57	93,728	0.72
Total	11,310,283	100.00	13,042,527	100.00

7.3.3 Cash Flow Statement Analysis

Net cash flow from operating activities amounted to RMB 24.15 billion, increased RMB 8.91 billion or 59.09% compared with the prior year, which was mainly attributed to a decrease in cash flow of loans to customers and due from banks and other financial institutions.

Net cash flow generated from investing activities summed up to RMB -10.37 billion, representing an increase of RMB 4.50 billion or 30.24%, on account of the reduction of cash recovered from bond investments.

Net cash flow coming from financing activities added up to RMB -0.76 billion, representing a decrease of RMB 2.09 billion, which mainly resulted from dividends paid to shareholders in 2014.

7.3.4 Segment Analysis

Segment Operating Results by Business Line

(In RMB Ten Thousand)

Item	Corporate banking	Personal banking	Treasury	Others	Total
1. Net interest income	413,854	25,475	182,235	-	621,564
Net fee and commission income	61,224	(507)	4,014	-	64,731
Investment income	-	-	13,915	-	13,915
Gain/(loss) from fair value change	-	-	18,561	-	18,561
Gain/(loss) on foreign exchange	19,515	-	-	-	19,515
Other operating income/expenses	-	-	-	102	102
Business tax and surcharges	24,149	1,339	-	6	25,494
General operating and administrative expenses	69,763	8,239	54,742	259	133,003
Impairment losses on assets	70,990	5,068	156,441	-	232,499
2. Operating profit	329,691	10,322	7,542	(163)	347,392
Non-operating income	-	-	-	2,343	2,343
Non-operating expenses	-	-	-	47	47
3. Profit before tax	329,691	10,322	7,542	2,133	349,688
Income tax expenses	52,779	1,652	1,208	341	55,980
4. Net profit	276,912	8,670	6,334	1,792	293,708

Segment Operating Results by Geographical Region

(In RMB Ten Thousand)

Item	Inside Xinjiang	Outside Xinjiang	Total
1. Operating income	625,463	112,950	738,413
Interest income	885,026	295,358	1,180,384
Interest expenses	367,138	191,682	558,820
Fee and commission income	65,512	6,034	71,546
Fee and commission expenses	4,208	2,607	6,815
Other operating income	114	13	127
Investment income	13,915	-	13,915
Gain/(loss) from fair value change	18,561	-	18,561
Gain/(loss) on foreign exchange	13,681	5,834	19,515
2. Operating expenses	325,837	65,185	391,022
General operating and administrative expenses	101,171	31,832	133,003
Business tax and surcharges	17,909	7,586	25,494
Impairment losses on assets	206,745	25,755	232,500
Other operating expenses	12	13	25
Operating profit	299,627	47,765	347,392
Non-operating income	2183	160	2,343
Non-operating expenses	35	12	47
Profit before tax	301,775	47,913	349,688
Income tax expenses	48,124	7,856	55,980
Net profit	253,651	40,057	293,708



7.4 Business Overview

7.4.1 Corporate Banking

In 2014, the Bank's corporate banking business opened a new chapter, initiated management structure of integration of banking and oil and gas industry, carried out top-level design and step-by-step implementation, and formulated business procedures which cover customer management, product innovation, evaluation and approval. Oil and gas finance business has been made a substantial progress. As the Bank officially launched and promoted "Kunlun Express" brand, the information platform for the integration of banking and oil and gas industry and industry map (the first phase) came into operation, and its business scale and level are experiencing a sustainable growth.

Leveraging Our Strengths, Expanding Customer Base

In 2014, by providing high-quality integrated financial solutions for core customers, the Bank developed more than 600 material supplier customers in total, among which 18 large suppliers have signed strategic cooperation agreements. The Bank is able to meet the new requirements of core enterprises through the "Commercial Credit Program" financial service plan, and developed up to one thousand suppliers, with 558 new accounts opened. As of year-end 2014, corporate customers of the Bank had increased by 16,300 or 35.83% over the prior year, of which oil and gas industry clients accounted for 37.53%; the balance of corporate loans reached RMB 48.138 billion, increased by RMB 8.931 billion, of which the proportion of outstanding amount of oil and gas loans increased 7.58 percent.

Enriching Products, Building Brand

In 2014, centering on the characteristics of oil and gas finance business, and satisfying the needs of oil and gas supply chain customers, the Bank has developed featured products such as Supply Purchasing Program and Commercial Credit Program, upgraded featured products such as Oil Enterprise Program and Corporate account overdraft, initiated the supply chain financial product series of integrated loan origination. Through summarizing and refining, the Bank officially launched and promoted “Kunlun Express” brand, in order to build its brand and raise the Company’s profile.

Adjusting Structure, Improving Profitability

In 2014, under the structural adjust plan of advancing in certain segments while retreating in other segments, supporting certain segments while restricting other segments, the Bank actively reduced the credit facilities whose benefits cannot compensate its risks and focused on developing the featured credit business. The earnings of new loans in 2014 were significantly improved, and the average yield represented an increase of 30bp compared to that of the prior year.

Based on Features, Serving Small and Micro Enterprises

In 2014, the Bank conducted a pilot program for Small and Micro Financial Services Department, focusing on promoting the finance business for small and micro enterprises in petroleum industry chain. As of year-end 2014, the loan balance of small and micro enterprises amounted to RMB 5.717 billion, increasing RMB 1.851 billion or 47.86% compared to the beginning of the year.

7.4.2 Personal Banking Business

In 2014, the Bank actively seized the opportunities resulting from the development of the economy and market, focused on the development of distribution channels, services, products and brand, took personal investment finance, personal loan, and bank card businesses breakthroughs to expand fee-based business income. It also made efforts to quicken the growth of personal savings deposits and strengthen process management and brand promotion; expanded the market of high-end individual customers, and enhanced services for medium and high end customers; improved operational risk management system of personal banking business, of which sound and fast development were attained.

Savings Deposits

In 2014, the Bank made efforts to improve services, and proceeded to carry out marketing activities of visiting businesses, visiting businesses, communities, campuses, marketplaces, visiting merchants, stimulated marketing enthusiasm of branches and functional units as well as marketing potential of networks, stepping up efforts to gather deposits. As of year-end 2014, the Bank had 1.071 million personal customers, representing an increase of 23.23% over the prior year; personal savings deposits reached RMB 22.578 billion, with a year-on-year growth rate of 27.68%.

Personal Loans

In 2014, the Bank paid an equal attention to business scale and risk management, carried out product innovation, brought out innovative personal loan products such as personal loans backed by wealth management products and Farmers Business Loan; further refined the product classification to meet market requirements, and to serve and assist farmers, agricultural production and rural development; opened a channel from portal website for customers to apply personal loans, further improved and simplified the business process of personal loan. As of year-end 2014, the balance of personal loans was RMB 2.999 billion, representing an increase of 60.55% compared with that of the prior year, while its non-performing loans (NPL) ratio reduced to 0.02%. As for entrusted loans, the balance of personal housing fund entrusted loans increased by RMB 0.367 billion to RMB 2.712 billion, which was conducted in 5 branches at Daqing, Urumqi, Korla, Xi'an, and Karamay.

Personal Wealth Management

In 2014, the Bank developed agency fund distribution business, bank and securities account transfer service, and upgraded Bank-Insurance Link System, and further enriched personal financial products and services to better meet diversified investment needs of individual customers. Meanwhile, the Bank offered services in various forms to high-end individual customers by taking different measures according to the characteristics of high-end customers in every region. Such services increased their loyalty and improved their relationship with the Bank. In 2014, the total sales of personal wealth management products amounted to RMB 19.741 billion, with a year-on-year growth rate of 58.41%; the total sales of personal insurance products reached RMB 59.62 million, with a year-on-year growth rate of 6.22%; the income from agency-type intermediation was RMB 34.83 million, with a year-on-year growth rate of 132.57%.

Bank Card

In 2014, the Bank further extended the application of financing IC cards, and conducted business practices in community smartcard, park smartcard and social security card. The Bank continued to strengthen the construction of internal policies to increase risk control ability. The Bank took advantages of bank card functions to meet the actual needs of customers. In 2014, the number of bank cards issued increased by 0.353 million, to 1.296 million. Fee income of bank cards was RMB 21.105 million, with a year-on-year growth rate of 23.91%.

7.4.3 Financial Market Business

In 2014, the Bank was actively involved in financial markets business, strengthened integrated risk management, improved product innovation and independent business development, as a result, its financial markets business ran well in the past year.

As of year-end 2014, the scale of on-balance sheet assets of financial markets business reached RMB 146.175 billion, with a year-on-year growth rate of 31.05%; the scale of off-balance sheet assets and liabilities of financial markets business amounted to RMB 8.441 billion and RMB 75.692 billion respectively, with year-on-year growth rates of 55.43% and 77.48%, respectively; the interest income and interest expenses reached RMB 7.476 billion and RMB 3.149 billion respectively, realizing net interest income of RMB 4.327 billion.

Self-directed Wealth Management Business

In 2014, the Bank constantly strengthened innovation by enriching product types to satisfy customers' needs, and launching exclusive products for online or VIP customers with clear positioning and distinct characteristics. During the reporting period, the Bank offered 140 wealth management products whose fund size was RMB 24.1 billion in total; the balance of self-directed wealth management products exceeded RMB 10 billion, amounted to RMB 11.343 billion, with a year-on-year growth rate of 78.13%, which marked that Bank's self-directed wealth management business improved to a new level.

Bond and Treasury Businesses

As of year-end 2014, the totality of bond holdings was RMB 33.255 billion, realizing interest income of RMB 1.797 billion. The Bank continuously strengthened investment ability and profitability, realizing investment return of RMB 0.325 billion.

In 2014, the Bank continuously enhanced its involvement in the market and its influence on market, ranking the 54th in "2014 top-100 in domestic currency transactions" launched by the National interbank funding center and the 46th in the 2014 "bond settlement overall ranking" published by the China Central Depository & Clearing Co., Ltd.

Investment Banking Business

In 2014, the Bank acquired qualification for corporate debt underwriting which laid the foundation for providing a package of comprehensive financial services in 2015.

7.4.4 International Business

In 2014, 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 proactively responded to the complex and variable environment of international market and adhered to the road of integration of banking and oil and gas industry, the business carried out smoothly.



International Settlement System

In 2014, the Bank perfected the international settlement system of new generation according to the business development's requirements and customers' needs. So far, the Bank has successfully developed and brought out the customer online banking system. The improvement of the system helped shorten the service processing time, improve business efficiency and enhance customer service. As a result, the Bank won customers' consistent praise and enhanced the foundation for expanding the customer base of international business.

International Business Settlement Center

On October 30, 2014, the Bank opened the International Business Settlement Center in Beijing, which marked a significant breakthrough in the Bank's construction of business institutions, became another milestone in the history of the Bank and opened a new chapter for the development of international business. The International Business Settlement Center services mainly include: corporate deposits and loans in RMB and foreign currencies, onshore and offshore settlements, bills and notes acceptance and discounting, principal trading and agency trading in foreign exchange for foreign trade enterprises under international business background, acting as an agent for the payment or receipt of money, providing letters of credit and letters of guarantee, foreign exchange settlement, and other services. The operation of the international business settlement center offered institutional guarantee and specialized international platform for the Bank to provide more customers with safe and convenient international financial services.



“Yilutong” Brand

In 2014, the Bank built the “Yilutong” brand according to the advantages and professional features of international business, acting as an agent for the payment or receipt of money and providing onshore and offshore settlements, trading as a principal and an agent in foreign exchange, letters of credit and letters of guarantee, foreign exchange settlement and other services. The operation of “Yilutong” brand represents the characteristics and specialty of the Bank's international business, enhancing the product profile and laying a solid foundation for its further development.

Customer Service

In 2014, the Bank continued to strengthen the concept of customer service. 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. The Bank devoted to the building of customer-oriented concept, continuously conducted self-improvement, for the increase of customers' satisfaction and loyalty. During the reporting period, high-quality customer base was widened and continuing growth was achieved.

7.4.5 Distribution Channels

Branches and Functional Units

In 2014, centering on customers, the Bank continued to push forward the channel optimization, steadily promoted development and construction of branches and functional units, reinforced coverage capability of outlets, and established 12 new sub-branches. As of year-end 2014, the Bank owned 6 branches in Karamay, Urumqi, Turpan-Hami, Korla, Daqing and Xi'an, respectively; the number of branches and functional units reached 62, including the newly established the International Business Settlement Center and 2 village and township banks. In 2015, following the strategy of integrating of banking and oil and gas industry, the Bank will perfect the network layout of institution construction in Xinjiang according to the strategic plan of New Silk Road Economic Belt. Meantime, basing on local resources and environment, the Bank will differentiate the development of branches and functional units and define their priorities, leading to the branches and functional units' self-characteristic development and the improvement of the Bank's profitability.

E-banking

The Bank spared no efforts to support the development of main business, expanded channels and functions, optimized procedures, and upgraded service capacity, so as to meet comprehensive and multi-level financial needs of customers. As of year-end 2014, E-banking business experienced a rapid development; the number of registered E-banking customers reached 478,400, with a year-on-year growth rate of 45.45%; the number of E-banking transactions was 17.39 million, with a year-on-year growth rate of 47.86%, accounting for 85.57% of total transactions of the Bank, increased by 2.5% compared to that of the prior year.

Online Banking

The Bank introduced international settlement function in online banking, which enriched the international business system of E-banking and provided new channels for customers, effectively satisfied the cross-border settlement requirement of customers. As of year-end 2014, the number of corporate online banking customers amounted to 9,719, with an increase of 49.45% compared to the prior year, while the number of individual online banking customers reached 316,900, increased by 36.5% compared to the prior year.

Telephone Banking

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 completed the disposal process transformation of the seating system's size-limited transaction, further enhanced the bank card's risk control ability. As of year-end 2014, the number of telephone banking customers increase by 46.91% compared to the prior year; the number of calls answered by customer service center reached 1.27 million and customer satisfaction level was 99.66%.

Mobile Banking

In 2014, the Bank comprehensively upgraded the mobile banking client. The new generation mobile banking, which expanded the advantages of E-commerce platform, enabled more convenient operation and introduced functions such as wealth management product purchase and ticket purchase payment. As of year-end 2014, the number of mobile banking customers amounted to 98,600, with a year-on-year growth rate of 87.22%; the total transaction volume increased by 141.78% compared to the prior year.

Self-Service Equipment

The Bank vigorously reinforced financial service network construction and enriched functions of self-service channels, in order to provide a substantial assurance for effectively operating bank card business. In 2014, the number of self-service machines increased by 13 to 539, and the number of POS equipment increased by 289 to 1,201.

7.4.6 Information Technology

In 2014, in accordance with the guideline of IT plan and the theme of combination, the information system functioned safely and stably.

Strengthened the Safeguard in Production

In 2014, the Bank established and improved a series of management mechanism for safety production, including the rewards and disciplinary rules for safe operation, production event analysis, system commissioning specification, IT emergency management, inspection of production safety, morning meeting, daily report and inspections on duty. Meanwhile, the Bank also implemented active defense measures such as operation monitoring, network access and the informationization and platformization of IT service, further promoted the meticulous management of production. As a result, production system operated safely and steadily, and the availability rate of key systems remained above 99.99%.

Steadily Promoted the Construction of Information System

Around the business management center, the Bank emphasized the key points like the integration of banking and oil and gas industry and management improvement, carried out the construction of application system, realizing smooth centralized operation of information system for totally 11 times in 2014, added 7 new systems including a second-generation settlement system, a database, an information platform for integration of banking and oil and gas industry, an international trade finance information system, a system for pre-filling customer documents, a system for agency



fund distribution. The Bank upgraded the current operation systems such as core banking system, credit system and international settlement system, which have guaranteed the healthy development of the business.

Continuously Improved the Management of Information Technology

In 2014, the Bank documented the information technology project outline for the 13th five-year plan period, accelerated the introduction of staff, strengthened professional training, improved team building; continuously pushed forward the revision and perfection of various policies and procedures and technical specifications for further enhancing the internal control; deepened the integration and interaction, fully implemented the regulatory requirements, continually improved the information technology capability and standardized management level.

7.4.7 Service Enhancement

In 2014, with the implementation of customer centering service concept, the Bank continually enhanced the comprehensive service capability of outlets, 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 comprehensive service capability of outlets was enhanced. In 2014, the Bank strictly followed the *Rules for Customer Complaints*, the *Rules for Customer Service* and other regulations, established the normalized regulation for the standardized management of outlets' services. Through the development of a series of activities such as "Baoshi Flower' NUO", "Baoshi Flower' YANG", "Baoshi Flower' TUO" and outlet tutorials, the Bank stressed service awareness, strengthened service skills, created service atmosphere, improved service level and built service brand. As of year-end 2014, all consumer complaints were settled within the given time without unsatisfactory cases or repeated complaints, reflecting high customer satisfaction level. Internal and external service monitoring and the feedback of customer satisfaction survey show that during the reporting period, the Bank's service atmosphere was improving continuously and the service reputation has been steadily promoted.

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. In 2014, the Bank played an active role in carrying out financial consuming rights protection activities and financial knowledge education activities with the theme of “practical financial knowledge” and “knowledge for safely using card” to teach basic banking knowledge to consumers, guiding them use bank 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 50 outlets participating in nearly 100 activities, covering 100,000 audiences.

7.5 Risk Management

7.5.1 Organizational Structure of Risk Management

The Board of Directors and its specialized 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 Department and leading departments of all risk types 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, operational risk and other risk types. In 2014, the Bank continuously enhanced risk management framework, clarified and identified different responsibilities of risk management, which created a good mechanism for cultivating risk management culture and provided strong support for the healthy development of the Bank.

The Implementation of the New Basel Accord

The Bank actively promoted the implementation of the New Basel Accord and has made new progressive achievements in risk measurement methods, management tools and application platforms construction for credit risk, market risk and operational risk. In 2014 the Bank proactively pushed forward the internal rating approach for non-retail banking business and its main achievements in the Bank. In particular, customer rating played an important role in credit approval process.

7.5.2 Credit Risk

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

The Bank's credit risk mainly originates from loans, treasury operations (including due from banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements and bonds investment), investments classified as receivables, letters of guarantee and banker's acceptance bills, etc.

The Bank strictly observed the guidance from CBRC regarding credit risk management and other relevant requirements, executed strategic decisions and objectives under the leadership of the Board of Directors and the Senior Management, and continuously optimized credit procedures. The Board of Directors takes the final responsibility for the effectiveness of the credit risk management's implementation and monitoring. The Senior Management and its Risk Management and Internal Control Committee, the decision-making and coordinating body, are responsible for the approval of action plan and the coordination for the execution of action plan. Business Departments, Corporate Business Department, Personal Banking Department, International Business Department, Financial Markets Department and other related departments are the first defense line of credit risk management, responsible for marketing, due diligence, and specific post-lending management and post-investment management. Credit Management Department, as the leading department for credit risk management of the whole bank, takes the lead in credit risk management; Risk and Compliance Department is responsible for setting up risk preference of credit risk, researching and implementing credit risk management methodology and non-performing loan management; the Information Technology Department is responsible for unified data management of credit risk for 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 Bank actively applied the achievements of the New Basel Accord project, publicized and implemented the philosophy of integrated credit risk management; measured and monitored risk through information management system; sufficiently use customer credit rating in approving loans; further spread the application of credit risk measurement tools, put corporate credit risk early warning system function model into production and applied RAROC in loan underwriting process.

The Bank kept promoting the development of the credit risk management system and kept implementing these achievements. Through "home teaching", tour guidance, field investigation and other methods, the Bank vigorously publicized and implemented the achievement of constructing the Credit Risk Management System and ensured that every risk management tool has been effectively put into use.

Credit Risk Management of Corporate Loans

In 2014, the Bank kept promoting credit culture construction, reinforced institution training and job instruction, raised the awareness of compliance and management through a serious rule enforcement program. The Bank also reinforced the collection and disposal of non-performing loans and took many measures to reduce non-performing loans including cash collection, recovering loans, restructuring and converting loans, etc.

The Bank kept advancing credit risk management policies and credit risk management process. In 2014, the Bank kept conducting the customer credit policy in a prudent and conservative manner. The policy indicated that the Bank set out its management according to industry classification, gives full support for relevant industries which were in accordance with the Bank's strategic development and strictly controls loan issuance in sensitive industries; actively develops clients in energy industry and focuses on the upstream client in the oil industry chain to develop small-to-micro enterprises. It also specified that basing on the practical situation of different branches and industry characteristics, the Bank should timely formulate differentiated credit policy and lead branches to establish their own advantages while at the same time pay close attention to potential risks. Besides, the Bank clarified and improved several policies and procedures of credit risk management; optimized credit system and credit management working procedures; continuously improved credit approval, post-lending management and other fundamental things.

Credit Risk Management in Treasury Operations

Credit risk of the Bank's treasury operations mainly arises from bond investments, interbank financing and other business. The issuers of the financial bonds held by the Bank were policy banks with low risks. Subordinated debentures of commercial banks were avoided, thus the overall risk was 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 standing, and the counterparties of investments classified as receivables were mainly high-quality trust companies and commercial banks.

Faced with the rapid growth of investments classified as receivables, the Bank took the following measures to manage credit risk: reinforcing the review of the industry to which the underlying investments belong; actively updating and revising relevant policies and procedures; measuring risk-weighted assets according to the instructions of risk-weighted assets regulatory requirements.

The measurements to credit risk management in treasury business included: setting up underwriting standards for customers, carrying on credit rating and monitoring on credit limits, prevention, control, and tracking, etc.

Credit Asset Quality Management

According to the regulatory requirement on loan risk classification, on the one hand, the Bank books loans into five categories: pass, special mention, substandard, doubtful and losses. On the other hand, in order to implement credit asset quality refined management and improve risk management level, the Bank books corporate loans into twelve grades under its facility rating system.

Credit Risk Analysis

Loan Classification

As of year-end 2014, loan balance of the Company reached RMB 73.06 billion, increased by RMB 10.03 billion compared with as of year-end 2013, with a year-on-year growth rate of 15.91%.

Five-tier Classification

(In RMB Ten Thousand)

Five-tier classification	December 31, 2014		December 31, 2013	
	Balance	Percentage (%)	Balance	Percentage (%)
Performing loans	7,241,695	99.12	6,238,362	98.97
Pass	7,213,326	98.73	6,236,522	98.94
Special mention	28,369	0.39	1,840	0.03
Non-performing loans	64,618	0.88	65,098	1.03
Substandard	6,261	0.08	10,975	0.17
Doubtful	4,348	0.06	114	-
Losses	54,008	0.74	54,008	0.86
Total	7,306,313	100.00	6,303,460	100.00

Generally speaking, the quality of loans remained stable. As of year-end 2014, the pass loans of the Company amounted to RMB 72.13 billion with an increase of RMB 9.77 billion, accounting for 98.73% of total loans, which is 0.21 percentage decrease compared with the prior year end. The special mention loans amounted to 0.28 billion, with an increase of 0.27 billion, accounting for 0.39%, which was a 0.36 percentage increase compared with the prior year end. The balance of non-performing loans stood at RMB 646 million, with a decrease of RMB 4.81 million. The NPLs ratio was 0.88%, which was a 0.15 percentage decrease compared with the prior year end. Both of the above indicators decreased compared with the prior year end.

Distribution of Loans by Collateral

(In RMB Ten Thousand)

Item	December 31, 2014		December 31, 2013	
	Balance	Percentage (%)	Balance	Percentage (%)
Unsecured loans	1,884,206	25.78	1,930,259	30.61
Guaranteed loans	1,206,688	16.52	993,969	15.77
Collateral loans	701,628	9.60	359,727	5.71
Pledged loans	1,486,081	20.34	1,298,367	20.60
Banker's acceptance bills discount	1,700,022	23.27	1,430,756	22.70
Commercial acceptance bills discount	327,689	4.49	290,382	4.61
Total	7,306,313	100.00	6,303,460	100.00

The balance of unsecured loans amounted to RMB 18.84 billion, accounting for 25.78%; pledged loans amounted to RMB 14.86 billion, accounting for 20.34%. The balance of receivable-type pledged loans stood at RMB 8.48 billion, accounting for 57.07% in the category of pledged loans; the balance of loans backed by road tolls stood at RMB 2.37 billion; the balance of low risk business including deposit receipt and lending backed by banker's acceptances stood at RMB 1.56 billion. In general, the percentage of unsecured loans decreased by 4.83 percent compared to the beginning of the year. The high percentage of pledged loans demonstrated the Company's strategic plan in developing oil supply chain trade financing.

Loans granted to the top ten single clients of the Bank as of year-end 2014

(In RMB Ten Thousand)

Client	Industry	Balance	Percentage (%)
Client 1	Mining	140,000	1.92
Client 2	Education	100,000	1.37
Client 3	Wholesale and retail	98,000	1.34
Client 4	Manufacturing	83,562	1.14
Client 5	Water, environment and public utility management	83,500	1.14
Client 6	Public administration, social security and social organizations	80,780	1.11
Client 7	Transportation, storage and postal services	70,000	0.96
Client 8	Production and supply of electricity, heat, gas and water	69,000	0.94
Client 9	Leasing and Business services	64,673	0.89
Client 10	Production and supply of electricity, heat, gas and water	60,000	0.82
Total		849,515	11.63

The total amount of loans granted by the Company to the single largest borrower accounted for 6.19% of the Company's net capital; the total amount of loans granted to the top ten single borrowers accounted for 37.55% of the Company's net capital and 11.63% of the total loans.

Overdue Loans

(In RMB Ten Thousand)

Overdue periods	December 31, 2014	December 31, 2013
1to 90 days	15,125	42,784
91 to 360 days	12,295	11
1 to 3 years	55,466	13,026
Over 3 years	23	97
Total	82,909	55,918

As of year-end 2014, total amount of overdue loans of the Company stood at RMB 829.09 million, increased by RMB 269.91 million compared to the prior year. Most incremental overdue loans were within 1 to 3 years.

Changes in Allowance for Impairment Losses on Assets

(In RMB Ten Thousand)

Item	December 31, 2014			December 31, 2013		
	Balance	Allowance for impairment losses	Percentage (%)	Balance	Allowance for impairment losses	Percentage (%)
Personal loans	378,979	11,272	2.97	248,561	6,204	2.5
Corporate loans	6,927,334	266,643	3.85	6,054,899	193,510	3.2
Investments classified as receivables	5,426,243	160,034	2.95	2,489,275	12,222	0.49
Total	12,732,556	437,949	-	8,792,735	211,936	-

As of year-end 2014, adhering to the prudential operation principle, the Company set aside allowances of RMB 4.38 billion for impairment losses on loans. For allowance for impairment losses of investments classified as receivables, impairment is charged according to the nature of underlying asset. Assets whose underlying asset was classified as credit assets were charged according to the allowance for impairment losses of credit assets and had been set aside provisions accurately.

7.5.3 Market Risk

Market risk is the risk of losses, for the Bank's on-balance sheet 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 risk. The Bank has 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 tolerable and reasonable level for the Bank. The market risk management system was based on risk management strategies, policies, 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 markets business. The Board of Directors assumed the final responsibility to implement supervision over market risk management. The Senior Management and its Risk Management and Internal Control 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 is responsible for the general management of banking book interest rate risk. The Financial Markets Department is responsible for the execution of transactions related to banking book interest rate risk management, according to the risk preference and tenor requirements of the banking book. The Risk and Compliance Department undertakes the daily work of market risk management. The business units develop their businesses according to requirements by market risk management policies and procedures to ensure that market risk is controlled within relevant limits.

According to the properties of different accounts, the Bank categorizes on-and-off balance sheet assets and liabilities into the trading book and banking book and takes corresponding measures to manage risk.

Interest Rate Risk on the Trading Book

The Bank's trading book interest rate risk mainly arises from the impact of interest rate changes on the fair value of financial instruments in 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 corresponds to the risk of fair value losses on RMB bonds in the trading book. As of year-end 2014, the book value of RMB bonds in the trading book reached 3.78 billion. The Bank's trading book consisted of medium-term notes, short-term financing bills and policy bank financial bonds, whose issuers were all rated AA or above. As the key factors that drove up interest rates in 2013 either weakened or disappeared, interest rates followed a downward trend in 2014 and gradually stabilized while the bond market experienced structural fluctuations. In 2014, bond yields generally decreased in the broad market, boosting the fair values of rate bonds as well as credit spread bonds in general. In addition, the Bank's trading book positions were moderate, and the risks were manageable. As of year-end 2014, the Value at Risk with one-day holding period calculated using the historical simulation method was RMB 6.47 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 resulted from losses of the foreign currency exposure, which was caused by currency 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.

As of year-end 2014, the foreign exchange exposure in the Bank's international business was RMB 788 million, increased by RMB 321 million compared with the beginning of 2014. The VaR with a 99% confidence level for foreign exchange exposure was RMB 8.50 million.

Interest Rate Risk on the Banking Book

The Bank's banking book interest rate risk 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. Subject to the fluctuations of market interest rate, the Bank's interest margin may expand, reduce or even generate losses. The Bank operated mainly in compliance with the interest rate system regulated by the central bank. The Bank adhered to the prudent 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. As of year-end 2014, interest rate sensitivity exposure of the Bank's banking book was as follows:

(In RMB Ten Thousand)

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	2,507,058	(2,046,722)	(76,507)	(1,670,752)	2,814,952	330,826	546,558	2,405,413

Note:

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

7.5.4 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, pay obligations and raise fund for other business development needs. The Bank uses a combination of regulatory means to set up liquidity risk management systems, so as to effectively identify measure, monitor and control liquidity risk, and maintain sufficient liquidity level to fulfill various fund demand and cope with negative market conditions.

Liquidity Risk Management

The Bank sets an organization structure of liquidity risk management, which is composed of the Board of Directors, the Board of Supervisors, Senior Management and its Asset and Liability Management Committee and the functional department of the head office. Among them, the Board of Directors has the ultimate responsibility of liquidity risk management, and other divisions are responsible of their respective functions of liquidity risk management and supervisory.

With high attention to the liquidity risk management, the Bank improved the liquidity risk management system continuously, used a combination of various management indicators and ways of working in order to identify, measure, monitor and control liquidity risks effectively, carried out stress testing of liquidity risk regularly, made specific risk emergency scheme, ensured sufficient liquidity reserves to satisfy the business development needs and coped with negative effects brought by the market fluctuation effectively.

Comply with *Measures for the Liquidity Risk Management of Commercial Banks (for Trial Implementation, [2014] No.2)* issued by CBRC in February, 2014, the Bank carried its liquidity management. The Bank revised and improved the policy of liquidity risk management, liquidity risk emergency scheme and liquidity risk management limits proposal; improved the early warning system of liquidity risk, enhanced the overall management of liquidity; improved the liquidity risk management tools, increased liquidity risk monitoring frequency significantly, monitored the funds sources and used and position gap by the day; improved liquidity stress testing plans and implemented it quarterly, the result of which showed that The Bank had enough payment capacity to cope with emergency under stress; improved liquidity risk emergency scheme, made specific solution aiming at specific incident; perfected the pricing

mechanism for transferring internal cash, increased the flexibility and pertinence of transferring internal cash price; enhanced the abilities to communicate and cooperate with relative departments, increased efficiency in dealing with risks; established a report mechanism for liquidity risk, submitted reports to the Senior Management and the Board of Directors regularly.

The Bank used scientific and technological means to improve the level of actively applying information system in asset liability management. The Bank used the assets and liabilities information management system to monitor liquidity indicator and liquidity exposure. According to the results, The Bank adjusted assets and liabilities business and term structures, with means such as pricing for transferring internal cash.

Liquidity Risk Analysis

In 2014, assets and liabilities businesses was well developed, and liquidity was in a good condition. As all the businesses are growing steadily, all important liquidity indicators met supervisory requirements. The Bank kept a high proportion of high quality liquidity assets, specific indicators of which are as follows:

Main regulatory indicators		RegulatoryCriteria	December31,2014	December 31, 2013
Liquidity ratio (%)	RMB	≥25%	46.04	46.42
	Foreign Currencies	≥25%	180.21	0.52
	Total	≥25%	60.19	37.96
Loan-to-deposit ratio (%) (Excluding bills discount)	RMB	≤75%	49.21	37.67
	Foreign Currencies	≤75%	10.97	-
	Total	≤75%	46.90	35.16
Loan-to-deposit ratio (%) (Including bills discount)	RMB	-	68.87	52.27
	Foreign Currencies	-	10.97	
	Total	-	65.38	48.78
RMB excess reserve ratio (%)	RMB	-	5.57	7.34

Note:

(1)Liquidity ratio (%) = liquid assets/liquid liabilities; the comparative figures are not restated.

(2)Loan-to-deposit ratio (%) (Excluding bills discount)=Loans (Excluding bills discount) /deposits; the comparative figures are not restated.

(3)Loan-to-deposit ratio (%) (Including bills discount) =loans/deposits; the comparative figures are not restated.

(4)RMB excess reserve ratio (%) = (Reserves after taking of required deposit reserves + Vault Cash)/deposits; the comparative figures are not restated.

(5)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 exposure by using liquidity gap analysis. The Bank calculated and monitored liquidity gap regularly, and analyzed liquidity gap sensitivity by using the gap data. The liquidity gap analysis of the

Bank as of year-end 2014 is shown in the table below:

	(In RMB Ten Thousand)	
	December 31, 2014	December 31, 2013
Repayable on demand	3,238,363	2,934,529
Less than 1 month	1,482,541	751,683
1-3 months	(2,162,005)	21,380
3 months to 1 year	(567,602)	(3,436,813)
Over 1 year	(1,346,939)	(130,352)
Overdue	73,928	56,603
Undated	1,335,124	1,573,786
Total	2,053,409	1,770,816

Note:

(1)Liquidity gap=assets due within a certain period-liabilities due within the same period. The comparative figures are not restated.

(2)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 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 includes legal risk, but excludes 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 centralized management with decentralized control, as well as connecting responsibility with rewards and punishments. The Board of Directors assumed the final responsibility of the effectiveness of operational risk management. The Senior Management and its Risk Management and Internal Control Committee, 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 both the superior departments and their peer departments, who are in charge of operational risk management, about operational risk events and the implementation of operational risk management.

In 2014, the Bank continued to promote the infrastructure work of operational risk management. The Bank conducted various training, checking and supervisory to enhance the ability of identifying and controlling risks. 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 identifying, evaluating, monitoring and reporting of operational risk in all business procedures. It set up subsequent surveillance center, centralized the power for ex-post supervision, and made its management scientific, precise and integrated.

The Bank compiled a journal to warn operational risk, strengthened the operational risk management in key areas and crucial positions, and established operational risk analysis conference policies and procedures between the head office and branches. The Bank conducted operational risk inspection mechanism, fostered employees' risk awareness, and increased the overall risk prevention capacity. The Bank maintained fraud prevention and control system, improved internal control, strengthened the risk inspection in key areas and crucial links, enhanced correction, accountability and staff education, improved the level of rule implementation and risk events prevention and control, and ensured the target of "zero risk event".

Information Technology Risk Management

Information Technology Risk refers to the risk of losses resulting from natural factors, employees, IT bugs and inadequate or failed management processes, including operational risk, legal risk and reputational risk.

The Bank brings IT risk management into an integrated risk management system, the report of which will be periodically submitted to Risk Management and Internal Control Committee of the Senior Management, Risk Management Committee of the Board of Directors and the Board of Supervisors. The Bank set up a robust IT risk management system, established and maintained IT outsourcing risk management system and business continuity management system, issued business continuity management plan, executed business impact analysis and risk assessment, made specific emergency plans and exercise it under key business risk. With the core step of promoting IT competence, The Bank is fast grouping a team of IT talents, in order to transfer its IT construction from "outsourcing based" to "independent development, operation and maintenance".

Legal Risk Management

Legal risk is incorporated in the scope of operational risk, and it refers to the risk of legal sanctions, regulatory penalties, financial losses and reputational losses that related to the Bank's failure of complying with relevant laws, regulations or requirements.

The Board of Directors and the Senior Management of the Bank did well in understanding 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 appropriate, as the authorization and responsibility of legal risk management is well specified and executed in all related departments.

In 2014, 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 behavior, improved contract management authorization, integrated the sample contract of external transactions into the contract information system, brought contract drafting, filling, examination

and modification online to increase management efficiency, and optimized the process and function of contract management in order to make the system meet the requirement of external transaction management business. To strengthen the management of authorization, The Bank established the authorization management plan of the Board of Directors and the Senior Management and files including authorization guidelines to lay the foundation for integrating authorization and business requirements. The Bank established authorization management system covering main operating management businesses. In order to safeguard the legitimate rights and interests, The Bank enhanced dispute management and dealt with dispute properly. The Bank also set up the administrative legal management mechanism to ensure legitimacy of operating businesses, strengthened legal support, compiled *Legal Regulations Overview* regularly, focused on the influence brought by promulgation and implementation of a series of laws and regulations and the changes of supervision, and warned the risk on a timely basis. It actively carried out legal capability training, and intensified legal knowledge education by offering lectures, training, contests and learning materials within the scope of whole bank. And as a result, the Bank's culture of compliance was 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-assessments of 2014 for branches and sub-branches 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 transactions, manual analyzation and identification were reinforced, and anti-money laundering reports were submitted daily by all branches and departments. The Bank optimized the requirement for certificate information elements of relative businesses, and enhanced customer identification management. According to the requirements of *Guidelines on Financial Institution Money Laundering and Terrorist Financing as well as Client Classification Management* issued by the central bank, The Bank improved its requirement of anti-money laundering system, when selecting the project partner to update it. The Bank organized the public education project to improve anti-money laundering literacy. The Bank further enhanced employees' anti-money laundering level by organizing them to participate in remote training. In addition, The Bank actively and confidentially cooperate anti-money laundering investigations made by central bank and the police.

Because of the huge volume of international payment and settlement businesses, the Bank conducted client identification and due diligence, understood the essence of corporate clients, managed the risk grade according to the supervision requirements of anti-money laundering and relative regulations, and monitored clients from countries that are lack of anti-money laundering and terrorist financing by a name list. The Bank paid attention to inspection of the certification of transaction background reality, researched and judged suspicious transactions relying on anti-money laundering system, and improved the process control.

7.5.6 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 systemic risk. The larger scale of a commercial bank, the greater urgency for it to 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, served the development strategy of integration of banking and oil and gas industry, paid attention to the fundamental operation management, made full use of those professional reports, such as risk management report and business operation report, when monitoring or warning risk. The Bank's basic method of strategic risk management is to build a strategic planning system which is compatible with the development target and risk requirements and make adjustments and revisions dynamically.

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

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

7.5.7 Reputational Risk

Reputational risk is the risk of negative assessments or comments on a commercial bank from stakeholders as a result of its operation, management and other behavior or external events. The Bank paid close attention to reputational risk management, and brought reputational risk into the corporate governance and comprehensive risk management framework. By means of perfecting organization system, monitoring public opinions, increasing emergency response capacity, and strengthening positive voice and team construction, The Bank is actively and efficiently preventing reputational risk and dealing with reputational emergencies. As a result, the standard and efficiency of reputational risk management were ensured.

7.6 Capital Management

The Bank implemented integrated capital management, including but not limited to capital adequacy ratio management, capital-planning management, capital raising management, etc.

Aimed at maintaining continuing operations, meeting regulatory rules, enhancing risk resistance ability of capital and increasing returns on capital, the Bank regularly reviewed the capital status and the execution of related capital management strategy. In order to achieve the whole bank's operational goals, the Bank actively utilized capital management and improved the efficiency of capital usage to ensure sustainable development.

7.6.1 Capital Adequacy Ratio Management

The capital adequacy ratio management is the core of the Bank's capital management, which reflects the Bank's steady operation and loss absorption capacity. By controlling asset growth, adjusting asset structure, increasing internally generated capital and externally generated capital, and timely monitoring, analyzing and reporting the capital adequacy ratio, the Bank ensured that capital adequacy ratios at all levels meet the regulatory and internal management requirements, in order to resist potential risks and support the healthy and sustainable development of different businesses.

Based on *The Capital Rules for Commercial Banks (Provisional)* issued by China Banking Regulatory Commission (CBRC) in June 2012, the Bank calculated, managed and disclosed the capital adequacy ratio. According to the requirements, the credit risk-weighted assets are measured by the weight method, market risk-weighted assets are measured by the standardized approach and the operational risk-weighted assets are measured by the basic indicator approach.

As of year-end 2014, the Bank's capital adequacy ratios all met regulatory requirements. Details are as below:



(In RMB Ten Thousand)

Item	December 31, 2014	December 31, 2013	Rate of Change (%)
Net core tier 1 capital	2,050,489	1,736,291	18.10
Net tier 1 capital	2,050,596	1,736,342	18.10
Net capital	2,262,452	1,871,059	20.92
Risk-weighted assets	18,532,299	15,111,438	22.64
Including: Credit Risk-weighted assets	17,143,145	13,860,138	23.69
Market Risk-weighted assets	330,728	508,760	(34.99)
Operational Risk-weighted assets	1,058,425	742,541	42.54
Core tier 1 capital adequacy ratio (%)	11.06	11.49	(0.43 percentage points)
Tier 1 capital adequacy ratio (%)	11.06	11.49	(0.43 percentage points)
Capital adequacy ratio (%)	12.21	12.38	(0.17 percentage points)

Notes:

(1) Data in this table are calculated respectively on consolidated basis.

(2) 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.

7.6.2 Capital Planning Management

Capital planning management is mainly achieved by forecasting the future demand and supply of capital, determining future capital shortfalls, and devising internal and external capital replenishment measures, based on regulatory requirements and the Bank's development strategy and risk preferences.

7.6.3 Capital Raising Management

Capital raising management is achieved by choosing suitable capital instruments to raise capital based on capital planning and market environment, in order to meet the Bank's regulatory requirements and internal capital management objectives as well as enhance the Bank's capital structure.

7.7 Human Resource Management

In 2014, focusing on the development strategy and operating goal, keeping the innovation of management mechanism and enhancement of staff's core competences as the central task, the Bank continued to deepen and improve human resource management, optimize the organizational structure, strengthen the marketing team building and enhance the sales force. The attraction of talents was strengthened, and as a consequence a large number of outstanding talents joined the Bank. We conducted open and competitive recruitments, continuously enhanced the management team structure, and made comprehensive efforts to nurture key talents. We also improved incentive and accountability mechanisms, carried out performance and compensation evaluations, revised *Bank of Kunlun's Evaluation Method for Middle Management and Branch Leadership Teams*, and issued *Leadership Position Exit Management Guidelines*. We improved the remuneration management mechanism linking compensation to

performance, and further aligned performance appraisal with strategic objectives. The project of team building was implemented comprehensively, with 612 sessions of different kinds of training for 18581 people. We introduced advanced training concepts and innovative training methods, and created a number of widely recognized training programs such as the Kunlun Forum, Special Training Classes, Middle Management Training Classes, Sub-branch Manager Training Classes, and Account Manager Training Classes.

7.8 Social Responsibility

In 2014, the Bank proactively implemented the national strategy of economic structure adjustment and business model transformation, focused on serving local economic development needs, conscientiously fulfilled our social responsibilities, and facilitated the coordinated development of the regional economies.

7.8.1 Economic Performance

Formulating Credit Policy, Optimizing Credit Structure

To better serve the local economic development, the *Kunlun's Credit Policy for Corporate Customer in 2014* required that branches in the Xinjiang Autonomous Region study the impact of "New Silk Road Economic Belt", support local development and make full use of its local bank's advantage. At the same time, in order to better guide the branches' healthy development of the credit operations, the head office established differentiated credit policies, specified each branch bank's business expansion focus in terms of region, industry, market and target customers. The head office required that branches not only follow the firm-wide credit policy, but also implement differentiated credit policies according to their own circumstances and characteristics of the regional economy, and try to develop their distinct advantages as well as prevent credit risk based on the local market. The successful operation of a series of credit projects such as Lianhuo highway, Karamay engineering education base, main power supply of SDIC Hami generation all effectively promoted the development of local economy.

Serving for the Development of Small and Micro Enterprises (SMEs)

In accord with various policies of serving SMEs issued by regulatory authorities, marketing mainly to SMEs in oil and petrochemical industry supply 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 short-term financing in different stages when they offered oilfield engineering construction and material supply, and formed the unique Oil Enterprise Program product series, meeting financing needs of companies in oil industry supply chain effectively and realizing "two not less than" goals of loans to SMEs. As of year-end 2014, the loan balance of SMEs was RMB 5.717 billion, up by 47.86%. In 2014, The Bank specified its "five promotion" development strategy for small and micro business, launched the small and micro lending services division pilot program in branch offices and achieved some breakthroughs in the exploration of the entire line of small and micro business management.



Serving Rural and Agricultural Development and Farmers' Needs, Facilitating the Improvement of Living Standard and Quality

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. As of year-end 2014, the loan balance to rural area reached RMB 12.612 billion, representing an increase of RMB 1.466 billion or 13% compared to the beginning of the year.

Reducing Financial Service Fees

In 2014, in line with various policies about reducing financial service fees set by regulatory authorities, the Bank diminished certain fees of 30 items, such as corporate small balance accounts' maintenance fee for SMEs, revolving loan commitments in RMB guarantee and commitment business, legal-entity overdraft commitments, loan commitments, credit certificates, credit line commitments and standby loans, ranking fairly high among commercial banks. In such areas like farmers, agricultural production and rural development, disadvantaged groups and social welfare, concessional policies were carried out. For instance, installation fees and commissions for POS machines were reduced in counties and townships and eliminated in public hospitals, public schools and charitable organizations.

7.8.2 Social Performance

Focusing on Service, Improving Quality

In 2014, the Bank carried out elaborate training of business outlets services to promote comprehensive service level of outlets and build the Bank of Kunlun's brand image. We organized trainings on the full range of branch services, and carried out targeted on-site teaching and inspection on different aspects such as facilities, functions, process design, and employee conduct standard. By streamlining service processes, assessing service status and correcting service defects, we improved service quality from details.

In 2014, Xian Jinghe Industrial Park Sub-Branch of the Bank won the "2014 Shaanxi province banking service excellence award" from the Shanxi? Province Banking Industry Association; Daqing Road Sub-Branch in Karamay Branch was honored with "the 2014 Xinjiang banking industry civilized and standard service gold medal enterprise"; Karamay Branch and Korla Branch each had one person won the "gold medal service star in banking service industry in 2014".

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 2014, the Bank carried out reading activities with the theme of "reading, practicing, and developing". The Bank also continuously pushed ahead different activities, such as "three to study and three to compete for", "consolidate three foundations, enhance quality, and build brand" 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 promoted the "best employee club" initiative and launched its pilot on staff's small home construction. By providing on-site guidance and financial support, we helped first-line employees improve living facilities, working environment, and community areas.

We initiated the “Helping Hand” program. The head office set up a poverty relief committee to help the employees in need, completed the record of staff in financial difficulties around The Bank, and allocated funds totaling RMB 185,900 to aid employees with difficulties. Urumqi branch cumulatively visited 118 staffs, paid consolation money more than RMB 60,000, with a visit rate of 100%, we have built the “Helping Hand” program into an ongoing process. Daqing Branch did the daily visit to the staffs in need and at the same time, focused on the extremely poor employees, visited the staffs with disease for several times and brought them the care and warmth from The Bank. The Turpan-Hami Branch actively communicated with the Turpan-Hami oilfield to help solve the housing problems for the transferred employees. The service center carried out person-to-person communication with staffs to know their practical difficulties and needs and get the first hand information. It also held lectures related to women employee's health, promoted female staffs' special physical examination and paid extra attention on the physical and mental health of female employees.

Keen on Public Welfare, Building Culture and Value

In 2014, the Bank took part in public welfare actively, supported regional education, and promoted national unity. The head office organized the Sun Village voluntary tree planting activity and visited the children. Each branch also made efforts to strengthen our corporate culture. The Karamay branch organized “monthly contributions” for 4 consecutive years and this year made a total donation of RMB 7,343,190 clothes, 89 books, which effectively enhanced the employees' sense of social responsibility. The Turpan-Hami Branch responded positively to the local government's activity of “introducing legal system to campuses, donating books to children”. Our employees donated 30 books valued at RMB 4,728, demonstrating our love for children. The service center held activities such as “dancing into the New Year”, “talent show” and tea farming experience to promote cultural and value identity. The Xi'an branch actively participated in Tencent's large-scale public welfare project of “Clothing and Clothing” and successively donated clothes and books to the poor mountainous areas, which helped strengthen our corporate image.

7.9 Outlook

In 2015, the Bank will continuously implement the regulatory requirements, focus on the theme of “change, innovation, development”, and “strengthening fundamentals, streamlining structures, better managing risks, and facilitating growth.” The Bank will further strengthen the integration of banking and oil and gas industry, develop our core deposit business, keep up with the progress of internet finance, comprehensively enhance operational management capability, facilitate business development, keep risks under control, accomplish development goals, and achieve preeminence in the specialty banking segment of oil and gas finance.

On the risk management front, we will continue to manage our risk prudently and strengthen our effectiveness in risk and compliance management. We will strengthen credit policy guidance, enhance our credit portfolio composition, speed up the implementation and application of risk management tools, and improve operational risk management. On the innovation front, the Bank will actively explore the implementation of integrated asset liability management and dynamically adjust asset allocation to ensure balance in multiple dimensions. We will continue to strengthen our advantages in the integration of banking and oil and gas industry, accelerate business development in internet finance, promote innovations in business models, distribution channels and services and products, and leverage

technology to improve our research and development capabilities. On the customer service front, we will accelerate the development of branches and outlets, expand our financial service network, improve our business model, enhance our capability to serve non-local customers, initiate the development of customer satisfaction mechanism, and improve customer satisfaction.

On the market expansion front, we will further focus on the integration of banking and oil and gas industry to build the company's business advantage, enhance our management approach to the integration of banking and oil and gas industry, accelerate product innovation, process improvement and information system development. We will strive to achieve balanced development in the oil and gas finance business and other businesses, enhance our credit portfolio composition, and improve our innovation capability. On the retail business front, we will increase investment, lay the foundation and expand its scale. We will strive to achieve balanced development in products, processes, services, channels and customer segmentation management. We will build on our advantage in the integration of banking and oil and gas industry, and work on innovations in the wholesale and retail businesses. On the international business front, we will focus on the strengthening of comprehensive services to improve customer loyalty, expand new markets, businesses, products and channels. We will continue to strengthen anti-money laundering management and improve compliance management. On the financial markets front, we will continue to foster innovations, expand revenue streams, safeguard sound business development, utilize business potentials, and improve asset allocation and overall profitability.

8. Changes in Share Capital and Shareholders

8.1 Changes in Share Capital during the Reporting Period

The Bank didn't increase the share capital in 2014. The registered capital remained at RMB 7.38 billion.

8.2 Number of Shareholders and composition in percentage terms of Shareholding

As of year-end 2014, the total number of shareholders of the Bank was 77, and the total number of shares was 7.38 billion. The composition in percentage terms of shareholding 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	(In Share)	
		Shareholding	Proportion (%)
1	China National Petroleum Corporation	5,690,141,618.63	77.10
2	Karamay City Finance Bureau	350,617,072.91	4.75
3	China Shipping Investment Co., Ltd.	293,342,285.88	3.97
4	Xinjiang Financial Investment Co., Ltd.	223,225,446.36	3.02
5	Xinjiang Uygur Autonomous Region State-owned Assets Investment Management Co., Ltd.	197,044,334.98	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	1.33
8	Xinjiang 3U Investment Group Co., Ltd.	52,387,836.93	0.71
9	Xinjiang Taishengxinrong Investment Co., Ltd	43,382,903.66	0.59
10	Karamay City Construction Investment and Development Co., Ltd.	37,414,335.61	0.51

8.4 Controlling Shareholders and Actual Controller of the Bank

China National Petroleum Corporation (CNPC) is the controlling shareholder and takes an effective control over the Bank, which didn't change during the reporting period. As of year-end 2014, CNPC held RMB5.69 billion shares of the Bank, amounting to 77.10% of the shareholding.

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. Through integration of upstream and downstream industries, foreign and domestic trading, and producing and marketing, CNPC operates under modern corporate policies and procedures, engaging not only in cross-regional, cross-industrial business but also in international 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 2014, CNPC took the fourth position on the *Fortune* Global 500. As of year-end 2014, the registered capital of CNPC reached RMB 379.86 billion. The legal representative of CNPC was Mr. Zhou Jiping.

8.5 Other Corporate Shareholders Holding 10% Shares or More

As of year-end 2014, 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	Start
Jiang Shangjun	Chairman	Male	50	2014.10
Su Min	Director	Female	46	2014.08
Wang Zhonglai	Director	Male	51	2012.05
Liu Qiang	Director	Male	48	2014.07
Wang Zheng	Director	Female	51	2014.07
Xu Weixi	Director	Male	60	2013.05
Pang Yueying	Independent Director	Female	68	2011.08
Yu Zengbiao	Independent Director	Male	59	2012.05
Shi Junzhi	Independent Director	Male	61	2012.05

Jiang Shangjun, 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, with nearly 30 years' working experience in finance, and 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. Mr. Jiang has served as Chairman of the Bank since October 2014.

Su Min, Director

Senior accountant, graduated from University of Science and Technology of China, Master Degree (major in Business Administration); Chief Accountant of China Shipping (Group). Ms. Su has served as Director of the Bank since August 2014.

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), with over 30 years' working experience in banking industry, and 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.

Liu Qiang, Director

Senior accountant, graduated from Jiangnan Petroleum University (major in Accounting), Renmin University of China, Tianjin University of Finance and Economics and University of Houston, Master Degree. Mr. Liu is the Deputy General Manager of Treasury Department of CNPC, and has served as Director of the Bank since July 2014.

Wang Zheng, Director

Professor-level senior accountant, graduated from Renmin University of China, Master of Economics (major in Finance). Ms. Wang is the Deputy General Manager of Capital Operation Department of CNPC, has served as Director of the Bank since July 2014.

Xu Weixi, Director

Professor-level senior political worker, graduated from China University of Petroleum (Huadong). Mr. Xu has served as Director of the Bank since May 2013.

Pang Yueying, Independent Director

Senior accountant, graduated from the Central Party School (major in Economics and Management), with nearly 40 years' working experience in financial management. Ms. Pang used to be Deputy General Manager of Financial Accounting Department, General Manager of Accounting and Settlement Department, General Manager of Human Resources Department and Chairman of the Board of Supervisors of Financial Leasing Co., Ltd. of ICBC, and 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

Professor and doctoral supervisor in Economics and Management School of Tsinghua University, CICPA, graduated from Hebei University (major in Finance) and Xiamen University (major in Accounting), PhD, with rich working experience in accounting, finance, and academic research. Mr. Yu is 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. Mr. Shi 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, and 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	Start
Luo Ping	Chairman of the Board of Supervisors	Male	57	2014.03
Jiang Zuqi	External Supervisor	Male	74	2014.03
Yang Jiasi	External Supervisor	Male	65	2012.04
Wang Wei	Employee Supervisor	Male	44	2012.04

Luo Ping, Chairman of the Board of Supervisors

Graduated from China University of Geosciences (Wuhan) and University of Wales, UK. Mr. Luo was Deputy Director of the International Department of People's Bank of China, Director of Supervision Department and Department of Banking Authorization, Deputy General of International Department, and General of Training Center of CBRC. Mr. Luo has served as Supervisor selected from the staff since March 2014 and Chairman of the Board of Supervisors of the Bank in the same Month.

Jiang Zuqi, External Supervisor

Graduated from Beijing College of Commerce, Mr. Jiang was the Vice Chairman and Vice President of Bank of China, State Council designated Chairman of the Board of Supervisors in key state-owned financial institutions, Chairman of the Board of Supervisors of Bank of Communications and Chairman of the Board of Supervisors of Export-Import Bank of China. Mr. Jiang has served as External Supervisor of the Bank since March 2014.

Yang Jiasi, External Supervisor

Senior accountant, graduated from Beijing Open University (major in Finance), with nearly 30 years' working experience in financial management. Mr. Yang was the 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), with nearly 20 years' working experience in finance. Mr. Wang is 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	51	2012.06
Xu Xinyuan	Vice President, Board Secretary	Female	58	2013.04
Jing Lin	Vice President	Male	50	2013.04
Xie Pengfei	Vice President	Male	50	2009.06
Xie Haibing	Vice President	Male	43	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), with over 30 years' working experience in finance. Ms. Xu was the 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, with over 30 years' working experience in finance. Mr. Jing was the 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), with over 30 years' working experience in finance. Mr. Xie was the 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, Post doctor of nuclear science and technology of Tsinghua University. Mr. Xie was the 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

Starting on October 21, 2014, as approved by the Xinjiang Banking Regulatory Bureau, Mr. Jiang Shangjun became the Bank's Chairman of the Board, succeeding Mr. Wang Guoliang.

At the First Extraordinary Shareholders' Meeting of 2014 held in January 2014, Ms. Su Min was elected as the Director of the Bank, whose appointment was approved by Xinjiang Banking Regulatory Bureau on August 18, 2014. At the Shareholders' Meeting of 2013 held in March 2014, Mr. Liu Qiang and Ms. Wang Zheng were elected as Directors of the Bank, whose appointments were approved by Xinjiang Banking Regulatory Bureau on July 22, 2014. Mr. Wang Guoliang ceased to act as Director and Chairman of the Bank from October 2014. Mr. Wan Haichuan ceased to act as Director of the Bank from May 2014. Mr. Yu Yibo ceased to act as Director of the Bank from

July 2014.

Supervisors

At the second session of the first Congress of Workers and Staff held in March 2014, Mr. Luo Ping was elected as the Employee Supervisor. At the eighth session of the third meeting of Board of Supervisors held in March 2014, Mr. Luo Ping was elected as the Chairman of the Board of Supervisors. The Xinjiang Banking Regulatory Bureau approved in writing Mr. Luo Ping's appointment as the Chairman of the Board of Supervisors in October 2014.

At the Shareholders' Meeting of 2013 held in March 2014, Mr. Jiang Zuqi was elected as External Supervisor of the Bank, whose appointments were on file with regulatory authorities.

Mr. Gao Jun ceased to act as Supervisor and Chairman of the Board of Supervisors of the Bank from March 2014. Mr. Wei Guoliang ceased to act as Supervisor of the Bank from October 2014.

Senior Management

During the reporting period, there's no personnel change in Senior Management.

9.5 Employees

As of year-end 2014, there were 2,615 employees altogether, of which 384 from the head office, 133 from operation service center, 2,022 from branches and business department of head office, and 76 from village and township banks. The average age of employees was 32. The total number of employees had increased by 418 or 19% compared with that as of year-end 2013. The employee structure continued to be optimized and the overall quality of the employees was relatively high. The number of employees with Master degree or above was 275, accounting for 11% of the total. The number of employees with Bachelor degree was 1,890, accounting for 72% of the total.

9.6 Payroll

In 2014, the gross payroll of the Bank summed up to RMB 600.55 million, the income of the Bank's employees has grown steadily.

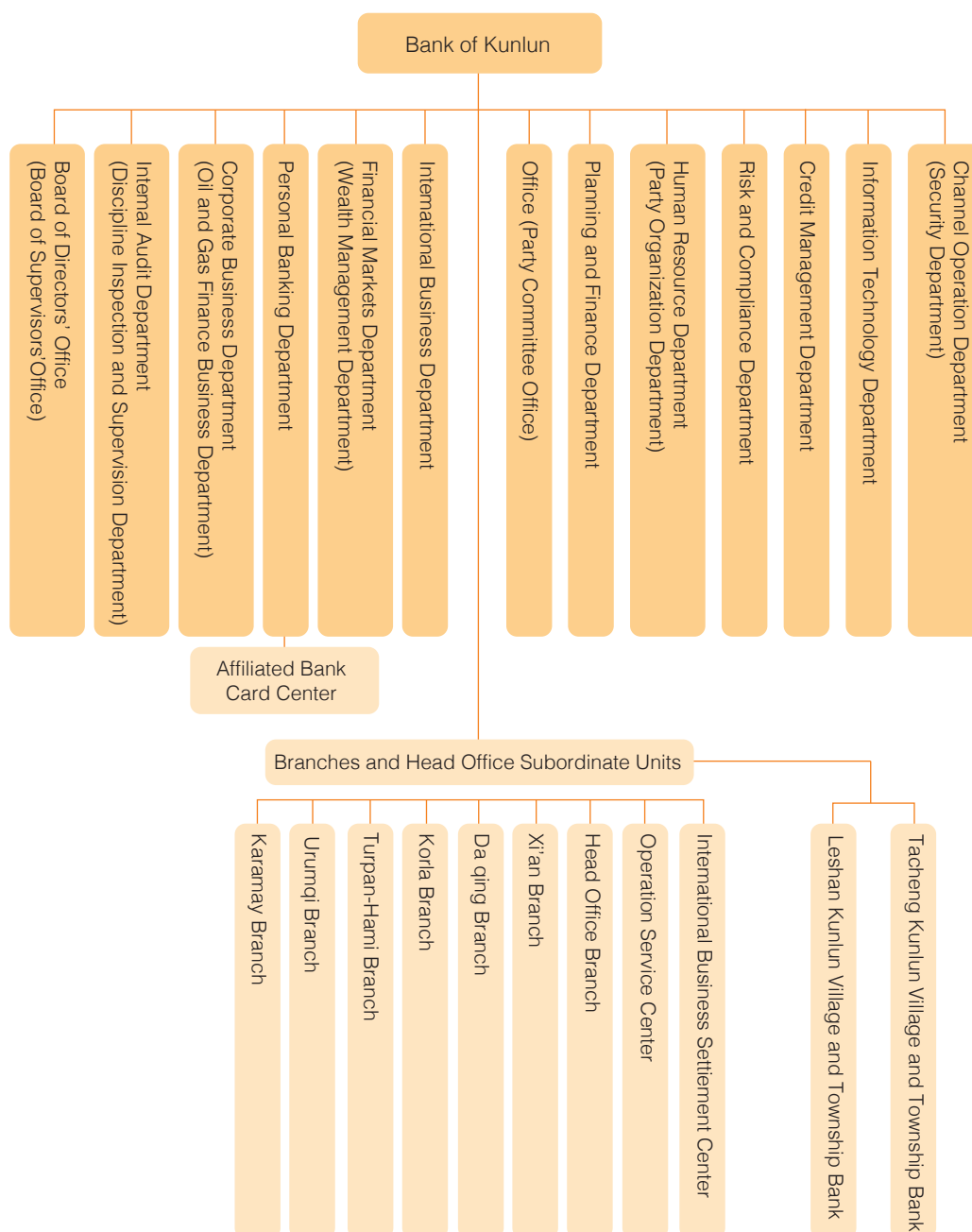
The deferred payroll payment has been established according to the *Regulatory Guidelines to the Prudential Salary Administration of Commercial Banks*. The payment for the performance-related pay of key positions was deferred at specific proportion.

9.7 Divisions and Branch Network

In 2014, the Bank steadily advanced organizational growth at three levels: head office, branches and sub-branches. The head office established the wealth management department to work jointly with the financial markets

department. The head office is comprised of 13 functional departments. There are 9 branches and subordinate units, including the branches located in Karamay, Urumqi, Turpan-Hami, Korla, Daqing and Xi'an and the Head Office Branch, International business settlement center and operation service center. As of year-end 2014, the Bank had 62 branches and functional units, up by 14 versus the prior year.

Organizational Chart:



(December 31, 2014)

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						Karamay Branch	No. 7 Century Avenue, Karamay, Xinjiang	834000	0990-69699907
3						JinlongTown Sub-Branch	No. 6 Yongsheng Road, JinlongTown, Karamay, Xinjiang	834000	0990-6919887
4						Yuezhong Road Sub-Branch	No. 1 Yuezhong Road, Baijiantan District, Karamay, Xinjiang	834000	0990-6981927
5						Kunlun Road Sub-Branch	No. 115 Youyi Road, Karamay, Xinjiang	834000	0990-6221879
6						Youyi Road Sub-Branch	No. 98 Youyi Road, Karamay, Xinjiang	834000	0990-6232984
7						Xingfu Road Sub-Branch	No. 3 Xingfu Road, Karamay, Xinjiang	834000	0990-6969995
8						Junggar Road Sub-Branch	No. 224 Xintiandi Business Street, Junggar Road, Karamay, Xinjiang	834000	0990-6977797
9						Shengli Road Sub-Branch	No. 118-36 Shengli Road, Karamay, Xinjiang	834000	0990-6244416
10	Karamay Branch	No. 7 Century Avenue, Karamay, Xinjiang	834000	0990-69699907	0990-6229957	Zhonglou Sub-Branch	No. 1-4, Tiancheng Square, Karamay, Xinjiang	834000	0990-6231373
11						Nanxin Road Sub-Branch	No. A16-105, Zefu, Karamay, Xinjiang	834000	0990-6252553
12						Xincheng Sub-Branch	114 Shiji Building A, No. 60 Yingbin Road, Karamay, Xinjiang	834000	0990-6245106
13						Daqing Road Sub-Branch	No. 14 Daqing East Road, Dushanzi District, Karamay, Xinjiang	833600	0992-3689595
14						Nanjing Road Sub-Branch	No. 21 Nanjing Road, Dushanzi District, Karamay, Xinjiang	833600	0992-3687049
15						Huainan Road Sub-Branch	No. 20 Huainan Road Market, Dushanzi District, Karamay, Xinjiang	833600	0992-3689797
16						Zhongxing Road Sub-Branch	No. 5-19 Furong Road, Baijiantan District, Karamay, Xinjiang	833600	0990-6923341
17						Yuanlinshequ Sub-Branch	No. 177Tahe Road, Karamay, Xinjiang	834000	0990-6892255
18						YoulianSub-Branch	No. 8Youlian Road, Karamay, Xinjiang	834000	0990-6917670

Continued

No.	Head Office Branch/Branches				Business Networks				
	Name	Address	Post Code	Telephone	Fax	Name	Address	Post Code	Telephone
19	Urumqi Branch	No. 75 Minzhu Road, Tianshan District, Urumqi, Xinjiang	830002	0991-2360468	0991-2360071	Operation Department	No. 75 Minzhu Road, Tianshan District, Urumqi, Xinjiang	830002	0991-2328114
20						Xizuan Sub-Branch	1st floor, Xibulvgu Building, No. 752 Kashi West Road, Urumqi, Xinjiang	830026	0991-3719647
21						Shihua Sub-Branch	No.2 Shihuazhongyi Street, Midong District, Urumqi, Xinjiang	830019	0991-6911321
22						Shiyouxincun Sub-Branch	No. 2219 Xinhua North Road, Urumqi, Xinjiang	830014	0991-3717962
23						Youhao Sub-Branch	No. 739 Youhao North Road, Shayibake District, Urumqi, Xinjiang	830000	0991-4848705
24						Gaoxin District Sub-Branch	No. 99 West Five Tianjin North Road, Gaoxin District, Urumqi, Xinjiang	830011	0991-6651754
25						Huaidong Sub-Branch	The 4th Block, HuaidongFo No. 99 West Five Tianjin North Road, Gaoxin District, Urumqi, Xinjiang ssl Oil Base, Fukang, Xinjiang	831511	0994-3830865
26						Ruanjianyuan Sub-Branch	No. 455 Kanas Lake North Road, Jingjikaifa District, Urumqi, Xinjiang	830000	0991-7586288
27						Changji Sub-Branch	No. 69 Changning South Road, Changji, Xinjiang	831100	0994-2524217
28	Turpan-Hami Branch	Construction Bank Building, the 6th Block, Fossil Oil Base, Hami, Xinjiang	839009	0902-2767110	0902-2767110	Operation Department	West Side of ConstructionBankBuilding, the 6th Block, Fossil Oil Base, Hami, Xinjiang	839009	0902-2771350
29						Shanshan Fossil Oil Sub-Branch	Yard of Fossil Oil Base, Shanshan, Turpan, Xinjiang	838202	0995-8378612
30						Hami Fossil Oil Base South Sub-Branch	Information Industry Development Office, Fossil Oil Base, Hami, Xinjiang	839009	0902-2772131
31						Guangdong Road Sub-Branch	No. 30 Guangdong Road, Hami, Xinjiang	839009	0902-2209001
32						Yingbin Road Sub-Branch	Ground floor of Buding1, QiulinkeyuanSubdistrict, Hongxing West Road, Hami, Xinjiang	839000	0902-2209001
33						Nanहुogongyeyuanqu Sub-Branch	South of Xunhuanjingji Yuan, Hami, Xinjiang	839000	0902-6968151
34	Korla Branch	Huayu Business Building, Renmin East Road, Korla, Xinjiang	841000	0996-2926901	0996-2926903	Operation Department	Huayu Business Building, Renmin East Road, Korla, Xinjiang	841000	0996-2926000
35						Xincheng Sub-Branch	Complex Building, Tarim frontline Directing Department of BGP, Xincheng District, Korla, Xinjiang	841000	0996-2192310
36						Taxinan Fossil Oil Sub-Branch	No. 8-2 Yingbin Road, Kuilybage Town, Zepu, Kashi, Xinjiang	844804	0996-7522297

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No.	Head Office Branch/Branches					Business Networks			
	Name	Address	Post Code	Telephone	Fax	Name	Address	Post Code	Telephone
37	Korla Branch	Huayu Business Building, Renmin East Road, Korla, Xinjiang	841000	0996-2926901	0996-2926903	Tarim Fossil Oil Sub-Branch	Multifunctional hall, Fossil Oil Subdistrict, Korla, Xinjiang	841000	0996-2176690
38						Xiangli Road Sub-Branch	1-1-16,17 of No.30 Xiangji Road, Korla, Xinjiang	841000	0996-2692005
39						Tarim Fossil Oil Subdistrict small Sub-Branch	区5th Block, Tarim Oil Field Life Subdistrict, Korla, Xinjiang	841000	0996-2174938
40	Daqing Branch	No. 172 Xibin Road, Ranghulu District, Daqing, Heilongjiang	163453	0459-5958355	0459-5958355	Operation Department	No. 172 Xibin Road, Ranghulu District, Daqing, Heilongjiang	163453	0459-5958180
41						Lianhua Sub-Branch	No. 21 Ma’ anshan Chengfeng West Road, Ranghulu District, Daqing, Heilongjiang	163411	0459-5616666
42						Shihua Sub-Branch	No. 427 Xinghua Street, Longfeng District, Daqing, Heilongjiang	163714	0459-6411733
43						Longfeng Sub-Branch	No. 142 Longfeng Street, Longfeng District, Daqing, Heilongjiang	163711	0459-6400880
44						Yuanwang Sub-Branch	No. 18 Xihu Street, Ranghulu District, Daqing, Heilongjiang	163453	0459-5956012
45						Aolin Sub-Branch	No. 531 Xincheng Street, Ranghulu District, Daqing, Heilongjiang	163453	0459-5960177
46						Dongfeng Sub-Branch	No. 35 Dongfengxincunwei’ er Road, Saertu District, Daqing, Heilongjiang	163311	0459-4600195
47						Xinchao Sub-Branch	Xinchaojiayuan S3 Shop2 and Shop3, Ranghulu District, Daqing, Heilongjiang	163453	0459-5912355
48						Donghu Sub-Branch	No. 10 Tianhu Road, Ranghulu District, Daqing, Heilongjiang	163000	0459-5732688
49						Dongcheng Yinzuo Sub-Branch	No. 40 Yinzuo Shangpin Shopping Mall, Saertu High-tech Development District, Daqing, Heilongjiang	163311	0459-4319096
50	Daqing Branch	No. 172 Xibin Road, Ranghulu District, Daqing, Heilongjiang	163453	0459-5958355	0459-5958355	Chengfeng Sub-Branch	No. 210 Chengfeng Street, Ranghulu District, Daqing, Heilongjiang	163411	0459-5681716
51						Ranghulu Sub-Branch	South 13 Commercial and Residential Building Shop4, Xijing Road, Ranghulu District, Daqing, Heilongjiang	163712	0459-5593272
52						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
53						Honggang Sub-Branch	Hongcheng International Subdistrict A1 Shop4, Shop5 and Shop6, Honggang District, Daqing, Heilongjiang	163511	0459-6781100
54						Babaishang Sub-Branch	No.8 Babaishang South Road, Honggang District, Daqing, Heilongjiang	163413	0459-4989006

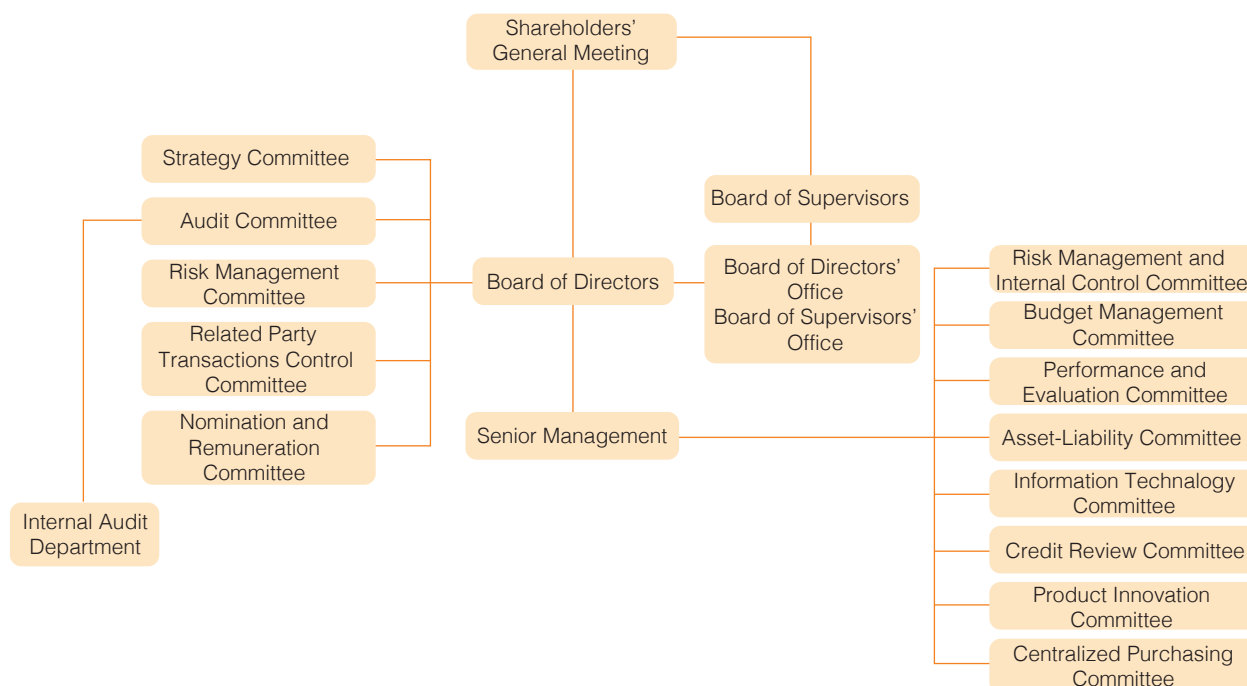
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No.	Head Office Branch/Branches				Business Networks				
	Name	Address	Post Code	Telephone	Fax	Name	Address	Post Code	Telephone
55	Xi'an Branch	Changqingsulige Building B, No. 73 Fengchengsi Road, Weiyang District, Xi'an, Shaanxi	710021	029-86978855	029-86978910	Operation Department	Changqingsulige Building B, No. 73 Fengchengsi Road, Weiyang District, Xi'an, Shaanxi	710021	029-86978767
56						Xinglongyuan Sub-Branch	1st floor, Elder Activity Center, Fengchengsi Road, Xi'an, Shaanxi	710021	029-86565276
57						High-Tech Development Area Sub-Branch	South Part of 1-2 Floor High-Tech Electronic Communication Square, No. 56 Gaoxin Road, Xi'an, Shaanxi	710075	029-88993316
58						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, Shaanxi	710200	029-86022266
59						Jingwei Science and Technology Industrial Park Sub-Branch	South of West Gate, the 2nd Block, Jingxin Yuan, Jinghe Industrial Park, Gaoling, Xi'an, Shaanxi	710200	029-86977316
60						Xiguanzheng Road Sub-Branch	No.92 Xiguanzheng Road, Lianhu District, Xi'an, Shaanxi	710082	029-88777967
61						Hanguang Road Sub-Branch	1st floor, No. 232 Hanguang South Road, Xi'an, Shaanxi	710065	029-87306388
62	International business and operation service center	Jinyaguang Building B, No.1 Financial Street, Xicheng District, Beijing	100033	010-89026263	010-89025438	——	——	——	——

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. The structure composed of Shareholders’ General Meeting, Board of Directors, Board of Supervisors and Senior Management, which respectively serves as highest authority organ, decision-making organ, supervisory organ and executive organ. The Bank makes ongoing effort to perfect the deployment of organs and professionals to guarantee scientific and healthy development of the Bank and to ensure the operation of “clearly-defined responsibilities and accountability, coordination and effective checks and balances”.



10.2 Overview of Corporate Governance

Sound corporate governance is the key factor not only in guaranteeing stable operation and healthy development of a bank, but also in undertaking essential mission of continual and well protection of interests of investors. In 2014, 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. The Bank has kept on optimizing the operating mechanism of corporate governance to enhance scientific decision-making and effective checks and balances. The Bank has further amended the articles of association and other governance regulations of the company, completed personnel adjustments of Board of Directors, and continuously rationalized policies and procedures 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 effectively protected, 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 the Board of Supervisors, ensuring compliance and smoothness of corporate governance. During the reporting period, three Directors and two Supervisors ceased their performance due to retirement or occupational mobility. Taking into consideration both the rights of shareholders and professionalism, three new Directors and two Supervisors were chosen to supplement the vacancy. New Chairman of the Board of Directors and Chairman of the Board of Supervisors were elected and approved by regulators and have started their terms, which ensured the stable and orderly operation of the Board of Directors and the Board of Supervisors. According to the personnel changing of the Board of Directors and 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.

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 carried out the *Development Plan for the Year 2014-2015 and the Long-term Plan for the 13th Five-year*. Plan for the 13th five-year was started, including investment plan, capital supplement, equity investment and village and township banks development, etc. The Bank comprehensively planned for its future and took full use of the principles of scientific decision-making, ensuring the scientific and healthy development of the Bank, and protecting effectively the interests of all parties.

The Bank gave play to the supervisory function of the Board of Supervisors. In 2014, the Board of Supervisors of the Bank duly performed its function and its supervisory responsibility, actively participating in review of major decision making and supervising financial activities with lots of valuable comments and suggestions. By deepening the supervision and evaluation on the performances of the members of the Board of Directors, the Board of Supervisors and the Senior Management, and by continuous review 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. The Bank actively attended conferences and activities held by regulatory departments, and seriously implemented relevant requirements. Plenty of training and field trips were held, timely and comprehensive information was provided, and internal and external communications were propelled. Professional journals were subscribed and *The Bank of Kunlun Journal* was regularly published so that the Directors and the Supervisors conveniently understand the supervision situation, industry development and the operating status of the Bank, ultimately improving their decision-making ability and performance level.

The organizational structure of integrated risk management has been greatly improved. In 2014, the Bank continued to improve its organizational structure of risk management, and clarified the risk Management responsibilities, endeavor to foster risk and compliance culture, and push through the implementing of the New Capital Rules project, which thus strongly supported the healthy development of the Bank's businesses. The risk measurement method, management tools, application system of the risks of credit, market and operation were all improved. The Bank carried forward the application of internal rating for non-retail banking business, focused on the positive effect of customer rating in loan approval.

The Bank Improved the audit policies, procedures and working quality. In 2014, internal audit applied a vertical audit system which reported to the Board directly, and worked according to the principles of "seeking loopholes, preventing risks and serving development". The supervising and supporting functions of the audit were performed earnestly, and the internal audit system construction kept perfecting, successfully fulfilling the immune system function of audit.

With regard to the incentive and disciplinary mechanism, in 2014 the Board of Directors intensified the supervision system of the Senior Management by drafting the *Rules for Senior Management Performance Appraisal of Bank of Kunlun Corporation Limited (Provisional)*, which normalized the substance, procedure, method and result of the Senior Management performance appraisal. The Board authorized the management members annually so that the management members conducted within the authorization. The management members regularly reported to the Board of Directors on its performance and operating management, including implementation of authorized matters, completion of annual target, risk management and so on.

Information disclosure and investor-relationship management were strengthened. In 2014, based on previous experience and industry advanced practice, the Bank further enhanced information disclosure and investor-relationship management via consistent improvement of the website of investor relations, aiming at effectively providing investors with more accurate and timely information, enriching disclosure content and smoothing the communication channels, exhibiting the characters of the Bank to investors and the society. The communication mechanism with shareholders was established not only to take advice and update situations but also show fully respect to both the big shareholders' management will and the small stockholders' interest.

Construction of Corporate Governance Regulations

In 2014, 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 relevant regulatory requirements, the Bank drafted the *Rules for Senior Management Performance Appraisal of Bank of Kunlun Corporation Limited (Provisional)* and *Board Authorization Guidelines of Bank of Kunlun Corporation Limited*, amended 13 corporate governance regulations such as *Articles of Association of Bank of Kunlun Corporation Limited* and *Rules of Procedure for The General Meeting of Shareholders of Bank of Kunlun Corporation Limited*, *Rules of Procedure for The Board of Directors of Bank of Kunlun Corporation Limited*, *Rules of Procedure for The Board of Supervisors of Bank of Kunlun Corporation Limited*, which further clearly defined the management requirements and improved the management processes.

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, business policies making 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 loss 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, breakup, 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 1 annual general meeting and 2 extraordinary general meetings, at which 3 reports were heard and 16 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 meetings and issue legal opinions. Details of the meetings are as follows:

Annual General Meeting

The annual general meeting of 2013 was held as a video conference in Beijing, Karamay and Urumqi simultaneously on March 28, 2014, at which 2 reports were heard, the management of related party transactions and the performance evaluation of Directors and Supervisors, 12 proposals were considered and approved, including 2013 Annual Report, 2013 profit distribution plan, amendments to the rules of share management, amendments to the rules of procedure of the Board of Directors, the Board of Supervisors and the General Meeting of Shareholders etc. Significant arrangements were made in these meetings, which effectively exerted 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 January 21, 2014. 1 report was heard and 3 proposals were reviewed and approved, including reports on engagement of auditors, proposals on 2014 operating budget plan, 2014 investment suggestion plan, amendments to articles of association.

The second extraordinary general meeting was held on September 29, 2014. The proposal of supplementing PanJing as the new Director was reviewed and approved.

10.4 Board of Directors and Special Committees

10.4.1 Responsibilities and composition 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, loss recovery plans and proposals on the increase or decrease of registered capital of the Bank, deciding on setting up internal management divisions and branches and functional units of the Bank, appointing or removing the President and the Board Secretary, formulating fundamental management rules, reviewing performance reports of the Bank and inspecting the President's work, etc.

At the end of the reporting period, the Board of Directors of the Bank consisted of 9 Directors and 3 Independent Directors. Chairman of the Board of Directors of the Bank was Mr. Jiang Shangjun. All Equity Directors have long-term working experience in banking business management or financial management with extensive professional expertise. Meantime, some 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.

10.4.2 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.

To facilitate rigorous decision making, the Board of Directors is supported by the Board of Directors Office, Board of Directors Special Committees and Directors.

10.4.3 Meetings of the Board of Directors

In 2014, the Board of Directors held 4 regular meetings and 1 interim meeting, listening to 13 reports, reviewing and approving 39 proposals. The main reports and proposals were presented as follows:

At the 8th meeting of the third session of the Board of Directors held on March 5, 2014, the Board of Directors listened to 3 reports, reviewed and approved 16 proposals. The Directors listened to reports on implementation of resolutions of the 7th meeting of the third session of the Board of Directors in 2013, considered and approved proposals on 2013 President's report, 2013 financial statements, 2013 profit distribution plan, The 2014 guidelines of authorization management of the Board of Directors, 2013 implementation plan of capital increase, amendments to the rules for share management, amendments to rules and procedures of Shareholders' General Meetings, amendments to rules and procedures of meetings of the Board of Directors, nomination of the Directors and other motions.

At the 9th meeting of the third session of the Board of Directors held on June 13, 2014, the Board of Directors listened to 4 reports, reviewed and approved 6 proposals. The Directors listened to reports on implementation of resolutions of the 9th meeting of the third session of the Board of Directors, operation of the first quarter in 2014, progress of the integration of banking and oil and gas industry and development of China's village and township banks, considered and approved proposals on policy on the Chairman's responsibilities and performance, policy on the work of the President, policy on the work of the Secretary to the Board of Directors, rules and procedures of meetings of the special committees of the Board of Directors, application for the adjustment of foreign exchange exposure limits, nomination of the Directors and other motions.

At the 10th meeting of the third session of the Board of Directors held on October 31, 2014, the Board of Directors listened to 4 reports, reviewed and approved 5 proposals. The Directors listened to reports on implementation of resolutions of the 9th meeting of the third session of the Board of Directors, operation of the Q1-Q3 in 2014 and the planning of integration of banking and oil and gas industry, considered and approved proposals on adjustment of members in special committee of the Board of Directors, amendments to the policy on the work of Independent Directors, policy on internal audit management, "granting CNPC the highest limit of credit" and other motions.

At the 11th meeting of the third session of the Board of Directors held on December 23, 2014, the Board of Directors listened to 2 reports, reviewed and approved 11 proposals. The Directors listened to reports on implementation of resolutions of the 10th meeting of the third session of the Board of Directors and 2014 investor-relationship management, considered and approved proposals on 2014 budget implementation and 2015 operating budget arrangement, the engagement of external auditors, the amendment of the articles of association, the development plan for year 2015 and the 13th five-year long-term plan, nomination of Directors, the proposal of 2015 first extraordinary general meeting and other motions.

The first extraordinary meeting of the Board of Directors of 2014 held on September 18, 2014, reviewed and approved the proposal of second extraordinary meeting of the Board of Directors of 2014.

During the reporting period, Board of Director's objectives are to maximize value for equity holders, fulfill earnestly the duties given by the company's articles of association and accomplish the goals successfully.

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 conduct of the Bank were in compliance with rules and laws of China. 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.

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

The Board of Directors seriously, comprehensively and strictly implemented relevant resolutions reviewed and approved by the Shareholders' General Meetings in reporting period, 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.

10.4.5 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 on. They actively attended the meetings of special committees, participated in routine work, and conscientiously fulfilled their duties. In addition, they zealously took part in research organized by the Bank for village and township banks such as ICBC Pinghu Branch, SPD Bank Liyang Branch, SPD Bank Xinchang Bank, communicated with CHINA ZHESHANG BANK CO., LTD, for corporate governance, discussed the retail Banks in internet financial perspective with financial team of Deloitte. They accepted legitimate supervision and reasonable suggestions from the Board of Supervisors and external regulatory authorities, and provided relevant information and materials to them truthfully.

10.4.6 Ad Hoc Committees of the Board of Directors

The Board of Directors consisted of 5 ad hoc committees, namely the Strategy Committee, the Audit Committee, the Nomination and Remuneration Committee, the Risk Management Committee and the Related Party Transactions Control Committee. They were responsible to and authorized by the Board of Directors, providing professional advice and making decisions on professional matters. The ad hoc committees regularly communicated with the Senior Management and departments on operating and risk conditions of the Bank, giving corresponding opinions and suggestions.

During the reporting period, the Board of Directors made adjustments to the ad hoc committees. The number of members in ad hoc committees further increased, and the personnel structure became more reasonable. The composition and performance of all ad hoc committees are presented as follows:

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. At the end of the reporting period, the Strategy Committee of the Bank consisted of 4 Directors, including Mr. Jiang Shangjun, Mr. Xu Weixi, Ms. Wang Zheng and Mr. Shi Junzhi. Chairman of the Board of Directors Mr. Jiang Shangjun was the chairman of the committee.

During the reporting period, the Strategy Committee held 1 meeting, and considered 6 proposals, including the investment proposal of 2015, the plan for the development of branches and functional units and outlets of 2015, capital increase framework plan, village and township bank development plan, the 2015 equity investment plan, 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 supervising, inspecting and evaluating the internal control, financial information and internal audit of the Bank. At the end of the reporting period, the Audit Committee of the Bank consisted of 4 Directors, including Mr. Shi Junzhi, Ms. Su Min, Mr. Liu Qiang, and Ms. Pang Yueying. Independent Director Mr. Shi Junzhi was the chairman of the committee.

During the reporting period, the Audit Committee held 4 meetings, listened to 9 reports, including regular reports on every quarter internal audit, internal control compliance, and operation for 2014, and considered 9 proposals, including 2013 financial statements, 2013 profit distribution plan, 2013 external audit engagement, 2014 budget execution, and 2015 operating budget arrangement. The Audit Committee deepened the supervision of the Bank's operation and management, assessed continually 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 Remuneration Committee

The Nomination and Remuneration Committee is mainly responsible for making recommendations to the Board of Directors on candidates for Directors and Senior Management members, drafting procedures and standards for selection and appointment, formulating remuneration policies and plans, performance evaluation and assessment policies and procedures for Directors, Supervisors as well as Senior Management, and putting forward proposals on performance assessment and evaluation for Directors and the management. At the end of the reporting period, the Nomination and Remuneration Committee of the Bank consisted of 4 Directors, including Ms. Pang Yueying, Mr. Jiang Shangjun, Ms. Wang Zheng and Mr. Yu Zengbiao. Independent Director Ms. Pang Yueying was the chairman of the committee.

During the reporting period, the Nomination and Remuneration Committee held 4 meetings and considered 10 proposals, including performance evaluation of the Senior Management (Provisional), nomination of Directors, 2014 performance appraisal indicators of the Senior Management, amendments for Nomination and Remuneration Committee and other motions. The Nomination and Remuneration 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. At the end of the reporting period, the Risk Management Committee of the Bank consisted of 5 Directors, including Mr. Shi Junzhi, Ms. Su Min, Mr. Wang Zhonglai, Mr. Liu Qiang and Mr. Yu Zengbiao. Independent Director Mr. Shi Junzhi was the chairman of the committee.

During the reporting period, the Risk Management Committee held 3 meetings, listened to 3 reports, and considered 3 proposals. The committee has heard the regular reports on quarterly risk management, and passed the 2013 work report of information technology, Application for the adjustment of foreign exchange exposure limits and other motions. 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. At the end of the reporting period, the Related Party Transactions Control Committee of the Bank consisted of 4 Directors, including Mr. Yu Zengbiao, Mr. Wang Zhonglai, Ms. Pang Yueying and Mr. Xu Weixi. Independent Director Mr. Yu Zengbiao was the chairman of the committee.

During the reporting period, the Related Party Transactions Control Committee held 3 meetings, listened to 3 reports including regular reports on 2014 related party transactions management, and considered 5 proposals, including proposals on update of the related party checklist, amendments for related party transaction management, “granting CNPC the highest limit of credit” and other motions.

10.5 Board of Supervisors

10.5.1 Composition and Responsibilities of the Board of Supervisors

As the supervisory organ of the Bank, the Board of Supervisors is accountable to, and 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. Also it should attend the meetings of the Board of Directors, examine and supervise the Bank's financial activities, propose to convene Shareholders' General Meetings and present proposals, require the Board of Directors and the Senior Management members 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. At the end of the reporting period, the Board of Supervisors of the Bank consisted of 4 members, including 2 External Supervisors and 2 Employee Supervisors. The Chairman of the Board of Supervisors of the Bank is Mr. LuoPing. All Supervisors of the Bank have rich management experience and professional knowledge on finance and accounting.

10.5.2 Operation of the Board of Supervisors

The Board of Supervisors of the Bank performs its duties 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 in each quarter, and interim meetings shall be convened if necessary.

To facilitate rigorous decision making, the Board of Directors is supported by the Board of Directors Office, Board of Directors Special Committees and Directors.

10.5.3 Meetings of the Board of Supervisors

In 2014, the Board of Supervisors of the Bank held 4 meetings, reviewed 20 reports and approved 13 proposals. The main reports and proposals were presented as below:

The 8th meeting of the third session of the Board of Supervisors of the Bank was held on March 5, 2014. The Board listened to reports on 2013 risk management, 2013 internal control compliance, 2012 internal audit and 2013 external audit, reviewed and approved 2013 financial statements, 2013 profit distribution plan, 2013 Annual Report and summaries, 2013 payment of remuneration to External Supervisors, revised the rules and procedures of meetings of the Board of Supervisors, nominated Supervisors, etc.

The 9th meeting of the third session of the Board of Supervisors of the Bank was held on June 13, 2014. The Board listened to the progress of resolutions of the 8th meeting of the Board of Supervisors and the work reports on risk management, internal control compliance management, internal audit, related party transactions, and the update of the related party checklist, etc.

The 10th meeting of the third session of the Board of Supervisors was held on October 31, 2014. The Board listened to work reports on the update of the related party checklist operation of Q1-Q3, risk management, internal control compliance, related party transactions and internal audit in Q2-Q3, reviewed and approved nomination of Supervisors, amendments to the policy on the work of the External Supervisors, the annual performance evaluation in 2013, and the annual performance evaluation result of the Senior Management members in 2014, etc.

The 11th meeting of the third session of the Board of Supervisors was held on December 23, 2014. The Board listened to reports on the implementation of resolutions of the 10th meeting of the third session of the Board of Supervisors.

10.5.4 Performance of External Supervisors

External Supervisors of the Bank 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 presented independent opinions on proposals, and played an effective role in independent supervision. They all zealously took part in research of village and township banks including ICBC Pinghu Branch, SPD Bank Liyang Branch, SPD Bank Xinchang Bank, etc., discussed with CHINA ZHESHANG BANK CO., LTD. about Corporate Governance, discussed retail banking from the perspectives of internet finance with the Deloitte Financial Advisory Team.

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 such corporate governance documents as the Articles of Association, the rules for authorization of the Board of Directors and so forth.

In line with laws, 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 and functional units, 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 President's authorization, and be accountable to the President.

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

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

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 annual operating indicators and objectives for the coming year. The performance contract for Senior Management is then made and signed based on the indicators and objectives. 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. In 2014, to strengthen the check and balance system and oversight mechanism for Senior Management, and reinforce executive commitment and diligence, the Bank formulated *Bank of Kunlun's Senior Management Performance Evaluation Policy (Provisional)*, regulating the content, procedures, method and result of the performance evaluation of the Senior Management.

10.7 Internal Control

During the reporting period, in accordance with the *Guidelines for Internal Control of Commercial Banks* promulgated by CBRC, the Bank continued to promote the development of the internal control system, which further intensified the internal control measures.

Firstly, the Bank further improved the internal control management policies and procedures. The Bank established the Risk Management and Internal Control Committee, which was responsible for risk management of the whole Bank, formulating risk management strategies, management framework, and standard, examining and drafting risk management policies, system and plans. Also, the Risk Management and Internal Control Committee was responsible for examining and arranging the general construction and evaluation of internal control, compliance risk management, anti-money laundering, fraud prevention and control, and other related risk management business. The head office has established the Risk and Compliance Department, and each branch has set up internal control compliance department, responsible for legal management, internal control management, compliance management and risk management in operating activities. Each department of the head office appointed a staff, who was in charge of liaison in the construction of internal control system.

Secondly, the Bank proceeded to further strengthen internal mechanisms by streamlining and enhancing policies and procedures. In 2014, we formulated and revised nearly two hundred policies and procedures. Now we have implemented more than six hundred policies and procedures and further improved our system of internal mechanisms. We strengthened training on policies and procedures. Throughout the year, we organized training, learning and discussion sessions on policies and procedures, carried out training about corporate rating for more than ten times, which strengthened our team's understanding and grasp of policies and procedures. We carried out investigations and test-runs of policies and procedures, conducted surveys on policies and procedures, designed questionnaires on policies and procedures, gathered proposals on policies and procedures from branches and functional units, and coordinated the implementation of policies and procedures. The Bank also conducted policy and procedure tests among over 300 staff members in branch offices' key business lines such as credit and operations, which further facilitated the promotion and implementation of the policies and procedures.

Thirdly, the Bank paid great attention to risk scrutinization of the staff and key business, organized relevant business units to launch risk inspection of the loan fraud, small and micro enterprises supply chain finance business, bank counter business and other key business. As for the inspection of the staff, the Bank organized related institutions to conduct special inspection into employee involvement in improper account usage and illegal fund-raising. The primary inspected objects were that staffs who are involved in the key and sensitive parts of businesses. All the inspections have been accomplished in strict accordance with the annual risk inspection plan. The primary inspected items included credit, bills and notes business, savings business, financial and bank card business, and the inspection results were reported to the whole bank. All the inspected problems were corrected under supervision, responsibilities were confirmed, and punishments were exercised.

In accordance with the Guidelines for Internal Control of Commercial Banks promulgated by CBRC, the Bank conducted self-assessment on the establishment, operation and efficiency 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 resulted from ordinary deficiencies were controllable, and the corrective actions had been taken to make sure 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 policies and procedures were 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 accountable to the Board of Directors. During the reporting period, on the base of the position of "identifying loopholes, preventing risks and serving development", the Bank constantly improved the audit management policies and procedures, optimized the audit work processes, accelerated the information construction of audit, which effectively improved the quality of audit work. The Bank also organized audit items on financial responsibility, interbank, finance, information technology. Through a series of effective measures of detecting and analyzing problems, making proposals, and supervising correction, the internal audit effectively prompted the Bank's stable operation and sustainable development.

10.9 Annual Audit Engagement

In 2014, the Bank continued to engage BDO China Shu Lun Pan Certified Public Accountants LLP to provide annual audit services for the Bank and the village and township banks it controlled. The total audit fee aggregated at RMB 1.21 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 December 31, 2014.

Principal Business

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

Profits and Dividends Distribution

The profits and financial status of the Bank as at December 31, 2014 are presented in the "Independent Auditor's Report and Financial Statements" section of this Annual Report.

As approved at the 2013 annual Shareholders' General Meeting, the cash dividends distributed to all the shareholders registered as at December 31, 2013 amounted to a total of RMB 760.19 million (pre-tax).

As approved at the 2014 annual Shareholders' General Meeting, the dividends to shareholders should be distributed at RMB 1.04 per 10 shares (pre-tax) and that total amount should be RMB 767.57 million (pre-tax), which accounted for 26.38% of the net profit realized in 2014.

Reserves

Changes in the reserves of the Bank as at December 31, 2014 are set out in the "Consolidated Statement of Changes in Equity in the Independent Auditor's Report" of this Annual Report.

Summary of Financial Information

The three-year summary of the operating performance and assets and liabilities as at December 31, 2014 are set out in the "Financial Highlights" section of this Annual Report.

Fixed Assets

Changes in fixed assets as at December 31, 2014 are presented in Note 5 (Item 11) among the "Notes to the Financial Statements in the Independent Auditor's Report" of this Annual Report.

Subsidiaries

The details about subsidiaries of the Bank as at December 31, 2014 are presented in Note 4 among the “Notes to the Financial Statements in the Independent Auditor’s Report” of this Annual Report.

Major Customers

In 2014, the aggregate interest income and other operating income from the Bank’s top five customers did not exceed 30% of the Bank’s interest income and other operating income during the year.

Directors, Supervisors and Senior Management

The information of the Directors, Supervisors and Senior Management is presented in the “Directors, Supervisors, Senior Management, Employees and Branches and Sub-branches” section 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 Businesses

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 2014, 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. The Board of Directors Proposal approved the *Proposal for Granting CNPC a Group Credit Limit of RMB 3.60 Billion*, and ratified the AAA credit rating of CNPC, which would stand for one year.

All the related-party transactions occurred in 2014 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 Management team is responsible for leading daily operations of the internal control.

Auditor

BDO China Shu Lun Pan Certified Public Accountants LLP has audited the 2014 annual financial report prepared by the Bank in accordance with the Chinese Auditing Standards, and issued standard auditor's reports with unqualified opinions.

By order of the Board of Directors

Jiang Shangjun

Chairman

March 25, 2015

12. Report of the Board of Supervisors

12.1 Work of the Board of Supervisors

In 2014, pursuant to requirements of the *Company Law*, the *Articles of Association and Rules for Discussion of the Board of Supervisors*, in fulfillment of duties to all shareholders, the Board of Supervisors focused on the strategic objectives and the key work of the Bank, diligently conducted supervision on finance, risk management, internal control, performance evaluation and other functions, strengthened internal surveys and interbank exchanges, actively communicated with regulators, and played a key role in improving corporate governance and facilitating sound development for the Bank.

We enhanced the supervision on major financial operating activities. 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 strengthened supervision on external audit quality, in an effort to ensure the truthfulness, accuracy and integrity of financial information disclosure.

We reinforced the supervision on internal control and risk management. The Board of Supervisors intensified analysis of changes and effects of national macroeconomic trend and regulatory requirements, paid close attention to the progress of interest rate liberalization, and regularly listened to reports concerning risk management, internal control and compliance management, internal audit and related party transactions, in an effort to strengthen the supervision on risk management and internal control.

We enhanced the supervision on the performance of the Directors and Senior Management. By 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 the performance of the Board of Directors and Senior Management in fulfilling their management duties. We conducted the Senior Management performance evaluation and strengthened the supervision on the performance of Senior Management. Moreover, the Board of Supervisors reviewed the 2014 proposal on Senior Management performance evaluation indicators, listened to the operating performance report, and regularly studied the Bank's operational updates, in an effort to strengthen the supervision on Senior Management.

We enhanced the internal strength of the Board of Supervisors. In 2014, the Board of Supervisors revised the *Bank of Kunlun Rules and Procedures of Meetings of the Board of Supervisors*, reinforcing the strength of organization and policies and procedures. We convened 4 Board of Supervisors meetings, discussed all the issues that the Board

of Supervisors worked on, produced the Report on the Work of the Board of Supervisors, and provided critiques and suggestions on risk management and internal control, in an effort to facilitate the improvement of the Bank's management capabilities.

During the reporting period, the Board of Supervisors attended all the on-site meetings of the Board of Directors, supervised the formulation of resolutions at the meetings, the performance of fiduciary duties and operating activities of the Bank. We deemed that the Bank's leadership team was diligent and conscientious in implementing 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 decision-making procedures were legal and valid. 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 the Directors and Senior Management.

Authenticity of the Financial Report

During the reporting period, the financial statements of the Bank complied with relevant regulations and reflected the true financial position and operating results of the Bank.

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 to the Bank in the process of purchase or sale of the Bank's assets.

Related Party Transactions

During the reporting period, the Bank's related party transactions were in compliance with the *Administrative Measures for the Connected Transactions between the Commercial Banks and Their Insiders or Shareholders* issued by CBRC and in accordance with commercial principles. No conducts were found to be harmful to the interests of the Bank or shareholders.

Auditor's Report

BDO China Shu Lun Pan Certified Public Accountants LLP issued standard auditor's report with unqualified opinions on the financial position and operation performances in 2014. The Board of Supervisors had no objection to that report.

Implementation of Resolutions Passed at the Shareholders' General Meeting

During the reporting period, the Board of Supervisors carried out supervision on the implementation of resolutions passed at the Shareholders' General Meeting. The Board of Supervisors deemed that the Board of Directors

assiduously implemented relevant resolutions of the Shareholders' General Meeting and there were no conducts harmful to the shareholders' interests.

Information Disclosure

During the report period, the Bank voluntarily strengthened information disclosure. 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 Manual and further improved internal control processes. The Bank enhanced the organizational structure for fraud prevention and control, strengthened the legal review and inspection intensity of our businesses, and effectively prevented the occurrence of risks.

Social Responsibility

During the reporting period, the Bank proactively fulfilled its 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 enthusiastically contributed to public welfare, and facilitated the harmonious development of regional economy.

By order of the Board of Supervisors

Luo Ping

Chairman of the Board of Supervisors

March 25, 2015

13. Significant Events

13.1 Top Ten Shareholders and Changes during the Reporting Period

The changes in top ten shareholders up to December 31, 2014 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 2014, the registered capital of the Bank has not changed.

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 Related Party Transactions

The Bank attached great importance to daily routine monitoring 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 acceptance bills and letters of guarantees.

In 2014, *Proposal for Granting CNPC a Group Credit Limit of RMB 3.60 Billion* was approved at the Board of Directors. The ratified credit rating of CNPC in 2014 was AAA and the term was 1 year. The highest limit of credit was RMB 3.60 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 credit businesses. This credit was valid for 2 years.

As of year-end 2014, the balance of loans for subsidiaries of CNPC was RMB 0.6 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 acceptance bills amounted to RMB 0.31 billion, of which RMB 0.09 billion was fully secured, which was deducted in calculating the credit balance. The balance of letters of guarantees in RMB and foreign currency reached RMB 3.36 billion, of which RMB 0.86 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 who strictly guaranteed compliant business operation within the credit limit.

Related party transactions of the Bank adhered to general business principles, under the conditions that trade with related parties was no better than trade with non-related parties.

As of year-end 2014, the credit balance of related party transactions was RMB 2.73 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 Auditor's Report of this Annual Report.

13.8 Sanctions

None.

14. Independent Auditor's Report and Financial Statements

The 2014 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 auditor's report with unqualified opinions.

1. Independent Auditor's Report
 2. Audited Financial Statements
 3. Notes to Financial Statements
- (Details are at Appendix)

15. Documents Available for Inspection

1. Financial statements signed by legal representative, President, Chief Finance Officer, and officers in charge of finance;
2. The original of Independent Auditor's Report sealed by accounting firm and CPAs;
3. The original files and notices disclosed in *Financial Times* during the reporting period;
4. 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 reviewing of the 2014 Annual Report and its abstract, give the following opinions:

First, the Bank operated strictly in conformance to the Accounting Standards for Business Enterprises, and the 2014 Annual Report fairly reflects the financial position and the achievements of operation.

Second, the 2014 financial report of the Bank has been audited and issued with a standard and clean opinion by BDO China Shu Lun Pan Certified 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:

Jiang Shangjun 

Su Min 

Wang Zhonglai 

Liu Qiang 

Wang Zheng 

Xu Weixi 


Pang Yueying 

Yu Zengbiao 

Shi Junzhi 

Xu Xinyuan 

Jing Lin 

Xie Pengfei 

Xie Haibing 

Bank of Kunlun Co., Ltd.

March 25, 2015

Appendix



Independent Auditor's Report

PCPAR [2015] NO: 130022

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 statement of financial position as at December 31, 2014, 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 the 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, 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 risk assessments 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 December 31, 2014 and of the financial performance and cash flows for the year then ended.

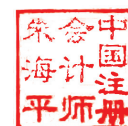


BDO China Shu Lixin Pan
Certified Public Accountants LLP

CICPA:童冰薇



CICPA:朱海平



Shanghai China

March 3, 2015

Bank of Kunlun Co., Ltd.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In RMB Yuan)

Item	Note 5	31 December 2014	31 December 2013
Assets			
Cash and deposits with central bank	5.1	24,420,432,189.19	31,331,307,906.83
Due from banks and other financial institutions	5.2	67,717,916,027.32	66,388,475,505.01
Placements with banks and other financial institutions	5.3	839,429,260.00	868,900,000.00
Financial assets reported at fair value with fair value changes recorded in current earnings	5.4	6,686,036,359.99	5,456,600,520.00
Financial assets held under resale agreements	5.5	23,680,577,206.72	11,204,937,500.00
Interest receivable	5.6	1,372,893,885.05	1,852,548,148.48
Loans and advances to customers	5.7	70,283,976,968.25	61,037,458,901.99
Available-for-sale financial assets	5.8	16,982,316,405.39	24,772,653,819.98
Held-to-maturity investments	5.9	12,473,777,463.43	17,754,952,246.16
Receivable-type investments	5.10	52,662,093,734.93	24,770,528,711.69
Long-term equity investments		-	-
Fixed assets	5.11	268,845,284.66	297,941,459.19
Constructions in progress	5.12	93,685,585.51	64,586,903.85
Intangible assets	5.13	96,711,265.49	84,447,629.21
Deferred income tax assets	5.14	580,208,804.80	449,279,605.95
Other assets	5.15	140,188,470.85	118,138,302.05
Total assets		278,299,088,911.58	246,452,757,160.39
Liabilities and shareholders' equity			
Due to central bank	5.17	25,000,000.00	45,000,000.00
Due to banks and other financial institutions	5.18	124,258,476,464.80	89,571,546,272.82
Placements from banks and other financial institutions	5.19	1,600,000,000.00	0.00
Financial assets sold under repurchase agreements	5.20	12,834,152,902.20	1,462,739,097.54
Deposits from customers	5.21	113,102,826,833.05	130,425,268,984.04
Payables to employees	5.22	6,092,449.73	2,307,263.50
Taxes payable	5.23	486,531,856.72	398,998,774.94
Interest payable	5.24	2,141,245,517.44	1,716,633,741.03
Provisions		-	-
Bonds payable		-	-
Deferred income tax liabilities		-	-
Other liabilities	5.25	3,233,829,397.42	5,379,856,785.70
Total liabilities		257,688,155,421.36	229,002,350,919.57
Shareholders' equity			
Share capital	5.26	7,380,523,495.35	7,380,523,495.35
Capital reserve	5.27	5,513,100,628.34	5,513,100,628.34
Other comprehensive income	5.28	(47,190,546.87)	(1,033,735,539.26)
Surplus reserve	5.29	949,482,224.19	658,524,833.01
General risk reserve	5.30	2,348,393,372.02	2,346,492,863.71
Retained earnings	5.31	4,423,240,282.64	2,551,281,243.85

Continued

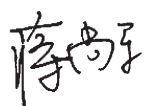
Item	Note 5	31 December 2014	31 December 2013
Total equity attributable to parent company shareholders		20,567,549,455.67	17,416,187,525.00
Equity attributable to non-controlling interests		43,384,034.55	34,218,715.82
Total shareholders' equity		20,610,933,490.22	17,450,406,240.82
Total liabilities and shareholders' equity		278,299,088,911.58	246,452,757,160.39

Legal Representative:

President:

Chief Finance Officer:

Chief Accountant:






Bank of Kunlun Co., Ltd.
CONSOLIDATED INCOME STATEMENT

(In RMB Yuan)

Item	Note 5	2014	2013
1. Operating income	5.32	7,384,143,988.14	5,658,432,343.68
Net interest income	1	6,215,642,537.07	4,627,531,843.07
Interest income		11,803,843,902.15	8,594,667,475.88
Interest expenses		5,588,201,365.08	3,967,135,632.81
Fee and net commission income	2	647,313,165.05	845,511,845.43
Fee and commission income		715,461,601.34	904,904,322.79
Fee and commission expenses		68,148,436.29	59,392,477.36
Investment return/(loss)	3	139,150,487.86	53,798,189.99
Gain/(loss) from fair value changes	4	185,612,824.80	(181,332,419.05)
Gain/(loss) on foreign exchange	5	195,154,152.73	312,213,529.19
Other operating income	6	1,270,820.63	709,355.05
2. Operating expenses	5.33	3,910,220,892.17	2,604,257,841.59
Business tax and surcharges	1	254,944,202.54	224,990,672.32
General operating and administrative expenses	2	1,330,031,899.93	1,148,935,436.23
Impairment losses on assets	3	2,324,996,236.21	1,230,151,201.84
Other operating expenses		248,553.49	180,531.20
3. Operating profit		3,473,923,095.97	3,054,174,502.09
Add: Non-operating income	5.34	23,432,564.88	14,247,556.34
Less: Non-operating expenses	5.35	474,458.42	6,010,795.40
4. Profit before tax		3,496,881,202.43	3,062,411,263.03
Less: Income tax expenses	5.36	559,799,360.59	470,154,517.35
5. Net profit		2,937,081,841.84	2,592,256,745.68
Net profit attributable to owners of the parent		2,925,010,858.30	2,585,147,534.01
Net profit attributable to non-controlling interests		12,070,983.54	7,109,211.67
6. After tax net amount of other comprehensive income	5.39	986,544,992.39	(1,011,583,306.89)
(1) Other comprehensive income to be classified as income		986,544,992.39	(1,011,583,306.89)
Income from fair value changes for available-for-sale financial assets		986,544,992.39	(1,011,583,306.89)
7. Total comprehensive income		3,923,626,834.23	1,580,673,438.79
Total comprehensive income attributable to owners of the parent		3,911,555,850.69	1,573,564,053.76
Total comprehensive income attributable to non-controlling interests		12,070,983.54	7,109,385.03
8. Earnings per share	5.37		
(1) Basic earnings per share		0.40	0.38
(2) Diluted earnings per share		0.40	0.38

Legal Representative:

President:

Chief Finance Officer:

Chief Accountant:

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

(In RMB Yuan)

Item	Note 5	2014	2013
1. Cash flows from operating activities	(5.40)		
Net increase in deposits from customers and due to banks and other financial institutions		17,012,390,429.85	66,876,468,355.37
Net increase in due to central bank		-	20,000,000.00
Net increase in placements from banks and other financial institutions		2,156,900,000.00	-
Net decrease in deposits with central bank and due from banks and other financial institutions		13,426,527,600.01	-
Net increase in financial assets sold under repurchase agreements		11,371,413,804.66	-
Interest, fee and commission received		8,080,314,169.50	6,143,695,091.01
Cash paid for other operating activities	1	66,644,097.44	3,627,549,891.47
Subtotal of cash inflows from operating activities		52,114,190,101.46	76,667,713,337.85
Net increase in loans and advances to customers		10,028,526,518.84	21,704,773,211.67
Net increase in deposits with central bank and due from banks and other financial institutions		-	14,292,653,117.48
Net decrease in deposits from customers and due to banks and other financial institutions		180,903,345.88	-
Net decrease in due to central bank		20,000,000.00	-
Net decrease in placements from banks and other financial institutions		-	2,868,900,000.00
Net increase in financial assets reported at fair value with fair value changes recorded in current earnings		940,996,633.06	4,307,937,502.59
Net decrease in financial assets reported at fair value with fair value changes recorded in current earnings		-	-
Net increase in financial assets held under resale agreements		7,249,376,022.85	8,512,977,226.02
Net decrease in financial assets sold under repurchase agreements		-	9,210,742,569.45
Interest, fee and commission paid		5,239,360,902.01	3,486,879,028.90
Cash paid to and for employees		596,769,422.06	497,041,604.53
Tax payments		1,037,938,053.31	699,930,112.03
Cash paid for other operating activities	2	2,665,840,788.22	210,520,294.91
Subtotal of cash outflows from operating activities		27,959,711,686.23	65,792,354,667.58
Net cash flows from operating activities		24,154,478,415.23	10,875,358,670.27
2. Cash flows from investing activities			
Cash received from investment withdrawal		38,250,552,008.56	48,020,525,850.83
Cash receipts from investment income		4,926,268,474.47	3,233,728,254.17
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		-	-
Cash received from other investing activities		58,495.78	-
Subtotal of cash inflows from investing activities		43,176,878,978.81	51,254,254,105.00
Cash paid for purchase of fixed assets, intangible assets and other long-term assets		176,798,604.24	223,482,388.90
Cash paid for investments		53,366,454,926.88	61,584,226,375.49
Subtotal of cash outflows from investing activities		53,543,253,531.12	61,807,708,764.39

Continued

Item	Note 5	2014	2013
Net cash flows from investing activities		(10,366,374,552.31)	(10,553,454,659.39)
3. Cash flows from financing activities			
Cash received from capital contribution		-	1,900,000,000.00
Including: Capital contribution by subsidiaries		-	-
Cash received from bond issuance		-	-
Cash received from other financing activities		-	-
Subtotal of cash inflows from financing activities		-	1,900,000,000.00
Cash paid for dividend, profit appropriation or interest payment		763,097,205.68	570,875,593.97
Cash paid for other financing activities		-	-
Subtotal of cash outflows from financing activities		763,097,205.68	570,875,593.97
Net cash flows from financing activities		(763,097,205.68)	1,329,124,406.03
4. Effect of foreign exchange rate changes on cash		112,376,318.99	(811,471,762.11)
5. Net increase in cash and cash equivalents	(5.41)	13,137,382,976.23	839,556,654.80
Add: The balance of cash and cash equivalents at the beginning of the year		52,297,040,204.64	51,457,483,549.84
6. The balance of cash and cash equivalents at the end of the year		65,434,423,180.87	52,297,040,204.64

Legal Representative:

President:

Chief Finance Officer:

Chief Accountant:

Bank of Kunlun Co., Ltd.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In RMB Yuan)								
Item	Share	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Equity attributable to non-controlling interests	Total shareholders' equity
1. Balance, end of prior year	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
Add: Changes in accounting policies	-	1,033,735,539.26	(1,033,735,539.26)	-	-	-	-	-
Adjustments for previous errors	-	-	-	-	-	-	-	-
2. Balance, beginning of year	7,380,523,495.35	5,513,100,628.34	(1,033,735,539.26)	658,524,833.01	2,346,492,863.71	2,551,281,243.85	34,218,715.82	17,450,406,240.82
3. Net changes for the year	-	-	986,544,992.39	290,957,391.18	1,900,508.31	1,871,959,038.79	9,165,318.73	3,160,527,249.40
a. Total comprehensive income	-	-	986,544,992.39	-	-	2,925,010,858.30	12,070,983.54	3,923,626,834.23
b. Capital contributed and reduced by shareholders	-	-	-	-	-	-	-	-
i. Capital contributed by shareholders	-	-	-	-	-	-	-	-
ii. Amount of share payment registered into shareholders' equity	-	-	-	-	-	-	-	-
iii. Others	-	-	-	-	-	-	-	-
c. Profit distribution	-	-	-	290,957,391.18	1,900,508.31	(1,053,051,819.51)	(2,905,664.81)	(763,099,584.83)
i. Appropriation to surplus reserve	-	-	-	290,957,391.18	-	(290,957,391.18)	-	-
ii. Appropriation to general risk reserve	-	-	-	-	1,900,508.31	(1,900,508.31)	-	-
iii. Profit distribution to shareholders	-	-	-	-	-	(760,193,920.02)	(2,905,664.81)	(763,099,584.83)
iv. Others (Appropriation to staff award fund)	-	-	-	-	-	-	-	-
d. Internal transfer of shareholders' equity	-	-	-	-	-	-	-	-
i. Capital surplus transferred to share capital	-	-	-	-	-	-	-	-

Continued

Item	2014						
	Share	Capital reserve	comprehensive income	Other income	Surplus reserve	General risk reserve	Retained earnings
ii. Surplus reserve transferred to share capital	-	-	-	-	-	-	-
iii. Surplus reserve for offsetting losses	-	-	-	-	-	-	-
iv. General risk reserve for offsetting losses	-	-	-	-	-	-	-
v. Others	-	-	-	-	-	-	-
4. Balance, end of year	7,380,523,495.35	5,513,100,628.34	(47,190,546.87)	949,482,224.19	2,348,393,372.02	4,423,240,282.64	43,384,034.55
							20,610,933,490.22

Legal Representative:

President:

Chief Finance Officer:

Chief Accountant:

Bank of Kunlun Co., Ltd.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In RMB Yuan)									
2013									
Item	Share	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Equity attributable to non-controlling interests	Total shareholders' equity	
1. Balance, end of prior year	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	-	22,152,059.01	(22,152,059.01)	-	-	-	-	-	
Adjustments for previous errors	-	-	-	-	-	-	-	-	
2. Balance, beginning of year	6,716,187,831.01	4,277,436,292.68	(22,152,059.01)	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	1,235,664,335.66	(1,011,583,480.25)	257,159,188.77	803,852,257.95	953,260,121.65	7,109,385.03	2,909,797,473.15	
a. Total comprehensive income	-	-	(1,011,583,480.25)	-	-	2,585,147,534.01	7,109,385.03	1,580,673,438.79	
b. Capital contributed and reduced by shareholders	664,335,664.34	1,235,664,335.66	-	-	-	-	-	1,900,000,000.00	
i. Capital contributed 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	-	-	-	-	-	-	-	-	
c. 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 risk reserve	-	-	-	-	803,852,257.95	(803,852,257.95)	-	-	
iii. Profit distribution to shareholders	-	-	-	-	-	(570,875,965.64)	-	(570,875,965.64)	
iv. Others (Appropriation to staff award fund)	-	-	-	-	-	-	-	-	
d. Internal transfer of shareholders' equity	-	-	-	-	-	-	-	-	

Continued

Item	2013						Total shareholders' equity
	Share	Capital reserve	comprehensive income	Other income	Surplus reserve	General risk reserve	
i. Capital surplus transferred to share capital	-	-	-	-	-	-	-
ii. Surplus reserve transferred to share capital	-	-	-	-	-	-	-
iii. Surplus reserve for offsetting losses	-	-	-	-	-	-	-
iv. General risk reserve for offsetting losses	-	-	-	-	-	-	-
v. Others	-	-	-	-	-	-	-
4. Balance, end of year	7,380,523,495.35	5,513,100,628.34	(1,033,735,539.26)	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.
STATEMENT OF FINANCIAL POSITION

(In RMB Yuan)

Item	Note 10	31 December 2014	31 December 2013
Assets			
Cash and deposits with central bank	10.1	24,274,834,756.66	31,165,901,587.46
Due from banks and other financial institutions	10.2	67,997,939,708.44	66,384,338,492.51
Placements with banks and other financial institutions		839,429,260.00	868,900,000.00
Financial assets reported at fair value with fair value changes recorded in current earnings		6,686,036,359.99	5,456,600,520.00
Financial assets held under resale agreements		23,680,577,206.72	11,204,937,500.00
Interest receivable	10.3	1,362,283,069.50	1,848,902,037.42
Loans and advances to customers	10.4	69,383,676,480.88	60,322,903,534.41
Available-for-sale financial assets		16,982,316,405.39	24,772,653,819.98
Held-to-maturity investments		12,473,777,463.43	17,754,952,246.16
Receivable-type investments		52,662,093,734.93	24,770,528,711.69
Long-term equity investments	10.5	57,500,000.00	57,500,000.00
Fixed assets	10.6	265,067,836.43	294,244,392.70
Constructions in progress		93,685,585.51	64,586,903.85
Intangible assets	10.7	96,711,265.49	84,447,629.21
Deferred income tax assets	10.8	575,389,205.90	445,590,207.15
Other assets	10.9	138,520,911.23	116,721,491.77
Total assets		277,569,839,250.50	245,613,709,074.31
Liabilities and shareholders' equity			
Due to banks and other financial institutions		124,572,806,943.03	89,833,609,711.69
Placements from banks and other financial institutions		1,600,000,000.00	-
Financial assets sold under repurchase agreements		12,834,152,902.20	1,462,739,097.54
Deposits from customers	10.10	112,186,402,252.88	129,435,462,474.01
Payables to employees		6,062,878.23	2,277,057.29
Taxes payable		484,185,713.08	396,213,248.51
Interest payable		2,123,085,703.60	1,710,086,972.17
Provisions		-	-
Bonds payable		-	-
Deferred income tax liabilities		-	-
Other liabilities		3,229,056,369.08	5,375,159,009.16
Total liabilities		257,035,752,762.10	228,215,547,570.37
Shareholders' equity			
Share capital		7,380,523,495.35	7,380,523,495.35
Capital reserve		5,512,046,712.14	5,512,046,712.14
Other comprehensive income		(47,190,373.51)	(1,033,735,365.90)
Surplus reserve		949,482,224.19	658,524,833.01
General risk reserve		2,339,185,261.76	2,339,185,261.76
Retained earnings		4,400,039,168.47	2,541,616,567.58
Total shareholders' equity		20,534,086,488.40	17,398,161,503.94
Total liabilities and shareholders' equity		277,569,839,250.50	245,613,709,074.31

Legal Representative:

President:

Chief Finance Officer:

Chief Accountant:

Bank of Kunlun Co., Ltd.

INCOME STATEMENT

(In RMB Yuan)

Item	Note 10	2014	2013
1. Operating income	10.11	7,326,804,724.90	5,610,436,991.55
Net interest income	1	6,152,658,838.29	4,579,326,989.08
Interest income		11,718,443,694.64	8,538,566,350.49
Interest expenses		5,565,784,856.35	3,959,239,361.41
Fee and net commission income	2	647,409,394.04	845,724,728.58
Fee and commission income		714,296,654.81	904,266,994.74
Fee and commission expenses		66,887,260.77	58,542,266.16
Investment return/(loss)		144,723,037.66	53,798,189.99
Gain/(loss) from fair value changes		185,612,824.80	(181,332,419.05)
Gain/(loss) on foreign exchange		195,154,152.73	312,213,529.19
Other operating income		1,246,477.38	705,973.76
2. Operating expenses		3,874,794,727.58	2,570,795,668.33
Business tax and surcharges		252,265,394.69	223,269,428.09
General operating and administrative expenses		1,303,738,617.28	1,129,563,162.11
Impairment losses on assets		2,318,554,383.24	1,217,783,478.13
Other operating expenses		236,332.37	179,600.00
3. Operating profit		3,452,009,997.32	3,039,641,323.22
Add: Non-operating income		12,309,461.83	6,429,426.06
Less: Non-operating expenses		404,333.66	6,008,357.17
4. Profit before tax		3,463,915,125.49	3,040,062,392.11
Less: Income tax expenses		554,341,213.40	468,470,504.43
5. Net profit		2,909,573,912.09	2,571,591,887.68
6. After tax net amount of other comprehensive income		986,544,992.39	(1,011,583,306.89)
(1) Other comprehensive income to be classified as income		986,544,992.39	(1,011,583,306.89)
(2) Income from fair value changes for available-for-sale financial assets		986,544,992.39	(1,011,583,306.89)
7. Earnings per share			
(1) Basic earnings per share		0.39	0.38
(2) Diluted earnings per share		0.39	0.38

Legal Representative:

President:

Chief Finance Officer:

Chief Accountant:

陈尚军

王瑞

敬村

王明东

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

(In RMB Yuan)

Item	Note 10	2014	2013
1. Cash flows from operating activities	(10.12)		
Net increase in deposits from customers and due to banks and other financial institutions		17,490,137,010.21	65,973,419,866.11
Net increase in due to central bank		-	-
Net increase in placements from banks and non-bank financial institutions		2,156,900,000.00	-
Net decrease in deposits with central bank and due from banks and other financial institutions		12,988,037,988.52	-
Net increase in financial assets sold under repurchase agreements		11,371,413,804.66	-
Interest, fee and commission received		7,993,090,842.90	6,092,692,211.07
Cash received from other operating activities		55,309,772.87	3,618,368,486.51
Subtotal of cash inflows from operating activities		52,054,889,419.16	75,684,480,563.69
Net increase in loans and advances to customers		9,836,421,258.83	21,358,360,215.35
Net increase in deposits with central bank and due from banks and other financial institutions		-	14,226,211,656.45
Net decrease in deposits from customers and due to banks and other financial institutions		-	-
Net decrease in due to central bank		-	-
Net decrease in placements from banks and other financial institutions		-	2,868,900,000.00
Net increase in financial assets reported at fair value with fair value changes recorded in current earnings		940,996,633.06	4,307,937,502.59
Net decrease in financial assets reported at fair value with fair value changes recorded in current earnings		-	-
Net increase in financial assets held under resale agreements		7,249,376,022.85	8,512,977,226.02
Net decrease in financial assets sold under repurchase agreements		-	9,210,742,569.45
Interest, fee and commission paid		5,219,673,385.69	3,486,711,583.52
Cash paid to and for employees		581,562,470.67	486,700,858.07
Tax payments		1,028,150,779.18	695,737,061.70
Cash paid for other operating activities		2,656,416,074.42	202,196,643.82
Subtotal of cash outflows from operating activities		27,512,596,624.70	65,356,475,316.97
Net cash flows from operating activities		24,542,292,794.46	10,328,005,246.72
2. Cash flows from investing activities			
Cash received from disposal of investments		38,250,552,008.56	48,020,525,850.83
Cash received from investment income		4,931,841,024.27	3,233,728,254.17
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		-	-
Cash received from other investing activities		58,495.78	-
Subtotal of cash inflows from investing activities		43,182,451,528.61	51,254,254,105.00
Cash paid for purchase of fixed assets, intangible assets and other long-term assets		174,691,984.84	221,621,620.54
Cash paid for investments		53,366,454,926.88	61,584,226,375.49
Subtotal of cash outflows from investing activities		53,541,146,911.72	61,805,847,996.03

Continued

Item	Note 10	2014	2013
Net cash flows from investing activities		(10,358,695,383.11)	(10,551,593,891.03)
3. Cash flows from financing activities			
Cash received from capital contribution		-	1,900,000,000.00
Including: Capital contribution by subsidiaries		-	-
Cash received from bond issuance		-	-
Cash received from other financing activities		-	-
Subtotal of cash inflows from financing activities		-	1,900,000,000.00
Cash paid for dividend, profit appropriation or interest payment		760,191,540.87	570,875,593.97
Cash paid for other financing activities		-	-
Subtotal of cash outflows from financing activities		760,191,540.87	570,875,593.97
Net cash flows from financing activities		(760,191,540.87)	1,329,124,406.03
4. Effect of foreign exchange rate changes on cash		112,376,318.99	(811,471,762.11)
5. Net increase in cash and cash equivalents	2	13,535,782,189.47	294,063,999.61
Add: The balance of cash and cash equivalents at the beginning of the year		51,844,586,635.64	51,550,522,636.03
6. The balance of cash and cash equivalents at the end of the year		65,380,368,825.11	51,844,586,635.64

Legal Representative:

President:

Chief Finance Officer:

Chief Accountant:

陈尚军

王瑞

敬林

王明东

Bank of Kunlun Co., Ltd.

STATEMENT OF CHANGES IN EQUITY

(In RMB Yuan)									
Item	2014								
	Share	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Equity attributable to non-controlling interests	Total shareholders' equity	
1. Balance, end of prior year	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	
Add: Changes in accounting policies	-	1,033,735,365.90	(1,033,735,365.90)	-	-	-	-	-	
Adjustments for previous errors	-	-	-	-	-	-	-	-	
2. Balance, beginning of year	7,380,523,495.35	5,512,046,712.14	(1,033,735,365.90)	658,524,833.01	2,339,185,261.76	2,541,616,567.58	-	17,398,161,503.94	
3. Net changes for the year	-	-	986,544,992.39	290,957,391.18	-	1,858,422,600.89	-	3,135,924,984.46	
a. Total comprehensive income	-	-	986,544,992.39	-	-	2,909,573,912.09	-	3,896,118,904.48	
b. Capital contributed and reduced by shareholders	-	-	-	-	-	-	-	-	
i. Capital contributed by shareholders	-	-	-	-	-	-	-	-	
ii. Amount of share payment registered into shareholders' equity	-	-	-	-	-	-	-	-	
iii. Others	-	-	-	-	-	-	-	-	
c. Profit distribution	-	-	-	290,957,391.18	-	(1,051,151,311.20)	-	(760,193,920.02)	
i. Appropriation to surplus reserve	-	-	-	290,957,391.18	-	(290,957,391.18)	-	-	
ii. Appropriation to general risk reserve	-	-	-	-	-	-	-	-	
iii. Profit distribution to shareholders	-	-	-	-	-	(760,193,920.02)	-	(760,193,920.02)	
iv. Others (Appropriation to staff award fund)	-	-	-	-	-	-	-	-	
d. Internal transfer of shareholders' equity	-	-	-	-	-	-	-	-	
i. Capital surplus transferred to share capital	-	-	-	-	-	-	-	-	

Continued

Item	2014						Total shareholders' equity
	Share	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	
ii. Surplus reserve transferred to share capital	-	-	-	-	-	-	-
iii. Surplus reserve for offsetting losses	-	-	-	-	-	-	-
iv. General risk reserve for offsetting losses	-	-	-	-	-	-	-
v. Others	-	-	-	-	-	-	-
4. Balance, end of year	7,380,523,495.35	5,512,046,712.14	(47,190,373.51)	949,482,224.19	2,339,185,261.76	4,400,039,168.47	20,534,086,488.40

Legal Representative: 

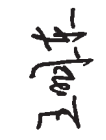
President:



Chief Finance Officer:



Chief Accountant:



Bank of Kunlun Co., Ltd.

STATEMENT OF CHANGES IN EQUITY

(In RMB Yuan)									
2013									
Item	Share	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Equity attributable to non-controlling interests	Total shareholders' equity	
1. Balance, end of prior year	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	-	22,152,059.01	(22,152,059.01)	-	-	-	-	-	-
Adjustments for previous errors	-	-	-	-	-	-	-	-	-
2. Balance, beginning of year	6,716,187,831.01	4,276,382,376.48	(22,152,059.01)	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	1,235,664,335.66	(1,011,583,306.89)	257,159,188.77	799,602,879.26	943,953,854.01	-	2,889,132,615.15	
a. Total comprehensive income	-	-	(1,011,583,306.89)	-	-	2,571,591,887.68	-	1,560,008,580.79	
b. Capital contributed and reduced by shareholders	664,335,664.34	1,235,664,335.66	-	-	-	-	-	1,900,000,000.00	
i. Capital contributed 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	-	-	-	-	-	-	-	-	-
c. Profit distribution	-	-	-	257,159,188.77	799,602,879.26	(1,627,638,033.67)	-	(570,875,965.64)	
i. Appropriation to surplus reserve	-	-	-	257,159,188.77	-	(257,159,188.77)	-	-	-
ii. Appropriation to general risk reserve	-	-	-	-	799,602,879.26	(799,602,879.26)	-	-	-
iii. Profit distribution to shareholders	-	-	-	-	-	(570,875,965.64)	-	(570,875,965.64)	
iv. Others (Appropriation to staff award fund)	-	-	-	-	-	-	-	-	-
d. Internal transfer of shareholders' equity	-	-	-	-	-	-	-	-	-
i. Capital surplus transferred to share capital	-	-	-	-	-	-	-	-	-

Continued

2013

Item	Share	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Equity attributable to non-controlling interests	Total shareholders' equity
ii. Surplus reserve transferred to share capital	-	-	-	-	-	-	-	-
iii. Surplus reserve for offsetting losses	-	-	-	-	-	-	-	-
iv. General risk reserve for offsetting losses	-	-	-	-	-	-	-	-
v. Others	-	-	-	-	-	-	-	-
4. Balance, end of year	7,380,523,495.35	5,512,046,712.14	(1,033,735,365.90)	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.
NOTES TO THE FINANCIAL STATEMENTS FOR 2014
(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 Cooperative of Karamay City, was established with the merger of Maoyuan Urban Credit Cooperative and Rongxing Urban Credit Cooperative in Karamay City in December 2002. KYJ [2002] No. 173 issued by PBOC Karamay Urban Branch allowed Urban Credit Cooperative of Karamay City to start business, thus the Bank started its business with a registered capital of RMB 55.22 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 RMB 100.67 million. On May 17, 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 May 30, 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 RMB 180.67 million.

In accordance with *Approval of Capital Increase Plan of Karamay City Commercial Bank* (XYJF [2009] No. 13) issued by CBRC Xinjiang Bureau on January 22, 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 March 23, 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 April 15, 2009, CNPC invested RMB 2.81 billion, of which registered capital increased by RMB 2.08 billion. After the capital increase, registered capital of the Bank reached RMB 2.26 billion.

In accordance with *Approval of Capital Increase Plan of Karamay City Commercial Bank* (XYJF [2010] No. 71) issued by CBRC Xinjiang Bureau on April 2, 2010, registered capital of the Bank increased to RMB 4.20 billion, of which CNPC invested RMB 3.66 billion.

On April 20, 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 May 7, 2010, and obtained the business license numbered 650200040000052.

On April 2, 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 RMB 6.72 billion, of which CNPC invested RMB 5.51 billion.

On May 7, 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 RMB 664.34 million. Afterwards, registered capital increased to RMB 7.38 billion, of which CNPC invested RMB 5.69 billion.

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

1.2 Branches and Subsidiaries

As at December 31, 2014, the Bank owned six branches including Karamay Branch, Urumqi Branch, Turpan-Hami Branch, Korla Branch, Daqing Branch and Xi'an Branch. The Bank also owned Beijing International Business Settlement Center and Head Office, etc.

As at December 31, 2014, the Bank owned two subsidiaries including Tacheng Kunlun Village and Township Bank and Leshan Kunlun Village and Township Bank.

1.3 Principal Business Activities and Services

The principal business activities and services of the Bank include deposit-taking from the public, 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 services, accrediting and guarantee services, acting as an agent for the payment or receipt of money as well as insurance business, safekeeping services, 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 Bank's financial statements, which have been properly prepared in accordance with the requirements of 2.2 "Basis of preparation for financial statements", give a true and complete view of the financial position, 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) and *Financial Enterprises Provisioning Management Approach* (2012) on the basis of actual transactions and events.

2.3 Accounting Period

The accounting year is from January 1, to December 31. The reporting period of the financial statements is from January 1, 2014 to December 31, 2014.

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 RMB at the end of the period. The principle to prepare the financial statements which are converted to RMB 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 RMB.

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 loss 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 loss 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, unrestricted deposits with central bank that can be used to pay, the current deposits due from banks and the 3-month 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 reported at fair value with fair value changes recorded in current earnings, 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 with fair value changes recorded in current earnings, the relevant transaction costs directly attributable to the acquisition of the such assets should be added when they are initially recognized.

A. Financial Assets Reported at Fair Value with Fair Value Changes Recorded in Current Earnings

The financial assets at fair value with fair value changes recorded in current earnings 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 loss for the current period. Differences between the fair values and initial book values are recognized as investment income upon disposal, and profit or loss on changes in fair value is adjusted at the same time.

B. Held-to-maturity Investments

Held-to-maturity investments refer to the 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 loss 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 refer to 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, due from banks and other financial institutions, financial assets held 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 loss for the current period.

D. Available-for-sale Financial Assets

Available-for-sale financial assets refer to 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 loss. 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 loss 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 loss 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 loss, as well as other financial liabilities according to the purpose of acquisition.

A. Financial Liabilities Reported at Fair Value with Fair Value Changes Recorded in Current Earnings

Financial liabilities at fair value with fair value changes recorded in current earnings are divided into financial liabilities held for trading and those financial liabilities directly designated by the management at the initial recognition as financial liabilities at fair value with fair value changes recorded in current earnings. The above financial liabilities are initially measured at fair value when acquired, and the relevant transaction costs are charged to profit or loss for the current period. The costs during the holding period and changes in fair value at year end are charged to profit or loss for the current period. Differences between the fair values and initial book values are recognized as investment income upon disposal, and profit or loss 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 with fair value changes recorded in current earnings, due to 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 active markets.

(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.

When the transfer of a financial asset happens, 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 Gains 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.

B. Recognition of Gains 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 equipment, vehicles, electronic and office equipment.

(3) Initial Measurement of Fixed Assets

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

The costs of purchased fixed assets are 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 their 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 costs of the fixed assets are basically determined by the present value of the purchase price.

The costs of self-constructed assets are composed of the necessary expenses incurred before the constructed assets can be put into their 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 loss.

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 costs of the assets traded in, and no profit or loss 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	20 years, 30years, 40 years	4.75%, 3.17%, 2.38%
Transportation vehicles	5years, 8 years	19.00%, 11.88%
Electronic equipment	4years, 5 years	23.75%, 19.00%
Machinery and office equipment	5years, 10years, 12 years	19.00%, 9.50%, 7.92%

2.12 Measurement of Constructions in Progress

(1) Classification of Constructions in Progress

Constructions in progress are measured on an individual project basis.

(2) Criteria and Timing of Transfer from Constructions 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 constructions in progress that have 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 cost 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 cost, but depreciation already provided is not adjusted.

2.13 Measurement of Intangible Assets

(1) Valuation Method of Intangible Assets

Intangible assets are measured at actual cost on acquisition.

The 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 uses. 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 their liabilities in case of debt restructuring, they should be initially measured at their fair values. Differences between the book values and the fair values of the intangible assets are recorded in current earnings.

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 loss 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, 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 uses.

(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 the Bank acquired them.

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	1-10 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 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 in current earnings.

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

Expenditures from development phase on internal research and development projects shall be recognized as intangible assets if they can satisfy all of the following criteria:

- A. There is technical feasibility of completing the intangible assets, so that they can be available for use or sale.
- B. There is an intention to complete and use or to sell the intangible assets.
- C. The method that the intangible assets generate economic benefits, including the existence of a market for products produced by the intangible assets or for the intangible assets themselves, shall be proved. If the intangible assets are going to be used internally, the usefulness of them shall be proved.
- D. Adequate technical, financial, and other kinds of 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 expense during the research phase to the item of constructions in progress.

2.14 Measurement of Long-term Deferred Expenses

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

2.15 Entrusted Businesses

The main entrusted businesses are entrusted loans and entrusted wealth management. 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, earnings, and responsibility of the entrusted business are assumed to the principal, and the Bank just earns fees.

Entrusted wealth management refers to the business in which the Bank designs and issues the product, and invests the raised funds in the relevant financial markets or purchases the relevant financial products according to terms specified in the contract for the product. The gains and risks of the product are either assumed by the principal or shared between the principal and the Bank as specified in the contract for the product.

The entrusted businesses in which the Bank does not benefit from the gains and is not exposed to the risks are not reflected on the balance sheet.

2.16 The Measurement 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 transaction 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 measured at the actual cost on the date of purchase, and presented in the item of financial assets purchased under resale agreements in the balance sheet. Purchase of such kinds of financial products is considered as a secured financing transaction and the purchased financial product is considered as the security.

Transaction of financial assets sold under repurchase agreements refers to the transaction 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 measured at the actual proceeds on the date of sale, and presented in the item of financial assets sold under repurchase agreements in the balance sheet. For financial assets sold under repurchase agreements, they are shown continuously in the balance sheet 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 (excluding financial assets reported at fair value with fair value changes recorded in current earnings) 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 of the asset, have impact on future cash flows and impacts can be reliably measured.

A. Financial Assets Measured at Amortized Costs

If there is objective evidence that an impairment loss on the financial assets (including loans and receivables, held-to-maturity investments) measured at amortized costs incurred, the book value of the financial assets should be written down to the present value of estimated future cash flows (excluding future credit losses that haven't happened yet). The amount written down shall be recognized as impairment losses on financial assets and charged to current earnings. The present value of expected future cash flows 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 used when the financial assets are recognized initially. For the Company's loans, 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 material financial assets to make clear whether there are objective evidences of impairment while individually or collectively assesses the financial assets that are not material for the same purpose. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial assets, whether material or not, it shall still 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 loss 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 loss 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 loss experience of the financial assets with similar credit risk characteristics and the current economic conditions.

After the Bank confirms the allowance for impairment losses of the financial assets measured at amortized costs, the previously recognized impairment losses shall be reversed through current earnings 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 confirmed (such as the debtor's credit rating has been increased). However, the book value after the reversal should not exceed the amortized costs 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 loss arising from the decline in fair value originally recorded into the capital reserve shall be transferred to current earnings. The transferred amount of the accumulated losses shall be the difference between the initial acquisition costs (deducting principal recovered and accumulated amortization) and the current fair value minus all the original impairment losses previously recognized in earnings.

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

C. Financial Assets Measured at Cost

If there is objective evidence that an impairment loss has 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 investment 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 active market so that its fair value cannot be measured reliably, the impairment shall also be treated in accordance with the above principle.

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

For fixed assets, constructions in progress, intangible assets and other long-term non-financial assets, the Bank assesses whether evidence of impairment exists at the end of each 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 expense 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 loss and recorded in current earnings, and corresponding provision for asset impairment is made at the same time.

After the asset impairment loss is recognized, depreciation of the impaired assets or amortization expense 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 loss of the long-term non-financial assets is recognized, it cannot be reversed in future accounting periods.

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

2.18 Employee Benefits

Employee benefits are all forms of payments given by the Bank in exchange for service rendered by the employees. The Bank's employee benefits mainly consist of short-term compensation, post-employment benefits and severance benefits

A. Short-term Compensation

During the accounting period when employees offer service, payables to employees shall be recognized as a liability and recorded in current earnings or related costs of assets.

During the accounting period when employees offer service, the money the Bank paid for employees' social insurance, housing fund, union fund and staff education payment are recognized according to related regulations for the employee benefits.

Employee benefits that are not monetary are measured by their fair value.

B. Severance Benefits

When the Bank cannot unilaterally withdraw the severance benefits due to the plan on the cancellation of labor relationship or the layoff proposal, or recognize the reconstruction costs related to it (the earlier of the two), the payables to employees are recorded in severance benefits and current earnings.

C. Post-employment Benefits

The Bank participates in defined contribution plans.

During the accounting period when employees offer service, the Bank pays basic pension scheme and unemployment insurance for employees according to local government's regulations. Such payments are calculated by the legal base and proportion, recognized as liabilities and recorded in current earnings.

The Bank establishes pensions premium, 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 costs of the Bank. The part paid by individual is provided at 1% of the basic pension scheme 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 measured 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 Bank classifies the lease where the lessor retains the main risks and rewards of the leased assets 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 expense related to leasing transaction paid by the Bank shall be recorded in the current expense; if the amount is relatively large, it should be capitalized and recorded in current earnings 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 expense from total rental income and amortize the remaining part over the lease period.

2.22 Accounting Methods of Income Tax Expense

Income tax includes current income tax and deferred income tax. Except the transactions or events directly recorded in shareholders' equity, the rests are recorded in current earnings as income tax expense 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 expense 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 the 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 income 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 income tax assets in the future, deferred income 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 risks and benefits from those in other business segments. The Bank uses business segments as main reporting units, transfer prices between which 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, while the expenses are distributed among different segments according to the benefits they receive respectively. The Bank's businesses are mainly divided into four aspects: corporate banking services, personal banking services, treasury operations 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 on Loans and Advances

In addition to separate assessments of impairment losses on corporate loans that are already recognized to be non-performing, the Bank performs periodic assessments on our portfolio of loans and advances with regard to impairment losses. If an impairment loss occurs, the Bank estimates the impairment loss amount. The impairment loss amount is the difference between the book value of the relevant loans and advances and the present value of expected future cash flows. The estimation of the impairment loss amount entails making key judgments on whether there are objective evidences that the relevant loans and advances have suffered impairment losses and making key assessments on the present value of expected future cash flows.

(2) Income Tax Expense

In daily operating activities, the final tax treatment of many transactions is subject to uncertainty. 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 whether it is necessary to pay additional taxes. If there are differences between the final result of these tax issues and previous estimates, the differences 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. If the Bank sells large amount of held-to-maturity investments before the maturity date, it should classify the whole held-to-maturity investments portfolios as available-for-sale investments, and measure the investments at fair value rather than amortized costs.

(4) Confirmation of the Fair Value of Financial Asset and Liability

For financial instruments that have active market, the fair value is the quotation price in the market, while for instruments without active market, the fair value is estimated by the valuation technique. When evaluating, the Bank uses the current available technique with enough data and information support and inputs that consistent with market participants' trading assets or liabilities, and gives priority to the use of relevant observable inputs. Only when the relevant observable inputs cannot be obtained or made practicable, can we use unobservable inputs.

2.25 Change and Influence in Major Accounting Policies and Accounting Estimates

(1) Major Changes in Accounting Policy in 2014.

There are 9 revised and newly released items in the 2014 annual corporate accounting policies, which are concerning the basic rules, long-term equity investments, payables to employees, financial instruments, financial statements, consolidated financial statements, the fair value measurement, joint venture and rights of other subjects. According to the revision, the Bank makes related adjustment and changes, and the main effects are as following:

According to the requirement of the *Accounting Standards for Enterprises No. 30*, the Bank added other comprehensive income to the equity related items, which influenced equity structure data as following:

Item	Affected amount in 2014	Affected amount in 2013
Capital reserve	47,190,546.87	1,033,735,539.26
Other comprehensive income	(47,190,546.87)	(1,033,735,539.26)
Total	-	-

(2) Significant Changes in Accounting Estimates in 2014

There is no significant change in accounting estimates in 2014.

2.26 Adjustments for Correction of Accounting Errors in Prior Periods

There are no adjustments for correction of accounting errors in prior periods in 2014.

3. Taxations

The applicable taxes and tax rates for the Bank 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, intermediate business income and other operating income, but does not include revenues from transactions with financial institutions.

3.2 Income tax

The income tax of western areas of the Bank was levied at the reduced rate of 15% in 2013. The regions outside western were levied the income tax at the rate of 25%. The Bank estimates that it would continue to enjoy the preferential policy in 2014. Therefore, the income tax was calculated according to the rate in 2013.

The subsidiary Leshan Kunlun Village and Township Bank was levied at the rate of 25% for the income tax.

The subsidiary Tacheng Kunlun Village and Township 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 Country, the Tacheng Kunlun Village and Township Bank can enjoy the beneficial policy from January 1, 2012 and were levied the income tax at the rate of 7.5% in 2014.

4. Business Combinations and Consolidated Financial statements

4.1 Information of the Subsidiaries Acquired through Establishment

Name of the subsidiary	Type of the enterprise	Registered capital	Actual investment of the Bank as at December 31, 2014	Total share holdings proportion of the Bank (%)	Total voting proportion of the Bank (%)	Consolidated financial statement or not
Leshan Kunlun Village and Township Bank Co., Ltd.	Domestic financial enterprises	50,000,000.00	40,000,000.00	80.00	80.00	Yes
Tacheng Kunlun Village and Township 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 Village and Township Bank Co., Ltd., and Tacheng Kunlun Village and Township Bank Co., Ltd. were included in the consolidated financial statements in 2014.

There were no changes in the consolidated scope of the reporting period compared with 2013.

5. Notes to the Consolidate Financial Statements (Negative Figures are Shown in Parentheses)

5.1 Cash and Deposits with Central Bank

Item	December 31, 2014	December 31, 2013
Cash in hand	376,108,365.30	318,633,384.72
Required reserves	18,494,724,851.46	22,397,451,224.65
Surplus reserves	5,501,836,972.43	8,594,675,297.46
Fiscal deposits with central bank	47,762,000.00	20,548,000.00
Total	24,420,432,189.19	31,331,307,906.83

(1) See Note 5.41/2 for deposits with central bank included in cash and cash equivalents as at December 31, 2014.

(2) According to the regulations, RMB and foreign currency deposit reserves as well as fiscal deposit in the PBOC cannot be used in daily business. On December 31, 2014 and December 31, 2013, the deposits reserve ratio of RMB was 18% and 18%, respectively. On December 31, 2014 and December 31, 2013 the deposit reserve ratio of foreign currency was 5% and 5%, respectively. RMB and foreign currency deposit reserves include deposit from government agencies and organizations, extra-budgetary deposit, personal deposit, company deposit, margin deposit, net credit balances of entrusted business and other deposits.

5.2 Due from Banks and Other Financial Institutions

Item	December 31, 2014	December 31, 2013
Due from domestic banks	67,745,660,321.40	66,381,491,825.64
Due from overseas banks	6,186,769.50	6,983,679.37
Less: Allowance for impairment losses	33,931,063.58	-
Book value of due from banks and other financial institutions	67,717,916,027.32	66,388,475,505.01

See Note 5.41/2 for due from banks and other financial institutions included in cash and cash equivalents as at December 31, 2014.

5.3 Placements with Banks and Other Financial Institutions

Item	December 31, 2014	December 31, 2013
Placements with banks and other financial institutions	860,952,000.00	868,900,000.00
Less: Allowance for impairment losses	21,522,740.00	-
Book value of placements with banks and other financial institutions	839,429,260.00	868,900,000.00

5.4 Financial Assets Reported at Fair Value with Fair Value Changes Recorded in Current Earnings

Item	Fair value at end of year	Fair value at beginning of year	Book value at end of year	Accrued interest	Accumulated changes in fair value
Financial assets held for trading	3,784,053,359.99	4,519,323,520.00	3,784,414,994.24		(361,634.25)
Bond investment	3,784,053,359.99	4,519,323,520.00	3,784,414,994.24		(361,634.25)
—Government bonds	251,611,500.00	-	250,856,460.00		755,040.00
—Financial bonds	1,966,502,539.99	1,420,199,890.00	1,968,482,174.24		(1,979,634.25)
—Corporate bonds	1,565,939,320.00	3,099,123,630.00	1,565,076,360.00		862,960.00
Financial assets designated to be reported at fair value with fair value changes recorded in current earnings	2,901,983,000.00	937,277,000.00	2,901,983,000.00		-
Other debt investments	2,901,983,000.00	937,277,000.00	2,901,983,000.00		-
Total	6,686,036,359.99	5,456,600,520.00	6,686,397,994.24		(361,634.25)

5.5 Financial Assets Held under Resale Agreements

(1) Classified by Collateral Security

Item	December 31, 2014	December 31, 2013
Bonds	3,641,100,000.00	529,650,000.00
Bills	20,055,621,987.84	307,287,500.00
Loans	-	10,368,000,000.00
Less: Allowance for impairment losses	16,144,781.12	-
Total	23,680,577,206.72	11,204,937,500.00

(2) Classified by Counterparty

Counterparty	December 31, 2014	December 31, 2013
Banks	22,594,464,993.01	5,404,937,500.00
Others	1,086,112,213.71	5,800,000,000.00
Total	23,680,577,206.72	11,204,937,500.00

(3) See Note 5.41/2 for financial assets held under resale agreements included in cash and cash equivalents as at December 31, 2014.

5.6 Interest Receivable

(1) Interest Receivable Breakdown

Item	December 31, 2014	December 31, 2013
Interest receivable on deposits with central bank	8,623,689.76	11,101,482.13
Interest receivable on due from banks and other financial institutions	325,847,397.25	292,684,709.95
Interest receivable on financial assets held under resale agreements	4,962,889.29	19,629,076.85
Interest receivable on loans and advances	112,833,152.44	107,553,310.15
Interest receivable on bonds held for trading	72,826,712.31	111,945,853.46
Interest receivable on available-for-sale and held-to-maturity bonds	444,545,395.92	765,150,973.09
Interest receivable on held-to-maturity investments	403,254,648.08	544,482,742.85
Book value of interest receivable	1,372,893,885.05	1,852,548,148.48

(2) Overdue Interest

Item	Overdue date	December 31, 2014	December 31, 2013
Corporate loans	Within 3 months	1,397,217.81	6,845,110.72
Personal loans	Within 3 months	48,933.32	1,630.21
Total		1,446,151.13	6,846,740.93

(3) As at December 31, 2014, 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	December 31, 2014		December 31, 2013	
	Amount	Proportion (%)	Amount	Proportion (%)
Loans and advances	73,063,126,863.59	100.00	63,034,600,344.75	100.00
Including: Corporate	69,273,337,416.49	94.81	60,548,988,710.57	96.06
Personal	3,789,789,447.10	5.19	2,485,611,634.18	3.94
Less: Allowance for impairment losses	2,779,149,895.34	100.00	1,997,141,442.76	100.00
Including: Corporate	2,666,433,103.05	95.94	1,935,104,823.44	96.89

Continued

Category	December 31, 2014		December 31, 2013	
	Amount	Proportion (%)	Amount	Proportion (%)
Personal	112,716,792.29	4.06	62,036,619.32	3.11
Net value of loans and advances	70,283,976,968.25	100.00	61,037,458,901.99	100.00
Including: Corporate	66,606,904,313.44	94.77	58,613,883,887.13	96.03
Personal	3,677,072,654.81	5.23	2,423,575,014.86	3.97

B. Regional Distribution of Loans and Advances

Regional distribution	December 31, 2014	Proportion (%)	December 31, 2013	Proportion (%)
South China	558,850,000.00	0.76	528,000,000.00	0.84
North China	24,045,725,119.47	32.92	8,887,708,000.00	14.10
East China	1,650,304,660.07	2.26	9,108,058,336.99	14.45
Northeast China	4,467,296,096.15	6.11	3,237,350,242.41	5.14
Northwest China	37,952,026,731.48	51.94	38,830,211,765.35	61.60
Southwest China	2,579,276,460.65	3.53	1,149,712,000.00	1.82
Central China	1,809,647,795.77	2.48	1,293,560,000.00	2.05
Total loans and advances	73,063,126,863.59	100.00	63,034,600,344.75	100.00
Less: Allowance for impairment losses	2,779,149,895.34	-	1,997,141,442.76	-
Including: Individual accrual	628,536,488.04	-	573,078,726.11	-
Collective accrual	2,150,613,407.30	-	1,424,062,716.65	-
Book value of loans and advances	70,283,976,968.25	-	61,037,458,901.99	-

C. Classified by Security Types

Security Type	December 31, 2014	Proportion (%)	December 31, 2013	Proportion (%)
Credit loans	18,842,060,599.96	25.78	19,302,589,581.96	30.61
Guaranteed loans	12,066,875,658.94	16.52	9,939,694,575.22	15.77
Collateral loans	7,016,279,356.18	9.60	3,597,269,946.48	5.71
Pledged loans	14,860,807,086.88	20.34	12,983,667,545.91	20.60
Bank acceptance bills discount	17,000,215,499.39	23.27	14,307,558,695.18	22.70
Commercial acceptance bills discount	3,276,888,662.24	4.49	2,903,820,000.00	4.61
Total	73,063,126,863.59	100.00	63,034,600,344.75	100.00

D. Movement of Loans and Advances to Customers Overdue

(a) Movement of Overdue Loan (Note)

Item	2014	2013
Balance, beginning of year	559,183,496.25	236,997,049.01
Increase	270,564,653.95	427,954,788.44
Decrease	655,080.67	105,768,341.20
Balance, end of year	829,093,069.53	559,183,496.25

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

(b) Classified by Overdue Period

Item	December 31, 2014					Total
	Overdue up to 90 days (90 days included)	Overdue 90 days to 360 days (360 days included)	Overdue 360 days to 3 years (3 years included)	Overdue above 3 years		
Credit loans	54,383,817.03	-	-	-		54,383,817.03
Guaranteed loans	46,866,108.65	32,307,915.46	539,994,995.40	237,175.31		619,406,194.82
Collateral loans	37,502,619.16	26,670,619.49	115,537.51	-		64,288,776.16
Pledged loans	11,498,915.92	63,967,705.49	14,547,082.33	-		90,013,703.74
Bank acceptance bills discount	1,000,577.78	-	-	-		1,000,577.78
Total	151,252,038.54	122,946,240.44	554,657,615.24	237,175.31		829,093,069.53

Item	December 31, 2013					Total
	Overdue up to 90 days (90 days included)	Overdue 90 days to 360 days (360 days included)	Overdue 360 days to 3 years (3 years included)	Overdue above 3 years		
Guaranteed loans	410,000,000.00	-	130,078,995.40	966,877.44		541,045,872.84
Collateral loans	-	115,537.51	182,834.97	-		298,372.48
Pledged loans	17,839,250.93	-	-	-		17,839,250.93
Bank acceptance bills discount	-	-	-	-		-
Total	427,839,250.93	115,537.51	130,261,830.37	966,877.44		559,183,496.25

E. Corporate Loans Classified by Industry

Industry	December 31, 2014		December 31, 2013	
	Amount	Proportion (%)	Amount	Proportion (%)
Agriculture, forestry, animal husbandry and fishery	381,309,809.77	0.55	263,600,000.00	0.44
Mining	11,558,321,698.07	16.67	11,407,880,000.00	18.84
Manufacturing	13,723,199,020.32	19.81	8,073,695,500.77	13.32
Production and supply of electric power, gas and water	5,762,339,160.07	8.32	6,077,273,731.82	10.04
Construction	3,405,258,019.85	4.92	2,158,950,000.00	3.57
Transportation, storage and postal services	2,715,376,463.18	3.92	2,327,338,000.00	3.84
Information transmission, computer service and software	246,984,340.00	0.36	70,644,488.00	0.12
Wholesale and retail	6,423,633,770.60	9.27	9,579,387,276.27	15.82
Accommodation and catering	7,500,000.00	0.01	3,200,000.00	0.01
Financial services	16,707,905,654.69	24.12	14,336,371,594.22	23.68
Real estate	1,069,050,000.00	1.54	1,900,000,000.00	3.14
Leasing and commercial services	2,906,997,500.35	4.20	1,949,708,119.49	3.22
Scientific research, technical service and geological survey	877,576,554.11	1.27	242,260,000.00	0.40

Continued

Industry	December 31, 2014		December 31, 2013	
	Amount	Proportion (%)	Amount	Proportion (%)
Water conservancy, environment, utility facilities management	1,509,415,425.48	2.18	1,249,600,000.00	2.06
Residents service and other services	9,100,000.00	0.01	13,580,000.00	0.02
Education	1,006,500,000.00	1.45	-	-
Sanitation, social security and social welfare	18,620,000.00	0.03	7,100,000.00	0.01
Culture, sports and entertainment	136,450,000.00	0.20	143,000,000.00	0.24
Public administration and social organization	807,800,000.00	1.17	745,400,000.00	1.23
Total	69,273,337,416.49	100.00	60,548,988,710.57	100.00

F. Corporate Loans Classified by Nature

Nature	December 31, 2014	December 31, 2013
Normal loans	39,562,710,756.36	36,829,247,376.46
Discount bills	20,277,104,161.63	17,211,378,695.18
Trade finance	9,433,522,498.50	6,508,362,638.93
Total	69,273,337,416.49	60,548,988,710.57

G. Personal Loans Classified by Nature

Nature	December 31, 2014		December 31, 2013	
	Amount	Proportion (%)	Amount	Proportion (%)
Personal loans				
—Personal housing mortgage loans	2,302,969,374.32	60.77	1,297,273,358.31	52.19
—Others	1,486,820,072.78	39.23	1,188,338,275.87	47.81
Total	3,789,789,447.10	100.00	2,485,611,634.18	100.00

(2) Allowance for Impairment Losses

Item	2014			2013		
	Individual	Collective	Total	Individual	Collective	Total
Balance, beginning of year	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
Provision	55,457,761.93	726,550,690.65	782,008,452.58	380,756,284.06	664,279,297.97	1,045,035,582.03
Other decrease	-	-	-	29,821,246.34	-	29,821,246.34
Write-off	-	-	-	3,714,067.66	-	3,714,067.66
Balance, end of year	628,536,488.04	2,150,613,407.30	2,779,149,895.34	573,078,726.11	1,424,062,716.65	1,997,141,442.76

(3) Analysis of Client Concentration

As at December 31, 2014, the top 10 borrowers were listed as follows:

Client	Industry	Balance	Proportion of total amount of loans and advances (%)
Client 1	Mining	1,400,000,000.00	1.92
Client 2	Education	1,000,000,000.00	1.37
Client 3	Wholesale and retail	980,000,000.00	1.34
Client 4	Manufacturing	835,620,000.00	1.14
Client 5	Water conservancy, environment, utility facilities management and investment	835,000,000.00	1.14
Client 6	Public administration and social organization	807,800,000.00	1.11
Client 7	Transportation, storage and postal service	700,000,000.00	0.96
Client 8	Production and supply of electric power, gas and water	690,000,000.00	0.94
Client 9	Leasing and commercial services	646,734,600.00	0.89
Client 10	Production and supply of electric power, gas and water	600,000,000.00	0.82
Total		8,495,154,600.00	11.63

As at December 31, 2013, the top 10 borrowers were listed as follows:

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 and retail	1,000,000,000.00	1.59
Client 4	Wholesale and retail	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 administration, social security and social organizations	745,400,000.00	1.18
Client 9	Transportation, storage and postal services	700,000,000.00	1.11
Client 10	Production and supply of electricity, heat, gas and water	697,000,000.00	1.11
Total		9,427,400,000.00	14.96

(4) As at December 31, 2014, 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	December 31, 2014	December 31, 2013
Government bonds	30,193,380.00	-
Financial bonds	3,886,028,759.99	4,076,495,600.00
Corporate bonds	13,074,572,874.98	20,696,158,219.98
Less: Impairment allowances for available-for-sale financial assets	8,478,609.58	-
Total	16,982,316,405.39	24,772,653,819.98

Category	December 31, 2014		
	Bond cost	Change in fair value	Fair value
Government bonds	30,049,207.30	144,172.70	30,193,380.00
Financial bonds	3,860,758,435.51	25,270,324.48	3,886,028,759.99
Corporate bonds	13,155,505,458.64	(80,932,583.66)	13,074,572,874.98
Total	17,046,313,101.45	(55,518,086.48)	16,990,795,014.97

Category	December 31, 2013		
	Bond cost	Change in fair value	Fair value
Government bonds	-	-	-
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

5.9 Held-to-maturity Investments

Item	December 31, 2014	December 31, 2013
Treasury bonds	50,053,825.72	140,760,934.04
Financial bonds	2,590,902,116.20	2,510,662,128.06
Corporate bonds	9,839,036,514.33	15,103,529,184.06
Total held-to-maturity investments	12,479,992,456.25	17,754,952,246.16
Less: Impairment allowances for held-to-maturity investments	6,214,992.82	-
Book value of held-to-maturity investments	12,473,777,463.43	17,754,952,246.16

See Note 7.2/3 for the pledge of the financial asset available for sale as at December 31, 2014.

5.10 Investments Classified as Receivables

Item	December 31, 2014	December 31, 2013
Trust-type wealth management products	53,931,745,031.52	24,492,795,847.76
Entrusted wealth management products	-	369,956,563.93
Others	330,694,166.66	30,000,000.00
Less: Impairment allowances for investments classified as receivables	1,600,345,463.25	122,223,700.00
Book value of investments classified as receivables	52,662,093,734.93	24,770,528,711.69

5.11 Fixed Assets

(1) Details of Fixed Assets Balance

Item	December 31, 2014	December 31, 2013
Original cost	537,852,631.80	479,739,935.45
Accumulated depreciation	268,935,759.61	181,726,888.73
Impairment allowances for fixed asset	71,587.53	71,587.53
Net amount of fixed assets	268,845,284.66	297,941,459.19

(2) Changes of Fixed Assets

Fixed assets	Properties and Buildings	Vehicles	Electronic equipment	Machinery equipment	Total
1. Total original book value					
Balance, beginning of year	87,415,757.20	14,751,644.06	370,544,500.31	7,028,033.88	479,739,935.45
Increases in 2014	280,000.00	1,243,200.00	58,082,977.82	1,554,249.00	61,160,426.82
Additions	-	-	-	-	-
Constructions in progress transfer in	280,000.00	1,243,200.00	58,082,977.82	1,554,249.00	61,160,426.82
Other increases	-	-	-	-	-
Decreases in 2014	-	1,055,032.00	1,961,521.57	31,176.90	3,047,730.47
Disposals	-	1,055,032.00	1,961,521.57	31,176.90	3,047,730.47
Balance, end of year	87,695,757.20	14,939,812.06	426,665,956.56	8,551,105.98	537,852,631.80
2. Accumulated depreciation					
Balance, beginning of year	10,557,686.46	6,761,782.01	163,502,748.02	904,672.24	181,726,888.73
Increases in 2014	3,113,524.68	2,604,772.56	83,683,567.62	694,756.69	90,096,621.55
Depreciation charge for the year	3,113,524.68	2,604,772.56	83,683,567.62	694,756.69	90,096,621.55
Others	-	-	-	-	-
Decreases in 2014	-	1,002,280.40	1,855,058.37	30,411.90	2,887,750.67
Disposals	-	1,002,280.40	1,855,058.37	30,411.90	2,887,750.67
Balance, end of year	13,671,211.14	8,364,274.17	245,331,257.27	1,569,017.03	268,935,759.61
3. Impairment allowances					
Balance, beginning of year	71,587.53	-	-	-	71,587.53
Increases in 2014	-	-	-	-	-
Depreciation charge for the year	-	-	-	-	-
Others	-	-	-	-	-
Decreases in 2014	-	-	-	-	-
Disposals	-	-	-	-	-
Balance, end of year	71,587.53	-	-	-	71,587.53
4. Book value					
Balance, end of year	73,952,958.53	6,575,537.89	181,334,699.29	6,982,088.95	268,845,284.66
Balance, beginning of year	76,786,483.21	7,989,862.05	207,041,752.29	6,123,361.64	297,941,459.19

As at December 31, 2014, the original value of properties and buildings whose ownership certification is in progress is RMB 32,052,273.32, with accumulated depreciation of RMB 4,667,316.69, net value of RMB 27,384,956.63.

5.12 Constructions in Progress

Category	December 31, 2013	Increases in 2014	Transfer to fixed assets	Other decreases in 2014	December 31, 2014
Construction of branches and outlets	5,310,949.80	86,292,754.74	24,015,494.26	17,646,131.22	49,942,079.06
Construction of IT system	58,047,983.61	67,452,902.39	18,661,832.00	65,088,818.00	41,750,236.00
Operation and construction of security system	1,227,970.44	23,054,247.11	18483100.56	3,805,846.54	1,993,270.45
Total	64,586,903.85	176,799,904.24	61,160,426.82	86,540,795.76	93,685,585.51

5.13 Intangible Assets

(1) Details of Intangible Assets Balance

Item	December 31, 2014	December 31, 2013
Original cost	224,888,334.74	168,941,927.74
Accumulated amortization	126,820,015.92	83,137,245.20
Impairment allowances for intangible asset	1,357,053.33	1,357,053.33
Net carrying amount	96,711,265.49	84,447,629.21

(2) Movements of Intangible Assets

Item	Land use right	Software	Total
1. Original cost			
Balance, beginning of year	69,510.41	168,872,417.33	168,941,927.74
Increases in 2014	-	55,946,407.00	55,946,407.00
Additions	-	-	-
Internal research & development	-	55,946,407.00	55,946,407.00
Decreases in 2014	-	-	-
Disposals	-	-	-
Transfer out	-	-	-
Balance, end of year	69,510.41	224,818,824.33	224,888,334.74
2. Accumulated amortization			
Balance, beginning of year	31,443.22	83,105,801.98	83,137,245.20
Increases in 2014	2,341.02	43,680,429.70	43,682,770.72
Charge for the year	2,341.02	43,680,429.70	43,682,770.72
Decreases in 2014	-	-	-
Disposals	-	-	-
Transfer out	-	-	-
Balance, end of year	33,784.24	126,786,231.68	126,820,015.92
3. Impairment allowances			
Balance, beginning of year	-	1,357,053.33	1,357,053.33
Increases in 2014	-	-	-
Charge for the year	-	-	-

Continued

Item	Land use right	Software	Total
Decreases in 2014	-	-	-
Disposals	-	-	-
Transfer out	-	-	-
Balance, end of year	-	1,357,053.33	1,357,053.33
4. Book value			
Balance, beginning of year	38,067.19	84,409,562.02	84,447,629.21
Balance, end of year	35,726.17	96,675,539.32	96,711,265.49

5.14 Deferred Income Tax Assets

Item	December 31, 2014	December 31, 2013
Impairment allowances	571,826,846.69	238,959,548.99
Changes in fair value of available-for-sale financial assets included in capital reserve	8,327,712.97	182,423,888.10
Net changes in fair value of financial assets reported at fair value with fair value changes recorded in current earnings	54,245.14	27,896,168.86
Total	580,208,804.80	449,279,605.95

5.15 Other Assets

(1) Other Assets Breakdown

Item	December 31, 2014	December 31, 2013
Deferred expenses	11,978,826.55	9,938,322.10
Other receivables	54,052,423.47	8,190,425.80
Repossessed asset	-	19,568,930.00
Long-term deferred expenses	74,157,220.83	79,652,869.68
Others	-	787,754.47
Total	140,188,470.85	118,138,302.05

(2) Other Receivables

A. Other Receivables Breakdown

Item	December 31, 2014	December 31, 2013
Advances to clients	5,936,238.00	600,000.00
Advances for legal expenses	6,511,129.00	4,260,816.36
Deposit	1,407,100.00	1,197,100.00
Historical doubtful debts	86,587.60	86,587.60
Others	41,046,039.94	11,906,759.63
Total	54,987,094.54	18,051,263.59
Less: Impairment allowance for other receivables	934,671.07	9,860,837.79
Net amount	54,052,423.47	8,190,425.80

B. Aging Analysis

Aging	December 31, 2014			
	Amount	Proportion (%)	Impairment allowances	Net amount
Within 1 year	37,595,431.39	68.37	769,109.12	36,826,322.27
1 to 2 years	16,515,819.55	30.04	110,219.55	16,405,600.00
2 to 3 years	687,000.00	1.25	-	687,000.00
Over 3 years	188,843.60	0.34	55,342.40	133,501.20
Total	54,987,094.54	100.00	934,671.07	54,052,423.47

Aging	December 31, 2013			
	Amount	Proportion (%)	Impairment allowances	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

C. As at December 31, 2014, there were no receivables from shareholders who held more than 5% (including 5%) of the shares of the Bank.

(3) Long-term Deferred Expenses

Item	Rent expenses	Improvement costs for leased fixed assets	Others	Total
Beginning of year	2,357,389.64	48,559,921.34	28,735,558.70	79,652,869.68
Increases in 2014	187,286.30	14,861,392.04	4,791,777.75	19,840,456.09
Amortization for 2013	1,347,406.20	16,729,648.09	7,211,871.32	25,288,925.61
Transfer out in 2014	-	-	47,179.33	47,179.33
End of year	1,197,269.74	46,691,665.29	26,268,285.80	74,157,220.83

(4) Repossessed Assets

Item	December 31, 2014	December 31, 2013
Accounts receivable	119,219,258.76	131,719,258.76
Stock	-	19,568,930.00
Total	119,219,258.76	151,288,188.76
Less: Impairment allowances for repossessed assets	119,219,258.76	131,719,258.76
Net amount	-	19,568,930.00

5.16 Assets Impairment

Item	2014							
	Increases in 2014			Decreases in 2014				
	Balance, beginning of year	Impairment losses charged	Other increases	Recovered amount due to asset value increase	Differences due to currency exchange	Write-off in 2014	Other decreases	Balance, end of year
Impairment allowances for other receivables	9,860,837.79	-	-	8,926,166.72	-	-	-	934,671.07
Impairment allowances for repossessed assets	131,719,258.76	-	-	12,500,000.00	-	-	-	119,219,258.76
Loan loss provisions	1,997,141,442.76	782,008,452.58	-	-	-	-	-	2,779,149,895.34
Impairment allowances for investments classified as receivables	122,223,700.00	1,478,121,763.25	-	-	-	-	-	1,600,345,463.25
Impairment allowances for intangible assets	1,357,053.33	-	-	-	-	-	-	1,357,053.33
Impairment allowances for fixed assets	71,587.53	-	-	-	-	-	-	71,587.53
Due from banks and other financial institutions	-	33,931,063.58	-	-	-	-	-	33,931,063.58
Placements with banks and other financial institutions	-	21,522,740.00	-	-	-	-	-	21,522,740.00
Financial assets held under resale agreements	-	16,144,781.12	-	-	-	-	-	16,144,781.12
Available-for-sale financial assets	-	8,478,609.58	-	-	-	-	-	8,478,609.58
Held-to-maturity financial assets	-	6,214,992.82	-	-	-	-	-	6,214,992.82
Total	2,262,373,880.17	2,346,422,402.93	-	21,426,166.72	-	-	-	4,587,370,116.38

Item	Balance, beginning of year	Increases in 2013			Decreases in 2013			Balance, end of year
		Impairment losses charged	Other increases	Recovered amount due to asset value increase	Differences due to currency exchange	Write-off in 2013	Other decreases	
Impairment allowances for other receivables	324,247.69	9,805,495.39	-	8,974.36	-	259,930.93	-	9,860,837.79
Impairment allowances for repossessed assets	-	53,095,398.78	78,623,859.98	-	-	-	-	131,719,258.76
Loan loss provisions	985,641,174.73	1,045,035,582.03	-	-	-	3,714,067.66	29,821,246.34	1,997,141,442.76
Impairment allowances for investments classified as receivables	-	122,223,700.00	-	-	-	-	-	122,223,700.00
Impairment allowances for intangible assets	1,357,053.33	-	-	-	-	-	-	1,357,053.33
Impairment allowances for 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	29,821,246.34	2,262,373,880.17

5.17 Central Bank

Item	December 31, 2014	December 31, 2013
Due to Central Bank	25,000,000.00	45,000,000.00

5.18 Due to Banks and Other Financial Institutions

Item	December 31, 2014	December 31, 2013
Due to banks	112,759,662,247.32	87,169,295,001.64
Due to other financial institutions	11,498,814,217.48	2,402,251,271.18
Total	124,258,476,464.80	89,571,546,272.82

5.19 Placements from Banks and Other Financial Institutions

Item	December 31, 2014	December 31, 2013
Placements from banks and other financial institutions	1,600,000,000.00	-

5.20 Financial Assets Sold under Repurchase Agreements

(1) Classified by Collateral Security

Item	December 31, 2014	December 31, 2013
Bond	1,307,000,000.00	499,200,000.00
Bill	11,527,152,902.20	963,539,097.54
Total	12,834,152,902.20	1,462,739,097.54

(2) Classified by Counterparty

Counterparties	December 31, 2014	December 31, 2013
Banks	12,834,152,902.20	1,462,739,097.54

5.21 Deposits from Customers

(1) Deposits from Customers Breakdown

Item	December 31, 2014	December 31, 2013
1. Demand deposits	59,212,918,390.01	84,154,100,050.77
Including: Corporate deposits	49,327,299,372.29	76,356,347,408.23
Personal deposits	9,885,619,017.72	7,797,752,642.54
2. Time deposits	44,391,625,725.69	43,443,631,167.95
Including: Corporate deposits	30,041,584,118.46	32,863,872,034.53
Personal deposits	14,350,041,607.23	10,579,759,133.42
3. Fiscal deposits	377,916,969.45	440,087,971.17
4. Other deposits	9,120,365,747.90	2,387,449,794.15
Total	113,102,826,833.05	130,425,268,984.04

(2) See Note 6.8 for the amount of deposit of the shareholders who held shares of more than 5% (including 5%) as at December 31, 2014.

5.22 Payroll Payable

Item	Beginning of year	Increase	Payment	End of year
Short-term compensation items				
1. Salaries, bonuses and subsidies		370,200,072.07	370,200,072.07	-
2. Employee benefits		46,718,771.48	46,718,771.48	-
3. Social insurance premiums		23,258,291.94	23,258,291.94	-
Including: (1) Medical insurance		20,518,719.79	20,518,719.79	-
(2) Industrial injury insurance premiums		1,224,261.69	1,224,261.69	-
(3) Childbirth insurance premiums		1,515,310.46	1,515,310.46	-
4. Housing fund		32,127,520.22	32,127,520.22	-
5. Union expenses and employee training expenses	2,307,263.50	15,165,663.35	11,380,477.12	6,092,449.73
6. Short-term paid absence		-	-	-
7. Short-term profit-sharing plan		-	-	-
8. Other short-term payroll		40,705,295.10	40,705,295.10	-
Subtotal	2,307,263.50	528,175,614.16	524,390,427.93	6,092,449.73
Post-employment benefit plan				
1. Basic endowment insurance		52,778,490.06	52,778,490.06	-
2. Unemployment insurance expenses		4,338,441.22	4,338,441.22	-
3. Supplementary pensions premium		15,262,062.85	15,262,062.85	-
Subtotal		72,378,994.13	72,378,994.13	-
Dismiss welfare				
1. Benefits for early retired employees		-	-	-
2. Other termination benefits		-	-	-
Subtotal		-	-	-
Other long-term employee benefits				
1. Aperiodic benefits for retired employees		-	-	-
2. Deferred compensation		-	-	-
3. Others		-	-	-
Subtotal		-	-	-
Total	2,307,263.50	600,554,608.29	596,769,422.06	6,092,449.73

5.23 Taxes Payable

Item	December 31, 2014	December 31, 2013
Corporate income tax	411,207,414.47	297,847,045.83
Business tax	56,008,605.38	79,348,586.41
Urban construction tax	3,901,238.58	5,540,809.38
Educational surcharge	2,800,591.68	3,969,470.27
Individual income tax	11,584,877.81	10,962,676.14
Stamp duty	251,317.87	176,355.11
Others	777,810.93	1,153,831.80
Total	486,531,856.72	398,998,774.94

5.24 Interest Payable

(1) Interest Payable Breakdown

Item	December 31, 2014	December 31, 2013
Interests payable for due to central bank	25,590.28	25,590.28
Interests payable for due to banks and other financial institutions	3,493,472.23	-
Interests payable for placements from banks and other financial institutions	750,351,506.35	416,825,167.70
Interests payable for financial assets sold under repurchase agreements	3,672,944.93	689,306.30
Interests payable for customer deposits	1,383,702,003.65	1,299,093,676.75
Total	2,141,245,517.44	1,716,633,741.03

(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 December 31, 2014.

5.25 Other Liabilities

(1) Other Liabilities Breakdown

Item	December 31, 2014	December 31, 2013
Dividend payable	26,649.79	24,270.64
Other payables	3,087,349,661.68	5,198,376,377.98
Deferred income	821,865.94	821,865.94
Other current liabilities	145,631,220.01	180,634,271.14
Total	3,233,829,397.42	5,379,856,785.70

See Note 6.9 for the amount of entrust loans from the shareholders who held shares of more than 5% (including 5%) as at December 31, 2014.

(2) Other Payables

A. Other Payables Breakdown

Item	December 31, 2014	December 31, 2013
Payment suspended for long time	3,603,554.98	705,636.42
Other payables	3,083,746,106.70	5,197,670,741.56
Total	3,087,349,661.68	5,198,376,377.98

B. As at December 31, 2014, there were no accounts payable to the shareholders who held shares of more than 5% (including 5%).

5.26 Share Capital

Name of investor	Balance, beginning of year		Increase	Decrease	Balance, end of year	
	Investment amount	Proportion (%)			Investment amount	Proportion (%)
China National Petroleum Corporation	5,690,141,618.63	77.10	-	-	5,690,141,618.63	77.10
Other state owned shareholders	1,361,517,848.28	18.45	-	-	1,361,517,848.28	18.45
Collectively owned shareholders	328,810,131.46	4.45	-	-	328,810,131.46	4.45
Individual shareholders	53,896.98	-	-	-	53,896.98	-
Total	7,380,523,495.35	100.00	-	-	7,380,523,495.35	100.00

5.27 Capital Reserve

Item	December 31, 2014	Increase/(Decrease)	December 31, 2013
Share premium	5,513,100,628.34	-	5,513,100,628.34

5.28 Other Comprehensive Income

Item	Balance, beginning of year	The amount incurred in 2014				Attributable to minority shareholders, after tax	Balance, end of year
		Increase	Decrease	Income tax	Attributable to the parent Company, after tax		
1. Other comprehensive income which can be reclassified into gains or losses							
(1) After tax net changes in fair value of available-for-sale financial assets	(1,033,735,365.90)	1,160,641,167.52	-	174,096,175.13	986,544,992.39	-	(47,190,373.51)
Changes in fair value for available-for-sale financial assets	(1,216,159,254.00)	1,160,641,167.52	-	-	1,160,641,167.52	-	(55,518,086.48)
Impact of income tax on changes in fair value of available-for-sale financial assets	182,423,888.10	-	-	174,096,175.13	(174,096,175.13)	-	8,327,712.97
(2) Changes of the invested company's equity under equity method	(173.36)	-	-	-	-	-	(173.36)
Total	(1,033,735,539.26)	1,160,641,167.52	-	174,096,175.13	986,544,992.39	-	(47,190,546.87)

5.29 Surplus Reserve

Item	December 31, 2013	Extraction in 2014	December 31, 2014
Statutory surplus reserve	658,524,833.01	290,957,391.18	949,482,224.19

5.30 General Reserve

Item	2014	2013
Balance, beginning of year	2,346,492,863.71	1,542,640,605.76
Increase	1,900,508.31	803,852,257.95
Decrease		
Balance, end of year	2,348,393,372.02	2,346,492,863.71

In accordance with the *Regulation of Extraction of Reserves for Financial Enterprises* (CJ ([2012] No. 20) issued by the MOF on March 30, 2012, the balance of the general reserve should not be lower than 1.5% of the ending balance of the risky capital.

5.31 Retained Earnings

Item	2014	2013
Balance, beginning of year	2,551,281,243.85	1,598,021,122.20
Add: Net profit	2,925,010,858.30	2,585,147,534.01
Less: Appropriation to statutory surplus reserve	290,957,391.18	257,159,188.77
Appropriation to general reserve	1,900,508.31	803,852,257.95
Cash dividends	760,193,920.02	570,875,965.64
Balance, end of year	4,423,240,282.64	2,551,281,243.85

In accordance with the resolution of the general meeting of shareholders, the Bank distributed cash dividends of RMB 760,193,920.02 from profit in 2013 to shareholders.

5.32 Operating Income

(1) Net interest income

Item	2014	2013
Interest income:		
Due from banks and other financial institutions	1,229,272,614.80	40,473,076.48
Deposits with central bank	362,264,816.57	860,308,117.95
Placements with banks and non-bank financial institutions	76,713,210.16	350,020,405.42
Loans and advances to customers	3,172,039,768.30	2,394,855,768.81
Discounted bills	1,116,472,405.27	851,937,210.16
Bond investments	1,657,715,136.56	1,997,748,675.73
Receivable-type investments	2,947,947,760.74	1,228,889,400.85
Financial assets held under resale agreements	1,102,329,776.76	694,438,616.85
Interest income on bonds held for trading	139,088,412.99	175,996,203.63

Continued

Item	2014	2013
Subtotal	11,803,843,902.15	8,594,667,475.88
Interest expenses:		
Due to banks and other financial institutions	2,868,376,747.84	1,285,725,047.15
Due to central bank	1,479,729.18	823,541.67
Placements from banks and other financial institutions	56,380,271.28	8,182,152.79
Deposits from customers	2,369,646,177.79	2,341,447,357.39
Financial assets sold under repurchase agreements	292,318,438.99	330,957,533.81
Total	5,588,201,365.08	3,967,135,632.81
Net interest income	6,215,642,537.07	4,627,531,843.07

(2) Net Fee and Commission Income

Category	2014	2013
Fee and commission income		
Settlement fee	21,586,197.13	20,154,011.49
Agency service fee	87,534,338.36	350,148,273.69
Bank card fees	21,004,858.88	17,161,335.95
Foreign exchange settlement fee	492,019,014.80	484,855,171.87
Guarantee business fee	2,581,016.67	633,244.00
Other business commission	50,556,905.59	31,710,278.33
Management fee from wealth management business	40,179,269.91	242,007.46
Subtotal	715,461,601.34	904,904,322.79
Fee and commission expenses		
Settlement commission	1,521,341.97	1,271,107.81
Agency service commission	46,307,646.16	37,834,189.81
Other business commission	18,405,903.77	16,525,159.15
Agency commission	1,913,544.39	3,762,020.59
Subtotal	68,148,436.29	59,392,477.36
Fee and commission income	647,313,165.05	845,511,845.43

(3) Investment Gain/ (Loss)

Item	2014	2013
Gains from financial assets reported at fair value with fair value changes recorded in current earnings	102,826,382.13	51,631,461.24
Gains from available-for-sale financial assets	36,324,105.73	2,166,728.75
Total	139,150,487.86	53,798,189.99

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

Item	2014	2013
Financial assets reported at fair value with fair value charges recorded in current earnings	185,612,824.80	(181,332,419.05)

(5) Gains on Foreign Exchange

Item	2014	2013
Gain/(loss) on foreign exchange	195,154,152.73	312,213,529.19

(6) Other Operating Income

Item	2014	2013
Rental income	402,000.00	322,000.00
Others	868,820.63	387,355.05
Total	1,270,820.63	709,355.05

5.33 Operating Expenses

(1) Business Tax and Surcharges

Item	2014	2013
Business tax	227,076,868.67	200,032,969.74
Urban maintenance and construction tax	15,817,060.74	13,951,105.82
Educational surcharges	11,351,902.82	10,002,035.08
Others	698,370.31	1,004,561.68
Total	254,944,202.54	224,990,672.32

(2) General Operating and Administrative Expenses

Item	2014	2013
Employee expenses	600,554,608.29	498,401,503.81
Operating tax	370,865,917.05	375,876,482.64
Depreciation of fixed assets	89,353,681.55	71,596,234.48
Amortization of long-term deferred expenses	25,288,925.61	19,823,410.52
Amortization of intangible assets	43,682,770.72	38,079,192.55
Tax and surcharges	5,689,976.86	4,526,502.36
Rental fee and property management fee	194,596,019.85	140,632,109.87
Total	1,330,031,899.93	1,148,935,436.23

(3) Impairment Losses on Assets

Item	2014	2013
Allowance for impairment losses on other receivables	(8,926,166.72)	9,796,521.03
Allowance for impairment losses on due from banks and other financial institutions	33,931,063.58	-
Allowance for impairment losses on placements with banks and other financial institutions	21,522,740.00	-
Allowance for impairment losses on financial assets held under resale agreements	16,144,781.12	-
Allowance for impairment losses on loans	782,008,452.58	1,045,035,582.03
Allowance for impairment losses on available-for-sale financial assets	8,478,609.58	-
Allowance for impairment losses on held-to-maturity investments	6,214,992.82	-
Allowance for impairment losses on investments classified as receivables	1,478,121,763.25	122,223,700.00
Allowance for losses due to valuation decline of repossessed assets	(12,500,000.00)	53,095,398.78
Total	2,324,996,236.21	1,230,151,201.84

5.34 Non-operating Income

Item	2014	2013
Gains on disposal of non-current assets	29,017.53	-
Including: Gains on disposal of fixed assets	29,017.53	-
Income from settlement fines	153,431.20	-
Government grants	11,405,325.09	14,178,344.20
Others	11,844,791.06	69,212.14
Total	23,432,564.88	14,247,556.34

5.35 Non-operating Expenses

Item	2014	2013
Losses on disposal of non-current assets	130,501.55	-
Including: Losses on disposal of fixed assets	130,501.55	-
Donation expenses	-	6,008,250.00
Penalties and overdue fines	274,757.70	107.17
Others	69,199.17	2,438.23
Total	474,458.42	6,010,795.40

5.36 Income Tax Expenses

Item	2014	2013
Current income tax expenses	864,824,734.57	649,664,463.23
Deferred income tax expenses	(305,025,373.98)	(179,509,945.88)
Total	559,799,360.59	470,154,517.35

5.37 Earnings per Share

(1) Earnings per Share

Item	2014		2013	
	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
Net profit attributable to common shareholders of the company	0.40	0.40	0.38	0.38

(2) Return on Equity

Item	2014	2013
	Return on weighted average equity (%)	
Net profit attributable to common shareholders of the company	15.09	16.24

5.38 Capital Adequacy Ratio

The Bank reported the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio by December 31, 2014 in accordance with the requirement of *Regulation about Capital in Commercial Bank* and its subsequent revision issued by CBRC.

Item	December 31, 2014
Core tier 1 capital adequacy ratio (BIII) (%)	11.06%
Tier 1 capital adequacy ratio (BIII) (%)	11.06%
Capital adequacy ratio (BIII) (%)	12.21%

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 December 31, 2013:

Item	December 31, 2014	December 31, 2013
Core capital adequacy ratio (%)	13.60%	13.57%
Capital adequacy ratio (%)	13.60%	13.56%

5.39 Other Comprehensive Income

Item	2014	2013
1. Gain/(loss) on available-for-sale financial assets	(55,518,086.48)	(1,216,159,254.00)
Less: Income tax arising from current available-for-sale financial assets	174,096,175.13	(178,514,701.21)
Net amount transferred to current gains or losses from other comprehensive income in the prior period	(1,216,159,254.00)	(26,061,245.90)
Subtotal	986,544,992.39	(1,011,583,306.89)
2. Others	-	-
Total	986,544,992.39	(1,011,583,306.89)

5.40 Notes to the Statement of Cash Flows

(1) Cash Received from Other Operating Activities

Item	2014	2013
Advance received to be transferred	19,780,151.52	3,612,980,335.13
Government grants	11,405,325.09	14,178,344.20
Rental income	402,000.00	322,000.00
Others	35,056,620.83	69,212.14
Total	66,644,097.44	3,627,549,891.47

(2) Other Cash Payments Related to Operating Activities

Item	2014	2013
Payment for clearing and settlement	1,970,660,954.41	315,862.08
Operating expenses and gain/(loss) on foreign exchange	565,461,936.90	204,095,529.65
Others	129,717,896.91	6,108,903.18
Total	2,665,840,788.22	210,520,294.91

5.41 Supplementary Information for the Statement of Cash Flows

(1) Net Profit Adjusted to Operating Cash Flows

Item	2014	2013
Net profit belonging to parent company's shareholders	2,925,010,858.30	2,585,147,534.01
Net profit attributable to non-controlling interests	12,070,983.54	7,109,211.67
Net profit (losses denoted by "()")	2,937,081,841.84	2,592,256,745.68
Add: Allowance for impairment losses on assets	2,324,996,236.21	1,230,151,201.84
Depreciation of fixed assets	90,096,621.55	71,596,234.48
Amortization of intangible assets	43,682,770.72	38,079,192.55
Amortization of long-term deferred expenses	25,288,925.61	19,823,410.52
Losses on disposal of fixed assets, intangible assets and other long-term assets	101,484.02	-
Losses on changes of fair value	(185,612,824.80)	181,332,419.05
Losses arising from investments	(4,744,813,385.16)	(3,456,432,470.20)
Decrease in deferred income tax assets	(305,025,373.98)	(179,509,945.88)
Increase in deferred income tax liabilities	-	-
Decrease in loans and advances to customers	(10,028,526,518.84)	(21,704,773,211.67)
Increase in customer deposits and deposits with banks and non-bank financial institutions	(17,322,442,150.99)	25,595,576,393.97
Net increase in placements with banks and non-bank financial institutions	6,278,937,781.81	(20,592,619,795.47)
Decrease in operating receivables	12,136,267,368.97	(18,209,080,455.02)
Increase in operating payables	32,984,753,027.26	44,453,759,537.56
Decrease in other operating assets	32,068,930.00	(75,766,321.53)
Increase in other operating liabilities	(112,376,318.99)	910,965,734.39
Net cash flow from operating activities	24,154,478,415.23	10,875,358,670.27

(2) Cash and Cash Equivalents

Item	2014	2013
1. Cash	59,662,364,715.88	51,767,390,204.64
Including: Cash in hand	376,108,365.30	318,633,384.72
Unrestricted balances with central bank	5,501,836,972.43	8,594,675,297.46
Balances with banks maturing within three months	53,235,467,378.15	42,854,081,522.46
Placements with banks and other financial institutions due within 3 months	548,952,000.00	-
2. Cash equivalents	5,772,058,464.99	529,650,000.00
Including: Securities held under resale agreements due within 3 months upon acquisition	5,772,058,464.99	529,650,000.00
3. Ending balance of cash and cash equivalents	65,434,423,180.87	52,297,040,204.64

5.42 Operating Segments

The Bank's businesses mainly include the following four segments:

Corporate banking business refers to all the RMB-related service provided to corporate clients, including deposits, loans, and RMB intermediate businesses, etc.

Personal banking business refers to RMB-related service provided to individual clients, including deposits, personal loans, and settlement businesses.

Fund business refers to RMB-related bond investments, repurchase and resale etc.

Other business refers to all corporate business, personal business and fund business related to foreign currencies.

(1) Business Segments in 2014

Item	Corporate banking business	Personal banking business	Fund business	Other business	Total
1. Net interest income	4,138,539,202.27	254,752,085.28	1,822,351,249.52	-	6,215,642,537.07
Fee and net commission income	612,244,159.78	(5,066,902.48)	40,135,907.75	-	647,313,165.05
Investment return	-	-	139,150,487.86	-	139,150,487.86
Gain/(loss) from fair value changes	-	-	185,612,824.80	-	185,612,824.80
Gains on foreign exchange	195,154,152.73	-	-	-	195,154,152.73
Other operating income/ expense	-	-	-	1,022,267.14	1,022,267.14
Business tax and surcharges	241,492,161.03	13,391,284.09	-	60,757.42	254,944,202.54
General operating and administrative expenses	697,632,676.91	82,388,056.68	547,420,621.68	2,590,544.66	1,330,031,899.93
Impairment losses on assets	709,902,112.89	50,680,172.97	1,564,413,950.35	-	2,324,996,236.21
2. Operating profit	3,296,910,563.95	103,225,669.06	75,415,897.90	(1,629,034.94)	3,473,923,095.97
Non-operating income	-	-	-	23,432,564.88	23,432,564.88
Non-operating expenses	-	-	-	474,458.42	474,458.42
3. Income	3,296,910,563.95	103,225,669.06	75,415,897.90	21,329,071.52	3,496,881,202.43
Income tax	527,786,996.11	16,524,914.69	12,072,978.46	3,414,471.33	559,799,360.59
4. Net profit	2,769,123,567.84	86,700,754.37	63,342,919.44	17,914,600.19	2,937,081,841.84

(2) Business Segments in 2013

Item	Corporate banking business	Personal banking business	Fund business	Other business	Total
1. Net interest income	2,234,655,897.78	396,224,692.59	1,996,651,252.70	-	4,627,531,843.07
Fee and net commission income	866,184,699.29	(20,672,853.86)	-	-	845,511,845.43
Investment return	-	-	53,798,189.99	-	53,798,189.99
Gain/(loss) from fair value changes	-	-	(181,332,419.05)	-	(181,332,419.05)
Gains on foreign exchange	312,213,529.19	-	-	-	312,213,529.19
Other operating income/expense	-	-	-	528,823.85	528,823.85
Business tax and surcharges	125,931,103.66	12,266,770.82	86,441,099.41	351,698.43	224,990,672.32
General operating and administrative expenses	643,078,693.13	62,641,386.58	441,419,376.34	1,795,980.18	1,148,935,436.23
Impairment losses on assets	1,072,143,741.99	35,783,759.85	122,223,700.00	-	1,230,151,201.84
2. Operating profit	1,571,900,587.47	264,859,921.48	1,219,032,847.90	(1,618,854.76)	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
3. Income	1,571,900,587.47	264,859,921.48	1,219,032,847.90	6,617,906.18	3,062,411,263.03
Income tax	241,324,922.93	40,662,431.61	187,151,153.46	1,016,009.35	470,154,517.35
4. Net profit	1,330,575,664.54	224,197,489.87	1,031,881,694.44	5,601,896.83	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 Variation

(In RMB Billion)

Name	December 31, 2013	Increase	Decrease	December 31, 2014
China National Petroleum Corporation	379.86	-	-	379.86

Shareholding Ratio of Parent Company and Its Variation

(In RMB Ten Thousand)

Name	Shareholding amount		Shareholding ratio (%)	
	December 31, 2013	December 31, 2014	December 31, 2013	December 31, 2014
China National Petroleum Corporation	569,014.16	569,014.16	77.10	77.10

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

By December 31, 2014, there was no shareholder who held voting shares of more than 5% (including 5%) voting shares, except the Bank's parent company.

6.2 Information of the Subsidiaries

See Note 4.1.

6.3 Directors, Supervisors and Senior Management of the Bank

6.4 Other Related Party Relationship

Name of the company	Relationship
Petro China 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
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
Petro China 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
Petro China 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

Continued

Name of the company	Relationship
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 Related Parties

(In RMB Ten Thousand)

Name of the company	Interest expenses in 2014	Interest expenses in 2013
Petro China Company Limited	11,070.34	22,029.67
China National Petroleum Corporation	72,346.72	93,221.95
Other subsidiaries of the parent company	34,961.29	34,070.02

6.6 Interest Charged from Related Parties

(In RMB Ten Thousand)

Name of the company	Interest income in 2014	Interest income in 2013
Other subsidiaries of the parent company	7,829.44	24,894.57

6.7 Rent Paid to Related Parties

(In RMB Ten Thousand)

Name of the company	Rent expenses in 2014	Rent expenses in 2013
Other subsidiaries of the parent company	7,801.56	4,250.34

6.8 Balance of the Related Party

(In RMB Ten Thousand)

Name of the company	Account name	Balance, end of year	Balance, beginning of year
Petro China Company Limited	Deposits from customers and Due to banks and other financial institutions	680,725.64	304,038.10
	Interest payable	4,495.57	3,695.65
China National Petroleum Corporation	Deposits from customers and Due to banks and other financial institutions	2,241,068.42	4,433,866.69
	Interest payable	20,650.40	58,871.13
Other subsidiaries of the parent company	Loans and advances to customers	60,000.00	231,900.00
	Due from banks and other financial institutions	257,366.18	322,255.26
	Deposits from customers and Due to banks and other financial institutions	1,041,788.30	1,976,556.09

Continued

Name of the company	Account name	Balance, end of year	Balance, beginning of year
	Other accounts payable	2,447.12	7,002.80
	Interest payable	9,589.92	14,086.88
	Interest receivable	103.60	1,095.18

6.9 Entrusted Deposits and Loans of Related Parties

(In RMB Ten Thousand)

Name of the company	Balance, end of year	Balance, end of prior year
China National Petroleum Corporation	6,035,548.00	7,396,424.00
Petro China Company Limited	2,808,047.93	3,279,398.75
Other subsidiaries of the parent company	-	100,000.00

6.10 Guarantee Service

(In RMB Ten Thousand)

Name of the company	Balance, end of year	Balance, end of prior year
Other subsidiaries of the parent company	253,393.43	267,267.79
Non-related enterprises whose guarantor is CNPC	-	42.09

6.11 Commission Income

(In RMB Ten Thousand)

Name of the company	Account	Commission income in 2014	Commission income in 2013
China National Petroleum Corporation	Entrusted loan business income	6,624.43	33,436.18

7. Contingencies, Commitments and Main Off-balance-sheet Events

7.1 Contingencies about Contentious Matters

By December 31, 2014, as the plaintiff, the Bank still had 15 pending litigations, which involved an amount of RMB 584.443 million. As the defendant, the Bank still had 2 pending litigations, which involved an amount of RMB 106.884 million.

7.2 Commitments

(1) Capital Commitments

(In RMB Ten Thousand)

Item	December 31, 2014	December 31, 2013
Contracted but not paid	4,033.54	5,267.70

The above capital commitments are capital expenditure commitments to building business offices, purchasing facilities, and developing systems, etc.

(2) Operating Lease Commitments

By the end of each year, the minimum lease payments according to irrevocable lease agreements (leasing business venues, office buildings, and others) are listed as follows:

Item	December 31, 2014	December 31, 2013
Within 1 year	145,664,653.78	149,700,422.15
1 to 2 years	33,629,046.16	27,167,904.59
2 to 3 years	29,510,199.37	20,928,216.87
3 to 4 years	23,390,908.55	16,563,176.80
4 to 5 years	19,231,353.96	14,240,950.63
More than 5 years	49,275,845.66	33,891,125.77
Total	300,702,007.48	262,491,796.81

(3) Commitments on Collateral Securities

Some of the Bank's bonds are used as collateral in businesses such as interbank repurchase transactions. The relevant balances on the balance sheet date are presented as follows:

Item	December 31, 2014	December 31, 2013
Held-to-maturity investments	1,320,000,000.00	-
Including: Financial bonds	-	-
Corporate bonds	1,320,000,000.00	-
Available-for-sale financial assets	-	481,893,880.00
Including: Financial bonds	-	481,893,880.00
Corporate bonds	-	-
Total	1,320,000,000.00	481,893,880.00

7.3 Main Off-balance Sheet Items about Contingent Risks

Item	December 2014		
	Amount	Amount of guarantee	Guarantee ratio (%)
Banker's acceptance bills	8,207,018,185.16	2,875,008,788.19	35.03
Letters of guarantee	4,861,342,751.88	930,779,226.43	19.15

Item	December 2013		
	Amount	Amount of guarantee	Guarantee ratio (%)
Banker's acceptance bills	3,420,800,397.79	950,293,384.90	27.78
Letters of guarantee	5,079,735,868.55	1,112,639,288.45	21.90

Issuance of banker's acceptance bills 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 letters 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 Events of Balance Sheet

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 reported at fair value with fair value changes recorded in current earnings, 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, placements with banks and other financial institutions, due from banks and other financial institutions, receivable-type investments, other receivables, but also the provision of credit, guarantees or other commitments.

The Board of Directors is the highest decision making body of the Bank's risk management, responsible for determining the overall risk appetite, risk tolerance, and risk control of the Bank; 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 and Internal Control Committee and Asset-Liability 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 responsibility of each internal department monitoring financial risk is specified by the Bank: Risk and Compliance Management Department and Credit Management Department are responsible for monitoring the credit risk; Risk and Compliance Management Department and the Asset and Liability Management Department are responsible for monitoring market risk and liquidity risk; Risk and Compliance Management Department, Channel Operation Department and other departments are responsible for monitoring operational risk. Risk and Compliance 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 and Internal Control 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 loss 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:

A. 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.

B. 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 authorizing, loan review and approval, loan and credit monitoring. The credit control procedures 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.

C. 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 relatively low risk of loss. 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.

D. 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.

E. In the portfolio management, 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 loss, 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 and Inter-Bank Investments

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

RMB 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.

Inter-bank investments include investment to financial products provided by other banks, such as asset management products, trust products, wealth management products and other non-standardized financial claim investments.

(2) Management of Risk Quotes and Mitigation Measures

The Bank analyzes current and potential clients' ability to repay 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 including personal business, corporate business, indirect syndication and credit assets bought from other banks.

Personal Business

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

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

Corporate Business

Corporate credit business consists of all kinds 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.

With the guidance of the Risk Management Committee and under the unified credit authorization of the Credit Operation Department, the Bank carried out product marketing and business activities in accordance with the variety of credit products, business characteristics and risk control; 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 in the process of each credit activity involving such steps 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.

Syndicated Loans or Credit Assets Bought from Other Banks

Syndicated loan refers to 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 who is 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 refer to the 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 Credit Review Committee. The Bank grants credit to borrowers independent of the leading bank or transferring bank. The limit of the transferred credit assets must 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 limit, 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 requires the borrowers 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 access 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 that clients can 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, such as the guarantee, mortgage or pledge, overdue period. The classification of the credit assets is initiated and proposed by customer manager of business departments, meanwhile, the authorized personnel approves the classification. The Bank usually classifies the credit assets and revises their classification on a monthly basis 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 according to 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 there is objective evidence shows that the future cash flows of the loan are anticipated 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:

Default or delinquency on the interest or principal;

The borrower undergoing financial difficulty (for example, deterioration of indicators such as debt to equity ratio and net profit margin);

A breach of the terms of the contract by the debtor;

Events that may result in collapse of the debtor;
Deterioration of the borrower's competitiveness;
The credit rating is decreased below the investment grade.

The Bank reviewed quality of financial assets with individually material amount 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.

Portfolio of asset with individually immaterial amount and with similar credit risk characteristics;
Assets to which losses has occurred but has not yet been identified.

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

Five categories	December 31, 2014		December 31, 2013	
	Loans and Advances	Proportion (%)	Loans and Advances	Proportion (%)
Subtotal of performing loans	72,416,948,392.32	99.11	62,383,616,848.50	98.97
Pass	72,133,256,993.07	98.72	62,365,216,848.50	98.94
Special mention	283,691,399.25	0.39	18,400,000.00	0.03
Subtotal of non-performing loans	646,178,471.27	0.89	650,983,496.25	1.03
Substandard	62,612,952.43	0.09	109,754,788.44	0.17
Doubtful	43,480,897.82	0.06	1,144,086.79	-
Losses	540,084,621.02	0.74	540,084,621.02	0.86
Total	73,063,126,863.59	100.00	63,034,600,344.75	100.00

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

Five categories	December 31, 2014		
	Loans and Advances	Proportion of Provision (%)	Provision amount
Pass	72,133,256,993.07	2.98	2,148,141,997.89
Special mention	283,691,399.25	8.64	24,497,137.84
Substandard	62,612,952.43	53.58	33,550,472.96
Doubtful	43,480,897.82	75.61	32,875,665.63
Loss	540,084,621.02	100.00	540,084,621.02
Subtotal	73,063,126,863.59	3.80	2,779,149,895.34

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

Five categories	December 31, 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
Loss	540,084,621.02	100.00	540,084,621.02
Subtotal	63,034,600,344.75	3.17	1,997,141,442.76

Overdue and impaired loans and advances:

Item	December 31, 2014	December 31, 2013
Neither overdue nor impaired	72,231,724,418.66	62,383,616,848.50
Overdue but not impaired	185,223,973.66	1,089,074.61
Impaired	646,178,471.27	649,894,421.64
Less: Allowance for impairment losses	2,779,149,895.34	1,997,141,442.76
Net amount	70,283,976,968.25	61,037,458,901.99

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

Item	December 31, 2014		
	Corporate loans	Personal loans	Total
Pass	68,322,972,903.65	3,775,341,515.01	72,098,314,418.66
Special mention	127,110,000.00	6,300,000.00	133,410,000.00
Substandard	-	-	-
Doubtful	-	-	-
Loss	-	-	-
Total	68,450,082,903.65	3,781,641,515.01	72,231,724,418.66
Less: Allowance for impairment losses	2,041,301,878.50	112,048,076.45	2,153,349,954.95
Net amount	66,408,781,025.15	3,669,593,438.56	70,078,374,463.71

Item	December 31, 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	-	-	-
Loss	-	-	-
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

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

Item	December 31, 2014		
	Corporate loans	Personal loans	Total
Overdue for 1-90 days (including 90 days)	140,024,189.47	7,319,784.19	147,343,973.66
Overdue for 90-360 days (including 360 days)	37,880,000.00	-	37,880,000.00
Overdue for 360 days to 3 years (including 3 years)	-	-	-
Overdue over 3 years	-	-	-
Total	177,904,189.47	7,319,784.19	185,223,973.66
Allowance for impairment losses	19,073,143.54	216,037.24	19,289,180.78
Net amount	158,831,045.93	7,103,746.95	165,934,792.88

Item	December 31, 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

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

Security	December 31, 2014	December 31, 2013
Credit loans	-	-
Guarantee loans	571,664,738.30	632,055,170.71
Mortgaged loans	23,218,991.97	-
Pledged loans	51,294,741.00	17,839,250.93
Total	646,178,471.27	649,894,421.64
Less: Allowance for impairment losses	606,510,759.61	573,078,726.11
Net amount	39,667,711.66	76,815,695.53

(C) Concentration of Credit Risk of Credit Assets

If the borrowers or counterparties are concentrated in a certain industry or region, or share certain common economic characteristics, credit risk often increases.

(D) 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 December 31, 2014. For balance sheet items, the risk exposure of assets is the carrying value at the balance sheet date.

Item	December 31, 2014	December 31, 2013
Exposure to credit risk of balance sheet item includes:		
Due from banks and other financial institutions	67,717,916,027.32	66,388,475,505.01
Placements with banks and other financial institutions	839,429,260.00	868,900,000.00
Financial assets reported at fair value with fair value changes recorded in current earnings	6,434,424,859.99	5,456,600,520.00
Financial assets held under resale agreements	23,680,577,206.72	11,204,937,500.00
Loans and advances to customers	70,283,976,968.25	61,037,458,901.99
Available-for-sale financial assets	16,952,123,025.39	24,772,653,819.98
Held-to-maturity investments	12,423,477,713.43	17,614,191,312.12
Receivable-type investments	52,662,093,734.93	24,770,528,711.69
Interest receivable	1,372,105,830.26	1,838,651,336.51
Others	54,052,423.47	27,759,355.80
Subtotal	252,420,177,049.76	213,980,156,963.10
Off-balance-sheet credit commitments exposure includes:		
Letter of credit	-	-
Bank acceptance bill	8,207,018,185.16	3,420,800,397.79
Letter of guarantee	4,861,342,751.88	5,079,735,868.55
Subtotal	13,068,360,937.04	8,500,536,266.34
Total	265,488,537,986.80	222,480,693,229.44

(E) Investment Bonds

The following table shows the distribution of credit rating of the bonds held by the Bank assessed by external rating agencies on December 31, 2014.

Long-term debt in RMB (Repayment period of one year or above):	Financial assets reported at fair value with fair value changes recorded in current earnings	Available-for-sale financial assets	Held-to-maturity investments
AAA	967,557,370.00	8,797,404,298.43	9,348,415,782.04
AA- to AA+	518,687,420.00	4,002,151,546.49	310,492,606.13
Not rated	-	268,492,662.07	175,228,320.21
Treasury bonds	251,611,500.00	30,178,313.14	50,028,899.09
Central bank bills	-	-	-
Financial bonds from policy banks	1,135,983,050.00	3,784,025,443.39	2,589,611,855.96
Other financial bonds	-	-	-
Subtotal	2,873,839,340.00	16,882,252,263.52	12,473,777,463.43
Short-term debt in RMB (Overdue within one year):	Financial assets reported at fair value with fair value changes recorded in current earnings	Available-for-sale financial assets	Held-to-maturity investments
A-1 (Short-term financing bills)	79,694,529.99	-	-
AAA	-	-	-
AA- to AA+	-	-	-

Continued

Long-term debt in RMB (Repayment period of one year or above):	Financial assets reported at fair value with fair value changes recorded in current earnings	Available-for-sale financial assets	Held-to-maturity investments
Not rated	-	-	-
Treasury bonds	-	-	-
Central bank bills	-	-	-
Financial bonds from policy banks	830,519,490.00	100,064,141.87	-
Other financial bonds	-	-	-
Subtotal	910,214,019.99	100,064,141.87	-
Total	3,784,053,359.99	16,982,316,405.39	12,473,777,463.43

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

Short-term debt in RMB (Repayment period of one year or above):	Financial assets reported at fair value with fair value changes recorded in current earnings	Available-for-sale financial assets	Held-to-maturity investments
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 bonds	-	-	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

Short-term debt in RMB (Overdue within one year):	Financial assets reported at fair value with fair value changes recorded in current earnings	Available-for-sale financial assets	Held-to-maturity investments
A-1 (Short-term financing bills)	-	49,903,450.00	109,869,812.39
AAA	-	-	-
AA- to AA+	-	-	-
Not rated	-	-	-
Treasury bonds	-	-	-
Central bank bills	-	-	-
Financial bonds from policy banks	-	149,028,300.00	209,819,356.48
Other financial bonds	-	-	-
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

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 on December 31, 2014

The following table shows the analysis of the Bank's assets and liabilities classified by their period to maturity on 2014 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	-	5,925,707,337.73	-	-	-	18,494,724,851.46	24,420,432,189.19
Due from banks and other financial institutions	-	41,386,560,366.32	18,051,299,785.00	8,280,055,876.00	-	-	67,717,916,027.32
Placements with banks and other financial institutions	-	-	535,229,260.00	-	304,200,000.00	-	839,429,260.00
Financial assets reported at fair value with fair value changes recorded in current earnings	-	-	662,314,719.99	3,359,025,430.00	2,289,225,890.00	375,470,320.00	6,686,036,359.99
Financial assets held under resale agreements	-	-	11,062,939,140.01	12,617,638,066.71	-	-	23,680,577,206.72
Interest receivable	385,860.50	287,714,993.53	325,491,282.98	337,178,287.28	278,055,062.08	144,068,398.68	1,372,893,885.05
Loans and advances to customers	155,640,896.80	-	7,813,951,187.83	39,659,855,357.56	11,015,495,090.13	11,639,034,435.93	70,283,976,968.25
Available-for-sale financial assets	-	-	588,102,103.48	2,114,891,581.95	10,904,891,032.36	3,374,431,687.60	16,982,316,405.39
Held-to-maturity investments	-	-	1,730,375,338.84	2,989,422,841.76	6,402,617,246.92	1,351,362,035.91	12,473,777,463.43
Receivable-type investments	-	-	2,139,284,820.10	24,794,019,344.33	25,728,789,570.50	-	52,662,093,734.93
Fixed assets	-	-	-	-	-	268,845,284.66	268,845,284.66
Constructions in progress	-	-	-	-	-	93,685,585.51	93,685,585.51
Intangible assets	-	-	-	-	-	96,711,265.49	96,711,265.49
Deferred income tax assets	-	-	-	-	580,208,804.80	-	580,208,804.80
Other assets	-	-	64,992,482.70	1,038,767.32	74,157,220.83	-	140,188,470.85
Total assets	156,026,757.30	47,599,982,697.58	42,973,980,120.93	94,153,125,552.91	57,577,639,917.62	35,838,333,865.24	278,299,088,911.58
Liability items:							
Borrowings from the central bank	-	-	-	25,000,000.00	-	-	25,000,000.00
Due to banks and non-bank financial institutions	-	45,216,969,350.95	32,192,611,600.00	46,751,616,000.00	97,279,513.85	-	124,258,476,464.80

Continued

Item	Overdue	Repayable on demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Placements from banks and non-bank financial institutions	-	-	1,600,000,000.00	-	-	-	1,600,000,000.00
Financial assets sold under repurchase agreements	-	-	12,128,119,358.92	706,033,543.28	-	-	12,834,152,902.20
Deposits from customers	-	58,575,073,160.97	10,777,914,382.56	31,363,652,839.00	12,386,185,065.52	1,385.00	113,102,826,833.05
Payables to employees	-	6,092,449.73	-	-	-	-	6,092,449.73
Taxes payable	-	486,531,856.72	-	-	-	-	486,531,856.72
Interest payable	-	300,152,539.57	393,212,357.47	724,716,541.11	723,162,694.29	1,385.00	2,141,245,517.44
Deferred income tax liabilities	-	-	-	-	-	-	-
Other liabilities	-	3,229,056,369.08	4,649,774.69	123,253.65	-	-	3,233,829,397.42
Total liabilities	-	107,813,875,727.02	57,096,507,473.64	79,571,142,177.04	13,206,627,273.66	2,770.00	257,688,155,421.36
Net liquidity	156,026,757.30	(60,213,893,029.44)	(14,122,527,352.71)	14,581,983,375.87	44,371,012,643.96	35,838,331,095.24	20,610,933,490.22

(2) Maturity Analysis of the Assets and Liabilities as on December 31, 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
Due from banks and other 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 other financial institutions	-	-	18,900,000.00	10,000,000.00	840,000,000.00	-	868,900,000.00
Financial assets reported at fair value with fair value changes recorded in current earnings	-	-	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
Receivable-type 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
Constructions 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							

Continued

Item	Overdue	Repayable on demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Borrowings from the central bank	-	-	20,000,000.00	25,000,000.00	-	-	45,000,000.00
Due to banks and other 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 other financial institutions	-	-	-	-	-	-	-
Financial assets sold under repurchase agreements	-	-	1,264,497,937.54	198,241,160.00	-	-	1,462,739,097.54
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
Payables to employees	-	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

(3) Maturity Analysis of Off-balance Sheet Credit Commitments at the end of the Year

December 31, 2014	Overdue	Repayable on demand	With in 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Bank acceptance bill	52,796,277.63	-	3,497,450,066.25	4,656,771,841.28	-	-	8,207,018,185.16
Letter of guarantee	1,522,364,647.38	-	1,670,467,252.67	1,088,324,628.60	573,502,576.05	6,683,647.18	4,861,342,751.88
Total	1,575,160,925.01	-	5,167,917,318.92	5,745,096,469.88	573,502,576.05	6,683,647.18	13,088,360,937.04

December 31, 2013	Overdue	Repayable on demand	With in 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
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

(4) Analysis of Financial Assets and Liabilities of the Bank

The following tables are the structural analysis of financial assets and financial liabilities by cash flow time to maturity on balance sheet date, period to maturity refers to the balance sheet date to the provisions of the contract expiry date. The amounts disclosed in each item are the undiscounted cash flows.

Contractual cash flow analysis at the end of 2014

Item	Overdue	Repayable on demand	With in 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Financial assets:							
Cash and deposits with central bank	-	5,926,857,888.85	74,451,982.10	223,355,946.29	1,191,231,713.54	18,494,724,851.46	25,910,622,382.24
Due from banks and other financial institutions	-	41,411,561,687.39	18,079,073,175.16	8,349,088,759.10	-	-	67,839,723,621.65
Placements with banks and other financial institutions	-	-	550,039,732.11	-	340,493,633.33	-	890,533,365.44
Financial assets reported at fair value with fair value changes recorded in current earnings							
Financial assets held under resale agreements	-	-	11,106,813,603.22	12,675,171,434.00	-	-	23,781,985,037.22
Loans and advances to customers	357,378,118.90	-	8,637,302,434.53	41,375,348,886.02	15,109,672,195.75	17,625,937,067.02	83,105,638,702.22
Available-for-sale financial assets	-	-	851,680,220.00	2,703,907,080.00	12,822,866,200.00	3,796,210,300.00	20,174,663,800.00
Held-to-maturity investments	-	-	2,005,180,000.00	3,299,584,750.00	7,077,426,000.00	1,477,863,000.00	13,860,053,750.00
Receivable-type investments	-	-	2,496,175,000.00	29,071,826,750.00	28,476,894,000.00	32,136,000.00	60,077,031,750.00
Total financial assets	357,378,118.90	47,338,419,576.24	44,500,014,709.76	101,271,172,328.66	67,604,663,742.62	41,811,675,218.48	302,883,323,694.66
Financial liabilities:							
Borrowings from the central bank	-	-	-	25,846,805.56	-	-	25,846,805.56
Due to banks and other financial institutions	-	45,220,811,528.26	32,402,500,000.37	48,262,068,879.24	107,960,628.44	-	125,993,341,036.31
Placements from banks and other financial institutions	-	-	1,603,231,666.67	-	-	-	1,603,231,666.67
Financial assets sold under repurchase agreements	-	-	12,189,836,544.36	709,635,880.00	-	-	12,899,472,424.36
Deposits from customers	-	58,613,072,622.94	10,991,730,945.34	32,678,414,233.51	14,590,682,934.33	1,825.63	116,873,902,561.75
Total financial liabilities	-	103,833,884,151.20	57,187,299,156.74	81,675,965,798.31	14,698,643,562.77	1,825.63	257,395,794,494.65

Contractual cash flow analysis at the end of 2013

Item	Overdue	Repayable on demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Financial assets:							
Cash and deposits with central bank	-	8,935,585,407.42	90,709,677.46	272,129,032.38	1,451,354,839.35	22,397,451,224.65	33,147,230,181.26
Due from banks and other financial institutions	-	24,447,250,398.08	27,589,337,799.87	13,896,515,182.50	1,948,789,444.44	-	67,881,892,824.89
Placements with banks and other financial institutions	-	-	22,435,481.25	11,964,156.25	990,113,133.33	-	1,024,512,770.83
Financial assets reported at fair value with fair value changes recorded in current earnings	-	-	162,307,933.34	1,013,980,166.66	3,963,640,000.00	1,919,071,000.00	7,058,999,100.00
Financial assets held under resale agreements	-	-	3,093,086,096.63	2,114,216,500.00	7,192,940,000.00	-	12,400,242,596.63
Loans and advances to customers	157,315,614.83	-	8,486,243,168.29	38,190,874,843.95	15,258,977,198.05	10,617,468,336.11	72,710,879,161.23
Available-for-sale financial assets	-	-	1,003,580,270.00	2,598,714,330.00	21,406,238,400.00	6,148,888,200.00	31,157,421,200.00
Held-to-maturity investments	-	-	3,309,796,000.00	2,974,471,750.00	12,271,167,750.00	1,395,628,000.00	19,951,063,500.00
Receivable-type investments	-	-	992,886,773.90	13,072,070,800.00	13,783,460,000.00	-	27,848,417,573.90
Total financial assets	157,315,614.83	33,382,835,805.50	44,750,383,200.74	74,144,936,761.74	78,266,680,765.17	42,478,506,760.76	273,180,658,908.74
Financial liabilities:							
Borrowings from the central bank	-	-	20,150,805.56	25,849,131.94	-	-	45,999,937.50
Due to other banks other financial institutions	-	45,757,149,678.10	12,405,283,643.23	20,538,504,344.68	13,227,644,000.00	-	91,928,581,666.01
Placements from banks and other financial institutions	-	-	-	-	-	-	-
Financial assets sold under repurchase agreements	-	-	1,275,584,372.74	201,416,091.56	-	-	1,477,000,464.30
Deposits from customers	-	85,020,322,470.36	12,564,177,629.13	15,569,720,400.13	20,466,881,392.58	63,785,004.53	133,684,886,896.73
Total financial liabilities	-	130,777,472,148.46	26,265,196,450.66	36,335,489,968.31	33,694,525,392.58	63,785,004.53	227,136,468,964.54

9.3 Market Risks

Market risks are risks resulting from adverse movements in market prices including interest rates, foreign exchange rates, commodity prices, and stock prices, which can result in losses in the on-balance sheet and off-balance sheet activities. Market risks 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. The 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 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 re-pricing 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 Value at Risk measurement, sensitivity analysis, repricing 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 time horizon, relatively to a given confidence interval, due to changes in market interest rates, exchange rates or price. The Selecting 250 days of historical market data on a daily basis, the Bank adopts the historical simulation method to monitor Value at Risk for the trading portfolio and exchange rate exposure (confidence interval is 99%, and the holding period is 1 day).

Up to December 31, 2014, the market risks that the Bank faces include interest rate risk and exchange rate risk. 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 2014, the VaR of trading account RMB bonds calculated under the historical simulation method is RMB 6.47 million, that is to say, the maximum losses that may arise in the trading account RMB bonds in the next day will be RMB 6.47 million; the value of exchange rate risk (VaR) is RMB 8.50 million, and the maximum possible exchange losses of foreign exchange positions of the next day will be RMB 8.50 million.

(2) Exchange Rate Risk

In 2014, the scale of the international operations 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.

In 2014, the exchange rate of RMB to USD, EUR and other major currencies became more and more volatile. Specifically the RMB to EUR exchange rate experienced a substantial decline. As a result, the financial condition and cash flows of the Bank has been affected. 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 re-pricing 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 using VaR.

Due to fluctuations in market interest rate, the Bank's interest spread may 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, RMB lending rate is floating up and down around the benchmark interest rate. The discount rate of RMB bills is determined by the market, but cannot be lower than the rediscount rate quoted by the central bank. RMB 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 Thousand)

Item	2014		
	Sensitivity of net interest income	Sensitivity of equity	The proportion of net change in net capital (%)
An increase of 200 basis points	4,631.34	(143,163.96)	(7.02)

(In RMB Ten Thousand)

Item	2013		
	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)

Of which impact of changes in interest rates on the trading accounts:

(In RMB Ten Thousand)

Item	2014		
	Sensitivity of net interest income	Sensitivity of equity	The proportion of net change in net capital (%)
An increase of 200 basis points	1,342.00	(14,719.38)	(0.65)

(In RMB Ten Thousand)

Item	2013		
	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)

A. 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 repricing 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 repricing date or the maturity date of assets and liabilities as on December 31, 2014:

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	5,613,356,368.08	-	-	-	18,383,205,455.81	423,870,365.30	24,420,432,189.19
Due from banks and other financial institutions	51,723,820,366.32	7,714,039,785.00	8,280,055,876.00	-	-	-	67,717,916,027.32
Placements with banks and other financial institutions	487,501,060.00	47,728,200.00	-	304,200,000.00	-	-	839,429,260.00
Financial assets reported at fair value with fair value changes recorded in current earnings	21,799,999.99	640,514,720.00	3,359,025,430.00	2,289,225,890.00	375,470,320.00	-	6,686,036,359.99
Financial assets held under resale agreements	8,654,318,717.61	2,408,620,422.40	12,617,638,066.71	-	-	-	23,680,577,206.72
Interest receivable	-	-	-	-	-	1,372,893,885.05	1,372,893,885.05
Loans and advances to customers	2,449,183,659.95	5,364,767,527.89	61,184,879,324.58	658,488,576.00	471,016,983.03	155,640,896.80	70,283,976,968.25
Available-for-sale financial assets	-	588,102,103.48	2,114,891,581.95	10,904,891,032.36	3,374,431,687.60	-	16,982,316,405.39
Held-to-maturity investments	70,001,730.47	1,660,373,608.37	2,989,422,841.76	6,402,617,246.92	1,351,362,035.91	-	12,473,777,463.43
Receivable-type investments	486,201,095.48	1,653,083,724.62	24,794,019,344.33	25,728,789,570.50	-	-	52,662,093,734.93
Fixed assets	-	-	-	-	-	268,845,284.66	268,845,284.66
Constructions in progress	-	-	-	-	-	93,685,585.51	93,685,585.51
Intangible assets	-	-	-	-	-	96,711,265.49	96,711,265.49
Deferred income tax assets	-	-	-	-	-	580,208,804.80	580,208,804.80
Other assets	-	-	-	-	-	140,188,470.85	140,188,470.85
Total assets	69,506,182,997.90	20,077,230,091.76	115,339,932,465.33	46,288,212,315.78	23,955,486,482.35	3,132,044,558.46	278,299,088,911.58
Liability items:							
Borrowings from the central bank	-	-	25,000,000.00	-	-	-	25,000,000.00
Due to banks and other financial institutions	49,335,309,350.95	28,074,271,600.00	46,751,616,000.00	97,279,513.85	-	-	124,258,476,464.80

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
Placements from banks and other financial institutions	1,600,000,000.00	-	-	-	-	-	1,600,000,000.00
Financial assets sold under repurchase agreements	8,405,190,023.93	3,722,929,334.99	706,033,543.28	-	-	-	12,834,152,902.20
Deposits from customers	62,998,529,923.58	6,251,578,561.93	31,363,652,839.00	12,386,185,065.52	1,385.00	102,879,058.02	113,102,826,833.05
Payables to employees	-	-	-	-	-	6,092,449.73	6,092,449.73
Taxes payable	-	-	-	-	-	486,531,856.72	486,531,856.72
Interest payable	-	-	-	-	-	2,141,245,517.44	2,141,245,517.44
Deferred income tax liabilities	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	3,233,829,397.42	3,233,829,397.42
Total liabilities	122,339,029,298.46	38,048,779,496.92	78,846,302,382.28	12,483,464,579.37	1,385.00	5,970,578,279.33	257,688,155,421.36
Interest rate sensitivity gap	(52,832,846,300.56)	(17,971,549,405.16)	36,493,630,083.05	33,804,747,736.41	23,955,485,097.35	(2,838,533,720.87)	20,610,933,490.22

Analysis of interest rate risk exposure classified by the earlier of the contractual repricing date or the maturity date of assets and liabilities as on December 31, 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
Due from banks and other 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 other financial institutions	-	18,900,000.00	10,000,000.00	840,000,000.00	-	-	868,900,000.00
Financial assets reported at fair value with fair value changes recorded in current earnings	-	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
Receivable-type 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
Constructions 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:							
Borrowings from the central bank	-	20,000,000.00	25,000,000.00	-	-	-	45,000,000.00
Due to banks and other 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
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

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
Payables to employees	-	-	-	-	-	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

9.4 Fair Value of Financial Assets and Financial Liabilities

Fair price is the price that market participants will accept when selling an asset or transferring a liability in an orderly transaction on the measurement day. Fair value estimation will be performed based on related information of market and various financial instruments. The valuation of fair price for different kinds of financial instruments is based on the following methods and assumptions:

The Bank measures financial instruments using the following three-level fair value hierarchy. For financial instruments that are not actively traded, the Bank uses valuation techniques or third party quote to determine the fair value.

- Level 1 –Quoted prices in active markets for identical assets or liabilities. This level includes listed securities and some government bonds.
- Level 2 –Valuation techniques using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts, debt securities for which quotations are available from pricing services providers or China Bond (including valuation and settlement prices).
- Level 3 –Valuation techniques using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

(1) Financial Instruments Measured at Fair Value

Analysis of financial instruments using the three-level fair value hierarchy as on December 31, 2014:

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets reported at fair value with fair value changes recorded in current earnings	-	3,784,053,359.99	-	3,784,053,359.99
Including: Bond investments held for trading	-	3,784,053,359.99	-	3,784,053,359.99
Available-for-sale financial assets	-	16,982,316,405.39	-	16,982,316,405.39
Total	-	20,766,369,765.38	-	20,766,369,765.38

Analysis of financial instruments using the three-level fair value hierarchy as on December 31, 2013:

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets reported at fair value with fair value changes recorded in current earnings	-	4,519,323,520.00	-	4,519,323,520.00
Including: Bond investments held for trading	-	4,519,323,520.00	-	4,519,323,520.00
Available-for-sale financial assets	-	24,772,653,819.98	-	24,772,653,819.98
Total	-	29,291,977,339.98	-	29,291,977,339.98

For financial instruments that can be traded on active markets, the company uses the active market quote to determine their fair value. For financial instruments that are not actively traded, the company uses valuation model or third party quote to determine the fair value. Valuation techniques include reference to prices used in recent market trading by the voluntary institutions that are familiar with the instruments, reference to the current fair value or cash flow discount for other financial instruments with the same substance. The relevant valuation assumptions include prepayment rates, expected credit loss rate, interest rates or discount rates. All bonds held by the Bank are traded in national inter-bank bond market and priced by relevant parameters from well-recognized SHIBOR interbank interest rate curve. Therefore, financial instruments measured at fair value by the Bank are all classified as level 2, and there is no financial assets change in level 3 (the same as in 2013).

(2) Financial Instruments not Measured at Fair Value

Item	December 31, 2014			December 31, 2013		
	Carrying amount	Fair value	Category	Carrying amount	Fair value	Category
Held-to-maturity investment	12,473,777,463.43	12,476,173,096.50	Level 2	17,754,952,246.16	17,242,158,570.00	Level 2

Aside from the above items, other financial instruments do not have fair value data due to short maturity or inactive markets.

9.5 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. The fees are 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	December 31, 2014	December 31, 2013
Entrusted deposits	93,616,026,435.97	111,421,885,526.89
Entrusted loans	93,615,949,303.47	111,416,524,394.39

Of which:

See Note 6.9 for entrusted deposits and entrusted loans of China National Petroleum Corporation and its controlled subsidiaries as on December 31, 2014.

10. Notes to Financial Statements

10.1 Cash and Deposits with Central Bank

Item	December 31, 2014	December 31, 2013
Cash in hand	359,521,939.12	307,481,384.31
Required reserves with central bank	18,383,205,455.81	22,290,360,504.76
Surplus reserves with central banks	5,484,345,361.73	8,547,511,698.39
Fiscal deposits with central bank	47,762,000.00	20,548,000.00
Total	24,274,834,756.66	31,165,901,587.46

10.2 Due from Banks and Other Financial Institutions

Item	December 31, 2014	December 31, 2013
Due from domestic banks and other financial institutions	68,025,602,289.77	66,377,354,813.14
Due from overseas banks and other financial institutions	6,186,769.50	6,983,679.37
Less: Allowance for impairment losses	33,849,350.83	-
Book value of due from banks and other financial institutions	67,997,939,708.44	66,384,338,492.51

10.3 Interest Receivable

Item	December 31, 2014	December 31, 2013
Interest receivable on deposits with central bank	8,567,966.57	11,101,730.25
Interest receivable on due from banks and other financial institutions	324,604,248.52	295,016,823.43
Interest receivable on financial assets held under resale agreements	4,962,889.29	19,629,076.85
Interest receivable on loans and advances	103,521,208.81	101,574,837.49
Interest receivable on bonds held for trading	72,826,712.31	111,945,853.46
Interest receivable on available-for-sale and held-to-maturity bonds	444,545,395.92	765,150,973.09
Interest receivable on held-to-maturity investments	403,254,648.08	544,482,742.85
Book value of interest receivable	1,362,283,069.50	1,848,902,037.42

10.4 Loans and Advances to Customers

Loans and advances to customers are classified by corporate loans and personal loans

Category	December 31, 2014		December 31, 2013	
	Amount	Proportion (%)	Amount	Proportion (%)
Loans and advances to customers	72,134,341,843.19	100.00	62,297,920,584.36	100.00
Including: Corporate loans	69,135,011,022.55	95.84	60,430,388,710.57	97.00
Personal loans	2,999,330,820.64	4.16	1,867,531,873.79	3.00
Less: Allowance for impairment losses	2,750,665,362.31	100.00	1,975,017,049.95	100.00
Including: Corporate loans	2,661,801,038.96	96.77	1,931,522,823.44	97.80
Personal loans	88,864,323.35	3.23	43,494,226.51	2.20
Net loans and advances	69,383,676,480.88	100.00	60,322,903,534.41	100.00
Including: Corporate loans	66,473,209,983.59	95.81	58,498,865,887.13	96.98
Personal loans	2,910,466,497.29	4.19	1,824,037,647.28	3.02

10.5 Long-term Equity Investments

Item	December 31, 2014	December 31, 2013
Leshan Kunlun Village and Township Bank Co., Ltd.	40,000,000.00	40,000,000.00
Tacheng Kunlun Village and Township 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	December 31, 2014	December 31, 2013
Original cost of fixed assets	530,907,468.70	474,320,863.75
Accumulated depreciation	265,768,044.74	180,004,883.52
Allowance for impairment losses	71,587.53	71,587.53
Fixed Assets	265,067,836.43	294,244,392.70

10.7 Intangible Assets

Item	December 31, 2014	December 31, 2013
Original cost of intangible assets	224,888,334.74	168,941,927.74
Accumulated amortization	126,820,015.92	83,137,245.20
Allowance for impairment losses	1,357,053.33	1,357,053.33
Net intangible assets	96,711,265.49	84,447,629.21

10.8 Deferred Income Tax Assets

Item	December 31, 2014		December 31, 2013	
	Temporary differences	Deferred income tax assets	Temporary differences	Deferred income tax assets
Allowance for impairment losses	3,780,048,318.60	567,007,247.79	1,568,467,667.93	235,270,150.19
Changes in fair value of available-for-sale financial assets included in capital reserve	55,518,086.47	8,327,712.97	1,216,159,254.00	182,423,888.10
Net changes in fair value of financial assets reported at fair value with fair value changes recorded in current earnings	361,634.27	54,245.14	185,974,459.07	27,896,168.86
Total	3,835,928,039.34	575,389,205.90	2,970,601,381.00	445,590,207.15

10.9 Other Assets

Item	December 31, 2014	December 31, 2013
Deferred expenses	11,315,831.98	9,197,090.54
Other receivables	53,990,423.47	8,128,425.80
Foreclosed assets	-	19,568,930.00
Long-term deferred expenses	73,214,655.78	79,039,290.96
Others	-	787,754.47
Total	138,520,911.23	116,721,491.77

10.10 Deposits from Customers

Item	December 31, 2014	December 31, 2013
1. Demand deposits	58,862,061,854.99	83,702,151,502.18
Including: Corporate deposits	49,233,094,670.33	76,192,618,067.76
Personal deposits	9,628,967,184.66	7,509,533,434.42
2. Time deposits	43,843,421,976.89	42,955,402,856.51
Including: Corporate deposits	29,634,724,955.61	32,494,991,240.55
Personal deposits	14,208,697,021.28	10,460,411,615.96
3. Fiscal deposits	377,916,969.45	440,087,971.17
4. Others	9,103,001,451.55	2,337,820,144.15
Total	112,186,402,252.88	129,435,462,474.01

10.11 Operating Income

(1) Net Interest Income

Item	2014	2013
Interest income:		
Due from banks and other financial institutions	1,225,538,101.18	37,931,388.22
Deposits with central bank	360,382,374.69	858,674,999.16
Placements with banks and other financial institutions	76,713,210.16	350,020,405.42
Financial assets held under resale agreements	1,102,329,776.76	694,438,616.85
Loans and advances to customers	3,092,256,516.29	2,342,929,450.47
Discounted bills	1,116,472,405.27	851,937,210.16
Bond investments	1,657,715,136.56	1,997,748,675.73
Investments classified as receivables	2,947,947,760.74	1,228,889,400.85
Interest income on financial assets held for trading	139,088,412.99	175,996,203.63
Subtotal	11,718,443,694.64	8,538,566,350.49
Interest expense:		
Due to banks and other financial institutions	2,866,167,925.35	1,292,918,810.48
Placements from banks and non-bank financial institutions	56,380,271.28	8,182,152.79
Deposits from customers	2,350,918,220.73	2,327,180,864.33
Financial assets sold under repurchase agreements	292,318,438.99	330,957,533.81
Subtotal	5,565,784,856.35	3,959,239,361.41
Net interest income	6,152,658,838.29	4,579,326,989.08

(2) Net Income on Fee and Commission

Category	2014	2013
Fee and commission income:		
Settlement fee	21,521,637.58	20,093,077.30
Agency service fee	87,129,331.90	349,941,363.52
Bank card service fee	20,599,533.05	16,870,113.26
Foreign exchange fee	492,019,014.80	484,855,171.87
Guarantee service fee	2,581,016.67	633,244.00
Other businesses fee	50,310,213.06	31,632,017.33
Wealth Management fee	40,135,907.75	242,007.46
Subtotal	714,296,654.81	904,266,994.74
Fee and commission expense:		
Settlement service expense	1,466,117.38	1,225,039.79
Bank card service expense	45,482,695.56	37,213,234.97
Other services expense	18,024,903.44	16,341,970.81
Agency service expense	1,913,544.39	3,762,020.59
Subtotal	66,887,260.77	58,542,266.16
Net income on fee and commission	647,409,394.04	845,724,728.58

10.12 Supplementary Information of the Statement of Cash Flow

(1) Adjustments of Net Income to Cash Flow from Operating Activities

Item	2014	2013
Net profit (Negative Number is Expressed with ())	2,909,573,912.09	2,571,591,887.68
Add: Allowances for impairment losses on assets	2,318,554,383.24	1,217,783,478.13
Depreciation of fixed assets	88,650,911.89	70,863,178.20
Amortization of intangible assets	43,682,770.72	38,079,192.55
Amortization of long-term deferred expenses	25,037,383.94	19,498,646.40
Losses on disposal of fixed assets, intangible assets and other long-term assets	101,484.02	-
Losses on changes in fair values	(185,612,824.80)	181,332,419.05
Investment losses	(4,750,385,934.96)	(3,456,432,470.20)
Decrease in deferred income tax assets	(303,895,173.88)	(177,284,047.45)
Increase in deferred income tax liabilities	-	-
Decrease in loans	(9,836,421,258.83)	(21,358,360,215.35)
Increase in deposits	(17,249,060,221.13)	25,249,079,635.15
Net increase of borrowing funds	6,278,937,781.81	(20,592,619,795.47)
Decrease in operating receivables	12,174,787,928.29	(18,491,499,993.03)
Increase in operating payables	33,108,649,041.05	44,220,359,885.34
Decrease in other operating assets	32,068,930.00	(75,352,451.67)
Increase in other operating liabilities	(112,376,318.99)	910,965,834.39
Net cash flows from operating activities	24,542,292,794.46	10,328,005,246.72

(2) Cash and Cash Equivalents:

Item	2014	2013
1.Cash	59,608,310,360.12	51,314,936,635.64
Including: Cash in hand	359,521,939.12	307,481,384.31
Unrestricted balances with central bank	5,484,345,361.73	8,547,511,698.39
Due from banks and other financial institutions maturing within 3 months	53,215,491,059.27	42,459,943,552.94
Placements with banks and other financial institutions maturing within 3 months	548,952,000.00	-
2.Cash equivalents	5,772,058,464.99	529,650,000.00
Including: Bond investments maturing within three months (Securities held under resale agreements)	5,772,058,464.99	529,650,000.00
3. Cash and cash equivalents	65,380,368,825.11	51,844,586,635.64

Bank of Kunlun Co., Ltd.

February 3, 2015