



昆仑银行  
Bank of Kunlun

ANNUAL REPORT 2012



昆仑银行股份有限公司

BANK OF KUNLUN CORPORATION LIMITED

## Company Profile

Bank of Kunlun Corporation Limited was formerly named Karamay City Commercial Bank which was established in June 2006. It became under the control of China National Petroleum Corporation (CNPC) after its subscription of new capital in April 2009. The Bank was renamed as Bank of Kunlun in April 2010. The name of Kunlun injects great brand value into the Bank. The Bank was restructured to serve both national energy security strategy and west China development strategy. At the new historical starting point, the Bank established the development concept of “High Starting Point, Rapid Development and Sustainable Growth”, clarified the strategic objective of “Most Powerful and Outstanding Commercial Bank in the Field of Energy” and formulated the development layout of “Relying on Petroleum, Basing in Xinjiang, Facing the Whole Country and Going International”. Supported by CNPC, the major shareholder, the Bank is committed to becoming an outstanding bank providing distinctively comprehensive services to its main client groups of large state-owned enterprises, upstream and downstream enterprises of petroleum and petrochemical industry chain, oil staff, and families of mining areas.

Over the four years since its restructuring, the Bank successively established 6 branches in Karamay, Urumqi, Daqing, Turpan-Hami, Korla and Xi'an, as well as 2 rural banks in Leshan (Sichuan province) and Tacheng (Xinjiang province), up to 40 branches and subsidiaries in total realising trans-regional operation, and has constructed E-banking service channels such as online banking, telephone banking and mobile banking, therefore enlarging the market coverage, improving the business capacity, and increasing the market influence. The Bank, grounded on the integration of industry and finance, has continuously fueled the construction of customer-oriented operating mechanism. It has gradually formed its business system containing four parts — corporate banking, personal banking, financial market and international business, and developed new featured products such as Kunlun Express, Corporate Cash Management, Trade Financing in Petroleum Industry Chain, and CNPC Corporate Card. The Bank's scale effects have achieved vigorous growth, with its average growth rate of assets reaching 163.49% and its average increase rate of net profit achieving 166.14% in the past four years. In 2012, for the first time listed on China's Top 50 Banks with a ranking of 47th, realizing its categorizing into bigger bank camp from the smaller bank camp.

The Bank will focus on promoting the development strategy of integration of industry and finance, urge greater emphasis on high-quality and healthy development, properly-structured development, value-adding and sustainable development, in order to reach a higher level of development.

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## Important Notice

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The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management members of Bank of Kunlun hereby guarantee that there are no false records, misleading statements or material omissions in the information stated in this report, and jointly and separately accept full responsibility for the truthfulness, accuracy and completeness of the information disclosed in this report.

The 2012 Annual Report of the Bank and the results announcement have been considered and approved at the 4th Meeting of the 3rd Session of the Board of Directors of the Bank held on 2 March 2013.

The 2012 financial statements have been audited by BDO China Shu Lun Pan Certified Public Accountants LLP with standard unqualified auditors' report issued.

Board of Directors  
Bank of Kunlun Co., Ltd.  
2 March 2013

Mr. Wang Guoliang, Legal Representative of the Bank, Mr. Wang Zhonglai, President of the Bank, Mr. Jing Lin, Chief Finance Officer of the Bank and Mr. Wang Mingdong, General Manager of Planning and Finance Department of the Bank, hereby warrant and guarantee the truthfulness and completeness of the financial statements contained in the 2012 Annual Report.

## Brief Information

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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: Wang Guoliang
3. Registered Capital: RMB 6,716,187,831.01  
Registered Address: No. 7 Century Ave, Karamay, Xinjiang  
Postal code: 834000  
Website: <http://www.klb.cn/>
4. Secretary to the Board of Directors: Xu Xinyuan  
Telephone: 0990-6230689, 010-89026690  
Fax Number: 0990-6969902, 010-89025406  
E-mail Address: [ir@klb.com.cn](mailto:ir@klb.com.cn)
5. Newspaper for Information Disclosure: Financial Times
6. Legal Advisor: King & Wood Mallesons (PRC)  
Address: 40th Floor, Tower A, Beijing Fortune Plaza, 7 Dongsanhuan Zhonglu, Chaoyang District, Beijing
7. Place for Preserving the Annual Report: Board of Directors' Office of the Bank
8. Other Relevant Information:  
Date of Changing Registration Certificate: 31 May 2011  
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
9. Audit Firm Engaged by the Bank: BDO CHINA SHU LUN PAN Certified Public Accountants LLP  
Address: 4/F, New Huangpu Financial Plaza, No. 61, East Nanjing Road, Huangpu District, Shanghai

**Financial Highlights**

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Financial data and indicators in this Annual Report are prepared in accordance with PRC GAAP, and unless otherwise specified, are denominated in Renminbi(RMB).

### 3.1 Key Financial Data

#### Operating Results

	(In RMB Ten Thousands)		
	2012	2011	2010
Net interest income	295,574	201,244	105,398
Net fee and commission income	69,089	30,451	3,196
Operating income	388,666	233,431	110,778
General and administrative expense	82,785	53,350	19,320
Allowance for impairment loss	58,396	27,688	7,053
Operating profit	233,019	144,506	81,098
Profit before tax	233,706	145,029	81,100
Net profit	194,519	123,431	68,854
Net profit attributable to shareholders of the Bank	194,360	123,426	68,852
Accumulated other comprehensive income attributable to shareholders of the Bank	210,099	126,767	49,408
Net cash flows from operating activities	1,962,551	2,703,450	3,597,744

#### As at the end of Reporting Period

	(In RMB Ten Thousands)		
	31 December 2012	31 December 2011	31 December 2010
Total assets	18,481,527	13,029,525	8,260,384
Loans and advances to customers	4,136,336	2,099,471	1,199,999
Allowance for impairment loss on loans	98,564	40,167	12,481
Net investment	5,637,563	4,037,169	3,206,128
Total liabilities	17,027,466	11,750,921	7,609,974
Deposits from customers	10,482,969	7,422,416	5,705,580
Deposits from banks and non-bank financial institutions	4,882,366	2,600,637	1,268,247
Placements from banks and non-bank financial institutions	200,000	-	-
Equity attributable to shareholders of the Bank	1,451,350	1,277,346	649,408
Share capital	671,619	671,619	420,387
Net capital	1,417,939	1,262,562	681,198
Net core capital	1,417,939	1,262,562	649,273
Supplementary capital	-	-	31,925
Risk-weighted assets	10,335,291	6,582,096	3,968,954

## Per Share Data

(In RMB yuan)

	31 December 2012	31 December 2011	31 December 2010
Net asset value per share <sup>(1)</sup>	2.16	1.90	1.55
Basic earnings per share <sup>(2)</sup>	0.29	0.21	0.19
Net cash flows per share from operating activities	2.92	4.03	8.56

Note:

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

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

## 3.2 Key Financial Indicators

## Profitability (%)

	2012	2011	2010
Return on average total assets <sup>(1)</sup>	1.23	1.16	1.32
Return on weighted average equity <sup>(2)</sup>	14.25	12.81	13.03
Return on weighted average equity after deducting non-operating gain/loss	14.20	12.92	14.20
Net interest spread <sup>(3)</sup>	1.74	1.91	2.20
Net interest margin <sup>(4)</sup>	1.98	2.15	2.30
Return on risk-weighted assets <sup>(5)</sup>	2.30	2.37	2.24
Ratio of net fee and commission income to operating income	17.78	13.05	2.89
Cost-to-income Ratio <sup>(6)</sup>	21.30	22.85	17.44

Note:

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

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

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

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

(5) Calculated by dividing net profit by the average balance of risk-weighted assets and market risk capital adjustment at the beginning and at the end of the reporting period.

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



## Asset Quality (%)

	2012	2011	2010
Non-performing loans (NPL) ratio <sup>(1)</sup>	1.80	0.03	0.06
Allowance to NPL <sup>(2)</sup>	132.29	5,967.84	1,860.81
Allowance to total loans ratio <sup>(3)</sup>	2.38	1.91	1.04

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 loss on loans and advances by balance of NPL.

(3) Calculated by dividing allowance for impairment loss on loans and advances by total balance of loans and advances to customers.

## Capital Adequacy (%)

	2012	2011	2010
Core capital adequacy ratio	13.72	19.18	16.36
Capital adequacy ratio	13.72	19.18	17.16
Total equity to total assets ratio	7.87	9.81	7.87
Risk-weighted assets to total assets ratio	55.92	50.52	48.12

**Chairman's Statement**

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The page features a decorative background with a stylized sunburst pattern in the center, composed of thin, overlapping lines. Below the sunburst, there are several flowing, wavy ribbons in shades of yellow and orange, creating a sense of movement and energy. The overall color palette is warm and golden.



In the year of 2012, the world's economy went through a profound phase of transformation adjustment, the global economic growth maintained at a low level, international financial markets demonstrated continuous fluctuations, leading to the instable basis for economic recovery. At the same time, the overlap between cyclical adjustment of China's economy and low growth rate of global economy has put more pressure on the economic downside in China. However, with the increased macroeconomic control from central government, national economy continues to grow at a stable and reasonable speed, lowering the risk of hard landing. Under such circumstances, the Bank adhered to the development principles of quality, scale and efficiency, promoted the featured integration of industry and finance, and accelerated to establish the customer-oriented operation and management mechanism. Our profitability has been largely improved, so as to our scales, strength, and market position. On behalf of the Board of Directors, I would like to extend my sincere gratitude for the supports giver overtime to regulators and supervisors of government, shareholders, and the society for all.

In 2012, the net profit attributable to shareholders of the Bank has reached RMB1.94 billion, with a year-over-year growth rate of 57.47%. Return on equity has amounted to 14.25%, with an increase of 1.44 percentage point. Return on assets has reached 1.23%, with 0.07 percentage point increase. By the end of 2012, the total assets of the Bank have increased to RMB184.82 billion, with a year-

over-year growth rate of 41.84%. The deposits and loans have reached RMB104.83 billion and RMB41.36 billion respectively, with year-over-year growth rate of 41.23% and 97.02% respectively. In the report of China's Top 50 Banks based on asset scale issued by Standard & Poor's, Bank of Kunlun has been rated for the first time and ranked 47th on the list, meaning that the Bank has become a medium-scale influential commercial bank from a small-scale local city commercial bank.

The constant perfection of the corporate governance structure and operation mode has been proceeding through 2012, further enhancing the level of corporate governance. The transition of directors, supervisors and senior management went smoothly, strengthening the decision making power of the Board of Directors, the monitoring role of Board of Supervision. We hired external agents to evaluate our corporate governance over the past three years, made detailed plans to make self improvements, built up Investor Relationship website, communicated and learnt from market peers, strengthened the training and evaluation for directors and supervisors, and promoted the strategy-making feature of the Board of Directors and its special committees as well as the monitoring feature of the Board of Supervisors.

In 2012, we continued to perfect the planning and execution system by promoting the integration of industry and finance. Based on the analysis of external and internal environment, we amended the Three Year (2012-2014) Development Planning for the Bank, and made the Outline for Building the Core Competence for the Bank of Kunlun to make clear of the focus for future development. Because of the competitive advantage of our major shareholder, we were able to establish close connections with CNPC Head Office and subordinate units. The international business has been expanded and the access to international settlements has been strengthened. We continuously pushed forward the trading finance of industrial chains, and promoted the cash management business. We have successfully launched the CNPC Corporate Card project, and the General Card in mining areas could be used to fulfill multi-payment functions. Entrusted loans business on housing fund were successfully operated. All of these actions showed that how finance capability of the Bank could support the development of the industry.

The Bank kept focusing on the construction of the comprehensive risk management system in the past 2012. Risk management capability got greatly improved by exploring the specific risk management pattern to match the feature of the integration of industry and finance. Based on the integration of industry and finance, risk preference policies were established, the businesses have gone through sound development. The Bank also implemented the credit risk management system, and solidified the management and control on potential risk loan and substantial risk. The enhanced business continuity management framework and the carrying forward Basel New Capital Accord compliance implementation plan helped to establish the basic infrastructure for risk management system of the Bank. The concept, tools, modes and mechanism of risk management have all started to function well within the Bank, and they have become the norm in all business lines.

In 2012, the Bank fulfilled our corporate responsibilities in economic, social and environmental areas in accordance with Scientific Development Concept and environmental regulation policies. As for social responsibilities, we kept improving our credit structure, and put serving small-and-micro businesses, and agricultural construction as our priority. The Bank cared about our employees and customers, and paid attention to energy conservation, in the hope to push forward the development of a harmonious society.

The last three years of the 12th Five-Year Plan, together with the 13th Five-Year Plan, is the crucial period for China to build a well-off society, and is also the golden development phase for CNPC to become an international energy company. Thus, it is an important strategic period for Bank of Kunlun to become the most outstanding commercial bank in the field of energy. We will seize the opportunity to improve our operational and managerial capabilities and to balance the development between quality, profit and scale. The short term goal of the Bank is to initially form the core competence at the end of the 12th Five-Year.

Handwritten signature of Wang Guoliang in black ink.

Chairman: Wang Guoliang

2 March 2013

**President's Statement**

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Under the guidance of authorities and regulators, the support from shareholders, the leadership from the Board of Directors, the Bank had developed practical ways for growth, pushed forward the integration of industry and finance, and strengthened the operational risk management. Thus, our operation results kept improving, and the developing trends had been great for the past 2012.

By the end of 2012, total assets of the Bank amounted to RMB184.82 billion, increased by RMB54.52 billion compared to last year, with a year-over-year growth rate of 41.84%. Deposits and loans reached RMB104.83 billion and RMB41.36 billion, respectively, with year-over-year growth of RMB30.61 billion and RMB20.37 billion, or 41.23% and 97.02%. Profit before tax achieved to RMB2.34 billion, with a growth of RMB0.89 billion or 61.17% over the year 2011. Ten branches were newly opened in 2012, making the number of the Bank's branches rising up to 40 with an increase of 33.33%. According to the Competitiveness Assessment of Chinese Commercial Banks in 2012 from the Banker Journal, Bank of Kunlun was ranked 14th in the category of Overall Ranking of City Commercial Banks with Assets of more than RMB100 billion in 2012.

In the year 2012, the Bank adhered to "Market and Customer Oriented Principles", as well as the prudent risk principle, the level of operational management had been constantly improved and the business model had been changed toward a positive way.

All of our business demonstrated stable developments in 2012. The Bank seized the opportunity of the leapfrog development of Xinjiang to promote marketing efforts and absorb deposits, so that our loan business got great breakthrough, the newly increased corporate loans were doubled compared to 2011. Besides, the deposit business entered into a positive trajectory. Personal financing business was operating based on the various financial products, it accumulated customer integrity and increased bank card ownership. The Bank newly issued 276 thousand bank cards, and 77.4 thousand payroll accounts. International business volume had a huge increase within the year, it took the responsibility of ensuring the security of overseas energy trading settlement for oil and gas, and supply of national overseas energy. The financial market transaction volume rocketed up from a year earlier with a further increase of the income from bond investments. The total annual bond transaction volume reached RMB1.90 trillion as our interbank market ranking rose to No. 57. The integration of industry and finance business has made tremendous progress, along with the energetically promotion of the "Oil-Enterprises Express", a featured financial product that allowed the Bank make loans in the chains of CNPC, the amount of which raised by 36.02% year-over-year and that accounted for 12.50% of the Bank's total loans. The cash management service was fully popularized with a customer number of 47 in 2012, a 161.10% increase over the previous year.

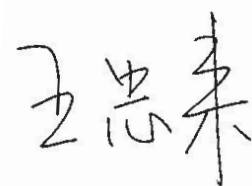
Risk management capability kept upgrading. In 2012, the risk management and compliance work had been conducted smoothly and the "Asset Quality Year" had been launched within the Bank to deepen the construction for a comprehensive risk management system. We put lots of emphasis on the prevention and control for credit risk. The credit risk control ability was enhanced through

expansion of the professional credit approval experts, supplementing the credit risk management mechanism, as a result, the efficiency for credit review got greatly improved in order to support the development of credit business. The compliance had been followed strictly, and the internal audit had been performed carefully within the Bank, so that there were no major scandals or crimes happened during 2012.

The Bank's internal management capabilities had been improved as well. The mode of Big-Back Office management had been built up through setting up the shared services center to enhance our operational capacity. The internal fund transfer pricing (FTP) had been implemented and its effect for guiding our business started to appear. The human resource management satisfied the Bank's demand for talents through key performance indicator improvement and training. The establishment of application system and IT infrastructure framework got significant developments, the city disaster recovery center was set up and performed real switch exercise, and the production environment was operating smoothly through the year and greatly supported the Bank's rapid business development.

All the above achievements could never happen without the diligence of all staff, the guidance of governments and authorities, the support and care from all shareholders and customers. I would like to express the gratitude on behalf of the management to all of you.

Looking forward to 2013, a crucial year for the Bank to fulfill its goal in the 12th Five-Year Plan, the Bank will continue to maintain scientific concept of development, based on the new start point, seize more opportunities, keep realistic and pragmatic, maintain cautious and prudent, be consistent of the development method, try to change traditional ideas, development ways and operating management mechanism to achieve its healthy, balanced and sustainable development.

A handwritten signature in black ink, consisting of three Chinese characters: 王 (Wang), 忠 (Zhong), and 来 (Lai).

President: Wang Zhonglai

2 March 2013



**Management Discussion  
and Analysis**

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## 6.1 Economic, Financial and Supervisory Environment

In 2012, the recovery of global economy slowed down and the economic downside risks increased. According to the IMF research report, the actual global economic growth rate was 3.2%, slower than the 4.0% in 2011. In developed countries, financial pressures and economic growth were the two major challenges, and the growth rate of the United States, Euro-zone and Japan were 2.3%, -0.4% and 2.0%, respectively. Although some signatures of moderate recovery appeared in US, the employment pressure still existed, and the impact from quantitative easing and fiscal cliff on economic outlook was still unclear. The European sovereign debt crisis was still the major cause for the global economic instability, and the outlook for Euro-zone recovery and growth was not that positive. In Japan, the economy was still grim and the risk of government debt crisis started to occur. Along with some international dispute such as Diaoyu Islands, the economic downturn in Japan seemed to be unavoidable. Emerging economies have adopted interest rate cutting strategy to confront the negative impact from the recession and to maintain the economic growth. As for international investors, their risk aversion preference was strengthened increased and international capital flowed into traditional safe assets. The issue of currency bonds increased in emerging markets, and US dollars started its medium and long term depreciation because of the impact from QE3.

Facing the complex international situation and new problems in China's economy in 2012, the central government continued to strengthen and improve the macroeconomic controls, changing from active cyclical tightening to more frequent overall economic policy adjustment, in order to reduce the risk of hard landing. Under multiple internal and external factors, economic growth in China in 2012 slowed down, with GDP of RMB51.93 trillion and a year-over-year growth rate of 7.8%, the lowest in the past 13 years. The fixed asset investment (excluding agricultural accounts) was about RMB36.48 trillion, with a year-over-year nominal growth rate of 20.6%, 3.4 percentage points down from the growth rate of 2011. 2012 annual CPI increased about 2.6%, with a notable increase in December, which may indicate higher CPI in the coming months in 2013. Because of the sluggish demand for industrial production, PPI for 2012 has decreased by 1.7%. The total amounts of import and export increased at a fast pace, with trade surplus of USD231.1 billion which increased by USD76.2 billion compared to last year.

Domestic finance industry has been stable in the past 2012. On a rough estimate, M2 balance has reached RMB97.42 trillion, with a year-over-year growth rate of 13.8%. M1 balance was about RMB30.87 trillion, with a year-over-year growth rate of 6.5%, which is 1.4 percentage points basis

points lower than last year. The social financing scale for the whole year was RMB15.76 trillion, RMB2.93 trillion increased from 2011, including RMB8.20 trillion of Renminbi loans, increased by RMB732 billion; RMB916.3 billion of foreign currency loans, increased by RMB345.1 billion; RMB1.28 trillion of entrusted loans, down by RMB12.5 billion; RMB1.29 trillion of trust loans, increased by RMB1.09 trillion; RMB1.05 trillion of undiscounted bank acceptance bills, increased by RMB22.7 billion; RMB2.25 trillion of new corporate bond financing, increased by RMB884 billion; RMB250.8 billion of non-finance enterprise domestic stock financing, down by RMB186.9 billion. The overall domestic and overseas assets in Renminbi-and-foreign-currencies of banking financial institutions in China reached RMB133.6 trillion with a year-over-year growth rate of 17.9%, and total liabilities amounted to RMB125 trillion, increasing by 17.8%. The non-performing loans of domestic commercial banks reached RMB492.9 billion with an increase of RMB64.7 billion, and the non-performing loan ratio decreased by 0.01 percentage point to 0.95%. The gross profit achieved by domestic commercial banks increased by 18.9% to RMB1.24 trillion.

In 2012, the People's Bank of China cut the reserve requirement ratio twice by total 1 percentage point, and cut the one-year benchmark interest rates twice by 0.50 and 0.56 percentage points respectively. China Banking Regulation Commission has introduced Basel New Capital Accord in order to strengthen the regulation framework. Commercial Bank Capital Management Measure (Trial) was carried out by CBRC in June 2012, along with the Notice for Trial Period and Guidance for Commercial Bank Capital Tool Innovation published in September and October 2012, to ensure the transitional period stability and to explore alternative access to banking capital supplement. At the end of 2012, CBRC, together with the MOF, NDRC and PBOC, issued the Notice of Preventing Illegal Financing of Local Governments, to standardize the operation of local financing platform, enhance the control of central government for the local government debt problems and mitigate the potential financial risks.

For the year 2013, the "Loosening Fiscal Policies and Prudent Monetary Policies" will be leading the macro economy in China, and there will be more increase in credit supply and social financing scale based on the facts of the total loans increased by RMB8.20 trillion and the social financing scale reaching RMB15.76 trillion in 2012. There will be new opportunities for commercial banks, because of the increasingly favourable economic situation both in China and around the world, the perfection of socialist market economy, the progress in industrialization, urbanization, informationization, and agricultural industrialization, the development of Renminbi cross boarder clearing business, and the constant innovation for bond products and payment methods. Meanwhile, there will appear more challenges as well due to the risks, such as credit default risks (platform loan risks, property loan risks, enterprise cluster risks, etc), off-balance sheet activities related risks, and external risks (private financing, and illegal financing, etc).

## 6.2 Financial Statements Analysis

### 6.2.1 Income Statement Analysis

#### Changes of Key Income Statement Items

Analysis of Income Structure

Item	(In RMB Ten Thousands)			
	2012	2011	Increase /(Decrease)	Growth rate (%)
1. Operating income	388,666	233,432	155,234	66.50
Interest income	597,489	374,181	223,308	59.68
Interest expense	301,915	172,937	128,978	74.58
Fee and commission income	74,095	34,538	39,557	114.53
Fee and commission expense	5,006	4,086	920	22.52
Other operating income	53	41	12	29.27
Gain/(losses) from fair value change	401	389	12	3.08
Investment income/(losses)	6,309	(4,627)	10,936	(236.35)
Gain/(losses) on foreign exchange	17,240	5,933	11,307	190.58
Less: Operating expenses	155,647	88,926	66,721	75.03
Business tax and surcharges	14,459	7,880	6,579	83.49
Sales expense	82,785	53,350	29,435	55.17
Allowance for impairment loss	58,396	27,688	30,708	110.91
Other expenses	7	8	(1)	(12.50)
2. Operating profit	233,019	144,506	88,513	61.25
Add: Non-operating income	1,600	571	1,029	180.21
Less: Non-operating expenses	913	48	865	1,802.08
3. Profit before tax	233,706	145,029	88,677	61.14

In 2012, operating income increased by RMB1.55 billion or 66.50% to RMB3.89 billion, in which interest income increased by RMB2.23 billion or 59.68%, and fee and commission income increased by RMB0.40 billion or 114.53%.

Operating expenses raised RMB0.67 billion or 75.03% to RMB1.56 billion.

Profit before tax reached to RMB2.34 billion with a growth of RMB0.89 billion or 61.14%, in which operating profit increased by RMB0.89 billion or 61.25% to RMB2.33 billion, and non-operating income increased by RMB10.29 million or 180.21% to RMB16.00 million in 2012.

## Analysis of Key Income Statement Items

Item	(In RMB Ten Thousands)		
	2012	2011	Impact on profit
Net interest income	295,574	201,244	94,330
Net fee and commission income	69,089	30,451	38,638
Gain on foreign exchange	17,240	5,933	11,307
Investment income/(losses)	6,309	(4,627)	10,936
Allowance for impairment loss	58,396	27,688	(30,708)
Business tax and surcharges	14,459	7,880	(6,579)
Sales expense	82,785	53,350	(29,435)
Net non-operating income	687	523	164
Subtotal	-	-	88,653

In 2012, net interest income increased by RMB943.30 million to RMB2.96 billion. The main cause was the rising average daily scale of interest generating assets including loans and investment bonds, please refer to the analysis of net interest spread.

Net fee and commission income reached RMB690.89 million with a increasing of RMB386.38 million, mainly because entrust loans income increased by RMB211.00 million to RMB448.00 million.

Gain on foreign exchange increased by RMB113.07 million to RMB172.40 million as foreign currency transaction reached a profit of RMB170.00 million.

As bonds' market price rising with the liquidity of currency market increasing while market financing costs dropping, the price of dealing in bonds went up and further extended the spread, leading to the Bank's investment income growing by RMB109.36 million and reaching RMB63.09 million.

In 2012, Allowance for impairment loss increased by RMB307.08 million to RMB583.96 million, for accruing impairment provision of RMB222.00 million based on the individual assessment method since the loans of Tiansheng Company and Solibase Engineering Corporation was classified as substandard.

Sales expense rose by RMB294.35 million to RMB827.85 million, due to the increases in staff expense by RMB140.00 million, depreciation and amortization by RMB30.00 million, rental expense by RMB35.00 million, information system maintainance expense by RMB40.00 million, marketing expense and other expenses by RMB45.00 million.

Net non-operating income added RMB1.64 million which was up to RMB6.87 million, for receiving financial subsidies on agriculture loans of RMB14.00 million and donating RMB900.00 million to public welfare establishments.

## Analysis of Net Interest Income

(In RMB Ten Thousands)

Item	2012			2011		
	Daily average balance	Interest income/expense	Average rate of return/interest payment rate (%)	Daily average balance	Interest income/expense	Average rate of return/interest payment rate (%)
1. Interest-generating assets	14,891,555	597,488	4.01	9,344,330	374,041	4.00
Loans and advances to customers	3,114,366	203,747	6.54	1,685,429	109,758	6.51
Bond investments	4,660,065	217,143	4.66	3,927,927	161,056	4.10
Financial assets held under resale agreements	1,222,284	42,576	3.48	669,856	31,324	4.68
Deposits with banks and non-bank financial institutions	4,098,205	106,464	2.60	1,646,947	50,911	3.09
Deposits with central bank	1,796,635	27,558	1.53	1,414,171	20,992	1.48
2. Interest-bearing liabilities	13,301,858	301,915	2.27	8,222,901	172,892	2.10
Deposits from customers	8,933,249	179,716	2.01	6,682,845	120,558	1.80
Deposits from banks and non-bank financial institutions	3,711,862	94,341	2.54	1,083,121	29,459	2.72
Financial assets sold under repurchase agreements	656,747	27,858	4.24	456,935	22,875	5.01
Net interest spread	-	-	1.74	-	-	1.91
Net interest margin	-	-	1.98	-	-	2.15

## Factor Analysis of Net Interest Income

(In RMB Ten Thousands)

Item	Factor analysis		
	Daily average balance impact	Interest impact	Total
1. Interest-generating assets	230,300	(6,853)	223,447
Loans and advances	93,024	965	93,989
Bond investments	30,018	26,069	56,087
Financial assets held under resale agreements	25,854	(14,602)	11,252
Deposits with banks and non-bank financial institutions	75,744	(20,191)	55,553
Deposits with central bank	5,660	906	6,566
2. Interest-bearing liabilities	122,020	7,003	129,023
Deposits from customers	40,507	18,651	59,158
Deposits from banks and non-bank financial institutions	71,502	(6,620)	64,882
Financial assets sold under repurchase agreements	10,011	(5,028)	4,983

In 2012, net interest income increased by RMB943.30 million, responding to the expansion of both assets and net interest spread:

Loans and advances had a growth of RMB939.89 million year-over-year, among which daily average balance increased by RMB14.29 billion, and interest income added RMB930.24 million, while interest rate increased by 0.03 percentage point, bringing a growth of RMB9.65 million on interest income.

Interest income of bond investments increased by RMB560.87 million, among which daily average balance increased by RMB7.32 billion, and interest income added RMB300.18 million, while interest rate rose by 0.56 percentage point, bringing a growth of RMB260.69 million on income.

Interest income of financial assets held under resale agreements increased by RMB112.52 million year-over-year, among which daily average balance increased by RMB5.52 billion, and interest income added RMB258.54 million, while interest rate decreased by 1.20 percentage point, leading to a decline of RMB146.02 million on income.

Interest income of deposits with banks and non-bank financial institutions increased by RMB555.53 million over year 2011, among which daily average balance increased by RMB24.51 billion, and interest income added RMB757.44 million, while interest rate decreased by 0.49 percentage point, leading to a decline of RMB201.91 million on income.

Interest expense of customers' deposits increased by RMB591.58 million, among which daily average balance increased by RMB22.50 billion, and interest expense added RMB405.07 million, while interest rate rose by 0.21 percentage point, bringing a growth of RMB186.51 million on interest expense.

Interest expense of deposits from banks and non-bank financial institutions increased by RMB648.82 million year-over-year, among which daily average balance increased by RMB26.29 billion, and interest expense added RMB715.02 million, while interest rate decreased by 0.18 percentage point, causing a decline of RMB66.20 million on interest expense.

Interest expense of financial assets sold under repurchase agreements increased by RMB49.83 million, among which daily average balance increased by RMB2.00 billion, and interest expense added RMB100.11 million, while interest rate decreased by 0.77 percentage point, causing a decline of RMB50.28 million on interest expense.

Net interest spread dropped by 0.17 percentage point to 1.74%, among which the average yield of interest-generating assets reached 4.01% with an increase of 0.01 percentage point, while interest payment rate of interest-bearing liabilities went up by 0.17 percentage point to 2.27%.

The increase of yield of interest-generating assets was mainly due to these factors: loans and advances' rate of return increased by 0.03 percentage point to 6.54%; the bonds holding increased by 0.56 percentage point to 4.66%; deposits with banks and non-bank financial institutions decreased

by 0.49 percentage point to 2.60%.

The increase of interest expense rate of interest-bearing liabilities was primarily due to the impact of customers' deposits increasing by 0.21 percentage point over the previous year to 2.01%, while interbank deposits was 2.54%, 0.18 percentage point lower than last year.

#### Analysis of Deposit Cost

(In RMB Ten Thousands)

Item	2012			2011		
	Average balance	Interest expense	Average yield (%)	Average balance	Interest expense	Average yield (%)
1. Corporate deposits	8,188,257	166,123	1.86	6,348,031	103,412	1.63
Time deposits	4,022,218	142,371	3.54	3,435,374	86,877	2.53
Demand deposits	3,833,734	18,880	0.49	2,520,151	11,287	0.45
Call deposits	332,305	4,872	1.47	392,506	5,248	1.34
2. Personal deposits	744,992	13,593	1.82	334,816	4,139	1.24
Time deposits	330,308	11,345	3.43	131,600	3,097	2.35
Demand deposits	377,488	1,769	0.47	191,171	911	0.48
Call deposits	37,196	479	1.29	12,045	131	1.09
Subtotal	8,933,249	179,716	2.01	6,682,847	107,551	1.61
Time deposits	4,352,526	153,716	85.53	3,566,974	89,974	2.52
Demand deposits	4,580,723	26,000	14.47	3,115,873	17,577	0.56

#### Net Fee and Commission Income

(In RMB Ten Thousands)

Item	2012	2011
Fee and commission income	74,095	34,538
Settlement fee	2,517	553
Principal agent fee	44,789	23,693
Agency service fee	531	335
Intermediary business fee	26,258	9,957
Fee and commission expense	5,006	4,087
Agency commission	885	1,684
Settlement commission	4,121	2,403
Net fee and commission income	69,089	30,451



## 6.2.2 Variation Analysis of Key Balance Sheet Items

(In RMB Ten Thousands)

Item	31 December 2012		31 December 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
1. Total assets	18,481,527	100.00	13,029,525	100.00
Of which: Loans and advances to customers	4,037,772	21.85	2,059,303	15.80
Financial assets held for trading	109,815	0.59	57,227	0.44
Held-to-maturity financial assets	1,996,611	10.80	2,306,072	17.70
Available-for-sale financial assets	2,162,377	11.70	1,673,870	12.85
Accounts receivable investments	1,368,760	7.41	-	-
Deposits with banks and non-bank financial institutions	4,851,343	26.25	3,680,394	28.25
Cash and deposits with central bank	2,430,676	13.15	1,836,876	14.10
Financial assets held under resale agreements	1,299,235	7.03	1,244,085	9.55
Interest-generating assets	18,256,589	98.78	12,857,827	98.68
Non-interest-generating assets	224,938	1.22	171,698	1.32
2. Total liabilities	17,027,466	92.13	11,750,921	90.19
Of which: Deposits from customers	10,482,969	56.72	7,422,416	56.97
Deposits from banks and non-bank financial institutions	4,882,366	26.42	2,600,637	19.96
Deposits with central bank and placements from other banks	202,500	1.10	-	-
Financial assets sold under repurchase agreements	1,067,348	5.78	1,592,686	12.22
Interest-bearing liabilities	16,635,183	90.01	11,615,739	89.15
Non-interest-bearing liabilities	392,283	2.12	135,182	1.04
3. Owners' equities	1,454,061	7.87	1,278,604	9.81

Total assets reached RMB184.82 billion with a growth of RMB54.52 billion, while the asset-liability ratio increased by 1.94 percentage point to 92.13% compared to the beginning of 2012.

Loans and advances increased by RMB19.79 billion or 96.07% to RMB40.38 billion resulted from the loosening national credit policy and the growth of industry chain clients as well as energy industry customers.

Bond investments increased by RMB16.00 billion or 39.64% to RMB56.38 billion. The newly-added receivable investments rose by RMB13.69 billion and other bond investments increased by RMB2.32 billion.

Deposits with banks and non-bank financial institutions increased by RMB11.71 billion or 31.82% to RMB48.51 billion mainly from the inter-bank transactions and arbitrage trading.

Cash and deposits with central bank raised by RMB5.94 billion or 32.33% to RMB24.31 billion. The leading cause was the amount of deposits with banks rose up and correspondingly the deposit reserves due from the central bank were increased.

Total liabilities increased by RMB52.77 billion or 44.90% to RMB170.28 billion.

Deposits from customers and other banks rose to RMB153.65 billion with a growth of RMB53.42 billion or 53.30%, because of the rapid development of businesses and branches.

Financial assets sold under repurchase agreements reduced by RMB5.25 billion or 32.98% to RMB10.67 billion caused by the decrease of outside financing as needed during the adjustments of assets and liabilities structure.

Owners' equity reached RMB14.54 billion, increasing by RMB1.76 billion or 13.72%.

### 6.2.3 Regional Analysis

(In RMB Ten Thousands)			
Item	Inside Xinjiang	Outside Xinjiang	Subtotal
1. Operating income	313,608	75,058	388,666
Interest income	451,448	146,041	597,489
Interest expense	224,485	77,430	301,915
Fee and commission income	67,019	7,076	74,095
Fee and commission expense	3,512	1,494	5,006
Other operating income	53	-	53
Investment income	6,309	-	6,309
Gain/(losses) from fair value change	401	-	401
Gain/(losses) on foreign exchange	16,375	865	17,240
2. Operating expenses	110,230	45,417	155,647
General and administrative expense	64,204	18,581	82,785
Business tax and surcharges	9,756	4,703	14,459
Allowance for impairment loss	36,263	22,133	58,396
Other operating expenses	7	-	7
3. Operating profit	203,378	29,641	233,019
Net non-operating income	537	150	687

			Continued
Item	Inside Xinjiang	Outside Xinjiang	Subtotal
4. Total profit	203,915	29,791	233,706
Income tax expense	35,680	3,507	39,187
5. Net profit	168,235	26,284	194,519

## 6.3 Business Overview

### 6.3.1 Corporate Banking

In 2012, under the complex and changeable macroeconomic environment, the corporate banking business continued to improve the business model and actively build up the marketing service system. The innovation in specialized products and services, the promotion for small business financing and industrial chain financing, and the development of service and marketing capability for corporate business have helped the Bank to better differentiate itself in the market and strengthened the advantages created by the integration of industry and finance.

#### **Corporate Deposits and Loans**

Along with the vigorous development of Xinjiang Province in 2012, The Bank has made great progress by seizing the regional economic development opportunities. It has been actively expanded the marketing scope and reasonably adjusted the credit asset structure. It also participated in financing for some major projects, and issued project loans with great efforts, as a result the business scale grew quickly and the issuance of loans demonstrated some remarkable breakthroughs. At the same time, the bank timely adjusted the loan term structure in order to meet the finance demand of the industrial chain customer resources and provide various customers with featured services. By the end of 2012, corporate loan balance was RMB31.38 billion, with year-over-year growth rate of 81.78% and a total increase of RMB14.12 billion.

The Bank continued to lay emphasis on the operating principle, as “Deposit is the root of the Bank”, served corporate customers with different levels of sophistication, and deepened the cooperation relationship with strategic clients. By taking advantage of the resources from industrial chain customers, the integrated marketing of petroleum and other enterprises was further developed. The Bank formulated marketing guidance and correspondingly set up incentive mechanism, such as carrying out the deposit marketing contest to motivate all the staff to contribute to deposit business. The deposits in Karamay Branch, Xi’an Branch and Daqing Branch have all reached RMB10 billion, and the deposits in Urumqi Shihua Sub-branch, Karamay Dushanzi Sub-branch have reached RMB1 billion and 2 billion, respectively. By the end of 2012, deposit balance of the Bank was RMB42.94 billion, with year-over-year growth rate of 75.87% and with a total increase of RMB18.52 billion compared with last year.

### **Small and Medium Enterprises (SME) and Industrial Chain Financing**

In 2012, the specialised management for the business of small and medium-sized enterprises and the comprehensive services provided for oil industrial chain customers helped to extend customer bases and improve market competitiveness. Under effective risk control, the Bank have launched many featured products such as contract financing and invoice financing for trading chain financing business, and brought about two modes of management, in order to expose customers to more financing accesses and improve their profitability level. By the end of 2012, the loan balance from SME reached RMB17.80 billion, with a year-over-year growth rate of 107.66%; the loan balance for oil industrial chain was RMB5.45 billion, increased by 84.86% from the previous year; the total number of industrial chain customers was 460, with a year-over-year growth rate of 34.11%.

### **Cash Management**

Cash management business is the key business with characteristics of the integration of industry and finance. The Bank continued to perfect cash management products to effectively promote the account opening and business dealing in fund management. By the end of 2012, the number of fund management customers reached 47, with total deals of 81,300 for the whole year and RMB216.59 billion settlement fund.

### **Intermediary Business**

By the end of 2012, the balance of entrust loans amounted to RMB148.65 billion, increasing by RMB75.70 billion from the previous year. The commission income reached RMB0.45 billion.

### **6.3.2 Personal Banking**

In 2012, the Bank successfully obtained the related business permission and focused on the financial services that satisfy the demand of core customers by improving the saving and financing services and perfecting product systems. The marketing strategy of product portfolio had been actively implemented according to the customer needs, and the personal banking business presented a significant progress during the year.

### **Saving Deposits**

The Bank launched the campaign of “Bank of Kunlun Entering into Campus, Community and Corporation”, and the personal saving and deposit increased steadily. Meanwhile, the “Community Banking” service mode was explored by focusing on product portfolio marketing and improving recognition among different customer groups. With all the efforts, the personal banking business witnessed stable growth over the year. By the end of 2012, the personal deposit reached RMB11.27 billion, successfully exceeding 10 billion, which was a RMB5.33 billion increase comparing with last year, with a year-over-year growth rate of 89.76%.

### **Financial Business and VIP Service**

In 2012, the Bank started the precious metals sales in Xi'an Branch and Urumqi Branch in order to meet the diversified investment need of customers, gradually enhanced the development and marketing of the entrusted products, strictly reviewed the qualification of the agencies, kept close cooperation with sound financial institutions such as Industrial Bank, China Merchants Bank, Zijin Trust, China Life Insurance, New China Life Insurance, China Pacific Property Insurance, Generali China Insurance, etc, to provide abundant products for customers, and indeed made great breakthrough for financial product sales. The Bank realized RMB1.50 billion of the single round financial product sales, RMB1.10 billion of the individual financial product sales, RMB0.74 billion of the single work day sales. The Bank actively explored high quality client resources and provided high-end customized financial services. At the same time, it still paid lots of attention to medium-to-high end customer groups, therefore the overall customer satisfaction was well maintained and improved gradually. By the end of 2012, the total sales of personal financial products amounted to RMB9.52 billion, with a year-over-year growth rate of 73.3%; the total sales of personal insurance products was RMB21.72 million, with a year-over-year growth rate of 141.9%; the income from agency intermediary business amounted to RMB4.69 million.

### **Personal Loans**

Personal loan business of the Bank followed the requirements from regulations and met the demand from the market. The Agricultural Loan for Staff, a tailored product for Xinjiang Province, was successfully launched. Entrust loans for housing reserves had been conducted in Xi'an Branch and Karamay Branch, and the total amount of loan issued in 2012 was RMB741 million. By the end of year 2012, the balance of personal loan was RMB933 million, which was a 118.5% increase compared with last year.

### **Bank Cards**

The Bank successfully issued two co-branded cards, Kunlun Liyong Card, Kunlun Tianshun Card, for different target groups, along with the first personalized Kunlun Card, 6th Anniversary Golden Card and CNPC Corporate Cards which exclusively supported the expense claims of CNPC. The product structure got constantly improved and financial capability was enhanced by obtaining the issuance certificates of Financial IC Card and Business Card. By the end of 2012, the number of newly issued bank cards reached 0.28 million, and the accumulated issuance was about 0.70 million, with a year-over-year growth rate of 65.95%. Income of commission fees from bank cards was about RMB10.96 million, with a year-over-year growth rate of 96.79%.

### **6.3.3 Financial Market Business**

Financial market business of the Bank adhered to the strategy of stable operation and continuous innovation in the face of a complex economic environment and diversified investment climate. The Bank improved the efficiency of asset operation, expanded the business coverage and pursued new

profit growth point. By the end of 2012, the asset scale of financial market business amounted to RMB97.17 billion, liabilities RMB35.18 billion. All of these figures indicated that the financial market business was in a good run in the past 2012.

### **Bond Investments**

The Bank insisted on selecting the investment products with high credit ratings. The credit ratings for the bond issuers were all above AA, and the issuers with AAA rating took account of 65.87%. Because of the strict investment principles on bond investment, the asset quality got secured, profitability improved, and market share expanded. As at the end of 2012, the totality of assets on bond investment was RMB42.69 billion, with a year-over-year growth rate of 5.63%; the bond delivery amount was RMB1,895.76 billion, 57th among the banking market, compared to the end of 2011 to advance 48, indicating the continuously active involvement in market.

### **Repurchase, Interbank and Bill Business**

The Bank further strengthened the operation in repurchasing, interbank borrowing to improve business profitability effectively, ensured the liquidity needs of the Bank as a whole and enhanced the Bank's market visibility. By the end of 2012, repurchasement and placements with banks and non-bank financial institutions balance reached RMB13.03 billion while placements from banks and non-bank financial institutions balance reached RMB12.72 billion, deposits with banks and non-bank financial institutions reached RMB33.45 billion while deposits from banks and non-bank financial institutions reached RMB22.46 billion; total amount of bills issued was about RMB8.00 billion with interest income of RMB333.00 million.

### **Financial Service**

Financial service had made a great breakthrough by successfully launching the first corporate financial product in 2012, which showed an incrementally improvement of the Bank's research and development capability and product innovation capability.

#### **6.3.4 International Business**

In the past 2012, based on the five overseas strategic cooperation zone of CNPC, the international business served the national energy's "Going-out" strategy and the main client groups included large central state-owned enterprises, upstream and downstream enterprises in the petroleum and petrochemical industry chain. Through strengthening the development of the featured financial products and developing the marketing to the core customers and new clients, the Bank's international business gradually formed core competence.

As the international business responded actively to the complicated and volatile international economic and financial environment, the Bank made outstanding business achievements, fully

demonstrating the Bank's feature of the integration of industry and finance and strengthening the market competence and profitability. It has witnessed fast growth in total assets, net profit, exchange settlement, letter of credit, letter of guarantee, Reminbi cross-border settlement in the international business, so as to the customer bases and product competence.

### 6.3.5 Distribution Channel

#### **Branches and Sub-branches**

In 2012, relying on the "Basing in Xinjiang, Facing the Whole Country and Going International" strategy, the Bank continued the efforts to ramp up branch franchises and their coverage and capability regarding the oil resource areas, with 10 new sub-branches opened in 2012. Leshan rural bank opened a sub-branch in the year. Generally speaking, up to the end of 2012, the Bank had six branches located in Karamay, Urumqi, Turpan-Hami, Korla, Daqing and Xi'an respectively, totally up to 40 branches and sub-branches country wide. For the coming 2013, the Bank will push forward the branch development under the integration of industry and finance strategy, and optimize profitability by offering tailored service and products for customers.

#### **E-Banking**

Circling around the development strategy, the Bank built up the comprehensive service system for E-banking and enhanced the capability of offering diversified products and services so as to optimize the e-banking development mechanism and enhance the competence in e-banking service. Special promotion and marketing activities had been launched for the target customer groups. E-banking had advantages in developing high quality customers, sharing the pressure from bank counters and reducing the operational costs. By the end of 2012, the number of registered E-banking customers reached 176,600, with a year-over-year growth rate of 137.10%; the number of E-banking trades reached RMB7.17 million, with a year-over-year growth rate of 119.34%; the E-banking business took account of 79.4% of total banking business, 7.7 percentage points higher than the previous year.

#### **Online Banking**

For the online banking business, the Bank launched the popular version of website provided, bank and enterprises reconciliation, treasury, foreign currency account and other functions in order to meet the demand from customers. The fee paying platform could cover daily expense paying needs for 27 provinces. Cooperation had been set up with Alipay, Unionpay, and other Business to Customer online payment methods. By the end of 2012, the number of corporate online banking customers grew by 217.6% compared to the previous year, while the number of individual online banking customers increased by 117.3%, the transaction volume of the year also increased by 304.7% compared with last year.

### Telephone Banking

The Bank actively expanded the functions of customer service center in the past 2012. The telephone banking could take international calls and fulfill bank-corporate reconciliation. Also, the online customer service was upgraded in order to play the role of comprehensive service window of the Bank. Through optimizing the knowledge center, supervising the telephone banking service, promoting the management process improvement, implementing the distribution of telephone banking, being recognized by ISO9000, the Bank comprehensively enhanced the internal management on the telephone banking service. The two operational centers were located in Beijing and Chengdu. By the end of 2012, the number of telephone banking customers rose by 153.5% over last year, and the total volume of the business increased by 267.1%.

### Mobile Banking

In 2012, the Bank introduced Windows Phone application so that it had the mainstream applications including iOS, Android and Windows Phone all provided for the mobile banking business customers. The services provided for mobile banking included account management, transfer and remittance, and payment. By the end of 2012, the number of mobile banking customers increased by 424.9% compared to the previous year and the total business volume increased by 1,330.2%.

### Self-Service Equipments

The Bank allocated self service equipments and POS supplies in a reasonable and secure way to fulfill the financial needs of mining areas and gasoline stations. 191 self-service machines, 886 POS supplies had been newly launched in 2012, with year-over-year growth rates of 71.30% and 80.40%, respectively, resulting in 459 self-service machines and 1,241 POS supplies in total. Among which, 58 self service equipments and 144 POS supplies were arranged near gas station; 128 self service equipments and 294 POS supplies were distributed near mining places.

### 6.3.6 Information Technology

In 2012, the Bank focused on the standardized management of the information technology, and continued to strengthen the IT governance and IT risk management in order to improve the core competence of information technology. The main driver of IT construction and full process management was the integration of industry and finance, and great progress was made in application and infrastructure construction for information technology. The Bank had built the disaster emergency center and performed the accident drills, and the operation system was kept stable and secure, to support all the businesses within the Bank.

### IT Governance

The Risk Management Committee and Internal Control Committee held regular meetings to review the status of IT risk management and internal control management and push forward the development in IT governance. A strong IT team had been built with team members who could understand the technology and the business at the same time.



### **IT Construction**

The Bank has increased the investment in IT infrastructure. It successfully launched 34 IT projects in the past 2012, including corporate cards, international business overseas notice, public reserve fund and other intermediary businesses. The systems for core business, e-channel, credit, cash management have all been upgraded. It also kept the innovation for products and services, pushed the development of infrastructural platform projects such as remote banking, operation centralization, ECIF and other projects smoothly; it established Beijing Yizhuang district city disaster recovery center and performed the real swift exercise, business continuity management capability reached a new stage; it promoted the network restructuring in headquarter, branches and sub-branches, established Beijing bio-center high-speed network, realized regional functional establishment, continued to strengthen the operation and information security work, production system was running safely and smoothly.

### **IT Risk Management**

In order to improve standardized management level, the Bank issued 30 terms of regulations, 28 terms in internal management handbook, 62 standardized templates and 88 contingency plans in the past 2012. The main focuses in IT risk management included whole process risk management, outsource service management, IT security management, and IT contingency management. The Bank enhanced the security check for perimeter firewall and intrusion detection, built up the monitoring audit system to control the Single Point Access. Technical methods were also provided for user management and behavior management, information divulgence prevention plans were set up, standards for desktop security management were established, and anti-virus system was implemented. The Bank updated the security protection level for the information system in order to improve the IT risk management capability. Moreover, the connection between supervision and audit had been enhanced so that the Bank could strictly follow all the regulations and auditing requirements.

## **6.4 Risk Management**

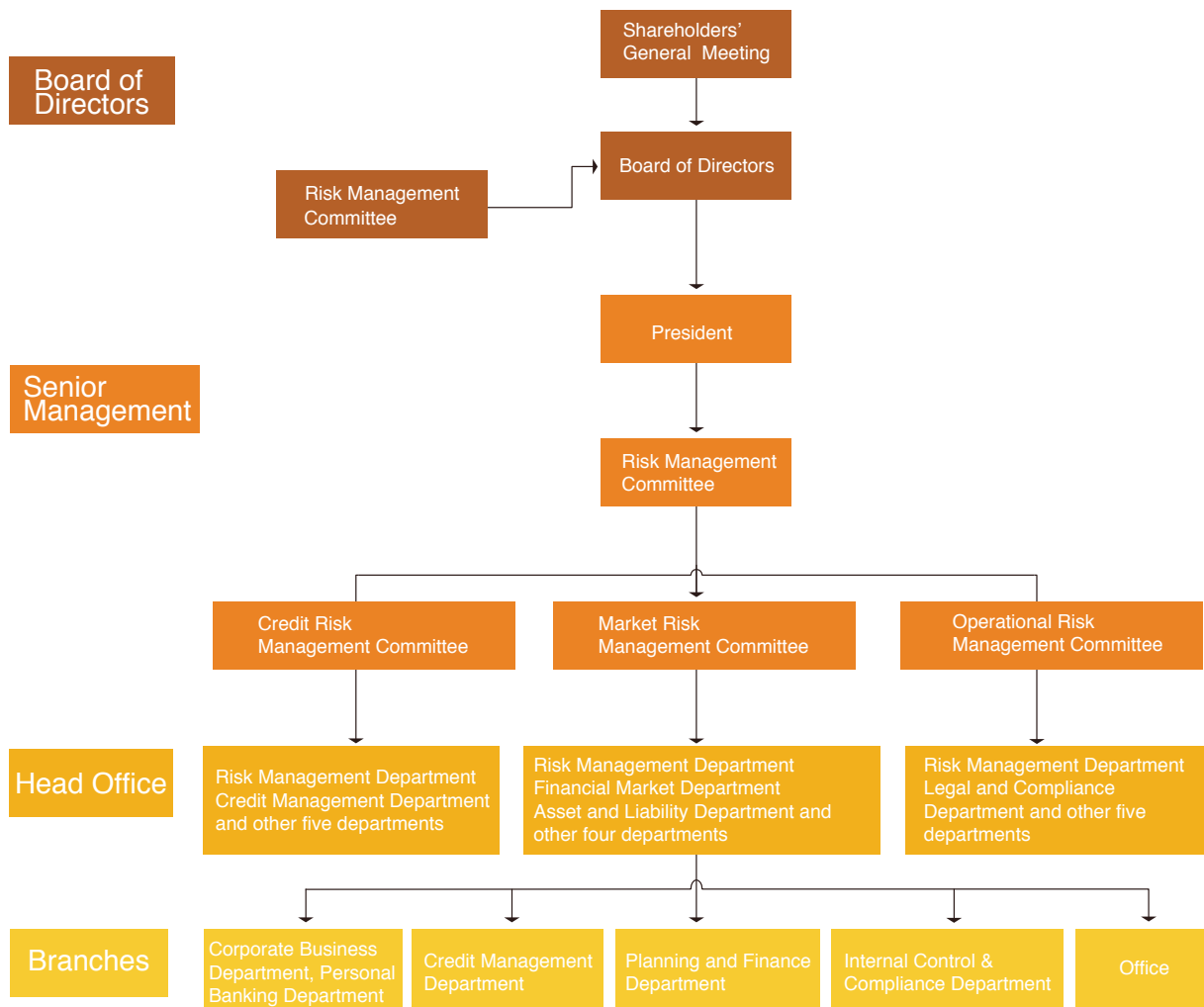
In 2012, the Bank constantly improved the enterprise risk management system, enhanced the network operation of enterprise risk management, stepped up the pace in strengthening the risk management capability and drove the procedure of risk management of the whole Bank gradually. The management mechanism of risk appetite was set up to deepen the centralized vertical structure of management. The professional risk management function was strengthened along with building the credit risk management system ground to achieve its implementation, meanwhile the business continuity management framework was created while the management system of market risk and operational risk was under construction; characteristic risk management under the integration of finance and industry was explored with material risk and potential risk control being continuously reinforced; compliance with New Basel Capital Accord was continuously pushed forward, unified information platform was established to promote the systematic application of measurement results. The concept, tools, mode and mechanism of risk management had been gradually integrated into

the day-to-day management chain of the Bank, meanwhile the conducting of risk management for all business lines progressively realized streamlining and normalization.

#### 6.4.1 Risk Management Organizational Structure

The Bank's risk management system includes verticalized credit risk management, centralized market risk management and hierarchicalized operational and compliance risk. The risk management organizational structure has been proactively improved and the construction of specialized risk management for business lines has been markedly enhanced.

The risk management organizational structure is illustrated as below:



The Board of Directors and its special committees, the Senior Management and its special committees are the supreme management and decision-making body of the Bank's risk management, risk management department is the main body of the routine work of risk management, duty departments in the Head Office and branches support risk management work, and directors of risk management departments in branches are directly in charge of risk management, all above initially form comprehensive risk management organizational structure covering various types of risks such as credit risk, market risk and operational risk as well as all business lines of branches/sub-branches. As executive section of risk management, the risk management department and others constitute "Three Lines of Defense": business departments are the first line, risk management department and legal & compliance department are the second line, tighter with the internal audit department as the third. Risk Management Committee has been set up in each of the branches to monitor, report and manage risks effectively via matrix reporting lines on both business and managing issues.

16 meetings had been held with 43 motions reviewed in 2012 by the Risk Management Committee and the Professional Risk Management Committee in the Head Office. Risk management issues included comprehensive and individual risk management, credit risk management system construction, capital allocation and trading strategy, potential risk settlement, operational risk management in typical branches, post-loan supervision in branches, and small enterprise credit management, motions covering various levels and different types thus revealing problems, driving the Risk Management Committee to operate efficiently and effectively, emphasizing on the Committee's core function on risk management in the whole bank.

#### 6.4.2 Credit Risk

Credit risk, the risk of economic loss arising from the borrowers' or counterparties' default on the contractual obligations or the devalued financial products due to the changes in credit quality, was the most critical risk in all the operating activities of the Bank, the management took prudent principles on the credit risk exposure.

The major sources of the Bank's credit risk included: loans, capital operations (containing deposits with banks and non-bank financial institutions, placements with banks and non-bank financial institutions, financial assets held under resale agreements and bond investments) and accounts receivable.

The Bank abided by the management guidelines of commercial bank credit risk and other regulatory requirements established by CBRC, fully implemented the strategic goals set-in, continuously improved the credit processes and formed the organizing frame of business flow which separated the operations of front, middle and back offices from each other over credit operation under the leadership of the Board and the Senior Management. The Board bore ultimate responsibility for the effectiveness of the monitoring on credit risk; the Senior Management and its sub-organization, the Credit Risk Committee, as the decision-making body and the coordinating institution of the Bank, took

responsibility for the approval over credit risk reports and action plans, and the coordination within plans' execution process; the Risk Management Department in charge of establishing and enforcing the management system of the whole bank over the credit risk and non-performing loans; credit risk management sectors at various levels concretely implemented the credit risk management at each level; furthermore business departments kept compliance with the policies and standards of credit risk management in each business area according with their functional division.

The credit risk management of the Bank presented the following characteristics: i. Standardized credit risk management process of the whole Bank; ii. The regulations and operations of risk management emphasis on the entire process of credit, covering business processes from customer investigation, credit rating and extension, loan evaluation, loan examination and approval, loan origination to post-lending monitoring; iii. Measuring and monitoring regularly over risks via Information Management System (IMS).

In 2012, the Bank actively responded to the changing macro-economic environments and financial regulations, vigorously supported credit requirements from real economy, timely adjusted and improved credit policies, adhering to the principle "Quality Priority, Scale Management, Benefits Concurred". Credit risk management was thoroughly enforced by continuously advancing credit risk management system, reining in credit risks in key focus areas, enhancing credit compliance, perfecting post-loan supervision, deepening detection and analysis over credit risk as well as reinforcing the recovery and handling over risky and non-performing loans.

### **Credit Risk Management in Corporate Loans**

The Bank kept promoting the development of the credit risk management system and optimizing the achievements onto the ground. Since the year 2012 was established as "Asset Quality Year", Overall Construction Planning of Credit Risk Management System in 2012 was promulgated and issued, including 46 priority tasks in 3 aspects: corporate governance, operations of front, middle and back offices, and monitoring; the establishment of Credit Risk Management System Construction Committee with regular meetings once a month that supervised and promoted the realization of all objectives; the publicize of risk management concept and achievements by way of intensive programmer training, itinerant guiding, field investigation and others.

Advancing industry credit policy and industry risk management. The credit policy for Year 2012 was established combining macro-economic policies and industry policy inductions, promptly adjusting with the market. The classified industrial management was enhanced along with the strategy characteristics of the integration of industry and finance, and actively supported the developments of petroleum, petrochemical, logistics as well as cultural tourism and other areas; the construction of "Green Credit" was continuously pushed while strictly controlling the credit of "High Pollution, High Energy Consumption and Excess Capacity" industries; the supply chain financing of CNPC was encouraged, the business which integrated industrial and financial capitals and strengthening

geographical advantages was expanded; the credit policy and management mechanism of small businesses was continuously improved so as to offer further support.

The Bank kept reinforcing the credit risk management of local government financing platforms. The standardization of the cleansing over loans to the financing platforms was combined with relevant regulatory requirements. Meanwhile the new credits of the financing vehicles were under tightly control to limit the entry of credit programs. The managing of existing vehicles credit was intensified by confirming the repayment capacity of each loan to improve the cash flow coverage of the financing vehicles' credits.

The management of potential risk and non-performing loans was enhanced to focus on the substantial risk management. The capital preserving office had been set up meanwhile the managing system over credit with potential risk was published after clarifying the management mechanism of potential risk, establishing potential-risk customer standards and handover processes, making capital preserving plan by accounts to continuously strengthen the management on potential-risk credit and non-performing loans.

#### **Credit Risk Management in Treasury Operations**

The Bank's treasury operations were mainly encountering credit risks from bond investments, and inter-bank financing. The portfolio of Renminbi bonds mainly included treasury bonds, bonds issued by China's Ministry of Railways and other large-scale listed enterprises inside China; The Bank's inter-bank counterparties were consist of major state-owned banks as well as other commercial banks. The measurements to credit risk management in treasury business included: setting up terms of access for customers, carrying on credit assessments and monitoring on credit limits.

#### **Credit Asset Quality Management**

According to the regulatory requirement on loan risk classification, the Bank implemented five-tier classification management in relation to loan quality and classified loans into five categories: pass, special mention, substandard, doubtful and loss, based on the possibility of collecting the principal and interest of loans. In order to implement sophisticated management of credit asset quality and improve risk management, the Bank implemented the twelve-tier internal classification system for corporate loans. The Bank applied five-tier classification management to personal credit assets and ascertained the class of the loans based on the borrowers' willingness to pay, the overdue of collateral coverage ratio and other quantitative and qualitative factors in accordance with the principle "System Determination over Artificial Modification".

The Bank scaled up efforts to handle potential-risk credits and non-performing loans by the mechanism of periodical review and supervision under various disposition policies in terms of the rule "One Customer with One Policy".

## Credit Risk Analysis

### Five-tier Classification

(In RMB Ten Thousands)

Item	31 December 2012		31 December 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	4,060,047	98.16	1,967,758	93.73
Special mention	1,785	0.04	131,039	6.24
Non-performing loans	74,504	1.80	673	0.03
—Substandard	73,993	1.79	-	-
—Doubtful	140	-	673	0.03
—Loss	371	0.01	-	-
Subtotal	4,136,336	100.00	2,099,470	100.00

The share of the loans classified as pass further rose while part of the rest fell. By the end of 2012, the pass loans amounted to RMB40.60 billion with an increase of RMB20.92 billion or 4.43 percentage points, accounting for 98.16% of total loans. The special mention loans decreased by RMB1.29 billion or 6.20 percentage points to RMB18 million, accounted for 0.04%. The amount of non-performing loans rose by RMB738.31 million or 1.77 percentage points to RMB745.04 million, accounting for 1.80% of total loans. Both the amount and portion of non-performing loans climbed up, mainly due to the risk arising from individual customers' credit assets which were adjusted to "substandard" from "special mention". The Capital Preserving Office was set up to enforce the management on potential-risk credit and non-performing loans, make capital preserving plan by accounts, monitor on the management effects and eventually raise managing standards of potential-risk credit and non-performing loans.

### Loans and Non-performing Loans Structure Divide by Line of Business

(In RMB Ten Thousands)

Item	31 December 2012				31 December 2011			
	Amount	Percentage (%)	Amount of non-performing loans	Percentage of non-performing loans (%)	Amount	Percentage (%)	Amount of non-performing loans	Percentage of non-performing loans (%)
Corporate loans (Discounted corporate loans included)	3,414,532	82.55	74,392	2.18	1,809,434	86.19	593	0.03
Discounted bills	594,578	14.37	-	-	236,642	11.27	-	-
Personal loans	127,226	3.08	112	0.09	53,395	2.54	80	0.15
Subtotal	4,136,336	100.00	74,504	1.80	2,099,471	100.00	673	0.03

Corporate non-performing loans increased by RMB737.99 million to RMB743.92 million, meanwhile its ratio rose by 2.15 percentage points to 2.18%. Personal non-performing loans increased by RMB0.32 million to RMB1.12 million, besides its ratio dropped by 0.06 percentage point to 0.09%.

### Borrower Concentration

The total amount of loans granted by the Bank to the single largest borrower accounted for 45.14% of the Bank's net capital, all of which were full hypothecated loans; the total amount of loans granted by the Bank to top ten single customers accounted for 84.04% of the Bank's net capital and 28.82% of the Bank's loans.

The table below shows the details of the loans granted to the top ten single borrowers of the Bank as at the end of 2012.

(In RMB Ten Thousands)			
Borrower	Industry	Amount	Percentage (%)
Borrower A	Real estate	640,000	15.47
Borrower B	Mining	100,000	2.42
Borrower C	Water conservancy, environment, utility facilities management and investment	89,500	2.16
Borrower D	Electric power, gas, water production and supply	58,200	1.41
Borrower E	Manufacturing	54,000	1.31
Borrower F	Lease and business service	50,000	1.21
Borrower G	Mining	50,000	1.21
Borrower H	Mining	50,000	1.21
Borrower I	Electric power, gas, water production and supply	50,000	1.21
Borrower J	Electric power, gas, water production and supply	50,000	1.21

### 6.4.3 Market Risk

Market risk is the risk of bank loss on-and-off-balance sheet arising from the adverse changes in market price factors (interest rate, exchange rate, stock price, commodity price, etc.). The Bank was mainly exposed to interest rate risk and exchange rate risk. The Bank's market risk management system was based on market risk managing strategies and policies, governance structure, organization and staff, internal control and audit, and the Bank's risk appetite and limits, covering processes of identifying, measuring, monitoring, reporting and controlling market risk for the purposes of continuously monitoring and properly managing market risk in business of trading, as well as controlling market risk exposures within a tolerable level.

The Bank strictly complied with the Guidelines on Market Risk Management of Commercial Banks issued by CBRC and other related regulatory requirements, implemented an independent, centralized and coordinated market risk management model under the leadership of the Board of Directors and the Senior Management, and formed a management organizational structure featuring the segregation of the front office, the middle office and the back office in the financial market business. The Board of Directors assumed the final responsibility to implementation and monitoring of market risk management. The Senior Management and its Market Risk Management Committee were

responsible for executing the strategies, overall policy and system 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 Risk Management Department undertook the responsibility of the daily work of market risk management. The business departments played their roles in implementing market risk management policies and standards in respective business areas to ensure the market risk is controlled within limits.

In 2012, the Bank further strengthened the identification, measurement, monitoring and report of its market risk based on the construction of its market risk management system by means of providing market risk related information and data, highlighting trades to be focused on, improving market risk management effectiveness, and achieving the operating separation and restriction system of the front, middle and back offices. The Bank's market risk governance structure and system had been combed through on the basis of regulation requirements as well as inter-bank best practice, to be more specific, the Market Risk Management Manual was issued to guide the implementation and application of the Bank's market risk management theories and regulations, covering the basic concept of market risk, the regulatory system, the management system, the measurement and the management of idiographic operations. The market risk management system was further perfected, and market risk measurement as well, by means of establishing market risk management database, constructing the market risk management information platform preliminary and realizing the integration between the Renminbi and foreign currency business, eventually benefited the application of measuring instruments and information systems in market risk management.

To take a more targeted market risk management measure and accurately measure the regulatory capital on market risk, The Bank had classified on-and-off-balance sheet assets and liabilities into transaction accounts or bank accounts on the basis of the nature and characteristics of the individual accounts. A transaction account stood for a freely traded financial instrument as well as a commodity position held by the Bank for the purpose of trading or risk avoidance. The other types of positions were included in the bank account. For different types of accounts, it enforced the appropriate controls.

### **Interest Rate Risk**

The Bank's interest rate risk is based on the impact of re-pricing, or maturities mismatching of its banking book's asset-liability ratio on the Bank's profit, and the influence of interest-rate moves on fair value of financial instrument in the trading book.



#### Interest Rate Risk Management of the Trading Book

The Bank adopted multiple methods including exposure analysis, value at risk (VaR) analysis, duration analysis, sensitivity analysis and stress test to measure and manage the Bank's interest rate risk of its products in the trading book. The Bank applied its Risk Management System and independent middle offices of internal control to conduct effective monitoring, management and reporting on the execution of risk limits. Interest rate risk of the Bank mainly came from losses from changes in fair value with the price for Renminbi bonds in the trading book falling. In 2012, the trading strategy was timely adjusted according to the external change occurred in domestic financial markets, hence supported a stable economic development of the Bank's financial market business. The Bank's trading book consisted mainly of Renminbi bonds which reached a sub-value of 1.1 billion by the end of 2012, and the VaR of the Renminbi bond adopting a holding period of one day in trading book was RMB2.01 million, meaning that an estimation of the maximum loss of the Bank's trading book during the upcoming day was RMB2.01 million.

#### Interest Rate Risk Management of the Banking Book

Interest rate risk management of the banking book consisted of interest rate risk in fair value and cash flow due to interest rate fluctuations in markets. The Bank's interest rate spreads would increase, decrease or even suffer losses due to the fluctuations of market interest rate. The Bank operated under the interest rate system required by PBOC. To embody the prudential principles, the banking book's interest rate sensitivity gap (IRSG) was regularly measured and verified, and the banking book's interest rate risk was evaluated by gap analysis. Simultaneously, the Bank monitored and forecasted the market interest rates, combining the sources and application of capital to analyze and rationalize the term structure of the reprising of interest-earning assets and interest-bearing liabilities, then further diminish the potential adverse impact on the profitability due to interest rate moves. In 2012, the macro monetary policy was already being revamped that PBOC cut the bank reserve requirement ratio by both 0.5 percentage point in February and May; and the financial institutions RMB deposit and loan interest rate was cut to add liquidity to the market in June and July. Market interest rate suffered its heightened volatility with the cumulative effects of the monetary policy, increasing the challenge for interest rate management. The study on monetary policy situations and the forecast on the trend of interest rate were enhanced to analyze and determine the influence of lowering interest rates by PBOC, moreover, the Bank's interest rate management policies were adjusted according to the interest rate policies set by PBOC to strengthen the pertinence and effectiveness of the Bank's interest rate management.

The Bank's banking book interest rate management had been gradually established and consummated by further upgrading its management information system of banking book interest rate, increasing the accuracy of the system measurement and enriching the measuring tools.

The table below shows the details of the interest-sensitive exposure of the Bank's banking book as at the end of 2012.

(In RMB Ten Thousands)								
Item	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Subtotal
The interest-sensitive exposure of the Bank's banking book	156	(92)	33	(145)	54	111	40	157

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

### Exchange Rate Risk

Exchange rate risk is the risk of adverse movements of exchange rate resulting in losses to the Bank's on-and-off-balance sheet business. The Bank's exchange rate risk manifested as the risk of adverse movements of exchange rate resulting in losses from the foreign currency exposure arising from the currency structures mismatch between foreign currency assets and liabilities in its banking book. All of the Bank's foreign exchange exposures were non-transactions, 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 an acceptable bound.

As at the end of 2012, the foreign exchange exposure in the Bank's international business was USD108.56 million, which was within the risk limits. The exchange rate risk value (VaR) under 1-day holding period was RMB4.21 million, meaning that the estimation of the maximum loss of the Bank's foreign exchange exposure during the upcoming day was RMB4.21 million.

#### 6.4.4 Liquidity Risk

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

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

### **Liquidity risk management**

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

In the year 2012, the Bank further strengthened the construction of liquidity risk policies by synthesizing the macroeconomic conditions and financial regulatory policy shifts, to enhance the management on liquidity risks. According to the Guidelines on the Liquidity Risk Management of Commercial Banks issued by CBRC, the Bank effectively improved its liquidity risk management through management technology upgrading, more specifically, continuously improving liquidity risk limit's index system and management information system for monitoring cash flow as well as upgrading the managing system, and transfer pricing mechanism of internal capital perfecting, which could generate a more flexible and targeted transferable price of internal capital.

Observing the prudence principle, the Bank employed the scenario analysis method and the sensitivity analysis method to perform the stress testing on liquidity risk. The Bank has taken full consideration of various macroscopic and microscopic factors that may influence the Bank's liquidity status to set stress scenarios in line with the characteristics of the Bank's businesses. The Bank performed stress testing at regular intervals, and when necessary, might carry out temporary and special stress testing at a specific point in time in accordance with changes in the external operating environment and regulatory requirements.

### **Liquidity Risk Analysis**

In 2012, PBOC adjusted the reserve requirement ratio two times and cut the benchmark interest rates on deposits and loans two times and consequently the inter-bank market interest rates fluctuated. The Bank paid close attention to the situation of market funds, and established multi-level liquidity reserves in accordance with the Bank's assets and liabilities, business development and liquidity status, effectively reduced the use of low-efficiency funds while ensuring bank-wide liquidity security, raised its fund use efficiency and practically improved its ability to deal with liquidity risk.

In 2012, the deposit and loan businesses of the Bank achieved coordinated development, the asset and liability structure was further optimized, liquidity risk management level was further strengthened and the liquidity risk remained controllable. Relevant indicators reflecting the Bank's liquidity status met all the regulatory requirements in the below table:

Main regulatory indicators	Regulatory Criteria	31 December 2012	31 December 2011
Liquidity ratio (%)	≥25	73.78	75.61
Loan-to-deposit ratio (%)	≤75	31.79	24.05

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

The Bank also assessed the liquidity risk status by using liquidity exposure analysis. As at the end of 2012, relatively significant changes in the liquidity exposure of the Bank mainly occurred for the following terms: less than 1 month, 1 to 3 months and 3 months to 1 year. The increase in deposits with banks and non-bank financial institutions expanded the positive exposure for the less than 1 month category; the increase in customers' deposits enlarged the negative exposure for the 1 to 3 months category; the increase of loans due with terms of 3 months to 1 year led to the expansion of the negative exposure for the over 5 years category. Demand deposits of the Bank continued to grow because of a high deposition rate, together with sufficient liquidity reserves, which had driven the cumulative positive liquidity exposure to further increase compared to the end of last year. Therefore, the overall liquidity of the Bank was safe. The liquidity exposure analysis of the Bank as at the end of 2012 is shown in the table below:

(In RMB Ten Thousands)							
	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Overdue	Undated	Total
31 December 2012	4,224,165	(1,296,315)	(3,016,311)	280,655	22,906	1,435,802	1,650,902
31 December 2011	1,543,468	(407,864)	(3,585,123)	2,419,172	832	1,311,668	1,282,153

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

#### 6.4.5 Operational Risk

Operational risk refers to the risk of loss resulting from incompleteness or faults in internal procedures, human error and information technology system failure, or external events. The Bank's operational risk included legal risk, but excluded strategy risk and reputation risk.

#### Operational Risk Management

In 2012, the Bank continuously promoted the major infrastructure work of operational risk management relying on Basel New Capital Accord based operational risk management project, gradually established and perfected a standardized, systematized and normalized managing system of operational risk.

The organizational structure of operational risk management had been improved, along with the application and optimization of operational risk management system and tools. Operational risk management team had been launched in both the Head Office and branches, and executive officers in branches were all set up, to promote the three cardinal tools in operational risk management system, which were Risk and Control Self Assessment, Key Risk Indicators and, Loss Data Collection, at levels of the Head Office and branches, covering operational risk identification, assessment, monitoring and reporting in all business processes and realizing the systematization, standardization and informatization of operational risk identification and assessment, key risk index early-warning and monitoring, operational risk incident reporting and loss data collection, to provide technical guarantee for operational risk management; the Bank encouraged its branches to develop 77 enterprise-class key risk index, and launched the re-inspection and optimization processes of 20 enterprise-class key risk index in the Head Office.

The construction of business continuity management system was realized. In 2012, the Bank focused on the organizational structure development of business continuity management, regulation and policies, business impact analysis and risk assessment, as well as the contingency plan and business continuity plan making, for promoting the system construction of business continuity management in the Head Office. The organizational structure of business continuity regular management and emergency response and handling had been established; the Bank's business continuity management system infrastructure had been determined, including the overall emergency plan, business continuity management regulation and other related detailed rules; the business impact analysis and risk analysis had been carried out to comb through the Bank's significant business processes as a whole and objectives of recovery and provide development demands for the Bank's intra-city disaster preparation center; specific emergency plans had been launched to clarify the key points of emergency settlement, report specification and decisions paths, covering all the initial businesses of the whole Bank; the mock drilling of emergency plans was energetically carried out to test the effectiveness of scene information uploading, emergency decision-making and emergency procedure implement mechanism, then defined the assignment of responsibility of each departments in the emergency settlement, to further enhance the emergency awareness, proficiency and practical ability of all levels of personnel.

The Operational Risk Management Manual had been launched. It combed and itemized the key points of operational risk management in the Bank's essential business lines, and established a serious of documents issued by the Basel Committee on operational risk to standardize the refined operational risk management of the Bank on the foundation of comprehensive illuminations on the principles, fundamental theories, measurement techniques, laws and regulations in the domestic and overseas, core concepts of operational risk management.

The bank-wide risk and control pool was continuously enhanced. Institutions and business processes were under constant enrichment and improvement via the revision and optimization of the Internal

Control Manual, thus the risk and control pool covering core business processes, major risks and key control points was formed to lay the foundation of effective assessments on risk and control, and also to provide strong support on the awareness and control of the Bank's entire staff on business process risks.

The specialized training programs on operational risk had been carried out. In 2012, the specialized training programs on operational risk were organized in batches for full-time and part-time operational risk executives from branches of the Bank. During the trainings, the cultural philosophy of operational risk management was publicized over live sessions or video conferences, as well as the usage of the managing tools and management information system.

### **Legal Risk Management**

The Board of Directors and the Senior Management of the Bank fully comprehend legal risk at every layer, being capable of forecasting and reacting against changes in markets or regulations, and take effective measures to rectify right after defects spotted. The legal risk management system of the Bank was rational on account of the well defined authorities and responsibilities of all the associated sectors in legal risk management. Separate legal departments or legal risk management posts with satisfying professional qualities have been set up in both the Head Office and branches.

In 2012, to further advance the Bank's prevention and control over its legal risk, the King & Wood Mallesons(PRC) was engaged as the perennial legal adviser of the Bank, providing legal consulting services, assisting and guiding the Bank handling disputes. All business operations of the Bank were conducted in compliance with national laws and regulations, as well as regulators' rules, and no serious violation of the Bank was committed.

The Bank launched a strict judicial review system on the development of new products and business in accordance with laws and regulations, related significant legal documents were all sent to and then reviewed by the legal department, who would issue legal comments on the legalization and standardization of related products and business.

In respects of policies, procedures and restriction structure, the Bank formed a distinctive and adequate authorization system based on uniformed authorization and participatory management. Therefore, the authorization management played an effective role in achieving optimal resources allocation, inspiring the motivations of the operators and controlling operating risks, ultimately providing a sound authorization foundation to the business development of the Bank. To further enhance the prevention and control over legal risks, the standardization of the operation and management of the Bank, and corporate governance compliance with law as well, the Legal Risk Prevention and Control System Manual (Trial) was issued, and based on that, the Legal Risk Prevention and Control Guidance was worked out combined with the Bank's management of the actual operations, further refining the legal risk sources, legal liabilities and consequences, risk

prevention and control measurements and related law and regulations, which were disaggregated into specific tasks to ensure the concrete work implement.

### **Anti-money Laundering Management**

The Bank strictly observed anti-money laundering relevant laws and regulations, actively implemented regulatory policies and fulfilled anti-money laundering obligations, then advanced anti-money laundering management in overall level.

In year 2012, the organization management of anti-money laundering was actively enhanced by the Bank. Leading group meetings were held periodically to study on the development status of anti-money laundering, and all stages of the priorities were arranged and scheduled. The internal control institutions had been improved according to regulatory policies, besides that, 3 anti-money laundering internal control policies had been revised and perfected by consulting business development practice. The supervision requirements including client identification, preservation of client identities and transactional records and classified management of client's risk ratings were enforced strictly, and the ground works such as client due diligence and classified management of risk classifications were undertaken, to prevent anti-money laundering risk of the Bank effectively. The reports of large-amount trades and suspicious trades were submitted timely and accurately, along with various types of monthly, quarterly and annual reports as well, to stay vigilant in money laundering and terrorist financing activities. The anti-money laundering trainings were reinforced by inviting external experts to launch on-site and internal trainings, during that the Bank's executives and operators of different business lines related to anti-money laundering were trained in aspects of law and regulations, supervision requirements and inter-bank cases to further enrich their knowledge of theory and hoist their practical operational skills. The Korla Branch of the Bank helped the police prevent the happening of a contract dupery crime by conducting earnest identification of client's identity. The publicity of anti-money laundering was intensified via various ways of road show, scrolling display on LED screen in business halls, brochure distribution and bulletin boards, to spread anti-money laundering propaganda among the clients and masses and make them realize the damage, then raise their awareness of anti-money laundering and how to safeguard their lawful rights and interests under the correct usage of the financial instruments, all of which gained widespread recognition and praise.

During the reporting period, no institutions or any employees of the Bank were found to be or were suspected of being involved in money laundering or terrorist financing activities.

### **6.5 Capital Management**

The Bank's capital management was composed of capital adequacy ratio management, and economic capital management, of which capital adequacy ratio management was the emphasis.

Administrative Measures for the Capital of Commercial Banks (Trial) was promulgated by CBRC on 7 June 2012, and it was implemented on 1 January 2013, which enforced stricter standards of capital definition, risk capital measurement and capital adequacy ratio. 2013 Capital Generation Framework Scenario was completed with the co-ordination and consideration of the impact of new capital regulatory policies on the Bank.

### 6.5.1 Capital Adequacy Ratio Management

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital, if total positions in the transaction account exceed 10% of the total assets or RMB8.5 billion, the banks shall calculate and deduct the market risk capital. At the reporting date, the Bank was fully compliant with the legal and regulatory requirements in this respect.

The capital adequacy ratio management is the focal point of the Bank's capital management. The Bank stated its objectives of capital adequacy ratio management on regulation indicators, industry averages, the rate and strategy of the Bank's development, the Bank's risk appetite and its timeliness of capital generation, meeting regulatory requirements.

The Bank calculated capital adequacy ratio and core capital adequacy ratio in accordance with the Regulations Governing Capital Adequacy of Commercial Banks and related regulations promulgated by CBRC. As at 31 December 2012, the Bank's capital adequacy ratio and core capital adequacy ratio on the consolidated basis were both 13.72%, meeting regulatory requirements. The consolidated capital adequacy ratio and the core capital adequacy ratio both decreased by 5.46 percentage points from the end of last year, mainly because the growth of total risk-weighted assets was at a faster rate than that of the Bank's net capital. The Bank's total assets increased rapidly along with its risk-weighted assets rising by 57.02% from the end of 2011. By internal method such as replenishing of core capital via profit retention, the consolidated-basis net capital increased by 12.31% year-over-year. The detail shows as below:

(In RMB Ten Thousands)			
Item	31 December 2012	31 December 2011	Rate of increase/ (decrease) (%)
Net capital	1,417,939	1,262,562	12.31
Of which: Net core capital	1,417,939	1,262,562	12.31
Supplementary capital	-	-	-
Total risk-weighted assets	10,335,291	6,582,096	57.02
Of which: On-sheet risk-weighted assets	10,254,594	6,547,133	56.63
Off-sheet risk-weighted assets	80,697	34,963	130.81
Capital adequacy ratio (%)	13.72	19.18	(5.46)
Core capital adequacy ratio (%)	13.72	19.18	(5.46)



### 6.5.2 Economic Capital Management

In the year 2012, the development of economic capital management system was vigorously promoted via the progressively definitization of the organizational structure, assignment of responsibility, measurement method, core application fields and methods of the Bank's economic capital management, and the design of practical schemes on measurements and utilizations to develop the management information system of economic capital for setting a value-based management system focusing on economic capital, then optimized the allocation of resources and the operation management mechanism which could cover all sorts of risk and benefit currently and under long term condition, eventually create best returns for shareholders of the Bank.

Economic capital management of the Bank included two major procedures: measurement and application. Economic capital indicators included Economic Capital (EC), Risk-Adjusted Return on Capital (RAROC) and Economic Value-added (EVA). The application areas included credit resource plan and allocation, routine monitoring and management, economic-capital-based performance assessment, value-based management, stress testing, etc. The Bank intensified the regulation of the aggregate amount and structure of risk-weighted assets through its economic capital management, further raising the level of resource allocation efficiency and return on capital.

### 6.6 Human Resource Management

The Bank pushed forward the improvement of human resource management in depth as a whole, hence the management of all aspects boosted significantly. Characteristic mechanism of selection and employment was strictly implemented under the principles "Examination First, Competition for a Post, Salary Adjust with Position, Strict Assessment, Effective Incentive, and High Transferability", the competitive personnel selection was enhanced to promote the exchange opportunities and trainings of business managements, and to further strengthen the incentive-restriction examine mechanism. The construction of the Bank's core resource team was in full swing by planning the annual key position introduction, recruiting needed personnel, external specialists and senior professionals, optimizing the structure and quality of the employees and rising the allocate efficiency, to gradually increase the profitability of human resource. The Bank was further featured to be a learning commercial bank with a larger training resource input and a distant training platform for the whole bank established, the training resources were fully utilized via e-learning as well as online examinations. The Bank perfected its institutions of all levels and modified its business management modes combining its practice of developments to improve the responsibility system of all institutions and departments, and to enhance the intensive processing capacity of the Bank.

The performance evaluation system and salary distribution system were set up based on comprehensive pilots in branches of the Bank. The assessment of product pricing and business volume was vigorously advanced, and a calculation and regulation mechanism of labor usage amount relating to assets and total profit was established, focusing on the refinement, rationalization

and operability of the assessments. The payroll management was improved constantly, and the salary and welfare system covering short-term, middle-term and long-term was established with a deferred payment policy being implemented strictly and a deferred bonus plan being launched. The Bank's staff welfare was further improved by exploring diversifying incentive mechanism, exerting the safeguarding and motivating function of the salary and welfare policies to spark the enthusiasm and creativity of employees and to reinforce the effectiveness of human resource management.

## 6.7 Outlook

In 2013, the Chinese banking industry is facing great pressure during its development from many aspects such as the transformation of economic development patterns, the operation of physical economy, the macro-control of monetary policy, the financial disintermediation as well as the tightened regulatory policies. There are as much favorable opportunities as there are grave challenges in the Bank's operation and development.

The Bank will embrace various opportunities and also many challenges in 2013. Firstly, transformation of economic development patterns will provide strong policy support to the Bank. The orientation of the industrial, sector and regional policies of the nation's economic development pattern transformation is mostly identical to the Bank's industry and finance integration strategy, its customer structure basing on the energy industry chain, and its Midwest-based business layout. Secondly, the Bank's comprehensive risk management is required to be enhanced as the economy has slipped into lower gear. The systemic risk rising from the shrink of the real economy begins to emerge, which will severely challenge the Bank's operation, thus propose higher demand of the Bank's risk prevention capability. Thirdly, the Bank's competitiveness is called to be strengthened by the prudent monetary policy. In 2013, China will sequentially conduct the prudent monetary policy, under which the social financing scale will be appropriately expanded and the financing cost of the real economic development will be lower, both of which will benefit the Bank's loans' growth while put stress on the operations of quality customer marketing, loan lending, pricing management and financial market business. Fourthly, the Bank's specialized and characteristic operation will be pushed forward to a superior standard by the market-oriented reforms of interest rates. The interest spread in domestic banking industry is retracing and the development of the banking industry is transforming, which request the Bank to speed up its characteristic development of combining the industry and finance, its study and improvement on the interest rate pricing mechanism, and its capacity of coping with shocks from various aspects. Fifthly, the Bank's capital management restriction and the capital allocation efficiency are forcing to be optimized by the tightened regulatory standards. The implementing of the new capital managing policy raises the operating cost of the Bank, and it is urging the Bank to perfect its economic capital management and its credit capital structure, further enhance its profitability. Sixthly, the regional economic and financial environment will be advantageous to the Bank by bring tremendous opportunities of the Bank's development. The co-operation over energy development will be steadily promoted by CNPC and the Third Phase

of the West-East Gas Pipeline Project so long as various other nationally significant projects are launched. The implementation of the internationalization strategy is accelerated to maintain a stable oil production, and the construction of West-Daqing and Xinjiang-Daqing is in progress to offer a solid foundation and a broad space to the Bank's development of the integration of industry and finance since the regions which the Bank is located in such as Xinjiang, Shaanxi and Daqing are in the new stage of rapid development.

In 2013, the Bank will adopt a conservative and prudent, active and innovative attitude, stand at a new start, look for a new breakthrough and achieve a new development. The benefit-centralized direction and profit-based assessment will be highlighted along with the expediting of the Bank's ideological, developmental, operational and managerial change. The customer foundation will be reinforced and the construction of the account manager team will be strengthened, to further realize the healthy, harmonious and sustainable development of the Bank. Firstly, the Bank will definitize its own objective and make its measures implemented, to accomplish its operational tasks throughout the year 2013. Secondly, the substantial risk of the Bank will be strictly controlled to feasibly guarantee the development quality. Thirdly, the Bank will persistently perfect its protection support system to further upgrade its supporting capability of business and service. Fourthly, the Bank will deepen and implement its industry and finance combination strategy to promote its development with its advantages being played out. Fifthly, the development foundation of the Bank will be comprehensively consolidated to enhance the Bank's operation and management.

**Social Responsibility**

07



In 2012, the Bank thoroughly carried out the scientific development perspective, strictly followed national industrial policy on environmental protection and regulatory requirements, insisted the featured development of the integration of industry and finance, practically took economic, social and environmental responsibilities, continuously optimized credit structure, raised priority services to small and micro enterprises, actively supported agriculture and rural development and the people's livelihood construction, attentively provided services to customers, care to employees, supported energy conservation and emission reduction, constructed low-carbon enterprise and made a positive contribution to a harmonious society.

## 7.1 Economic Performance

### **Optimizing Credit Structure**

The Bank actively followed the national strategy of economic structure adjustment and development mode transition, controlled the total amount, direction and rhythm of credits, continued to optimize credit structure, strengthened credit support to western area, and prompted the coordinated development of regional economy. The Bank grasped the advantageous opportunities endowed by the national policy to Xinjiang development, combined Xinjiang regional economy development phases and industrial structure features, insisted the featured development of integration of industry and finance, supported petroleum, petrochemical, coal and other related industries, and primarily involved in the industries with regional competitive advantages and in clients with resource industries. By the end of 2012, the loan balance to Xinjiang area was RMB24.02 billion, accounted for 58.07%, which provided powerful support to economy development in Xinjiang. The Bank was rewarded "2011 Leading Bank of Supporting Local Economy Development" by CBRC Karamay Office and Karamay Banking Association.

### **Services to SMEs**

In 2012, the Bank strictly executed all the small and medium sized enterprises service policies set by CBRC, set up special operating institutes, improved loan efficiency according to the features of "Short, Frequent, Quick" of small and micro enterprises loans, and ensured to attain the goal of "Two Not Less Than" set by CBRC. Meanwhile, the Bank highlighted the feature of integration of industry and finance, utilized small and micro enterprises in petroleum and petrochemical industry chain as the enter point, tailored financing products and mode, carried out differentiate authorization, priority approval and priority granting. By the end of 2012, the loan balance to small and micro enterprises was RMB2.33 billion, and the amount of clients and balance of small and micro enterprises improved gradually. The Bank was rewarded "2011 Banking Model of SME Financial Services" by CBRC Karamay Office and Karamay Banking Association.

### **Supporting to Agriculture and Rural Development**

The Bank actively implemented the “Strong the Peasants, Benefits the Peasants, Wealthy the Peasants” policy set by central authority, combined with the agricultural features of each branch location, optimized credit process, comprehensively enhanced financial services to agriculture and rural development, prompted rural construction of infrastructure and ecological environment, supported agricultural development of Xinjiang Production and Construction Corps, gradually widened range of rural collaterals, flexibly utilized various kinds of collaterals, and ensured the gradual increase of rural loans. By the end of 2012, the loan balance to rural area was RMB7.38 billion, accounted for 23.48% of total loan balance of the Bank. As the same time of servicing to local rural development, the Bank endeavored in cultivating the peasants’ finance awareness and in enhancing their financial management and risk awareness.

### **Promoting the Construction of People’s Livelihood Projects**

In 2012, the Bank actively devoted to the construction of people’s livelihood, greatly supported the construction of city infrastructure, key projects and housing projects of local area. Among them, as a financial institute at registration place, Karamay Branch provided loans amounted to RMB2.27 billion to Karamay City Construction Investment and Development Co., Ltd., in order to solve the funding shortages of city government in construction of city infrastructure and people’s livelihood, which provided powerful financial support for local economy to realize enormous development. Daqing Branch fully supported the construction of Daqing oilfield venture city, and ensured the capable, affordable and comfortable livings for old employees of Daqing campaign. Urumqi Branch provided project loans amounted to RMB0.90 billion to Urumqi City Construction Investment and Development Co., Ltd., for the construction of Karamay Road-Nanhu Dongxi Road viaduct project. Xi’an Branch steadily carried forward financial services to indemnificatory housing and medium-low level revenue residents’ housing, and now had delivered RMB0.3 billion to placement of villagers and residents involved in integrated transformation of Sanqiao neighborhood.

### **Financial Service Fee was Reduced**

In order to better take social responsibilities and repay to the clients, the Bank actively implemented the policy of reducing financial service fee set by regulatory authorities, reduced the fee of 30 items such as domestic and abroad interbank withdrawals, internet banking real time interbank transfers, corporate account management. The Bank was the city commercial bank that provided the most various items of service fee reduction. In 2012, merely the reduction of interbank fee of bank card and internet banking amounted to RMB26.47 million.

## **7.2 Social Performance**

### **Improving Service Quality**

Since the clients’ satisfaction determines an enterprise’s value, the Bank followed the service

concept of “Client-centric”, and comprehensively and consistently improved service level. During the reporting period, in order to further promote the operation and service quality of each institutes, the Bank implemented “Improving Service Quality” project, formed Business Outlets Refine Management Manual, Clients Complaints Management Approach, Complaints Case Guidance and other codes, held civilized manners service and service management trainings, perfected soft and hard service environment, organized external vendors to initiate 4 service code execution monitoring of each outlets and 1 clients’ satisfaction investigation of the Bank, and prompted each institutes to implement the service code.

With the joint efforts of each branch in 2012, various institutes and individuals were rewarded Advanced Unit and Advanced Individual: Karamay Bell Tower Sub-branch and Daqing Road Sub-branch were rewarded “Gold Medal Service Outlet” by Xinjiang Banking Association; Daqing Branch was rewarded the “Model Unit” of Heilongjiang financial industry window, the business division of Xi’an Branch was rewarded “The Most Satisfactory Institute” by Shaanxi Banking Association, Guligena Habulehaji from Karamay Bell Tower Sub-branch was rewarded “Golden Medal Service Star” by Xinjiang Banking Association, and Zhang Kairong from the business division of Xi’an Branch was rewarded ‘The Best Service Star’ by Shaanxi Banking Association.

### **Caring for Employees**

In 2012, the Bank vigorously focused on caring for employees, emphasized the effectiveness of organization, took caring and provided services to employees, and formulated and implemented Bank of Kunlun “Giving Warm” Project Implementation Approach, which carried out the caring to employees. The Bank also held “the First Session of Employee Skills and Qualities Competition”, cultivated a hardworking study atmosphere, and propelled the improvement of employees’ qualities. The Bank also did a great job on monitoring the labor protection, always insisted the risk evaluation and danger recognition to working environment, and strictly followed environmental protection standards on office decorations and office furniture procurement, in order to protect employees’ health. Aimed to intensive work or great pressure of employees, the Bank invited professional psychologists to give “Sunshine Mood, Happy Working” lectures, in order to relief staff pressure, and help them to keep nice moods in working. The Bank initiated “Giving Warm” project and donated funds and goods to employees in difficulty. The Bank also initiated abundant cultural activities, in order to make employees feel delightful, and to strengthen team cohesion.

### **Keen to Public Welfare**

The Bank highly emphasized and consistently supported all kinds of public welfares, actively prompted the development of local education, culture and technology, gave loving hearts to local welfare institutes and schools as capabilities allowed. In 2012, the Bank donated RMB9 million to government of Xinjiang Uygur Autonomous Region, in order to propel the booming of local culture and sports.

### 7.3 Environmental Performance

The Bank adhered to the concept of “Green Credit”, took responsibilities on ecological environment, supported industrial economy with energy conservation, emission reduction and low-carbon, strictly reviewed the loans to enterprises of “High Pollution, High Energy Consumption and Excess Capacity”, and integrated the environmental protection concept to credit policy and culture. Meanwhile, the Bank advocated paper-less office, constructed low-carbon enterprise, and prompted the development of environmental protection with practical actions. In 2012, the Bank devoted to Kramay “Great Greening” project, and sustained the greening of 225-mu of lands, which effectively improve local ecological environment. Also, it loaned RMB0.5 billion to the Urumqi natural gas transmission and distribution system’s expansion and reconstruction project, which made positive contribution to the “Blue Sky” project in Urumqi.



**Changes in Share Capital  
and Shareholders**

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08

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### 8.1 Changes in Share Capital during the Reporting Period

None

### 8.2 Number of Shareholders and Proportion of Shareholding

By the end of 2012, the total number of shareholders of the Bank was 77, and the total number of shares was RMB6.72 billion. The shareholding proportion of corporate shareholders was 99.9992% and that of individual shareholders was 0.0008%.

### 8.3 Top 10 Shareholders of the Bank

(In Share)			
No.	Name of shareholder	Shareholding	Percentage (%)
1	China National Petroleum Corporation	5,507,274,021.41	82.00
2	Karamay City Finance Bureau	308,449,902.51	4.59
3	Xinjiang Financial Investment Co., Ltd.	223,225,446.36	3.32
4	Xinjiang Uygur Autonomous Region State-owned Assets Investment Management Co., Ltd.	197,044,334.98	2.93
5	Xinjiang Uygur Autonomous Region Financing and Guarantee Co., Ltd.	98,522,167.49	1.47
6	Xinjiang 3U Investment Group Co., Ltd.	52,387,836.93	0.78
7	Xinjiang Taisheng Investment Co., Ltd.	43,382,903.66	0.65
8	Karamay City Construction Investment and Development Co., Ltd.	37,414,335.61	0.56
9	Finance Bureau of Karamay District in Karamay	32,198,179.89	0.48
10	Karamay Tiansheng Engineering Construction Co., Ltd.	22,598,049.31	0.34

### 8.4 Controlling Shareholders and Actual Controller of the Bank

China National Petroleum Corporation (CNPC) is the controlling shareholder and actual controller of the Bank. The controlling share holder and actual controller of the Bank were not changed during this reporting period. By the end of 2012, CNPC held RMB5.51 billion shares of the Bank, the proportion of which is 82.00%.

CNPC is a super-large petroleum and petrochemical enterprise group established in July 1998 on the basis of the pervious General Corporation of China National Petroleum, in accordance with the reform scheme of the State Council. It is also a state-authorized investment institution and state holding company. CNPC is specialized in oil and gas exploration, petro-chemistry, oil sales, oil and gas storage and transportation, oil trade, engineering services and oil equipment manufacturing. The Company has 16 oil and gas enterprises in the regions including Daqing, Liaohe and Xinjiang, etc. 33 petrochemical enterprises in the regions like Dalian, Dushanzi and Lanzhou as well as a number

of scientific research institutes. It has established five major oil and gas cooperation zones in Africa, Central Asia-Russia, South America, Middle East and Asia Pacific. The Company implemented resource strategy, marketing strategy and internationalization strategy, aiming to develop itself into a world-class integrated international energy company in 2020. By the end of 2012, the registered capital of CNPC was RMB379.86 billion, and the legal representative was Mr. Jiang Jiemin.

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

As at 31 December 2012, the Bank had no other shareholders who held more than 10% of its shares.

**Directors, Supervisors, Senior Management,  
Employees and Institutions**

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09

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## 9.1 Directors

Name	Position	Gender	Age	Tenure
Wang Guoliang	Chairman	Male	60	2012.07-2015.07
Xie Geguo	Vice Chairman	Male	60	2012.07-2015.07
Zhou Mingchun	Director	Male	45	2012.04-2015.04
Wen Qingshan	Director	Male	54	2012.04-2015.04
Tang Jian	Director	Male	63	2012.04-2015.04
Wan Haichuan	Director	Male	56	2012.05-2015.05
Wang Zhonglai	Director	Male	49	2012.05-2015.05
Pang Yueying	Independent Director	Female	66	2012.04-2014.08
Yu Zengbiao	Independent Director	Male	57	2012.05-2015.05
Shi Junzhi	Independent Director	Male	59	2012.05-2015.05

### Wang Guoliang, Chairman

Professor level senior accountant; graduated from Heilongjiang Business School (major in commercial economy); over 40 years' work experience in finance; CFO and Party Group member of CNPC, member of China Accounting Standards Committee of the Ministry of Finance, Vice President of China Association of Chief Finance Officers. Mr. Wang has served as Chairman of the Bank since July 2009.

### Xie Geguo, Vice Chairman

Professor level senior accountant; graduated from Xi'an Petroleum Institute (major in accounting) and China University of Petroleum (Beijing) (major in management science and engineering), Master's degree; over 30 years' work experience in finance; used to be the Director of Internal Control and Risk Management Department of CNPC, secretary of the Party Committee of the Bank. Mr. Xie has served as Vice Chairman of the Bank since April 2010.

### Zhou Mingchun, Director

Professor level senior accountant; graduated from Tianjin Institute of Finance and Economics (major in accounting), Master's degree; over 20 years' work experience in finance; Chief Finance Officer of PetroChina, General Manager of Financial Department of PetroChina. Mr. Zhou has served as director of the Bank since May 2009.

### Wen Qingshan, Director

Professor level senior accountant; graduated from Renmin University of China (major in accounting), and Peking University (major in business management), Master's degree; over 30 years' work experience in finance; Deputy CFO of CNPC, and Director of Financial Assets Department of CNPC. Mr. Wen has served as director of the Bank since May 2009.

Tang Jian, Director

Senior engineer, senior professional manager; graduated from Xinjiang Party School (major in the basic theory of Party and government cadres); over 30 years' work experience in corporate and government management; used to be the Party secretary of Karamay and Xinjiang Oil Field Branch of CNPC, member of National Committee of the 11th CPPCC. Mr. Tang has served as director of the Bank since May 2009.

Wan Haichuan, Director

Professor level senior accountant, graduated from Xinjiang Agricultural University (major in agricultural economy and management); nearly 40 years' work experience in education and public finance; member of Party Group of the government of Xinjiang Uyghur Autonomous Region, Deputy Party Secretary and Director of the Financial Department of Xinjiang Uyghur Autonomous Region, Deputy Party Secretary and Director of Xinjiang Uyghur Autonomous Region Local Taxation Bureau. Mr. Wan has served as director of the Bank since May 2012.

Wang Zhonglai, Director

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

Pang Yueying, Independent Director

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

Yu Zengbiao, Independent Director

Working as a professor and a tutor to PhD students in Economics and Management School of Tsinghua University; CPA of China; graduated from Hebei University (major in finance) and Xiamen University (major in accounting), PhD; many years' work experience in accounting, finance, and academic research; currently the councilman 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; graduated from the Financial Research Institute of PBOC(major in economics), Law Institute of Renmin University of China (major in law); engaged in finance for nearly 30 years; used to be Assistant President of China Merchants Bank, President of Tianjin branch of China Merchants Bank, Vice President of China Orient Asset Management Corporation and Vice President of Bohai Bank. Mr. Shi has served as Independent Director of the Bank since May 2012.

## 9.2 Supervisors

Name	Position	Gender	Age	Tenure
Gao Jun	Chief Supervisor	Male	58	2012.12-2015.12
Wei Guoliang	Supervisor	Male	47	2012.04-2015.04
Yang Jiasi	External Supervisor	Male	63	2012.04-2015.04
Liu Li	Employee Supervisor	Female	43	2012.04-2015.04
Wang Wei	Employee Supervisor	Male	42	2012.04-2015.04

Gao Jun, Chief Supervisor

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

Wei Guoliang, Supervisor

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

Yang Jiasi, External Supervisor

Senior accountant; graduated from the Beijing Open University (major in finance); nearly 30 years' work experience in financial management; used to be 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.

Liu Li, Employee Supervisor

Senior Economist; graduated from Capital University of Economics and Business (major in finance); 20 years' work experience in finance; General Manager of Risk Management Department of the Bank. Mrs. Liu has served as Employee Supervisor of the Bank since April 2012.

Wang Wei, Employee Supervisor

Engineer; graduated from China University of Petroleum (major in business administration); 15 years' work experience in finance; 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
Jiang Shangjun	Secretary of the Party Committee	Male	48	2012.09
Wang Zhonglai	President	Male	49	2012.06
Xu Xinyuan	Secretary of the Party Discipline Inspection Committee, Board Secretary	Female	56	2009.05
Jing Lin	Chief Finance Officer	Male	48	2009.05
Xie Pengfei	Vice President	Male	48	2009.05
Xie Haibing	Chief Information Officer	Male	41	2009.05

Jiang Shangjun, Secretary of the Party Committee

Senior accountant; graduated from Lanzhou University of Finance and Economics (major in financial accounting) and University of Houston (major in EMBA), USA, Master of business administration; 26 years' work experience in finance; used to be General Manager and Deputy Party secretary of CNPC Northwestern Sales Company. Mr. Jiang has served as Party secretary of the Bank since September 2012.

Wang Zhonglai, President

Please refer to "9.1 Directors".

Xu Xinyuan, Secretary of the Party Discipline Inspection Committee, Board Secretary

Senior accountant; graduated from Correspondence School of Central Party School (major in economics and management); over 30 years' work experience in finance; used to be deputy CFO of the Department of Financial Assets of CNPC. Mrs. Xu has served as secretary of the Party Discipline Committee and Board Secretary of the Bank since May 2009.

Jing Lin, Chief Finance Officer

Senior accountant; graduated from Correspondence School of Central Party School (major in economics and management) and Tianjin University (major in industrial engineering), Master of



engineering, over 30 years' work experience in finance; used to be Deputy Chief Accountant of Huabei Oilfield Company of CNPC. Mr. Jing has served as Chief Finance Officer of the Bank since May 2009.

Xie Pengfei, Vice President

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

Xie Haibing, Chief Information Officer

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; used to be Deputy CFO of Finance Department of PetroChina. Mr. Xie has served as Chief Information Officer of the Bank since May 2009.

#### 9.4 Changes in Directors, Supervisors and Senior Management

Directors

In April 2012, Mr. Wang Zhonglai and Mr. Wan Haichuan were newly elected to be Directors of the Bank at the 2011 Shareholders' General Meeting. Mr. Yu Zengbiao and Mr. Shi Junzhi were newly elected to be Independent Directors of the Bank at the 2011 Shareholders' General Meeting. Their qualifications were approved by Xingjiang Banking Regulatory Bureau in May 2012. Since May 2012, Mr. Yang Jiasi and Mrs. Yu Ying no longer served as Independent Directors of the Bank due to the end of their terms.

Supervisors

In April 2012, Mr. Yang Jiasi was newly elected to be External Supervisor of the Bank at the 2011 Shareholders' General Meeting. Mr. Yu Zengbiao and Mr. Shi Junzhi no longer served as External Supervisors of the Bank due to the end of their terms.

In April 2012, the Bank held the Workers' Congress in accordance to the relevant law. Mrs. Liu Li and Mr. Wang Wei were newly elected to be Employee Supervisor of the third session of the Board of Supervisors at the Workers' Congress. Mr. Zhang Li and Mr. Yu Hanxin no longer served as Employee Supervisor of the Bank due to the end of their terms.

Senior Management

In March 2012, the Bank held the second session of the 14th board meeting. At the meeting, Mr. Wang Zhonglai was appointed to be President of the Bank. His qualification was approved by

Xinjiang Banking Regulatory Bureau in June 2012.

In September 2012, Mr. Xie Geguo no longer served as Party secretary of the Bank due to his retirement. Mr. Jiang Shangjun was the successor of this position.

## 9.5 Employees

As at 31 December 2012, the Bank had 1,893 employees with 343 in Head office, 1,503 in business division of Head Office, branches, sub-branches and operation service center, 47 in rural banks, and the average age was 33. The total number of employees had increased by 421 compared with that at the end of year 2011, which accounted for 29% of increase. The employee structure continued to be optimized and the overall quality of the employees was higher. The number of employees who holds Master degree or above was 173, accounting for 9% of total. The number of employees who holds Bachelor degree was 1,343, accounting for 71% of total.

## 9.6 Payroll

As at 31 December 2012, the Bank had an amount of annual average headcount of 1,659, the gross payroll reached RMB227.86 million, and the labor cost was RMB25.81 million. 7 Senior Managements accounted for a total payroll of RMB4.23 million (before tax) pending for final confirmation.

Payroll of Directors, Supervisors and Senior Management:

(In RMB Ten Thousands)						
Name	Payment of payroll (pretax) (1)	Social insurance, house fund, corporate annuities, and supplementary medical insurance paid by the Bank (2)	Part-time emoluments (3)	Total payroll (pretax) (4)=(1)+(2)+(3)	Whether earning salaries from shareholders or other related entities	
Wang Guoliang	-	-	-	-	Y	
Xie Geguo	75.31	9.04	-	84.35	N	
Zhou Mingchun	-	-	-	-	Y	
Wen Qingshan	-	-	-	-	Y	
Tang Jian	-	-	-	-	Y	
Wan Haichuan	-	-	-	-	Y	
Wang Zhonglai	74.06	9.04	-	83.10	N	
Pang Yueying	-	-	12.11	12.11	N	
Yu Zengbiao	-	-	12.11	12.11	N	
Shi Junzhi	-	-	12.11	12.11	N	

Continued

Name	Payment of payroll (pretax) (1)	Social insurance, house fund, corporate annuities, and supplementary medical insurance paid by the Bank (2)	Part-time emoluments (3)	Total payroll (pretax) (4)=(1)+(2)+(3)	Whether earning salaries from shareholders or other related entities
Yu Ying <sup>(1)</sup>	-	-	6.05	6.05	N
Gao Jun	-	-	-	-	N
Wei Guoliang	-	-	-	-	Y
Yang Jiasi	-	-	12.11	12.11	N
Liu Li	78.71	9.04	-	87.75	N
Wang Wei	36.41	6.94	-	43.35	N
Zhang Li <sup>(2)</sup>	56.24	9.04	-	65.28	N
Yu Hanxin <sup>(2)</sup>	36.66	4.94	-	41.60	N
Jiang Shangjun <sup>(3)</sup>	17.57	2.33	-	19.90	N
Xu Xinyuan	58.81	9.04	-	67.85	N
Jing Lin	58.69	9.04	-	67.73	N
Xie Pengfei	60.10	9.55	-	69.65	N
Xie Haibing	58.06	9.04	-	67.10	N

Note: (1) Mrs. Yu Ying no longer serve as Independent Director of the Bank since May 2012;

(2) Mr. Zhang Li and Mr. Yu Hanxin no longer serve as Employee Supervisors of the Bank since April 2012;

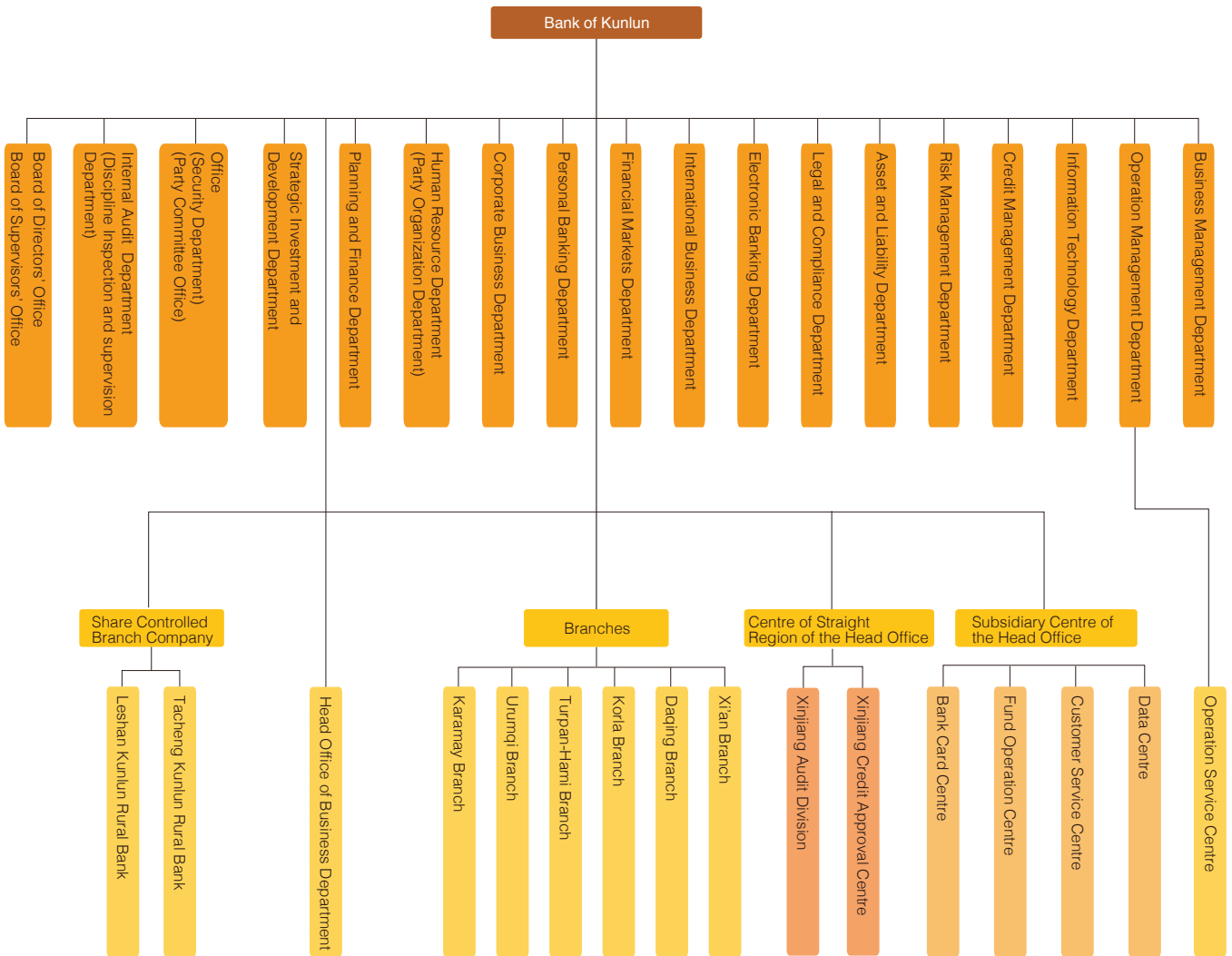
(3) Mr. Jiang Shangjun served as Party secretary of the Bank since 20th September 2012, and his payroll was recorded since October 2012.

In 2012, the deferred payroll payment system was established according to the Regulatory Guidelines to the Prudential Salary Administration of Commercial Banks. The payment for the performance-related pay of important positions was deferred at specific rates. The deferred bonus plan was also initiated and implemented, which further improved the medium and long term incentive mechanism to middle level management and talented staffs.

## 9.7 Institutions

In 2012, the Bank steadily promoted the construction of institutions according to three levels: Head Office, branches and sub-branches. The Head Office is comprised of 18 functional departments and 4 affiliated centers. The branches are located in Karamay, Urumqi, Turpan-Hami, Korla, Daqing and Xi'an, respectively. In addition, under the direct management of the Head Office, Xinjiang Audit Division and Xinjiang Credit Approval Center have been set up in Urumqi, Xinjiang. Moreover, Operation Service Centre, located in Chengdu (Sichuan province), has been established to process centralized business operation, accounting sharing and telephone banking. By the end of 2012, the Bank had 40 branches and sub-branches, increased by 10 compared to that of 2011.

## Organizational Structure



## List of Institutions

(31 December 2012)

No.	Head Office Branch/Branches				Business Networks				
	Name	Address	Post Code	Telephone	Fax	Name	Address	Post Code	Telephone
1	Head Office Branch	No. 7 Century Avenue, Karamay, Xinjiang	834000	0990-6222789	0990-6969902	—	—	—	—
2						Jinlong Town Sub-Branch	No. 6 Yongsheng Road, Jinlong Town, Karamay, Xinjiang	834000	0990-6919887
3						Yuezhang Road Sub-Branch	No. 1 Yuezhang Road, Baijiantan District, Karamay, Xinjiang	834000	0990-6981927
4						Kunlun Road Sub-Branch	No. 115 Youyi Road, Karamay, Xinjiang	834000	0990-6221879
5						Yuyi Road Sub-Branch	No. 15 Hongqi Road, Karamay, Xinjiang	834000	0990-6232984
6						Xingfu Road Sub-Branch	No. 3 Xingfu Road, Karamay, Xinjiang	834000	0990-6969995
7						Junggar Road Sub-Branch	No. 224 Xintianji Business Street, Junggar Road, Karamay, Xinjiang	834000	0990-6977797
8	Karamay Branch	No. 7 Century Avenue, Karamay, Xinjiang	834000	0990-6969907	0990-6240972	Shengli Raod Sub-Branch	No. 118-36 Shengli Road, Karamay, Xinjiang	834000	0990-6244416
9						Zhonglou Sub-Branch	No. 1-4, Tiancheng Square, Karamay, Xinjiang	834000	0990-6231373
10						Nanxin Road Sub-Branch	No. A16-105, Zefu, Karamay, Xinjiang	834000	0990-6523415
11						Xincheng Sub-Branch	114 Shiji Building A, YingBin Road No. 60, Karamay, Xinjiang	834000	0990-6245106
12						Daqing Road Sub-Branch	No. 14 Daqing East Road, Dushanzi District, Karamay, Xinjiang	833600	0992-3689595
13						Nanjing Road Sub-Branch	No. 21 Nanjing Road, Dushanzi District, Karamay, Xinjiang	833600	0992-3687049
14						Huainan Road Sub-Branch	No. 46 Daqing West Road, Dushanzi District, Karamay, Xinjiang	833600	0992-3689797
15						Zhongxing Road Sub-Branch	No. 36 Huayuan Road, Baijiantan District, Karamay, Xinjiang	834000	0990-6923341

Continued

No.	Head Office Branch/Branches				Business Networks				
	Name	Address	Post Code	Telephone	Fax	Name	Address	Post Code	Telephone
16						Operation Department	No. 75 Minzhu Road, Tianshan District, Urumqi, Xinjiang	830002	0991-2328114
17						Xizuan Sub-Branch	No. 326 Zhongyuan Road, Economic and Technology Development District, Urumqi, Xinjiang	830026	0991-3797457
18	Urumqi Branch	No. 75 Minzhu Road, Tianshan District, Urumchi	830002	0991-2360468	0991-2360071	Shihua Sub-Branch	No. 2 Shihuazhongyi Street, Midong District, Urumqi, Xinjiang	830019	0991-6911321
19						Shiyouxincun Sub-Branch	No. 2219 Xihuanbei Road, Economic and Technology Development District, Urumqi, Xinjiang	830014	0991-3717962
20						Youhao Sub-Branch	No. 739 Youhao North Road, Shayibake District, Urumqi, Xinjiang	830000	0991-4848705
21						Gaoxin District Sub-Branch	No. 99 West Five Tianjin North Road, Gaoxin District, Urumqi, Xinjiang	830011	0991-6651754
22						Operation Department	No. 172 Xibin Road, Ranghulu District, Daqing, Heilongjiang	163453	0459-5958180
23						Lianhua Sub-Branch	No. 21 Ma'anshan Chengfeng West Road, Ranghulu District Daqing, Heilongjiang	163411	0459-5616666
24						Shihua Sub-Branch	No. 427 Xinghua Street, Longfeng District, Daqing, Heilongjiang	163714	0459-6411733
25						Longfeng Sub-Branch	No. 142 Longfeng Street, Longfeng District, Daqing, Heilongjiang	163711	0459-6400880
26	Daqing Branch	No. 172 Xibin Road, Ranghulu District, Daqing, Heilongjiang	163453	0459-5958355	0459-5958355	Yuanwang Sub-Branch	No. 18 Xihu Street, Ranghulu District, Daqing, Heilongjiang	163453	0459-5956012
27						Aolin Sub-Branch	No. 531 Xincheng Street, Ranghulu District, Daqing, Heilongjiang	163453	0459-5960177
28						Dongfeng Sub-Branch	No. 35 Dongfengxincun wei'er Road, Saertu District, Daqing, Heilongjiang	163311	0459-4600195
29						Xinchao Sub-Branch	Xinchaojiayuan S3 Shop2 and Shop3, Ranghulu District, Daqing, Heilongjiang	163453	0459-5912355
30						Donghu Sub-Branch	No. 10 Tianhu Road, Ranghulu District, Daqing, Heilongjiang	163000	0459-5732688
31						Dongcheng Yinzu Sub-Branch	No. 40 Yinzu Shangpin Shopping Mall, Saertu High-tech Development District, Daqing, Heilongjiang	163311	0459-4319096

Continued

No.	Head Office Branch/Branches				Business Networks				
	Name	Address	Post Code	Telephone	Fax	Name	Address	Post Code	Telephone
32						Operation Department	West Side of Construction Bank Building, the 6th Block, Fossil oil Base, Hami, Xinjiang	839009	0902-2771350
33	Turpan-Hami Branch	Constructure Bank Building, the 6th Block, Fossil oil Base, Hami, Xinjiang	839009	0902-2767110	0902-2767110	Shanshan Fossil Oil Sub-Branch	Yard of Fossil Oil Base, Shanshan, Xinjiang	838202	0995-8378612
34						Hami Fossil Oil Base South Sub-Branch	Information Industry Development Office, Fossil Oil Base, Hami, Xinjiang	839009	0902-2772131
35						Guangdong Road Sub-Branch	No. 30 Guangdong Road, Hami, Xinjiang	839009	0902-2209001
36						Operation Department	Multi-Function Hall of Fossil Oil Community, Korla, Xinjiang	841000	0996-2176964
37	Korla Branch	Villa 1-1 Block 1 TarimDirecting Department, Korla, Xinjiang	841000	0996-2172084	0996-2172084	Xincheng Sub-Branch	Complex Building, Tarim frontline Directing Department of BGP, Xincheng District Korla, Xinjiang	841000	0996-2192310
38						Taxinan Fossil Oil Sub-Branch	No. 8-2 Yingbing Road, Kuiyibage Town, Zepu, Kashi, Xinjiang	844804	0996-7522297
39						Operation Department	No. 73 Sulige Building, Fengchengsi Road, Weiyang District, Xi'an, Shaanxi	710021	029-86978970
40	Xi'an Branch	No. 73 Sulige Building, Fengchengsi Road, Weiyang District, Xi'an, Shaanxi	710021	029-86978855	029-86978910	Xinglongyuan Sub-Branch	Elder Activity Center Floor 1, Fengchengsi Road, Xi'an, Shaanxi	710021	029-86978934
41						High-Tech Development Area Sub-Branch	South Part of Floor 1-2 High-Tech, Electronic Communication Square, No. 56 High-tech Road, Xi'an, Shaanxi	710075	029-88993325

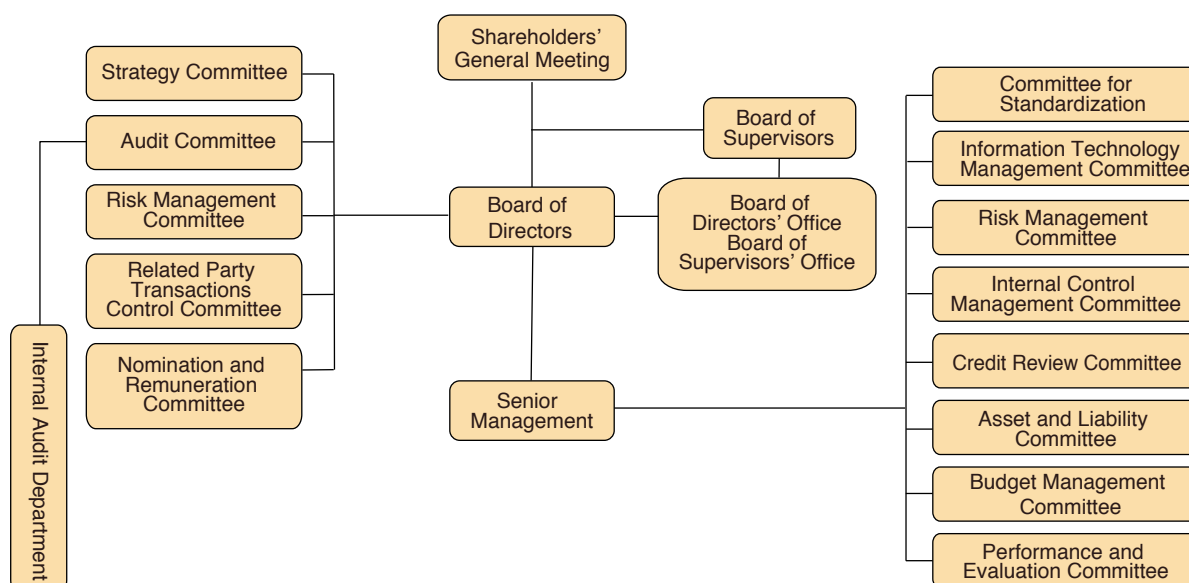
**Corporate Governance Report**

**10**

The background features a large, stylized number '10' in a bold, orange-brown font with a slight glow. Below the number are several thick, wavy ribbons in shades of orange and yellow, creating a sense of movement. The background is also decorated with a faint, light-colored geometric pattern of overlapping lines and shapes, resembling a stylized sunburst or a complex lattice structure.



## 10.1 Corporate Governance Structure



Since the restructuring in April 2009, according to the relevant laws, regulations, and guided by the modern commercial bank governance concept of “Scientific Decision-making, Effective Supervision, Steady Operation”, the Bank has established and perfected the corporate governance structure composed of Shareholders’ General Meeting, Board of Directors, Board of Supervisors and Senior Management. The Bank continually optimized its authority, decision-making, supervision and execution institutions’ responsibilities, and has formed a series of policies and procedures to ensure well defined “Authorities, Responsibilities, Coordination and Effective Balances of Rights”. The policy and procedures are operating in accordance with the development requirements of the Bank.

## 10.2 Overview of Corporate Governance

Corporate governance takes significant responsibility to protect the long-term healthy development of the Bank, as well as the sustainable and fine maintenance of investors’ benefits. Favorable corporate governance is a key factor to guarantee stable operation and continuous development of the Bank. In 2012, the Bank strictly abode observed the relative laws, regulations and regulatory requirements, spared no efforts to improve corporate governance, formed a regular evaluation mechanism on corporate governance, steadily completed the personnel change of the Board of Directors and the Board of Supervisors, optimized the policy and procedure of corporate governance, initiated duties and performance evaluation for directors, supervisors and senior management, organized plenty of trainings and research activities for directors and supervisors, enhanced information disclosure and investor relation management, consistently strengthened internal control system, improved operating efficiency of the Bank, and gradually reinforced the core competitiveness of the Bank. The corporate governance works highly effectively, and the Bank has made consistent progress in corporate governance.

### **The Construction of the Organizational Framework of Corporate Governance**

The Bank successfully completed the general election directors and supervisors, guaranteed the compliance operation of the Board of the Directors and the Board of Supervisors. In April 2012, the second session of Board of Directors and Board of Supervisors reached the end of the three-year term. Strictly sticking to the defined appointing procedure, the Bank drafted full analysis and precise plan, carried out excessively and strictly qualified candidate selection through plenary discussion and consideration. In March 2012, after multiple discussions by the Board of Directors, Board of Supervisors and Shareholders' General Meeting, the Bank confirmed the third session of Board of Directors and Board of Supervisors, and smoothly completed the transition. Since two Independent Directors completed their duty term in 2012, the Bank elected new Independent Directors, increased one Equity Director, one Executive Director according to the regulatory requirements. Since one External Supervisor and two Employee Supervisors completed their duty term in 2012, the Bank made replacement and adjustment according to the regulatory requirements. The members of the special committee of the Board of Directors were also adjusted. After the transition, the decision power of the Board of Directors was further enhanced, the monitoring role of the Board of Supervisors was improved, and the function of the special committee was run more effectively.

The Bank had completed the recruitment for senior management, which pushed forward the consistent improvement of operation and management. In 2012, Mr. Wang Zhonglai was appointed to serve as the President of the Bank, which paved the way for scientific and sustainable development of the Bank, and provided powerful support to corporate governance.

### **The Construction of Corporate Governance Mechanism**

The roles of the Board of Directors have been exerted to enhance decision making. In 2012, the Board of Directors and special committee of the Bank seriously implemented the featured development strategy of integration of industry and finance, strictly followed national macroeconomic policies and regulatory requirements, actively overcame difficulties arising from complicated macroeconomic situation, constructed core competence of the Bank, researched and explored the development strategy of the Bank, and continued to enhance the operation and management capability of the Bank. The Board further improved the assignment of corporate governance, revised the performance evaluation scheme to directors, revised the rules of procedure of the special committees, and gradually enhanced operation mechanism. The Board also promoted internal and external communication and study, held abundant trainings and research activities, strengthened the construction of investor relations website, which provided diversified platforms for investors to get to know the Bank.

The roles of the Board of Supervisors have been exerted to strengthen the effectiveness of monitoring. In 2012, the Board of Supervisors took its monitoring responsibilities in law conscientiously, actively participated in review of major decision making and in supervision of important economic activities

with lots of precious comments and suggestions. By deepening the monitoring and evaluation on the performance of the Board of Directors and the Senior Management, and by continuous inspection on risk management and internal control of the Bank, the Board of Supervisors played an important role in enhancing corporate governance, prompting operation management in compliance, and realizing sustainable and steady development of the Bank. It also protected the legitimate rights and interests of all shareholders.

Internal control, compliance and risk control have been greatly improved. In 2012, the Bank endeavored to perfect the construction of its internal control, and to improve risk management. It revised rules and regulations, prompted process improvement, perfected Internal Control Management Manual, and further strengthened the construction of internal control system. It continuously deepened the construction of comprehensive risk management system, explored the featured risk management to integration of industry and finance, steadily reinforced material risk control, which streamlined and normalized the risk management tasks of each business line.

The Bank pushed forward the construction of audit system. In 2012, the Bank further perfected the construction of audit system, and improved audit management. Based on the professional audit institution and team building, it strengthened the normalization of internal audit management. With the measure of consummating the internal audit policy, it propelled the standardization of audit management. Prompted by construction of audit informatization, it set up a non-field audit alert system. It strictly followed the regulatory requirements, set the target of prompting compliant and safe operation of the Bank, and undertook auditing on related party transaction, payroll system, internal control, liquidity risk management, operational risk management construction, credit asset quality risk, bond investment, branch business performance, which provided strong protection for the “Healthy, Safe, Effective” operation of the Bank.

Information disclosure and investors’ relationship management have been strengthened. In 2012, the Bank followed the principal of “High Starting Point, Strict Requirements”, encouraged information disclosure and investors’ relationship management to a new level. It organized the construction of investors’ relationship website, which provided more abundant contents and a clearer channel for information disclosure, and it aimed to provide information for the investors more accurately, timely and effectively. Meanwhile, combined previous experience with industry advanced practice, the Bank consistently optimized the overall framework of 2012 annual report, which disclosed the information more comprehensively, emphasized more on integration of industry and finance, and exhibited the feature of the Bank to investors and society.

### **The Construction of Corporate Governance Policy**

During the reporting period, based on self development requirements, referred to national laws, regulations and regulatory requirements, the Bank reorganized all of its policies related to corporate

governance, and complemented the policies that needed to be supplemented or revised. Firstly, it revised the rules of procedure for special committees of the Board, in order to ensure the efficient operation and compliance of corporate governance. Secondly, according to Measures of Director Performance Evaluation issued by CBRC, the Bank amended Measures of Director Performance Evaluation of Bank of Kunlun (Trial), and Measures of Supervisor Performance Evaluation of Bank of Kunlun (Trial). It clarified and refined the performance evaluation standard and process to directors and supervisors, which enhanced the supervision of the Bank to directors and supervisors.

### 10.3 Shareholders' General Meeting

The Shareholders' General Meeting is the highest authority of the Bank, which is composed of all shareholders. The responsibilities of the Shareholders' General Meeting include: determining business guidelines and significant investment plans; reviewing and approving the scheme of annual financial budget, profit distribution and loss recovery; electing and replacing directors as well as supervisors and External Supervisors who served as shareholder's representatives; reviewing and approving the working reports of the Board of Directors and the Board of Supervisors; carrying out resolutions to the following items such as mergers, discrete, disband, settlement, change of corporate form, increases or decreases in registered capitals, issue of corporate bonds or other securities, listing scheme and stock repurchase; revising Articles of Association.

During the reporting period, the Bank convened 1 annual shareholders' general meeting, in which the Board listened to the report, reviewed and approved 13 proposals. The meeting followed the legal procedures and ensured the shareholders' attendance and their exercise of rights. A lawyer was employed to witness the shareholders' general meeting with a legal opinion issued. The details are as follows:

#### **Annual Shareholders' General Meeting**

The annual shareholders' general meeting of 2011 was held as a video conference in Beijing, Karamay and Urumqi simultaneously on 18 April 2012. At the meeting, the third session of the Board of Directors and the Board of Supervisors candidates were elected, and the election was completed successfully. Also, the Board reviewed proposals including 2011 working report of the Board of Directors, 2011 working report of the Board of Supervisors, 2011 report on the performance evaluation of directors and supervisors, and the payroll clearance scheme for Independent Directors and External Supervisors, which carried forward the continuous improvement of corporate governance of the Bank. Based on the strict review of 2011 financial report and related party transactions management report, the Board passed 2012 business budget arrangement, investment suggestion plan and capital management plan, listened to the external auditor's report, made arrangements of significant matters of the Bank, and effectively exerted the function of the Shareholders' General Meeting.

## 10.4 Board of Directors and Special Committees

### 10.4.1 Responsibilities of the Board of Directors

The Board of Directors, as the decision-making body of the Bank, is responsible for and report to the Shareholders' General Meeting. The Board's responsibilities include: convening shareholders' general meetings and executing resolutions; defining the Bank's development strategies and business philosophy; determining the Bank's development plans, operation plans and investment programs; making plans for financial budgets, profit distribution and loss recovery, increases or decreases in registered capitals; determining the structure of the Bank's internal management and branch organizational structures; appointing or dismissing the President and Board Secretary of the Bank; developing the Bank's basic management system; listening to performance reports of the Bank and inspecting the President's work, etc.

### 10.4.2 Composition of the Board of Directors

At the end of the reporting period, there were 10 directors, among whom 7 were Equity Directors, namely Mr. Wang Guoliang, Mr. Xie Geguo, Mr. Zhou Mingchun, Mr. Wen Qingshan, Mr. Tang Jian, Mr. Wan Haichuan and Mr. Wang Zhonglai, and 3 Independent Directors, namely Ms. Pang Yueying, Mr. Yu Zengbiao and Mr. Shi Junzhi. The Chairman of the Board of Directors of the Bank is Mr. Wang Guoliang, and the Vice Chairman is Mr. Xie Geguo. All the Equity Directors have long-term work experience in banking business management or financial management with adequate professional expertise. Meanwhile, parts of the directors have years of work experience in petroleum and natural gas industry. The Independent Directors are experts in accounting and finance, who are familiar with corporate finance and financial management.

### 10.4.3 Operation of the Board of Directors

The Board of Directors of the Bank exercised its functions in accordance with laws, administrative regulations, regulations and articles of the Bank as well as the resolutions of the Shareholders' General Meetings. The Board of Directors adopted the board meetings as its discussion method, consisting of regular meetings and interim meetings. Regular meetings shall be convened at least four times each year.

The institute under the Board of Directors is the Board of Directors' Office, responsible for providing support and services to the Board, special committees and all the directors, and for providing solid evidence to the Board's decision making.

### 10.4.4 Meetings of the Board of Directors

In 2012, the Board of Directors held 5 meetings, including 4 regular meetings and 1 interim meeting,

approved 36 proposals and listened to 14 reports. The main proposals and reports were set out below:

At the 14th meeting of the second session of the Board held on 23 March 2012, the directors listened to reports on 2009-2011 operational status audit and reports on 2011 related party transactions, reviewed and approved the 2011 President's annual report, 2011 financial statements, 2011 profit distribution plan, 2011 external audit engagement, 2012 capital management plan, nomination of the third session of Board, appointment of the President and other motions.

At the 1st meeting of the third session of the Board held on 28 July 2012, the directors listened to reports on the execution of the items resolved on the 14th meeting of the second session of the Board and the operation of the first half of 2012, reviewed and approved the election of Chairman and vice Chairman of the third session of the Board, appointment of Board Secretary of the third session, appointment of Vice President and other senior management personnel of the Bank, appointment of principal candidates of medium management, three year (2012-2014) development plan of the Bank and other motions.

At the 2nd meeting of the third session of the Board held on 26 October 2012, the directors listened to reports on the operation of the third quarter of 2012, the development plan of core competitiveness, the payroll fulfillment of senior management in 2010, and investment suggestion plan and framework proposal of 2013, reviewed and approved 2012 estimated budget execution, 2013 operational budget arrangement, 2013 capital replenishment framework scheme, and nomination of Mr. Jiang Shangjun to serve as the director of the Bank and other motions.

At the 3rd meeting of the third session of the Board held on 15 December 2012, the board listened to the reports on the payroll fulfillment of senior management in 2011, reviewed and approved the investment suggestion plan of 2013, the revision of Measures of Director Performance Evaluation of Bank of Kunlun (Trial), the convention of 1st shareholders' interim meeting of 2013 and other motions.

The following table shows the actual attendance of the directors in the Board of Directors meetings (including interim meetings) during year 2012:

Directors	Number of actual attendance/ Number of planed attendance
Wang Guoliang	5/5
Xie Geguo	5/5
Zhou Mingchun	4/5
Wen Qingshan	4/5
Tang Jian	4/5
Yang Jiasi	2/2

Continued

Directors	Number of actual attendance/ Number of planned attendance
Pang Yueying	5/5
Yu Ying	2/2
Wang Zhonglai	3/3
Wan Haichuan	2/3
Yu Zengbiao	3/3
Shi Junzhi	3/3

Note: Mr. Yang Jiasi and Ms. Yu Ying no longer served as Independent Directors of the Bank since May 2012. Mr. Wang Zhonglai, Mr. Wan Haichuan, Mr. Yu Zengbiao and Mr. Shi Junzhi have served as directors of the third session of the Board since May 2012, approved by the regulatory authorities. Among them, Mr. Yu Zengbiao and Mr. Shi Junzhi have served as Independent Directors of the Bank.

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

The Board of Directors, seriously, completely and strictly implemented the relevant resolutions reviewed and approved during 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.

#### 10.4.6 Independence and Performances of Independent Directors

As the Independent Director of the Bank, Mr. Yang Jiasi (term till May 2012), Ms. Pang Yueying, Ms. Yu Ying (term till May 2012), Mr. Yu Zengbiao and Mr. Shi Junzhi have no business relationships with or financial interests in the Bank, nor do they take any management positions. During the reporting period, the five Independent Directors, following the diligent and responsible principle, devoted plenty of time to perform their duties. They attended all the meetings of the Board of Directors punctually, and the attendance rate was 100%. Also, according to the provisions of relevant documents, they gave independent and objective advice on important decisions, especially significant related party transactions, profit distribution plan, etc. They actively attended the meetings of special committees, participated in their routine work, and conscientiously fulfilled their duties. They accepted the legit supervision and reasonable suggestions from the Board of Supervisors and external regulatory authorities, and provided relevant information and materials to them.

#### 10.4.7 Special Committee of the Board of Directors

The Board of Directors consists of five special committees, namely Strategy Committee, Audit Committee, Nomination and Remuneration Committee, Risk Management Committee and Related Party Transactions Control Committee. They are responsible to the Board of Directors and authorized by it, providing professional advice to it or making decisions on professional matters.

During the reporting period, the Board of Directors made the following adjustments to the special committees: Mr. Yang Jiasi no longer served as the member of Strategy Committee, Audit Committee, Nomination and Remuneration Committee, and Related Party Transactions Control Committee; Ms. Yu Ying no longer served as the member of Risk Management Committee and Related Party Transactions Control Committee; Mr. Wang Zhonglai, the newly elected Director, was appointed to serve as the member of Strategy Committee; Mr. Wan Haichuan, the newly elected Director, was appointed to serve as the member of Audit Committee; Mr. Yu Zengbiao, the newly elected Independent Director, was appointed to serve as the Chairman of Nomination and Remuneration Committee and member of Audit Committee and Related Party Transactions Control Committee; Mr. Shi Junzhi, the newly elected Independent Director, was appointed to serve as the Chairman of Related Party Transactions Control Committee and member of Strategy Committee and Risk Management Committee; Thus, the number of personnel in each special committee further increased, and the constitution of the committee became more reasonable.

The composition and performances of all special committees are as follows:

### **Strategy Committee**

Strategy Committee is mainly responsible for giving advice to the Board of Directors on medium-term and long-term development strategies, business philosophy, development planning and major investment program. At the end of the reporting period, Strategy Committee consisted of 4 Directors, including Mr. Wang Guoliang, Mr. Tang Jian, Mr. Shi Junzhi and Mr. Wang Zhonglai. Mr. Wang Guoliang, Chairman of the Board of Directors, and also Chairman of the Committee.

During the reporting period, the Strategy Committee held five meetings. They reviewed and approved the report on 2012 capital management plan, framework plan of promoting corporate governance of the Bank, the three year (2012-2014) development plan of the Bank, 2013 capital replenishment framework scheme, the revision of rule on procedure of committees. The Committee actively promoted the formulation and implementation of the strategic planning of the Bank, and supported the scientific decision-making of the Board of Directors.

### **Audit Committee**

Audit Committee is mainly responsible for the supervision, inspection and evaluation of the Bank's internal controls, financial information and internal audit. At the end of the reporting period, Audit Committee consisted of 4 Directors, including Ms. Pang Yueying, Mr. Zhou Mingchun, Mr. Yu Zengbiao and Mr. Wan Haichuan. The Chairman of the Committee was the Independent Director Ms. Pang Yueying.

During the reporting period, the Audit Committee held 5 meetings. They reviewed and approved motions including 2011 annual financial report, 2012 budget execution, 2011 profit distribution plan, adjustment of reserve provision of the Bank, 2012 estimated budget execution, 2013 operational



budget arrangement, etc. By regularly reviewing the operation and management, internal control, internal audit and external audit of the Bank, the Committee deepened the supervision of the Bank's operation and management, continually assessed internal control systems, supervised and evaluated the independence of the internal and external auditors, promoted the communication and cooperation between internal and external auditors, and strongly supported the scientific decision-making of the Board.

### **Nomination and Remuneration Committee**

Nomination and Remuneration Committee is mainly responsible for giving advice on the candidacy of the directors and senior management, the election procedures and standards, and for developing remuneration policies and plans, performance evaluation and examination system for the directors, supervisors as well as senior management. At the end of the reporting period, Nomination and Remuneration Committee consisted of 3 Directors, including Mr. Yu Zengbiao, Mr. Wen Qingshan and Mr. Tang Jian. The Chairman of the Committee is the Independent Director Mr. Yu Zengbiao.

During the reporting period, the Nomination and Remuneration Committee held 5 meetings. They reviewed and approved motions including the nomination of the directors of the third session of Board, revision of rule on procedure of Nomination and Remuneration Committee, appointment of President, Vice President and other senior management personnel, appointment of Board secretary of the third session of Board. The Committee played an important role in improving appointment and performance appraisal of the Board of Directors and the Senior Management.

### **Risk Management Committee**

Risk Management Committee is responsible for controlling, managing, supervising and evaluating risks of the Bank. At the end of the reporting period, Risk Management Committee consisted of 3 Directors, including Mr. Xie Geguo, Ms. Pang Yueying and Mr. Shi Junzhi. The Chairman of the Committee is Mr. Xie Geguo, Vice Chairman of the Board of Directors.

During the reporting period, the Risk Management Committee held 4 meetings. They reviewed and approved motions including 2012 risk preference index, revision of Rule on Procedure of Risk Management Committee of the Bank, etc. The Committee played an important role in supervising and guiding the operation of the Bank's risk management system mainly by regularly listening to risk management report of the Bank. Meanwhile, the Committee promoted the effective operation of risk management system by researching on risk management countermeasures.

### **Related Party Transactions Control Committee**

Related Party Transactions Control Committee is mainly responsible for inspecting, monitoring, reviewing and approving the Bank's related party transactions, to confirm the related parties of the Bank, to approve significant related party transactions, to review filing of ordinary related party

transactions, and to control risks of related party transactions. At the end of the reporting period, Related Party Transactions Control Committee consisted of 3 Directors, including Mr. Shi Junzhi, Ms. Pang Yueying and Mr. Yu Zengbiao. The Chairman of the Committee is Independent Director Mr. Shi Junzhi.

During the reporting period, Related Party Transactions Control Committee held 4 meetings. The Committee reviewed and approved motions including the revision of Rule on Procedure of Related Party Transactions Control Committee, granting CNPC the highest credit limit of RMB3.6 billion, etc. The committee updated List of Related Parties of the Bank quarterly, listened to the reports on the related party transactions and related filing management on a regular basis, raised requirements for the means of control and business development, and ensured the compliance of related party transactions.

## 10.5 Board of Supervisors

### 10.5.1 Responsibilities of the Board of Supervisors

The Board of Supervisors, as the supervisory body of the Bank, is responsible for shareholders and reporting at the shareholders' general meeting. Their responsibilities include: reviewing the periodic reports prepared by the Board of Directors; supervising the functions and performances of the directors and the Senior Management; attending the meetings of the Board of Directors; inspecting the financial activities of the Bank; proposing the convening of shareholders' general meeting and raising motions; requiring the Board of Directors and the Senior Management to correct any misconduct that might affect the corporate interest, or even taking legal proceeding; investigating the operation of the Bank; and suggesting the convening of interim board meetings, etc.

### 10.5.2 Composition of the Board of Supervisors

At the end of the reporting period, the Board of Supervisors consisted of 5 supervisors, namely Mr. Gao Jun, Mr. Wei Guoliang, Mr. Yang Jiasi, Ms. Liu Li, and Mr. Wang Wei. Among them, Mr. Gao Jun and Mr. Yangjiasi are External Supervisors, and Ms. Liu Li and Mr. Wang Wei are Employee Supervisors. The Chief Supervisor is Mr. Gao Jun.

### 10.5.3 Operation of the Board of Supervisors

The Board of Supervisors of the Bank exercised their functions in accordance with laws, administrative regulations, Articles of Association, resolutions and authorization of the Shareholders' General Meeting. The Board of Supervisors conducted its discussion through supervisors' meetings, which were classified into two types of meetings, namely regular meetings which should be held at least 4 times annually, and interim meetings which should be held if necessary.

The institute under the Board of Supervisors is the Board of Supervisors' Office. It provides supporting services to the Board of Supervisors and individual supervisors as well as helps the supervisors' decision-making.

#### 10.5.4 Meetings of the Board of Supervisors

In 2012, the Board of Supervisors of the Bank held 4 meetings, approved 14 proposals and listened to 19 reports. The main proposals and reports were set out below:

At the 12th meeting of the second session of the Board held on 23 March 2012, the supervisors listened to reports on execution of opinions on the 11th meeting of the second session of the board of supervisors, 2009-2011 risk management, 2009-2011 internal control and compliance and 2009-2011 internal audit, reviewed and approved 2011 annual financial report, 2012 budget execution, 2011 profit distribution plan, 2011 evaluation of business index completion, 2012 business performance contract index, 2011 annual report of the Bank and annual report brief.

At the 1st meeting of the third session of the Board held on 31 October 2012, the supervisors listened to reports on the operation of first half of 2012, risk management, internal control and compliance, related party transactions management, internal audit and external audit.

At the 2nd meeting of the third session of the Board held on 14 November 2012, the supervisors listened to reports on business operation, risk management, internal control, compliance, internal audit and related party transactions management of the third quarter of 2012.

At the 3rd meeting of the third session of the Board held on 15 December 2012, the supervisors reviewed and approved the election of Chief Supervisor, revision of Rule on Procedure of the Board of Supervisors, revision of performance evaluation method of directors and supervisors and other motions.

The following table shows the actual attendance of the supervisors at the meetings of the Board of Supervisors (including interim meetings) in 2012:

Supervisors	Number of actual attendance/ Number of planned attendance
Gao Jun	2/4
Wei Guoliang	3/4
Yu Zengbiao	1/1
Shi Junzhi	1/1
Zhang Li	1/1

Continued

Supervisors	Number of actual attendance/ Number of planed attendance
Yu Hanxin	1/1
Yang Jiasi	3/3
Liu Li	2/3
Wang Wei	3/3

Note: Mr. Yu Zengbiao and Mr. Shi Junzhi no longer served as External Supervisors of the Bank since April 2012. Mr. Zhangli and Mr. Yu Hanxin no longer served as Employee Supervisors of the Bank since April 2012. Mr. Yang Jiasi, Ms. Liu Li and Mr. Wang Wei have served as Supervisors of the Board of Supervisors of the Bank since April 2012, filed in regulatory authorities.

### 10.5.5 Performance of External Supervisors

External Supervisors of the Bank, Mr. Gao Jun, Mr. Yu Zengbiao (tenure till April 2012), Mr. Shi Junzhi (tenure till April 2012), and Mr. Yang Jiasi performed their duties in accordance with the Corporate Law and the Articles of Associations of the Bank: actively attending all the meetings held by the Board of Supervisors; attending regular Board meetings and raising independent opinions on motions; taking active part in the industrial communication with Fudian Bank and CR Bank and training activities around capital management, interest liberalization and operational risks; keeping informed of the macroeconomic and financial information as well as operation and management condition of the Bank through regular publications of Financial News and Business Dynamics; playing an effective role in independent supervision.

### 10.6 Senior Management

The Senior management, as an executive body of the Bank, is responsible to the Board, and is composed of 6 members: Party Secretary Mr. Jiang Shangjun, President Mr. Wang Zhonglai, Board Secretary Ms. Xu Xinyuan, Chief Finance Officer Mr. Jing Lin, Vice President Mr. Xie Pengfei, and Chief Information Officer Mr. Xie Haibing. Segregation of duties between the Senior Management and the Board of Directors is strictly compliant with the Articles of Association of the Bank, Authorization of the Board and other corporate governance documents.

In accordance with laws and regulations, the Articles of Association and authorization of the Board, the President, led by the Board, is responsible for taking charge of the daily operation and management, organizing and implementing resolutions of the Board, developing programs for the establishing, dismantling and merging of internal management institutes and branches, preparing annual business plans and investment program, and developing basic management systems and specific regulations. Vice President and other senior management personnel report to the President. They assist president and take their individual responsibilities with the President's delegation.

Under the Senior Management there are Committee for Standardization, Information Technology Management Committee, Risk Management Committee, Internal Control Management Committee,

Credit Review Committee, Asset and Liability Committee, Budget Management Committee, and Performance and Evaluation Committee.

### 10.7 Internal Control

To ensure the security, effectiveness and stability of business operation management, to control financial risks, and to perfect internal control mechanism, the Bank established Internal Control Management Committee, which was responsible for general review and construction arrangement, guidance and evaluation of internal control of the Bank, etc. System Construction Professional Working Group, under Internal Control Management Committee, is mainly responsible for reviewing the policy and system of regulatory management and process management under the authorization of the Committee, and reviewing the design and modification of business process structure. In 2012, the Committee held 4 meetings, and the Team held 18 meetings, which effectively guaranteed the security and stability of business operation management.

Legal and Compliance Department of the Bank is responsible for: planning, organizing, collaborating, controlling and monitoring of compliance operation management; legal management, internal control management, compliance management in business management activities; construction of internal control system; supervision of internal control execution. Risk Management Department of the Bank is mainly responsible for comprehensive risk management, implementation of New Basel Capital Accord, and disposal of non-performing assets. Each branch has set up Internal Control Compliance Department, which is primarily responsible for legal management, internal control management and compliance management in business management activities, publicizing and implementation internal control system, and supervision and inspection of internal control execution in each branch. Each department in the Head Office has appointed internal control contact staff, who are in charge of contacting the internal control construction.

During the reporting period, according to the Enterprise Internal Control Basic Standards and supporting guidelines issued by MOF and other 4 Ministries, as well as Guidelines to Commercial Banks' Internal Control issued by CBRC, the Bank continued to enhance and perfect the construction of internal control mechanism.

Internal control environment was further improved. The Bank has formulated and released Rules of Internal Control of Bank of Kunlun, Rules of Compliance Risk Management of Bank of Kunlun, Rules of Regulation Management of Bank of Kunlun, Interim Rules of Risk Management of Bank of Kunlun and Rules of Internal Control Evaluation Management of Bank of Kunlun, revised Rule on Procedures of Internal Control Committee of Bank of Kunlun. Meanwhile, according to the condition of internal control work progress and internal control system operation, as well as the evaluation standards of internal control operation quality defined by Rules of Internal Control Evaluation Management of Bank of Kunlun, the Bank organized internal self testing on internal control. Also, combined the self testing

condition and Report of Self Testing on Internal Control Effectiveness of each institution, the Bank informed the self testing results of each institutions to the whole bank. The internal control system of the Bank has been effectively enhanced through the above mentioned measures.

The capability of risk recognition and evaluation has been constantly improved. The Bank formulated and implemented Rules of Comprehensive Risk Management of Bank of Kunlun, Rules on Procedures of Risk Management Committee, Rules of Risk Management Reporting and other policies, formulated and issued Risk Preference Management Approach and 2012 Risk Preference, incorporated risk management related index in performance evaluation, and formed a relatively clear strategy on risk management.

Internal control measures have been constantly enhanced. Firstly, the Bank revised Internal Control Manual. Based on 2011 Internal Control Management Manual of Bank of Kunlun, it organized the revision and update of internal control manual, which was in accordance to the latest development condition of the Bank's business and management, and was combined with the policies formulated and revised by departments of Head Office and with the issues indentified in daily internal control inspections. Secondly, the Bank continued to deepen regulation system construction. It initiated system structure streamlining, perfected the top-level design and maintenance of hierarchy, reinforced construction and planning of policy and system, launched post-system evaluation, and improved system quality continuously. Thirdly, the Bank initiated S.O.P. review. It reviewed and streamlined business process of the Bank under a comprehensive and systematical manner, documented the process narratives for business lines whose process hadn't been set up, revised the existing process narratives that didn't match up with actual practice, and initiated on-site research to key business process, which further optimize business process.

Information exchange and communication have been smoother. Firstly, the Bank strengthened trainings on internal control testing. In order to further enhance the construction of internal control system, the Bank held training class for internal control testing, invited experts from other banks who are experienced and familiar with internal control to give lectures, and the departments of Head Office and elites from branches attended the trainings. The trainings covered internal control evaluation, basic theory of internal control testing, testing methods and techniques, function and application of internal control testing system. The experts also introduced internal control and risk management experience of abroad, as well as interbank internal control and compliance management experience. The trainings paved the way to internal control testing, and further enhanced the effective execution of Internal Control Manual. Secondly, combined with management enhancement activities, the Bank strengthened to cultivate internal control management culture. Through publicizing and training to branches around internal control measures, it improved the execution of system and process, and ensured operators to execute the policies and procedures consciously.

The efforts on monitoring and evaluation have been gradually enhanced. The Bank conscientiously

enhanced internal control testing, inspection and evaluation, strictly completed the works according to annual inspection plan, realized the unity of inspection plan, standards and team, and issued the inspection and penalty standards. It primarily inspected the construction progress of credit risk management system, credit business, notes and bills business and operation business. Meanwhile, it randomly checked information technology management, electronic banking, strategic investment management, international business, and informed the inspection results to the whole Bank. Every quarter, the Bank affirmed responsibilities and punishments to the carried out inspection, and also urged and monitored the corrections to identified issues.

According to the requirements of Enterprise Internal Control Basic Standards and supporting guidelines issued by 5 Ministries, the Bank organized 2012 annual internal control evaluation. The establishment and operation of the Bank's internal control system were comprehensively evaluated for both process aspect and result aspect, and the scope covered all key business area. Based on it, the Bank formed the annual self-assessment report of internal control.

Declaration of the Board of Directors' responsibilities on internal control: the Board is responsible for establishing, improving and effectively implementing internal control system, and evaluating the effectiveness of internal control.

The targets of internal control of the Bank: ensure the thorough implementation of national laws, regulations and internal rules of the Bank, rationally guarantee the timelines, realness and completeness of business records, financial information and other management information, improve the effectiveness of risk management system, promote the comprehensive implementation and adequate realization of development strategy and operational targets of the Bank. Due to the inherent limitations of internal control, it can merely provide reasonable guarantee for the above mentioned targets.

In evaluation, the Bank didn't recognize material weaknesses or significant deficiencies on internal control of the Bank. The contingent risks brought by general deficiencies were under control. It has already implemented and are implementing rectifications, and the general risks don't form material affections on the quality of business activities and realization of financial reporting targets of the Bank. The evaluation result: the internal control system was solid and was effectively executed during the reporting period.

## 10.8 Internal Audit

Internal Audit Department of the Bank is a functional department under Audit Committee of the Board. Its responsibilities include: exerting the rights that endowed by laws, regulations and corporate policies; independent monitoring and evaluating the operating effects of internal control, risk management, business activities and corporate governance of the Bank. Internal Audit Department

provides effective audit information for the business decision making of the Board of Directors and the Senior Management.

In 2012, Internal Audit Department strictly followed the policy guidelines of regulatory authorities and requirements set by the Board, focused on propelling the construction of internal audit system, strengthened projects auditing, and rigorously carried out its monitoring and service function of internal audit.

Firstly, the Bank continued to propel the construction of internal audit system. Internal Audit Department endeavored to perfect audit organization structure, to strengthen audit system and rules, to optimize audit management mechanism, to enhance audit resources allocation, to reinforce trainings to audit staffs, to promote the project construction of audit informatization, and to effectively upgrade audit quality of it.

Secondly, the Bank strengthened the monitoring function of audit. Internal Audit Department organized over 20 audit projects around related party transactions, payroll management, internal control, operation performance, liquidity risks, operational risk management, market risk management, etc. By pointing out issues, raising suggestions, clarifying responsibilities and supervising corrections, Internal Audit Department effectively prompted the Bank's security and compliance.

### 10.9 Annual Audit Engagement

In 2012, the Bank continued to engage BDO China Shu Lun Pan Certified Public Accountants LLP to provide half and annual audit services for the Bank and its controlled rural banks. The total audit fee aggregated at RMB1.20 million.



**Report of the Board of Directors**

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**11**

The background features a light beige gradient. A thin red line runs diagonally from the top right corner towards the center. Below the 'Report of the Board of Directors' text, a horizontal red line is present. The central focus is the large number '11' in a bold, orange-to-yellow gradient font. Behind the number is a faint, light-colored geometric pattern of overlapping lines forming a circular, web-like structure. In the foreground, there are several thick, wavy, horizontal bands in shades of yellow and orange, creating a sense of movement and depth.

The Board of Directors of the Bank hereby presents the Directors' Report and the reviewed and approved financial statements as at 31 December 2012.

### **Main Business**

The Bank as well as its subsidiaries is specialized in providing banking services and related financial services. The operating position has been presented in the section of Management Discussion and Analysis-Business Overview in this Annual Report.

### **Distribution of Profits and Dividends**

Profits and financial position of the Bank as at 31 December 2012 are presented in the section of Independent Auditors' Report and Financial Statements.

Approved at the 2011 annual shareholders' general meeting, the cash dividends distributed to all the shareholders registered as at 31 December 2011 amounted to a total of RMB360.95 million (before tax).

The Board of Directors proposed that the dividends to shareholders should be distributed at RMB0.85 per 10 shares (before tax) and that total amount should be RMB570.88 million (before tax), which accounted for 49.81% of the remainder of net profit. The proposal would be submitted to the 2012 Annual Shareholders' General Meeting.

### **Reserves**

Changes in reserves of the Bank as at 31 December 2012 are presented in Consolidated Statement of Changes in Equity in the Independent Auditors' Report of this Annual Report.

### **Summary of Financial Information**

The three-year summary of operating performance and position of assets and liabilities as at 31 December 2012 are presented in Financial Highlights in this Annual Report.

### **Fixed Assets**

The changes in fixed assets as at 31 December 2012 are presented in Note 5 (Item 10) among the Notes to Financial Statement in the Independent Auditors' Report of this Annual Report.

### **Subsidiaries**

The details about subsidiaries of the Bank as at 31 December 2012 are presented in Note 4 among the Notes to Financial Statement in the Independent Auditors' Report of this Annual Report.

### **Customers**

The total interest income and other operation income from the Top 5 clients did not exceed 30% of the annual total interest income and other operation income in 2012.

**Directors, Supervisors and Senior Management**

The information of the directors, supervisors and senior management is presented in the section of Directors, Supervisors, Senior Management, Employees and Institutions in this Annual Report.

**Directors and Supervisors Interests in Contracts of Significance**

During the reporting period, the directors or supervisors enjoyed no direct or indirect material interest from any of the major contracts of the Bank. Except statutory compensations, directors or supervisors did not sign any service agreement defining compensations provided that the Bank might end the agreements during a year.

**Equity of Directors and Supervisors in Competing Business**

Directors and supervisors of the Bank enjoyed no equity from the competing business and they did not undertake any competing business to the Bank, directly or indirectly.

**Related Party Transactions**

In 2012, the Bank's governance structure of related party transactions was advanced in order to enhance the related party transactions management, and also to prevent the Bank from the risk arising from the related party transactions. In terms of system construction, the Bank amended Reviewing Rules of Related Party Transactions Control Committee and List of Related Parties to further reinforce the related party transactions management system. The related party transactions that occurred in 2012 strictly followed the internal procedure of approval and regulatory filing process and the number of related party transactions was under control by various measures.

**Statement of the Board of Directors on the Internal Control Responsibilities**

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

**Auditors**

BDO China Shu Lun Pan Certified Public Accountants LLP has audited the 2012 annual financial report prepared by the Bank in accordance with the Chinese Auditing Standards, and issued standard auditors' reports with unqualified opinions. BDO China Shu Lun Pan Certified Public Accountants LLP has started to provide auditing services to the Bank since 2009.

By order of the Board of Directors  
Wang Guoliang  
Chairman  
2 March 2013

**Report of the Board of Supervisors**

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## 12.1 Work of the Board of Supervisors

In 2012, the Board of Supervisors of the Bank seriously carried out policies of the central government on financial work, adhered to the Company Law of the People's Republic of China, the Articles of Association and the regulatory requirements, performed their duties of supervision, played an important role in improving corporate governance, strengthening management and achieving sustainable development.

Supervision on significant financial operating activities was strengthened. The Board of Supervisors centered on the significant financial activities of the Bank, listened to the annual and quarterly business operation and financial reports, delivered independent opinions objectively and fairly. It has promoted the perfection of financial management system and ensured the periodic reports in line with the regulatory requirements.

Supervision on internal control and risk management was improved. The Board of Supervisors kept an eye on the changes in the international and domestic economic situations as well as changes in the national macroeconomic policies, and understood the process of the establishment of a sound internal control system and the promotion of a comprehensive risk management system, pointed out risks timely and determined the focus of supervision. They, in particular, put forward opinions and suggestions on the problems of IT system construction, employee incentive system and treatment of specific cases.

Supervision on the performances of the directors and senior management was enhanced. In accordance with the laws and regulations, and the Articles of Association of the Bank, the Board of Supervisors strengthened the supervision on the legality of the decision-making procedures of the Board of Directors, and on the senior management's authorization and implementation. The supervisors attended the meetings of the Board of Directors on a regular basis, revised the evaluation method of the performances of directors and organized the annual performance evaluation of the directors. They listened to senior management's reports including the execution of 2011 annual performance indicators and 2012 annual performance agreement formulation, and got information on the Bank's operation and management quarterly, and strengthened the supervision on the performances of the senior management.

The Board of Supervisors was optimized. In 2012, the election of supervisors was successfully completed, resulted in the new appointments of one External Supervisor and two Employee Supervisors. The Rules of Procedure of the Board of Supervisors and the Evaluation Method of Supervisors were revised; hence, the construction of institution and organization was improved. On the basis of deep investigating on the Bank's outlets several times, supervisors had numerous earnest discussions on issues including the operation of the Boards of Directors and the Boards of Supervisors, payroll management, performance evaluation, cadre selection and appointment, internal

audit, etc. Besides, the Board of Supervisors organized a visit of the Head Office and its outlet of China Resources Bank of Zhuhai, especially its VIP customer service center, the bulletin board of its corporate culture, and convenience stores with a broad and in depth exchange of views.

During the reporting period, the Board of Supervisors attended all the meetings of the Board of Directors, supervised the resolution formulated at the meetings, the implementation of fiduciary duties and the corporate business activities. They thought that the Bank's leader group was diligent and conscientious in performing resolutions of the Board of Directors and no illegal conducts were discovered during business operations.

## 12.2 Independent Opinions of the Board of Supervisors on Related Matters

### **Legal Operation**

During the reporting period, the Bank operated in accordance with the national macroeconomic policy, the Corporate Law, the Articles of Association of the Bank and other related rules and regulations. The whole procedure of the significant decision-making was legally conducted by the Bank. The construction of internal management system and internal control institutions was strengthened to regulate corporate operation. The directors and senior management exercised their functions in line with the national law, rules and regulations, Articles of Association and resolutions of both the shareholders' general meetings and the Board of Directors meetings. No conducts had been discovered against the law, regulation or corporate interest.

### **Authenticity of Financial Report**

During the reporting period, the 2012 financial statements of the Bank complied with related regulations, could reflect fairly, in all material respects, the financial status of the Bank as at 31 December 2012, and the operation results for the fiscal year 2012.

### **Corporate Purchase and Sales of Assets**

During the reporting period, no conducts had been discovered in purchase and sale of assets that would involve secret transactions undermining the shareholders' interest or rendering losses in assets of the Bank.

### **Related Party Transactions**

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

### **Auditors' Report**

BDO China Shu Lun Pan Certified Public Accountants LLP issued standard auditors' report with

unqualified opinions on the financial position and operation performances in 2012. The Board of Supervisors had no objection to this report.

### **Implementation of Resolutions of Shareholders' General Meeting**

The Board of Supervisors of the Bank carried out supervision on the implementation of resolutions of the Shareholders' General Meeting. The Board of Supervisors thought that the Board of Directors could seriously carry out the relevant resolutions of the Shareholders' General Meeting and no conducts had been discovered that would cause damage to the shareholder's interest.

### **Disclosure**

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

### **Internal Control and Risk Management**

During the reporting period, the Bank continued to strengthen and improve the internal control, attached importance to the construction of the internal control system, established a sound internal control management system progressively and reinforced the compliance management of the Bank.

### **Social Responsibilities**

During the reporting period, the Bank actively fulfilled the social responsibilities by promoting the construction of rural banks and strengthening the credit support to the "Agriculture and Rural Development" and "Small and Micros Enterprises".

By order of the Board of Supervisors  
Chief Supervisor  
Gao Jun  
2 March 2013

**Significant Events**

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### 13.1 Significant Legal Proceedings and Arbitration

None

### 13.2 Significant Related Party Transactions

Proposal on Granting CNPC the Highest Limit of Credit RMB3.60 billion was approved at the second meeting of the Third Board of Directors held on 26 October 2012. The ratified credit rating of CNPC was AAA and the highest limit of credit was RMB3.60 billion, all of which was non-special-purpose credit for business loan of the CNPC and its subsidiaries in RMB and foreign currency, and in on and off-balance sheet credits. All the related party transactions within the reporting period were for the normal business operating needs, the transaction conditions granted to related parties would not be better than with non-related parties.

### 13.3 Significant Investments

None

### 13.4 Significant Contracts and Performance of Obligations There Under

None

### 13.5 Punishments Taken from Supervisory Authorities

None

## Independent Auditor's Report and Financial Statements

# 14

The 2012 financial statements of the Bank were audited by BDO China Shu Lun Pan Certified Public Accountants LLP according to the Independent Auditing Standards of China's Certified Accountants. Standard unqualified audit reports thereon have been issued.

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

## Documents Available for Inspection

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# 15

1. Financial statements signed by legal representative, president and Chief Finance Officer;
2. Original copy of Independent Auditors' Report with the accounting firm seal and CPAs' seals and signatures;
3. Original copies of files and notices disclosed in Financial Times during the reporting period;
4. Articles of Association of the Bank.

# 16

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

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

## Appendix



## Independent Auditor's Report

PCPAR[2013]NO:13007

To Bank of Kunlun Co., Ltd.,

We have audited the accompanying financial statements of Bank of Kunlun Co., Ltd.(hereinafter referred to as "the Bank"), which comprise the Consolidated and the Bank's Statement of Financial Position as at 31 December 2012, the Consolidated and the Bank's Income Statement, the Consolidated and the Bank's Statement of Cash Flows, the Consolidated and the Bank's Statement of Changes in Equity for the Year Ended 2012, and Notes to Financial Statements.

### I. Management's Responsibility for the Financial Statements

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

### II. Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, its financial performance and cash flows for the year ended 2012 in accordance with Accounting Standards for Business Enterprises.



BDO China Shu Lun Pan  
Certified Public Accountants LLP

CICPA:



CICPA:



Shanghai China  
19 January 2013



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

(In RMB yuan)

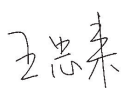
Item	Note 5	31 December 2012	31 December 2011
<b>1. Assets</b>			
Cash and deposits with central bank	5.1	24,306,759,841.35	18,368,759,066.51
Deposits with banks and non-bank financial institutions	5.2	48,513,427,457.97	36,803,938,667.28
Financial assets held for trading	5.3	1,098,150,138.36	572,271,120.00
Financial assets held under resale agreements	5.4	12,992,347,571.24	12,440,852,924.64
Interest receivable	5.5	1,684,251,148.72	1,343,123,118.17
Loans and advances to customers	5.6	40,377,721,272.35	20,593,030,748.89
Available-for-sale financial assets	5.7	21,623,774,404.99	16,738,700,479.99
Held-to-maturity investments	5.8	19,966,105,008.30	23,060,719,836.28
Accounts receivable investments	5.9	13,687,603,263.89	-
Fixed assets	5.10	282,966,722.09	207,374,147.57
Constructions in progress	5.11	50,544,397.88	23,967,285.18
Intangible assets	5.12	63,992,638.98	36,517,337.22
Deferred income tax assets	5.13	91,254,958.86	61,842,684.12
Other assets	5.14	76,366,929.70	44,155,056.58
<b>Total assets</b>		<b>184,815,265,754.68</b>	<b>130,295,252,472.43</b>
<b>2. Liabilities</b>			
Borrowings from central bank	5.16	25,000,000.00	-
Deposits from banks and non-bank financial institutions	5.17	48,823,655,268.44	26,006,369,605.73
Placements from banks and non-bank financial institutions	5.18	2,000,000,000.00	-
Financial assets sold under repurchase agreements	5.19	10,673,481,666.99	15,926,860,000.00
Deposits from customers	5.20	104,829,692,590.07	74,224,157,419.20
Accrued staff costs	5.21	947,364.22	2,373,220.93
Taxes payable	5.22	219,566,717.86	116,704,876.14
Interest payable	5.23	1,183,515,721.29	687,796,097.66
Other liabilities	5.24	2,518,797,658.14	544,952,935.19
<b>Total liabilities</b>		<b>170,274,656,987.01</b>	<b>117,509,214,154.85</b>
<b>3. Shareholders' equity</b>			
Share capital	5.25	6,716,187,831.01	6,716,187,831.01
Capital reserve	5.26	4,255,284,233.67	4,097,894,253.78
Surplus reserve	5.27	401,365,644.24	207,311,532.36
General reserve	5.28	1,542,640,605.76	939,332,671.52
Retained earnings	5.29	1,598,021,122.20	812,737,981.82
Equity attributable to the shareholders of the Bank		14,513,499,436.88	12,773,464,270.49
Non-controlling interests		27,109,330.79	12,574,047.09
<b>Total shareholders' equity</b>		<b>14,540,608,767.67</b>	<b>12,786,038,317.58</b>
<b>Total liabilities and shareholders' equity</b>		<b>184,815,265,754.68</b>	<b>130,295,252,472.43</b>

Legal Representative:

President:

Chief Finance Officer:

Chief Accountant:



Bank of Kunlun Co., Ltd.  
CONSOLIDATED INCOME STATEMENT

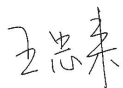
(In RMB yuan)

Item	Note 5	2012	2011
1. Operating income	5.30	3,886,658,617.15	2,334,314,440.12
Net interest income	1	2,955,742,590.14	2,012,439,902.22
Interest income		5,974,889,423.19	3,741,811,301.15
Interest expense		3,019,146,833.05	1,729,371,398.93
Net fee and commission income	2	690,888,907.44	304,513,118.09
Fee and commission income		740,950,330.86	345,377,883.42
Fee and commission expense		50,061,423.42	40,864,765.33
Investment income/(losses)	3	63,089,712.90	(46,270,699.57)
Gain from fair value changes	4	4,006,460.00	3,892,090.00
Gain on foreign exchange	5	172,399,129.79	59,329,701.20
Other operating income	6	531,816.88	410,328.18
2. Operating expenses	5.31	1,556,469,180.98	889,254,558.02
Business tax and surcharges	1	144,590,673.75	78,796,158.76
General and administrative expense	2	827,851,313.89	533,504,314.13
Allowance for impairment loss	3	583,961,810.34	276,883,593.45
Other operating expenses		65,383.00	70,491.68
3. Operating profit		2,330,189,436.17	1,445,059,882.10
Add: Non-operating income	5.32	15,992,296.13	5,709,270.44
Less: Non-operating expenses	5.33	9,125,584.36	475,137.46
4. Profit before tax		2,337,056,147.94	1,450,294,015.08
Less: Income tax expense	5.34	391,869,314.72	215,983,283.70
5. Net profit		1,945,186,833.22	1,234,310,731.38
Net profit attributable to shareholders of the Bank		1,943,597,633.32	1,234,257,856.08
Net profit attributable to non-controlling interests		1,589,199.90	52,875.30
6. Earnings per share	5.35		
(1) Basic earnings per share		0.29	0.21
(2) Diluted earnings per share		0.29	0.21
7. Other comprehensive income	5.37	156,336,063.69	33,412,466.11
8. Total comprehensive income		2,101,522,896.91	1,267,723,197.49
Total comprehensive income attributable to the shareholders of the Bank		2,100,987,613.21	1,267,670,322.19
Total comprehensive income attributable to the non-controlling interests		535,283.70	52,875.30

Legal Representative:



President:



Chief Finance Officer:



Chief Accountant:



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

(In RMB yuan)

Item	Note 5	2012	2011
<b>1. Cash flows from operating activities</b>			
	5.38		
Net increase in deposits from customers and interbanks		53,422,820,833.58	30,492,266,313.39
Net increase in borrowing from the central bank		25,000,000.00	—
Net increase in placements from banks and non-bank financial institutions		2,000,000,000.00	9,725,360,000.00
Interest, fee and commission received		4,284,804,669.43	2,317,571,918.43
Cash received from other operating activities	1	1,990,488,584.45	465,497,986.69
Subtotal of cash inflows from operating activities		61,723,114,087.46	43,000,696,218.51
Net increase in loans and advances to customers		20,368,656,922.84	8,994,718,848.72
Net increase in deposits with central bank and interbanks		10,699,969,224.91	5,237,308,851.76
Net decrease in deposits from customers and interbanks		—	—
Net decrease in placements from banks and non-bank financial institutions		7,415,688,606.99	—
Interest, fee and commission paid		2,576,355,505.93	1,150,559,420.48
Cash paid to and for employees		373,624,643.89	231,922,714.94
Tax payments		492,904,705.63	217,464,341.64
Cash paid for other operating activities	2	170,401,231.58	134,217,596.64
Subtotal of cash outflows from operating activities		42,097,600,841.77	15,966,191,774.18
Net cash flows from operating activities		19,625,513,245.69	27,034,504,444.33
<b>2. Cash flows from investing activities</b>			
Proceeds from disposal of investments		31,172,726,905.54	39,136,668,834.22
Cash received from investment income		2,155,863,640.06	1,214,695,977.11
Proceeds from sale of fixed assets, intangible assets and other long-term assets		—	19,350.00
Subtotal of cash inflows from investing activities		33,328,590,545.60	40,351,384,161.33
Purchases of fixed assets, intangible assets and other long term assets		248,024,282.48	194,133,130.36
Purchases of investments		47,756,803,134.00	47,359,301,767.00
Subtotal of cash outflows from investing activities		48,004,827,416.48	47,553,434,897.36
Net cash flows from investing activities		(14,676,236,870.88)	(7,202,050,736.03)
<b>3. Cash flows from financing activities</b>			
Proceeds from investments		14,000,000.00	5,102,499,999.99
Including: Capital contribution by subsidiaries		14,000,000.00	2,500,000.00
Proceeds from issuance of debt securities		—	—
Cash received from other financing activities		—	—
Subtotal of cash inflows from financing activities		14,000,000.00	5,102,499,999.99

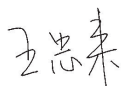
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Item	Note 5	2012	2011
Dividends paid on ordinary shares and interest paid on debt securities		360,950,162.82	88,280,482.94
Cash paid for other financing activities		—	—
Subtotal of cash outflows from financing activities		360,950,162.82	88,280,482.94
Net cash flows from financing activities		(346,950,162.82)	5,014,219,517.05
4. Effect of foreign exchange rate changes on cash		(33,687,588.75)	(2,036,605.75)
5. Net increase in cash and cash equivalents	5.39	4,568,638,623.24	24,844,636,619.60
Add: Cash and cash equivalents at beginning of the year		46,888,844,926.60	22,044,208,307.00
6. Cash and cash equivalents at end of the year		51,457,483,549.84	46,888,844,926.60

Legal Representative:



President:



Chief Finance Officer:



Chief Accountant:



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

(In RMB yuan)

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

Continued

2012

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

Legal Representative:



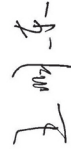
President:



Chief Finance Officer:



Chief Accountant:



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

Item	2011						Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	
1. Balance as at 31 December 2010	4,203,872,560.05	1,476,797,058.64	83,913,289.76	550,372,070.16	179,120,293.48	10,021,171.79	6,504,096,443.88
Add: Changes in accounting policies	—	—	—	—	—	—	—
Corrections of previous errors	—	—	—	—	—	—	—
2. Balance as at 1 January 2011	4,203,872,560.05	1,476,797,058.64	83,913,289.76	550,372,070.16	179,120,293.48	10,021,171.79	6,504,096,443.88
3. Net changes for the year	2,512,315,270.96	2,621,097,195.14	123,398,242.60	388,960,601.36	633,617,688.34	2,552,875.30	6,281,941,873.70
a. Net profit	—	—	—	—	1,234,257,856.08	52,875.30	1,234,310,731.38
b. Other comprehensive income	—	33,412,466.11	—	—	—	—	33,412,466.11
Subtotal of a and b	—	33,412,466.11	—	—	1,234,257,856.08	52,875.30	1,267,723,197.49
c. Capital contributed or reduced by shareholders	2,512,315,270.96	2,587,684,729.03	—	—	—	2,500,000.00	5,102,499,999.99
i. Capital contributed by shareholders	2,512,315,270.96	2,587,684,729.03	—	—	—	2,500,000.00	5,102,499,999.99
ii. Amount of share payment registered into shareholders' equity	—	—	—	—	—	—	—
iii. Others	—	—	—	—	—	—	—
d. Profit distribution	—	—	123,398,242.60	388,960,601.36	(600,640,167.74)	—	(88,281,323.78)
i. Appropriation to surplus reserve	—	—	123,398,242.60	—	(123,398,242.60)	—	—
ii. Appropriation to general reserve	—	—	—	388,960,601.36	(388,960,601.36)	—	—
iii. Cash dividends	—	—	—	—	(88,281,323.78)	—	(88,281,323.78)
iv. Others	—	—	—	—	—	—	—
e. Internal transfer of shareholders' equity	—	—	—	—	—	—	—

(In RMB yuan)

Continued

Item	2011						Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	
i. Capital surplus transferred to share capital	-	-	-	-	-	-	-
ii. Surplus reserve transferred to share capital	-	-	-	-	-	-	-
iii. Surplus reserve offsetting losses	-	-	-	-	-	-	-
iv. Others	-	-	-	-	-	-	-
f. Special reserve	-	-	-	-	-	-	-
i. Special reserve extracted during the year	-	-	-	-	-	-	-
ii. Special reserve used during the year	-	-	-	-	-	-	-
4. Balance as at 31 December 2011	6,716,187,831.01	4,097,894,253.78	207,311,532.36	939,332,671.52	812,737,981.82	12,574,047.09	12,786,038,317.58

Legal Representative:



President:



Chief Finance Officer:



Chief Accountant:





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

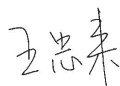
(In RMB yuan)

Item	Note 10	31 December 2012	31 December 2011
<b>1. Assets</b>			
Cash and deposits with central bank	10.1	24,198,016,166.02	18,326,579,492.46
Deposits with banks and non-bank financial institutions	10.2	48,531,560,960.63	36,437,239,449.07
Financial assets held for trading		1,098,150,138.36	572,271,120.00
Financial assets held under resale agreement		12,992,347,571.24	12,440,852,924.64
Interest receivable	10.3	1,679,809,549.63	1,342,596,260.56
Loans and advances to customers	10.4	39,997,211,177.38	20,463,584,110.64
Available-for-sale financial assets		21,623,774,404.99	16,738,700,479.99
Held-to-maturity investments		19,966,105,008.30	23,060,719,836.28
Accounts receivable investments		13,687,603,263.89	—
Long-term equity investments	10.5	57,500,000.00	57,500,000.00
Fixed assets	10.6	280,417,759.83	204,973,551.62
Construction in progress		50,451,597.88	23,967,285.18
Intangible assets	10.7	63,992,638.98	36,517,337.22
Deferred income tax assets	10.8	89,791,458.49	61,782,684.99
Other assets	10.9	75,070,529.33	43,372,246.32
<b>Total assets</b>		<b>184,391,802,224.95</b>	<b>129,810,656,778.97</b>
<b>2. Liabilities</b>			
Deposits from banks and non-bank financial institutions		49,109,269,480.73	25,792,347,183.46
Placements from banks and non-bank financial institutions		2,000,000,000.00	—
Financial assets sold under repurchase agreements		10,673,481,666.99	15,926,860,000.00
Deposits from customers	10.10	104,186,382,838.86	73,966,165,791.55
Accrued staff costs		926,739.31	2,327,950.15
Taxes payable		218,277,110.84	116,438,750.07
Interest payable		1,179,016,928.12	688,624,804.13
Other liabilities		2,515,418,571.31	544,788,146.61
<b>Total liabilities</b>		<b>169,882,773,336.16</b>	<b>117,037,552,625.97</b>
<b>3. Shareholders' equity</b>			
Share capital		6,716,187,831.01	6,716,187,831.01
Capital reserve		4,254,230,317.47	4,097,894,253.78
Surplus reserve		401,365,644.24	207,311,532.36
General reserve		1,539,582,382.50	939,105,270.59
Retained earnings		1,597,662,713.57	812,605,265.26
<b>Total shareholders' equity</b>		<b>14,509,028,888.79</b>	<b>12,773,104,153.00</b>
<b>Total liabilities and shareholders' equity</b>		<b>184,391,802,224.95</b>	<b>129,810,656,778.97</b>

Legal Representative:



President:



Chief Finance Officer:



Chief Accountant:



Bank of Kunlun Co., Ltd.  
INCOME STATEMENT

(In RMB yuan)

Item	Note 10	2012	2011
1. Operating income	10.11	3,864,107,377.97	2,325,494,267.04
Net interest income	1	2,933,072,132.36	2,003,647,886.14
Interest income		5,949,403,365.51	3,735,525,417.81
Interest expense		3,016,331,233.15	1,731,877,531.67
Net fee and commission income	2	691,008,126.04	304,485,041.09
Fee and commission income		740,564,972.48	345,166,181.36
Fee and commission expense		49,556,846.44	40,681,140.27
Investment income/(losses)		63,089,712.90	(46,270,699.57)
Gain from fair value changes		4,006,460.00	3,892,090.00
Gain on foreign exchange		172,399,129.79	59,329,701.20
Other operating income		531,816.88	410,248.18
2. Operating expenses		1,535,498,848.36	880,813,674.78
Business tax and surcharges		143,847,029.79	78,594,586.52
General and administrative expenses		815,831,331.82	526,814,965.64
Allowance for impairment loss		575,755,103.75	275,333,630.94
Other operating expenses		65,383.00	70,491.68
3. Operating profit		2,328,608,529.61	1,444,680,592.26
Add: Non-operating income		12,752,047.71	5,645,070.08
Less: Non-operating expenses		9,071,714.90	469,388.13
4. Profit before tax		2,332,288,862.42	1,449,856,274.21
Less: Income tax expense		391,747,743.50	215,873,848.48
5. Net profit		1,940,541,118.92	1,233,982,425.73
6. Earnings per share			
(1) Basic earnings per share		0.29	0.21
(2) Diluted earnings per share		0.29	0.21
7. Other comprehensive income		156,336,063.69	33,412,466.11
8. Total comprehensive income		2,096,877,182.61	1,267,394,891.84

Legal Representative:

President:

Chief Finance Officer:

Chief Accountant:

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

(In RMB yuan)

Item	Note 10	2012	2011
<b>1. Cash flows from operating activities</b>			
	10.12		
Net increase in deposits from customers and interbanks		53,537,139,344.58	30,001,124,481.46
Net increase in placements from banks and non-bank financial institutions		2,000,000,000.00	9,725,360,000.00
Interest, fee and commission received		4,259,981,121.76	2,311,584,121.62
Cash received from other operating activities		1,983,935,714.33	465,433,706.30
Subtotal of cash inflows from operating activities		61,781,056,180.67	42,503,502,309.38
Net increase in loans and advances to customers		20,109,386,759.53	8,863,722,247.96
Net increase in deposits with central bank and interbanks		10,546,998,709.71	5,206,630,108.10
Net decrease in placements from banks and non-bank financial institutions		7,415,688,606.99	—
Interest, fee and commission paid		2,575,495,955.60	1,152,052,354.36
Cash paid to and for employees		367,480,407.32	229,352,272.75
Tax payments		491,626,571.64	217,193,090.98
Cash paid for other operating activities		164,902,272.92	130,792,892.23
Subtotal of cash outflows from operating activities		41,671,579,283.71	15,799,742,966.38
Net cash flows from operating activities	1	20,109,476,896.96	26,703,759,343.00
<b>2. Cash flows from investing activities</b>			
Proceeds from disposal of investments		31,172,726,905.54	39,136,668,834.22
Cash received from investment income		2,155,863,640.06	1,214,695,977.11
Proceeds from sale of fixed assets, intangible assets and other long term assets		—	19,350.00
Subtotal of cash inflows from investing activities		33,328,590,545.60	40,351,384,161.33
Purchases of fixed assets, intangible assets and other long-term assets		246,748,798.96	192,319,895.78
Purchases of investments		47,756,803,134.00	47,376,801,767.00
Subtotal of cash outflows from investing activities		48,003,551,932.96	47,569,121,662.78
Net cash flows from investing activities		(14,674,961,387.36)	(7,217,737,501.45)
<b>3. Cash flows from financing activities</b>			
Proceeds from investments		—	5,099,999,999.99
Proceeds from issuance of debt securities		—	—
Cash received from other financing activities		—	—
Subtotal of cash inflows from other financing activities		—	5,099,999,999.99
Dividends paid on ordinary shares and interest paid on debt securities		360,950,162.82	88,280,482.94

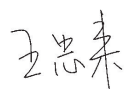
Continued

Item	Note 10	2012	2011
Cash paid for other financing activities		—	—
Subtotal of cash outflows from financing activities		360,950,162.82	88,280,482.94
Net cash flows from financing activities		(360,950,162.82)	5,011,719,517.05
4. Effect of foreign exchange rate changes on cash		(33,687,588.75)	(2,036,605.75)
5. Net increase in cash and cash equivalents	2	5,039,877,758.03	24,495,704,752.85
Add: Cash and cash equivalents at beginning of the year		46,510,644,878.00	22,014,940,125.15
6. Cash and cash equivalents at end of the year		51,550,522,636.03	46,510,644,878.00

Legal Representative:



President:



Chief Finance Officer:



Chief Accountant:



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

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

(In RMB yuan)


Continued

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

Legal Representative:



President:



Chief Finance Officer:



Chief Accountant:



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

Item	2011						Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings		
1. Balance as at 31 December 2010	4,203,872,560.05	1,476,797,058.64	83,913,289.76	550,372,070.16	179,035,606.34	6,493,990,584.95	
Add: Changes in accounting policies	—	—	—	—	—	—	
Corrections for previous errors	—	—	—	—	—	—	
2. Balance as at 1 January 2011	4,203,872,560.05	1,476,797,058.64	83,913,289.76	550,372,070.16	179,035,606.34	6,493,990,584.95	
3. Net changes for the year	2,512,315,270.96	2,621,097,195.14	123,398,242.60	388,733,200.43	633,569,658.92	6,279,113,568.05	
a. Net profit	—	—	—	—	1,233,982,425.73	1,233,982,425.73	
b. Other comprehensive income	—	33,412,466.11	—	—	—	33,412,466.11	
Subtotal of a and b	—	33,412,466.11	—	—	1,233,982,425.73	1,267,394,891.84	
c. Capital contributed or reduced by shareholders	2,512,315,270.96	2,587,684,729.03	—	—	—	5,099,999,999.99	
i. Capital contributed by shareholders	2,512,315,270.96	2,587,684,729.03	—	—	—	5,099,999,999.99	
ii. Amount of share payment registered into shareholders' equity	—	—	—	—	—	—	
iii. Others	—	—	—	—	—	—	
d. Profit distribution	—	—	123,398,242.60	388,733,200.43	(600,412,766.81)	(88,281,323.78)	
i. Appropriation to surplus reserve	—	—	123,398,242.60	—	(123,398,242.60)	—	
ii. Appropriation to general reserve	—	—	—	388,733,200.43	(388,733,200.43)	—	
iii. Cash dividends	—	—	—	—	(88,281,323.78)	(88,281,323.78)	
iv. Others	—	—	—	—	—	—	

(In RMB yuan)

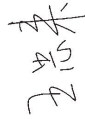
Continued

Item	2011						Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings		
e. Internal transfer of shareholders' equity	-	-	-	-	-	-	-
i. Capital surplus transferred to share capital	-	-	-	-	-	-	-
ii. Surplus reserve transferred to share capital	-	-	-	-	-	-	-
iii. Surplus reserve offsetting losses	-	-	-	-	-	-	-
iv. Others	-	-	-	-	-	-	-
f. Special reserve	-	-	-	-	-	-	-
i. Special reserve extracted during the year	-	-	-	-	-	-	-
ii. Special reserve used during the year	-	-	-	-	-	-	-
4. Balance as at 31 December 2011	6,716,187,831.01	4,097,894,253.78	207,311,532.36	939,105,270.59	812,605,265.26	12,773,104,153.00	

Legal Representative:



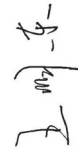
President:



Chief Finance Officer:



Chief Accountant:





BANK OF KUNLUN CO., LTD.  
NOTES TO THE FINANCIAL STATEMENTS FOR 2012  
(Expressed in Renminbi, unless otherwise stated)

## 1. Company Information

### 1.1 History

Bank of Kunlun Co., Ltd., originally called Karamay City Commercial Bank Co., Ltd., and formerly known as the Urban Credit Cooperatives of Karamay City, was established with the merger of the Maoyuan Urban Credit Cooperatives with the Rongxing Urban Credit Cooperatives in Karamay City. In December 2002, in accordance with KYJ[2002] No. 173 Approval of Urban Credit Cooperatives of Karamay City to Start Business issued by PBOC Karamay Urban Branch, the Bank started its business with the registered capital of RMB55.22 million.

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

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

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

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

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

On 2 April 2011, in accordance with XYJF[2011] No. 67 Approval of the Plan of Kunlun Bank Co. Ltd to Increase Capital and Shares in 2011 issued by CBRC, the Bank once again raised its registered capital to RMB6.72 billion, of which RMB5.51 billion was invested by CNPC.

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

### 1.2 Branches and Subsidiaries

As at 31 December 2012, the Bank owned six branches including Karamay Branch, Urumqi Branch, Turpan-Hami Branch, Korla Branch, Daqing Branch and Xi'an Branch and 2 subsidiaries including Tacheng Kunlun Rural Bank and Leshan Kunlun Rural Bank.

### 1.3 Main Business Activities and Services

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

## 2. Significant Accounting Policies, Accounting Estimates and Prior Period Adjustments

### 2.1 Statement on Compliance with Accounting Standards for Business Enterprises

The financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with the requirements of 2.2 "Basis of preparation for financial statements".

### 2.2 Basis of Preparation for Financial Statements

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

### 2.3 Accounting Period

The accounting year is from 1 January to 31 December. The reporting period of the financial statements is from 1 January 2012 to 31 December 2012.

### 2.4 Recording Currency

The recording currency of the Bank is Renminbi.

### 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 flow, consolidated statement of changes in equity are offset.

### 2.7 Accounting for Transactions Denominated in Foreign Currency

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

At the balance sheet date, foreign currency monetary items are converted into the reporting currency in accordance with the exchange rate on the balance sheet date, and the resulting exchange differences are charged to profit or 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, non-limited deposits with central bank that can be used to pay, the current deposits due from banks and the 3-months period current deposits due from banks. Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, including bond investments and securities purchased under resale, etc.

## 2.9 Financial Assets and Liabilities

### (1) Classification, Recognition and Measurement of Financial Assets

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

#### A. Financial Assets Held for Trading

The financial assets held for trading include financial assets held for trading and those financial assets directly designated under this category. The income during the holding period and changes in fair value at year end are charged to profit or 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 values are adjusted at the same time.

#### B. Held-to-Maturity Investments

Held-to-maturity investments refer to the non-derivative financial assets with a fixed or determinable recovery amounts 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 loss. 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 can not control, or it is expected that it will not recur and its amount is difficult to be reasonably estimated.

### C. Loans and Receivables

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

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

Overdue loans refers to the loans which can not 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 loss. 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 are non-derivative financial assets designated as available-for-sale financial assets, investments not classified as loans and receivables, held-to-maturity investments or financial assets measured at fair value through current profit or 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. The Financial Liabilities at Fair Value Through Current Profit or Loss

Financial liabilities at fair value through current profit or loss are divided into financial liabilities held for trading and those financial liabilities directly designated by the management at the initial recognition as financial liabilities measured at fair value through current profit or loss. 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 values are adjusted at the same time.

##### B. Other Financial Liabilities

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

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

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

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

##### A. Financial Assets

When a contractual right to receive future cash flows of the financial asset ended, or the Bank has

transferred almost all the risks and rewards related to financial assets, or although there is no transfer or retention of almost all of the risks and rewards related to the ownership of financial assets, the control over the financial assets has been given up, the financial asset shall be derecognized.

When 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 Gain and Losses

##### A. Subsequent Measurement

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

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

##### B. Recognition of Gain and Losses

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

#### (3) Definition of Joint Control Significant Influence Over the Investees

The contractually agreed sharing of control over an economic activity, which exists only when the investing parties involved in the economic activity reach a consensus on sharing control over critical financial and operating policies concerning that activity, is considered as joint control over the invested entity and other parties. It should be considered that the investing enterprise has significant

influence in the investee if the company has the power to participate in decision-making on the financial and operating policies of an investee, although it has no control or joint control over the formulation of these policies.

### 2.11 Accounting Methods of Fixed Assets

#### (1) Recognition Criteria of Fixed Assets

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

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

#### (2) Classification of Fixed Assets

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

#### (3) Initial Measurement of Fixed Assets

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

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

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

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

As for the fixed assets which are used by debtor to settle debts by debt restructuring, the recorded value is determined based on the fair value of fixed assets, and the difference between the book value of the restructured debts and the fair value of the fixed assets used to settle debts is recorded in profit and 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 cost 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 and constructions	20 years, 30 years, 40 years	4.75, 3.17, 2.38
Machinery equipments	5 years, 10 years	19.00, 9.50
Vehicles	5 years, 8 years	19.00, 11.88
Electronic and office equipments	4 years, 5 years, 10 years, 12 years	23.75, 19.00, 9.50, 7.92

### 2.12 Measurement of Construction in Progress

#### (1) Classification of Construction in Progress

Construction in progress is measured on an individual project basis.

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

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

### 2.13 Measurement of Intangible Assets

#### (1) Valuation Method of Intangible Assets

Intangible assets are stated at actual cost on acquisition.

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

present values of the purchase prices.

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

If the exchange of non-monetary assets has commercial substance, and the fair values of the assets traded in and traded out can be measured reliably, the book values of intangible assets traded in are based on the fair values of the intangible assets traded out unless there is any conclusive evidence that the fair values of the assets traded in are more reliable. If the exchange of non-monetary assets does not meet the above criteria, the costs of the intangible assets traded in should be the book values of the assets traded out and relevant taxes and surcharges paid, and no profit or 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 and licenses applied during the development, interest expenses eligible for capitalization, as well as other direct costs incurred for the intangible assets to reach working condition for their intended use.

## (2) Estimated Useful Lives and Amortization of Intangible Assets

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

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

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

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

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

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

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

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

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

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

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

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

### 2.14 Long-term Deferred Expenses

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

### 2.15 Entrusted Business

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

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

Transaction of financial assets held under resale agreements refers to the transactions conducted according to the contract or agreement, by which the related assets (including bonds and bills) are purchased from the transaction party at a certain price, and resold at the contract price on the maturity date of the contract or agreement. Financial assets purchased under resale agreements

are stated at the actual cost on the date of purchase, and presented in the item of financial assets purchased under resale agreements in the statement of financial position. Purchase of such kinds of financial products is considered as a secured financing transaction and the purchased financial product is considered as the security for the financing transaction.

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

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

## 2.17 Impairment of the Main Assets

### (1) Financial Assets

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

#### A. Financial Assets Carried at Amortized Cost

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

The Bank individually assesses whether objective evidence of impairment exists for financial assets that are individually material, and individually or collectively for financial assets that are not individually material. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial assets, whether material or not, it shall be included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment 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 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 recognizes the allowance for impairment loss of the financial assets carried at amortized cost, if there is objective evidence that the value of financial assets has been restored, which is objectively related to an event occurring after the impairment was recognized (such as the debtor's credit rating has been increased), the previously recognized impairment loss shall be reversed through profit or loss. However, the book value after the reversal should not exceed the amortized cost at the reversal date given that no allowance for impairment loss 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 profit or loss. The transferred amount of the accumulated losses shall be the difference between the initial acquisition cost (deducting principal recovered and accumulated amortization) and the current fair value minus all the original impairment loss previously recognized in profit or loss.

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

#### C. Financial Assets Carried at Cost

If there is objectively evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss should be measured at the difference between the carrying amount

of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed once recognized.

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

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

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

If impairment of asset exists, the recoverable amount is estimated. The recoverable amount is the higher of the net amount of asset's fair value minus the disposal 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 charged to profit or loss, 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 considerations given by the Bank in exchange for service rendered by the employees. During the accounting period when employees offer service, employee benefits payable shall be recognized as a liability. The Bank participates in social security system which is established by government, including basic endowment insurance, medical insurance, housing fund and other social security systems. The corresponding expense is charged into current expense.

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

### 2.19 Interest Income and Expense

For financial instruments carried at amortized cost and interest generating financial instruments within the category of available-for-sale financial assets, the interest income and expenses are recorded in the income statement at the effective interest rate of the underlying financial instruments on an accrual basis.

The effective interest method is a method of calculating amortized cost of a financial asset or liability and amortizing interest income and expense 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 expense related to actual interest rate paid and received between the contractual parties will be taken into account.

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

### 2.20 Fee and Commission Income

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

### 2.21 Operating Leases Commitment

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

The rental fee received from leasing out assets by the Bank is amortized on a straight-line basis over the whole lease period including the rental-free period and recognized as rental income. The initial direct 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 profit over the same lease period as the rental income.

When the Bank assumes the expense 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 rest are recorded in current profit or loss 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 temporary difference by using liability method, and it will generate taxable income in the future. Temporary difference refers to the difference between book value of the asset or liability and its tax base; for the items not recognized as asset or liability, if the tax base can be determined in accordance with tax law, the difference between tax base and its book value is also a temporary difference.

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

### 2.23 Business Segments

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

### 2.24 Critical Accounting Estimates and Judgments Made in Implementing Accounting Policies

Based on historical experience and other factors, including the reasonable expectation of future



events, the Bank makes continuous evaluation of significant estimates and key assumptions. The critical accounting estimates and key assumptions which are likely to result in significant adjustments of the book value of assets and liabilities in the next accounting year are as follows:

(1) Impairment Losses of Loans and Advances

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

(2) Income Tax Expense

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

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

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

## 2.25 Change and Influence in Major Accounting Policies and Accounting Estimates

- (1) There is no major change in accounting policies in 2012.
- (2) There is no significant change in accounting estimates in 2012.

## 2.26 Adjustments for Correction of Accounting Errors in Prior Periods

There are no adjustments for correction of accounting errors in prior periods in 2012.

### 3. Taxations

The applicable taxes and tax rates are as follows:

#### 3.1 Business Tax

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

#### 3.2 Income Tax

In accordance with the letter KQGSH[2010] No. 1 “On the Deduction of Business Income Tax of Kunlun Bank Co., Ltd. Approved by the National Taxation Bureau Karamay District Branch Bank”, the business income tax of western areas of the Bank was levied at the reduced rate of 15% as the same in 2011. The regions outside the scope referred in the letter were levied the business income tax at the rate of 25%. The Bank estimates that in 2012 it would continue to enjoy the preferential policy. Therefore, the business income tax was calculated according to the rate in 2011.

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

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

## 4. Company Merger and Consolidated Financial Statements

### 4.1 Information of the Subsidiary Acquired through Establishment

Name of the subsidiary	Type of the enterprise	Registered capital	Actual investment of the Bank as at 31 December 2012	Total share holdings proportion of the Bank (%)	Total voting proportion of the Bank (%)	Consolidated financial statement or not
Leshan Kunlun Rural Bank Co., Ltd.	Domestic financial enterprises	50,000,000.00	40,000,000.00	80.00	80.00	Yes
Tacheng Kunlun Rural Bank Co., Ltd.	Domestic financial enterprises	32,068,700.00	17,500,000.00	54.57	54.57	Yes

## 4.2 Scope and Change in Consolidated Financial Statements

Bank of Kunlun Co., Ltd., its subsidiaries Leshan Kunlun Rural Bank Co., Ltd., and Tacheng Kunlun Rural Bank Co., Ltd. were included in the consolidated financial statements in 2012.

There were no changes in the current period of the consolidated scoping compared with 2011.

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

### 5.1 Cash and Deposits with Central Bank

Item	31 December 2012	31 December 2011
Cash in hand	255,747,431.75	171,458,712.30
Statutory deposit reserve with central bank	17,448,638,300.96	13,443,538,569.68
Surplus deposit reserve with central bank	6,562,390,108.64	4,747,903,784.53
Fiscal deposits with central bank	39,984,000.00	5,858,000.00
Total	24,306,759,841.35	18,368,759,066.51

(1) See Note 5.39/2 for deposits with the central bank included in cash and cash equivalents as at 31 December 2012.

(2) According to the regulations, Renminbi and foreign currency deposit reserves as well as finance deposit in the PBOC cannot be used in daily business. On 31 December 2012 and 31 December 2011, the deposits reserve ratio of Renminbi was 18% and 19%, respectively. On 31 December 2012 and 31 December 2011 the deposit reserve ratio of foreign currency was 5% and 5%, respectively. Renminbi and foreign currency deposit reserves include the deposit from authorities and organizations, extra-budgetary deposit, individual deposit, company deposit, margin deposit, credit balance obtained by deducting asset from liability and other deposits.

### 5.2 Deposits with Banks and Non-bank Financial Institutions

Item	31 December 2012	31 December 2011
Deposits with domestic banks	48,506,525,313.29	23,693,549,238.53
Deposits with overseas banks	6,902,144.68	13,110,389,428.75
Less: Allowance for impairment loss	—	—
Book value of deposits with banks and non-bank financial institutions	48,513,427,457.97	36,803,938,667.28

See Note 5.39/2 for deposits with banks and non-bank financial institutions included in cash and cash equivalents as at 31 December 2012.

### 5.3 Financial Assets Held for Trading

Category	31 December 2012	31 December 2011
Financial bonds	–	190,668,600.00
Corporate bonds	1,098,150,138.36	381,602,520.00
<b>Total</b>	<b>1,098,150,138.36</b>	<b>572,271,120.00</b>

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

Category	31 December 2011		
	Bond cost	Change in fair value	Fair value
Financial bonds	200,000,000.00	(9,331,400.00)	190,668,600.00
Corporate bonds	380,919,620.00	682,900.00	381,602,520.00
<b>Total</b>	<b>580,919,620.00</b>	<b>(8,648,500.00)</b>	<b>572,271,120.00</b>

See Note 5.39/2 for financial assets held for trading included in cash and cash equivalents as at 31 December 2012.

### 5.4 Financial Assets Held under Resale Agreements

#### (1) By Collateral Security

Item	31 December 2012	31 December 2011
Bond	8,628,600,000.00	12,070,232,590.64
Bill	4,363,747,571.24	370,620,334.00
<b>Total</b>	<b>12,992,347,571.24</b>	<b>12,440,852,924.64</b>

#### (2) By Counterparty

Counterparty	31 December 2012	31 December 2011
Rural credit cooperative association	7,003,247,571.24	403,000,000.00
Bank	5,516,100,000.00	9,152,136,337.43
Security company	–	1,686,011,587.21
Others	473,000,000.00	1,199,705,000.00
<b>Total</b>	<b>12,992,347,571.24</b>	<b>12,440,852,924.64</b>

(3) See Note 5.39/2 for financial assets held under resale agreements included in cash and cash equivalents as at 31 December 2012.

### 5.5 Interest Receivable

#### (1) Interest Receivable Breakdown

Item	31 December 2012	31 December 2011
Interest receivable on loans and advances	75,109,991.35	36,671,942.76
Interest receivable on deposits with central bank and other banks and non-bank financial institutions	407,098,595.29	170,626,295.94
Interest receivable on bond investments	1,199,993,935.56	1,121,333,031.78
Interest receivable on financial assets held under resale agreements	2,048,626.52	14,491,847.69
Less: Provision for bad debts of interest receivable	–	–
Book value of interest receivable	1,684,251,148.72	1,343,123,118.17

#### (2) Overdue Interest

Item	Overdue date	31 December 2012	31 December 2011
Corporate loans	Within 3 months	9,018,522.22	1,198,128.75
Personal loans	Within 3 months	–	139.41
Total	–	9,018,522.22	1,198,268.16

#### (3) Aging Analysis

Aging	31 December 2012		31 December 2011	
	Amount	Proportion(%)	Amount	Proportion(%)
Within one year	1,684,251,148.72	100.00	1,343,123,118.17	100.00

(4) As at 31 December 2012, there was no interest payable owed to the shareholders who held equal to or more than 5% of the Bank's shares.

### 5.6 Loans and Advances to Customers

#### (1) Composition of Loans and Advances

##### A. Classified by Corporate and Personal

Category	31 December 2012		31 December 2011	
	Amount	Proportion(%)	Amount	Proportion(%)
Loans and advances	41,363,362,447.08	100.00	20,994,705,524.24	100.00
Including: Corporate	40,091,101,929.59	96.92	20,460,761,134.33	97.46
Personal	1,272,260,517.49	3.08	533,944,389.91	2.54
Less: Allowance for impairment loss	985,641,174.73	100.00	401,674,775.35	100.00

Continued

Category	31 December 2012		31 December 2011	
	Amount	Proportion(%)	Amount	Proportion(%)
Including: Corporate	959,388,315.26	97.34	391,938,887.13	97.58
Personal	26,252,859.47	2.66	9,735,888.22	2.42
Net value of loans and advances	40,377,721,272.35	100.00	20,593,030,748.89	100.00
Including: Corporate	39,131,713,614.33	96.91	20,068,822,247.20	97.45
Personal	1,246,007,658.02	3.09	524,208,501.69	2.55

## B. Regional Distribution of Loans and Advances

Regional distribution	31 December 2012	Proportion(%)	31 December 2011	Proportion(%)
South China	1,830,053,822.43	4.42	335,000,000.00	1.60
North China	2,232,398,290.44	5.40	5,236,966,124.98	24.94
East China	3,059,048,430.32	7.40	1,904,560,000.00	9.07
Northeast China	10,425,535,445.65	25.20	2,547,339,818.90	12.13
Northwest China	22,256,868,135.27	53.81	10,265,950,744.98	48.90
Southwest China	871,308,207.40	2.11	687,598,835.38	3.28
Central China	688,150,115.57	1.66	17,290,000.00	0.08
Total loans and advances	41,363,362,447.08	100.00	20,994,705,524.24	100.00
Less: Allowance for impairment loss	985,641,174.73	—	401,674,775.35	—
Including: Individual accrual	225,857,756.05	—	4,642,132.38	—
Collective accrual	759,783,418.68	—	397,032,642.97	—
Book value of loans and advances	40,377,721,272.35	—	20,593,030,748.89	—

## C. Classified by Security Types

Properties	31 December 2012	Proportion(%)	31 December 2011	Proportion(%)
Credit loans	10,423,816,197.04	25.20	6,751,916,548.37	32.16
Guarantee loans	6,671,875,538.11	16.13	5,176,436,064.07	24.66
Mortgage loans	1,783,948,520.08	4.31	1,528,236,786.82	7.28
Pledged loans	14,597,430,906.70	35.29	4,457,502,461.69	21.23
Discount of bank acceptance bills	6,501,532,714.44	15.72	3,080,613,663.29	14.67
Discount of corporate acceptance bills	1,384,758,570.71	3.35	—	—
Total	41,363,362,447.08	100.00	20,994,705,524.24	100.00

## D. Movement of Corporate Overdue Loans

(a) Movement of Overdue Loan<sup>(Note)</sup>

Item	2012	2011
Opening balance	7,419,272.95	6,905,933.89
Increases	231,590,531.74	788,622.17
Decreases	2,012,755.68	275,283.11
Ending balance	236,997,049.01	7,419,272.95

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

## (b) Classified by Overdue Period

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

	31 December 2011				Total
	Overdue 1 day to 90 days (including 90 days)	Overdue 90 days to 360 days (including 360 days)	Overdue 360 days to 3 years (including 3 years)	Overdue above 3 years	
Guarantee loans	—	100,000.00	1,212,836.15	—	1,312,836.15
Mortgage loans	392,322.17	—	—	5,417,814.63	5,810,136.80
Pledged loans	296,300.00	—	—	—	296,300.00
Total	688,622.17	100,000.00	1,212,836.15	5,417,814.63	7,419,272.95

## E. Corporate Loans Classified by Industry

Industry	31 December 2012		31 December 2011	
	Amount	Proportion(%)	Amount	Proportion(%)
Agriculture, forestry, animal husbandry and fishery	361,120,382.59	0.90	486,378,425.02	2.38
Mining	5,772,614,880.37	14.40	2,245,112,574.09	10.97
Manufacturing	6,606,534,001.87	16.47	5,118,822,894.74	25.02
Production and supply of electric power, gas and water	5,804,825,552.99	14.48	2,963,500,000.00	14.48
Architecture	2,796,412,650.01	6.98	1,134,940,000.00	5.55
Transportation, storage and postal service	1,859,701,493.26	4.64	2,022,900,000.00	9.89

Continued

Industry	31 December 2012		31 December 2011	
	Amount	Proportion(%)	Amount	Proportion(%)
Information transmission, computer service and software	336,550,000.00	0.84	458,380,000.00	2.24
Commercial trade	1,220,364,592.11	3.04	1,007,475,756.08	4.92
Accommodation and catering	5,400,000.00	0.01	18,600,000.00	0.09
Financial services	6,286,893,424.47	15.68	2,765,624,476.83	13.52
Real estate	6,450,000,000.00	16.09	679,000,000.00	3.32
Lease and business services	1,034,191,329.23	2.58	544,764,200.00	2.66
Scientific research, technical service and geological survey	235,133,622.69	0.59	129,807,413.59	0.63
Water conservancy, environment, utility facilities management and investment	1,195,000,000.00	2.98	371,000,000.00	1.81
Residents service and other services	29,080,000.00	0.07	57,250,000.00	0.28
Health, social security and social welfare	6,500,000.00	0.02	10,000,000.00	0.05
Culture, sports and entertainment	90,780,000.00	0.23	6,049,999.98	0.03
Public management and social organization	—	—	441,155,394.00	2.16
Total of the company loans	40,091,101,929.59	100.00	20,460,761,134.33	100.00

## F. Corporate Loans Classified by Nature

Item	31 December 2012	31 December 2011
General loans	27,060,931,349.60	14,334,135,009.35
Discount	7,886,291,285.15	3,080,613,663.29
Trade financing	5,143,879,294.84	3,046,012,461.69
Total	40,091,101,929.59	20,460,761,134.33

## G. Personal Loans Classified by Nature

Item	31 December 2012		31 December 2011	
	Amount	Proportion(%)	Amount	Proportion(%)
Personal loans and advances				
Including: Credit Cards	—	—	—	—
Personal housing mortgage loans	359,066,732.64	28.22	249,212,064.55	46.67
Others	913,193,784.85	71.78	284,732,325.36	53.33
Total personal loans and advances	1,272,260,517.49	100.00	533,944,389.91	100.00



## (2) Allowance for Impairment Loss

Item	2012			2011		
	Individual	Combination	Total	Individual	Combination	Total
Opening balance	4,642,132.38	397,032,642.97	401,674,775.35	4,334,252.50	120,475,835.20	124,810,087.70
Accrual	221,215,623.67	362,750,775.71	583,966,399.38	307,879.88	276,556,807.77	276,864,687.65
Write-off	—	—	—	—	—	—
Ending balance	225,857,756.05	759,783,418.68	985,641,174.73	4,642,132.38	397,032,642.97	401,674,775.35

## (3) Analysis of Client Concentration

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

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

As at 31 December 2011, top 10 were as shown below:

Client	Industry	Balance	Proportion of total amount of loans and advances(%)
Client 1	Mining	600,000,000.00	2.86
Client 2	Manufacturing	510,000,000.00	2.43
Client 3	Real estate	500,000,000.00	2.38
Client 4	Manufacturing	500,000,000.00	2.38
Client 5	Electric power, gas, water production and supply	497,000,000.00	2.37
Client 6	Electric power, gas, water production and supply	400,000,000.00	1.91
Client 7	Manufacturing	367,252,800.00	1.75
Client 8	Manufacturing	304,000,000.00	1.45
Client 9	Electric power, gas, water production and supply	300,000,000.00	1.43
Client 10	Public management and social organization	300,000,000.00	1.43
Total		4,278,252,800.00	20.39

(4) As at 31 December 2012, there were no loans to the shareholders who held more than 5% (including 5%) of the shares of the Bank.

### 5.7 Available-for-sale Financial Assets

Item	31 December 2012	31 December 2011
Financial bonds	2,780,930,300.00	799,541,340.00
Corporate bonds	18,842,844,104.99	15,939,159,139.99
Total	21,623,774,404.99	16,738,700,479.99

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

Category	31 December 2011		
	Bond cost	Change in fair value	Fair value
Financial bonds	789,548,792.41	9,992,547.59	799,541,340.00
Corporate bonds	16,159,137,714.29	(219,978,574.30)	15,939,159,139.99
Total	16,948,686,506.70	(209,986,026.71)	16,738,700,479.99

See Note 5.39/2 for the financial asset available for sale included in cash equivalents as at 31 December 2012. See Note 7.2/3 for the pledge of the financial asset available for sale as at 31 December 2012.

### 5.8 Held-to-maturity Investments

Item	31 December 2012	31 December 2011
National bonds	171,828,544.79	333,113,135.15
Financial bonds	3,200,843,660.64	4,840,361,019.88
Corporate bonds	16,573,433,392.03	17,787,245,681.25
Others	19,999,410.84	100,000,000.00
Total held-to-maturity investments	19,966,105,008.30	23,060,719,836.28
Less: Allowance for impairment loss	—	—
Book value of held-to-maturity investments	19,966,105,008.30	23,060,719,836.28

See Note 5.39/2 for the held-to-maturity investments included in cash equivalents as at 31 December 2012. See Note 7.2/3 for the held-to-maturity investments under pledge.

## 5.9 Accounts Receivable Investments

Item	31 December 2012	31 December 2011
Trusted financial management products	7,306,079,930.55	—
Commissioned financial management products	6,281,523,333.34	—
Others	100,000,000.00	—
Less: Allowance for impairment loss	—	—
Book value of receivable investment	13,687,603,263.89	—

## 5.10 Fixed Assets

### (1) Details of Fixed Assets Balance

Item	31 December 2012	31 December 2011
Original cost	393,168,963.87	264,556,964.16
Accumulated depreciation	110,130,654.25	57,111,229.06
Allowance for impairment loss	71,587.53	71,587.53
Net amount of fixed assets	282,966,722.09	207,374,147.57

### (2) Movement of Fixed Assets

Item	31 December 2011	Increases in 2012	Decreases in 2012	31 December 2012
1. Total original book value	264,556,964.16	128,611,999.71	—	393,168,963.87
Including: Buildings and constructions	50,936,625.40	36,479,131.80	—	87,415,757.20
Machinery equipments	2,152,517.90	1,342,660.00	—	3,495,177.90
Vehicles	12,609,058.00	1,152,991.00	—	13,762,049.00
Electronic and office equipments	198,858,762.86	89,637,216.91	—	288,495,979.77
2. Total accumulated depreciation	57,111,229.06	53,019,425.19	—	110,130,654.25
Including: Buildings and constructions	5,451,180.44	1,992,981.33	—	7,444,161.77
Machinery equipments	449,248.61	381,040.04	—	830,288.65
Vehicles	4,205,239.25	1,262,070.75	—	5,467,310.00
Electronic and office equipments	47,005,560.76	49,383,333.07	—	96,388,893.83
3. Total impairment loss on assets	71,587.53	—	—	71,587.53
Including: Buildings and constructions	71,587.53	—	—	71,587.53
Machinery equipments	—	—	—	—
Vehicles	—	—	—	—
Electronic and office equipments	—	—	—	—
4. Total net book value	207,374,147.57	—	—	282,966,722.09

Continued

Item	31 December 2011	Increases in 2012	Decreases in 2012	31 December 2012
Including: Buildings and constructions	45,413,857.43	–	–	79,900,007.90
Machinery equipments	1,703,269.29	–	–	2,664,889.25
Vehicles	8,403,818.75	–	–	8,294,739.00
Electronic and office equipments	151,853,202.10	–	–	192,107,085.94

As at 31 December 2012, the original value of buildings and constructions whose ownership certification is in progress is RMB31,772,273.32, with accumulated depreciation of RMB2,284,608.45, net value of RMB29,487,664.87. In addition, the names on title deeds of the houses in Guangzhou Huadu have not been changed to “ Bank of Kunlun Co., Ltd.”.

### 5.11 Construction in Progress

Item	31 December 2011	Increases in 2012	Transfer to fixed assets	Other decreases	31 December 2012
Network construction	6,433,393.79	77,521,822.00	44,247,543.30	29,187,192.74	10,520,479.75
Non-installed equipment purchase	3,061,110.00	61,771,060.79	60,725,997.43	2,622,328.36	1,483,845.00
System development	12,583,505.51	84,878,837.68	952,471.00	59,188,364.06	37,321,508.13
Others	1,889,275.88	23,398,842.10	22,685,987.98	1,383,565.00	1,218,565.00
Total	23,967,285.18	247,570,562.57	128,611,999.71	92,381,450.16	50,544,397.88

In this period, the amount transfer into intangible assets is RMB51,467,387.00, transfer into long-term provision is RMB29,781,006.95, all from other decreases.

### 5.12 Intangible Assets

#### (1) Details of Intangible Assets Balance

Item	31 December 2012	31 December 2011
Original cost	110,407,744.96	58,947,397.96
Accumulated amortization	45,058,052.65	21,073,007.41
Allowance for impairment loss	1,357,053.33	1,357,053.33
Net amount of intangible assets	63,992,638.98	36,517,337.22

## (2) Movements of Intangible Assets

Item	31 December 2011	Increases in 2012	Decreases in 2012	31 December 2012
1. Original cost	58,940,357.96	51,467,387.00	—	110,407,744.96
Including: Software	58,870,847.55	51,467,387.00	—	110,338,234.55
Land use right	69,510.41	—	—	69,510.41
2. Accumulated amortization	21,065,967.41	23,992,085.24	—	45,058,052.65
Including: Software	21,039,206.26	23,989,744.19	—	45,028,950.45
Land use right	26,761.15	2,341.05	—	29,102.20
3. Accumulated provisions for impairment loss	1,357,053.33	—	—	1,357,053.33
Including: Software	1,357,053.33	—	—	1,357,053.33
Land use right	—	—	—	—
4. Book value	36,517,337.22	—	—	63,992,638.98
Including: Software	36,474,587.96	—	—	63,952,230.77
Land use right	42,749.26	—	—	40,408.21

## 5.13 Deferred Income Tax Assets

Item	31 December 2012	31 December 2011
Allowance for impairment loss on assets	86,649,465.97	29,047,505.11
Changes in fair value of the financial assets available for sale recorded in capital reserve	3,909,186.89	31,497,904.01
Net change in fair value of the financial assets held for trading	696,306.00	1,297,275.00
Subtotal	91,254,958.86	61,842,684.12

## 5.14 Other Assets

## (1) Other Assets Breakdown

Item	31 December 2012	31 December 2011
Other receivables	8,971,887.94	2,413,193.76
Deferred expenses	7,160,489.35	2,414,568.77
Long-term deferred expenses	60,234,552.41	39,327,294.05
Total	76,366,929.70	44,155,056.58

## (2) Other Receivables

## A. Other Receivables Breakdown

Item	31 December 2012	31 December 2011
Advances to clients	600,000.00	227,040.00
Advances for legal expense	52,136.80	72,363.80
Guarantee deposit	1,109,300.00	1,069,300.00
Historical bad debts	355,492.89	360,081.93
Others	7,179,205.94	1,013,244.76
Total	9,296,135.63	2,742,030.49
Less: Other provisions for bad debts of accounts receivable	324,247.69	328,836.73
Net amount	8,971,887.94	2,413,193.76

## B. Aging Analysis

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

Aging	31 December 2011			
	Amount	Proportion(%)	Provisions for bad debts	Net amount
Within 1 year	2,381,948.56	86.87	—	2,381,948.56
1 to 2 years	—	—	—	—
2 to 3 years	—	—	—	—
Over 3 years	360,081.93	13.13	328,836.73	31,245.20
Total	2,742,030.49	100.00	328,836.73	2,413,193.76

C. As at 31 December 2012, there were no receivables to the shareholders who held more than 5% (including 5%) of the shares of the Bank.

## (3) Long-term Deferred Expenses

Item	31 December 2011	Increases in 2012	Amortization for 2012	31 December 2012
Rent expenses	4,629,141.39	2,092,632.00	2,828,103.23	3,893,670.16
Improvement costs under operating lease fixed assets	28,223,366.42	25,524,362.38	8,524,041.52	45,223,687.28
Others	6,474,786.24	6,209,445.62	1,567,036.89	11,117,194.97
Total	39,327,294.05	33,826,440.00	12,919,181.64	60,234,552.41

## 5.15 Assets Impairment

Item	2012				2011			
	1 January 2012	Increase	Decrease	31 December 2012	1 January 2011	Increase	Decrease	31 December 2011
	Provision in 2012	Other increase	Recovered amount due to the increase of assets	Write-off in 2012	Provision in 2011	Other increase	Recovered amount due to the increase of assets	Write-off in 2011
1. Provision for bad debt of other receivables	328,836.73	–	4,589.04	–	309,930.93	18,905.80	–	–
2. Loan impairment reserves	401,674,775.35	583,966,399.38	–	–	124,810,087.70	276,864,687.65	–	–
3. Allowance for impairment loss of intangible assets	1,357,053.33	–	–	–	1,357,053.33	–	–	–
4. Allowance for impairment loss of fixed assets	71,587.53	–	–	–	71,587.53	–	–	–
<b>Total</b>	<b>403,432,252.94</b>	<b>583,966,399.38</b>	<b>4,589.04</b>	<b>–</b>	<b>403,432,252.94</b>	<b>276,883,593.45</b>	<b>–</b>	<b>–</b>

Item	2012				2011			
	1 January 2012	Increase	Decrease	31 December 2012	1 January 2011	Increase	Decrease	31 December 2011
	Provision in 2012	Other increase	Recovered amount due to the increase of assets	Write-off in 2012	Provision in 2011	Other increase	Recovered amount due to the increase of assets	Write-off in 2011
1. Provision for bad debt of other receivables	328,836.73	–	4,589.04	–	309,930.93	18,905.80	–	–
2. Loan impairment reserves	401,674,775.35	583,966,399.38	–	–	124,810,087.70	276,864,687.65	–	–
3. Allowance for impairment loss of intangible assets	1,357,053.33	–	–	–	1,357,053.33	–	–	–
4. Allowance for impairment loss of fixed assets	71,587.53	–	–	–	71,587.53	–	–	–
<b>Total</b>	<b>403,432,252.94</b>	<b>583,966,399.38</b>	<b>4,589.04</b>	<b>–</b>	<b>403,432,252.94</b>	<b>276,883,593.45</b>	<b>–</b>	<b>–</b>

### 5.16 Borrowings from Central Bank

Item	31 December 2012	31 December 2011
Borrowings from central bank	25,000,000.00	–

### 5.17 Deposits from Banks and Non-bank Financial Institutions

Item	31 December 2012	31 December 2011
Deposits from banks	45,273,655,268.44	25,020,552,963.37
Deposits from non-bank financial institutions	3,550,000,000.00	985,816,642.36
Total	48,823,655,268.44	26,006,369,605.73

### 5.18 Placements from Banks and Non-bank Financial Institutions

Item	31 December 2012	31 December 2011
Placements from banks and non-bank financial institutions	2,000,000,000.00	–

### 5.19 Financial Assets Sold under Repurchase Agreements

#### (1) Classified by Collateral Security

Item	31 December 2012	31 December 2011
Bond	6,085,600,000.00	15,926,860,000.00
Bill	4,587,881,666.99	–
Total	10,673,481,666.99	15,926,860,000.00

#### (2) Classified by Counterparties

Counterparties	31 December 2012	31 December 2011
Fund companies	–	200,200,000.00
Security companies	–	2,398,400,000.00
Rural credit cooperative associations	–	114,000,000.00
Commercial banks	10,673,481,666.99	13,018,260,000.00
Insurance companies	–	196,000,000.00
Total	10,673,481,666.99	15,926,860,000.00

### 5.20 Deposits from Customers

#### (1) Deposits from Customers Breakdown

Item	31 December 2012	31 December 2011
Corporate deposits	93,327,010,967.97	68,229,678,706.49
Personal deposits	11,502,681,622.10	5,994,478,712.71
Total	104,829,692,590.07	74,224,157,419.20



## (2) Corporate Deposits

Item	31 December 2012	31 December 2011
Current deposits	45,143,511,139.98	25,951,615,562.44
Time deposits	43,072,788,649.57	38,528,302,502.01
Fiscal deposits	1,690,315,329.53	1,600,942,714.69
Other deposits	2,808,751.99	3,292,435.55
Guarantee deposits	3,417,587,096.90	2,145,525,491.80
Total	93,327,010,967.97	68,229,678,706.49

## (3) Personal Deposits

Item	31 December 2012	31 December 2011
Current deposits	5,872,562,480.63	3,721,100,700.72
Time deposits	5,630,119,141.47	2,273,378,011.99
Total	11,502,681,622.10	5,994,478,712.71

(4) See Note 6.7 for the amount of deposit of the shareholders who held shares of more than 5% (including 5%) as at 31 December 2012.

## 5.21 Accrued Staff Costs

Item	31 December 2011	Increase	Payment	31 December 2012
Salaries, bonuses and subsidies	–	227,864,466.38	227,864,466.38	–
Staff welfare expenses	–	27,196,440.88	27,196,440.88	–
Social insurance premium	17,304.97	53,596,195.87	53,613,500.84	–
Among which: 1. Medical insurance	–	11,759,454.46	11,759,454.46	–
2. Basic Endowment Insurance	–	28,029,404.91	28,029,404.91	–
3. Pension payment cost	17,304.97	7,471,037.55	7,488,342.52	–
4. Unemployment insurance expense	–	2,346,074.87	2,346,074.87	–
5. Industrial injury insurance premium	–	718,682.79	718,682.79	–
6. Childbirth insurance premiums	–	906,098.94	906,098.94	–
7. Other social insurance	–	2,365,442.35	2,365,442.35	–
Housing provident funds	877,962.20	27,733,413.26	28,611,375.46	–
Union expenses and employee training expenses	1,477,953.76	9,171,913.35	9,702,502.89	947,364.22
Non-monetary benefits	–	–	–	–
Others	–	26,636,357.44	26,636,357.44	–
Total	2,373,220.93	372,198,787.18	373,624,643.89	947,364.22

## 5.22 Taxes Payable

Item	31 December 2012	31 December 2011
Income tax	167,702,817.16	79,069,613.37
Business tax	40,559,264.34	26,418,558.51
Urban construction tax	2,834,945.74	1,847,375.93
Educational surcharge	2,129,676.22	1,348,816.64
Individual income tax	4,394,345.04	4,287,952.37
Stamp duty	155,245.92	469,167.44
Others	1,790,423.44	3,263,391.88
Total	219,566,717.86	116,704,876.14

## 5.23 Interest Payable

### (1) Interest Payable Breakdown

Item	31 December 2012	31 December 2011
Time deposit	608,910,938.66	502,177,979.50
Fixed savings account	86,490,695.05	25,519,485.56
Margin deposit	9,341,594.28	23,023,238.13
Current deposit	5,759,779.79	3,901,601.99
Current savings account	975,467.26	802,881.10
Deposits from banks and non-bank financial institutions	389,410,793.62	83,953,046.71
Placements from banks and non-bank institutions	1,407,083.33	—
Financial assets sold under repurchase agreements	81,219,369.30	48,417,864.67
Total	1,183,515,721.29	687,796,097.66

(2) See Note 6.7 for the amount of interest payable to the shareholders who held shares of more than 5% (including 5%) as at 31 December 2012.

## 5.24 Other Liabilities

### (1) Other Liabilities Breakdown

Item	31 December 2012	31 December 2011
Other payables	2,516,093,673.92	543,209,315.62
Dividend payable	23,898.97	21,614.97
Entrusted deposits	2,147,799.17	1,391,904.60
Deferred income	532,286.08	330,100.00
Total	2,518,797,658.14	544,952,935.19

See Note 6.8 for the amount of entrust loans from the shareholders who held shares of more than 5% (including 5%) as at 31 December 2012.

## (2) Other Payables

### A. Other Payables Breakdown

Item	31 December 2012	31 December 2011
Payment not yet transferred	–	300.00
Payment suspended for long time	33,930.92	33,930.92
Other payables	2,436,927,663.45	490,155,512.66
Unsettled premiums on assets	46,480.00	65,500.00
Other agency businesses	387,633.52	77,248.93
Liquidation of interbank businesses	78,697,966.03	52,876,823.11
Total	2,516,093,673.92	543,209,315.62

B. As at 31 December 2012, there were no accounts payable to the shareholders who held shares of more than 5% (including 5%).

## 5.25 Share Capital

Name of investor	31 December 2011		Increase	Decrease	31 December 2012	
	Investment amount	Proportion(%)			Investment amount	Proportion(%)
State owned shareholders	6,390,540,585.78	95.15	–	–	6,390,540,585.78	95.15
Collectively owned shareholders	325,593,348.25	4.85	–	–	325,593,348.25	4.85
Individual shareholders	53,896.98	–	–	–	53,896.98	–
Total	6,716,187,831.01	100.00	–	–	6,716,187,831.01	100.00

## 5.26 Capital Reserve

Item	31 December 2011	Increase/(Decrease)	31 December 2012
Share premium	4,267,872,376.48	–	4,267,872,376.48
Other capital reserve	(169,978,122.70)	157,389,979.89	(12,588,142.81)
(1) Fair value change in available-for-sale financial assets <sup>(1)</sup>	(209,986,026.71)	183,924,780.81	(26,061,245.90)
(2) Effect of income tax recognized in shareholders' equity <sup>(2)</sup>	31,497,904.01	(27,588,717.12)	3,909,186.89

Continued

Item	31 December 2011	Increase/(Decrease)	31 December 2012
(3) Others	8,510,000.00	1,053,916.20	9,563,916.20
Total	4,097,894,253.78	157,389,979.89	4,255,284,233.67

Note:

(1) At the ending of the reporting period, the loss in fair value changes of available-for-sale financial assets accumulated to RMB26,061,245.90.

(2) The deferred income tax assets due to the loss in fair value changes of available-for-sale financial assets is RMB3,909,186.89.

### 5.27 Surplus Reserve

Item	31 December 2011	Extraction in 2012	31 December 2012
Statutory surplus reserve	207,311,532.36	194,054,111.88	401,365,644.24

### 5.28 General Reserve

Item	2012
As at 1 January 2012	939,332,671.52
Increase	603,307,934.24
Decrease	—
As at 31 December 2012	1,542,640,605.76

In accordance with the Regulation of Extraction of Reserves for Financial Enterprises (CJ ([2012] No. 20) issued by the MOF on 30 March 2012, the balance of the general reserve should not below 1.5% of the ending balance of the risky capital. The Bank had extracted general reserve at 1.5% of the ending balance of underlying assets of risk in accordance with the above rules which amounted to RMB603,307,934.24.

### 5.29 Retained Earnings

Item	2012	2011
As at 1 January 2012	812,737,981.82	179,120,293.48
Add: Net profit	1,943,597,633.32	1,234,257,856.08
Less: Appropriation to statutory surplus reserve	194,054,111.88	123,398,242.60
Appropriation to general reserve	603,307,934.24	388,960,601.36
Cash dividends	360,952,446.82	88,281,323.78
As at 31 December 2012	1,598,021,122.20	812,737,981.82

In accordance with the resolution in the general meeting of shareholders, the Bank distributed cash dividends of RMB360,952,446.82 from profit in 2011 to shareholders.

### 5.30 Operating Income

#### (1) Net Interest Income

Item	2012	2011
Interest income:		
Deposits with banks and non-bank financial institutions	1,064,641,071.56	506,779,765.44
Deposits with central bank	265,980,126.82	209,924,573.59
Placements with banks and non-bank financial institutions	9,600,880.55	3,724,362.29
Loans and advances to customers	1,704,330,353.54	1,047,953,794.96
Discounted bills	333,143,938.75	49,627,620.29
Bond investments	1,815,411,525.88	1,610,561,503.92
Accounts receivable investments	356,023,305.06	—
Financial assets held under resale agreements	425,758,221.03	313,239,680.66
Subtotal	5,974,889,423.19	3,741,811,301.15
Interest expense:		
Deposits from banks and non-bank financial institutions	941,794,985.56	295,039,877.67
Borrowings from central bank	207,048.61	—
Placements from banks and non-bank financial institutions	1,407,083.33	—
Deposits from customers	1,797,157,313.42	1,205,581,334.83
Financial assets sold under repurchase agreements	278,580,402.13	228,750,186.43
Subtotal	3,019,146,833.05	1,729,371,398.93
Net interest income	2,955,742,590.14	2,012,439,902.22

#### (2) Net Fee and Commission Income

Item	2012	2011
Fee and commission income:		
Settlement fee	25,167,695.59	5,533,419.91
Agency service fee	447,887,141.00	236,927,100.00
Agency business fee	5,312,893.79	3,352,230.50
Intermediary business fee	262,582,600.48	99,565,133.01
Subtotal	740,950,330.86	345,377,883.42
Fee and commission expense:		
Agency service commission	8,846,764.97	16,840,036.98
Settlement service commission	41,214,658.45	24,024,728.35
Subtotal	50,061,423.42	40,864,765.33
Net fee and commission income	690,888,907.44	304,513,118.09

## (3) Investment Income/(Losses)

Item	2012	2011
Financial assets held for trading	28,409,810.00	(6,009,365.30)
Available-for-sale financial assets	34,679,902.90	(35,634,886.67)
Held-to-maturity investments	—	(4,626,447.60)
Total	63,089,712.90	(46,270,699.57)

## (4) Gain from Fair Value Changes

Item	2012	2011
Financial assets held for trading	4,006,460.00	3,892,090.00

## (5) Gain on Foreign Exchange

Item	2012	2011
Foreign exchange	172,399,129.79	59,329,701.20

## (6) Other Operating Income

Item	2012	2011
Rental income	402,000.00	410,248.18
Others	129,816.88	80.00
Total	531,816.88	410,328.18

## 5.31 Operating Expenses

## (1) Business Tax and Surcharges

Item	2012	2011
Business tax	128,306,069.23	70,371,908.68
Urban maintenance and construction tax	8,963,069.07	4,920,447.00
Educational surcharges	6,438,349.50	3,403,694.68
Others	883,185.95	100,108.40
Total	144,590,673.75	78,796,158.76

## (2) General and Administrative Expense

Item	2012	2011
Employee expense	372,198,787.18	232,820,055.95
Operating expenses	289,352,435.62	217,528,299.76
Depreciation of fixed assets	53,019,425.19	34,068,885.41
Amortization of long-term deferred expenses	12,919,181.64	6,640,415.73

Continued

Item	2012	2011
Amortization of intangible assets	23,992,085.24	17,047,317.12
Tax and surcharges	2,240,184.02	4,224,214.31
Rental fee	74,129,215.00	21,175,125.85
Total	827,851,313.89	533,504,314.13

## (3) Allowance for Impairment Loss

Item	2012	2011
Allowance for impairment loss from loans and advances	583,966,399.38	276,864,687.65
Bad debt of other receivables	(4,589.04)	18,905.80
Total	583,961,810.34	276,883,593.45

## 5.32 Non-operating Income

Item	2012	2011
Government grants	15,607,100.00	5,610,000.00
Others	385,196.13	99,270.44
Total	15,992,296.13	5,709,270.44

## 5.33 Non-operating Expenses

Item	2012	2011
Losses on disposal of non-current assets	–	27,268.13
Of which: Losses on disposal of fixed assets	–	27,268.13
Donation expense	9,003,120.00	–
Penalties and overdue fines	71,114.90	400,000.00
Others	51,349.46	47,869.33
Total	9,125,584.36	475,137.46

## 5.34 Income Tax Expense

Item	2012	2011
Current income tax expense	448,870,306.58	245,273,373.58
Deferred income tax expense	(57,000,991.86)	(29,290,089.88)
Total	391,869,314.72	215,983,283.70

### 5.35 Earnings Per Share

#### (1) Earnings Per Share

Item	2012	2011
Consolidated net profit attributable to ordinary equity holders of the parent company	1,943,597,633.32	1,234,257,856.08
Number of shares at the end of 2012	6,716,187,831.01	6,716,187,831.01
Weighted average number of shares in 2012	6,716,187,831.01	5,878,749,407.36
Basic earnings per share	0.29	0.21
Diluted earnings per share	0.29	0.21

#### (2) Return on Equity

Item	2012	2011
Consolidated net profit attributable to ordinary equity holders of the parent company	1,943,597,633.32	1,234,257,856.08
Ending balance of equity attributable to ordinary equity holders of the parent company	14,513,499,436.88	12,773,464,270.49
Fully diluted return on equity (%)	13.39	9.66
Return on weighted average equity (%)	14.25	12.81

### 5.36 Capital Adequacy Ratio

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

Item	31 December 2012	31 December 2011
Core capital adequacy ratio (%)	13.72	19.18
Capital adequacy ratio (%)	13.72	19.18

### 5.37 Other Comprehensive Income

Item	2012	2011
1. Gain/(losses) on available-for-sale financial assets	(26,061,245.90)	58,432,211.70
Less: Influence of income tax arising from available-for-sale financial assets	27,588,717.12	(4,885,141.08)
Net amount transferred to current profit or loss from other comprehensive income in the prior period	(209,986,026.71)	35,634,886.67
Subtotal	156,336,063.69	27,682,466.11
2. Others	–	5,730,000.00
Total	156,336,063.69	33,412,466.11



### 5.38 Notes to the Consolidates Statement of Cash Flows

#### (1) Cash Received from Other Operating Activities

Item	2012	2011
Advance received to be transferred	1,974,094,288.32	459,378,468.07
Government grants	15,607,100.00	5,610,000.00
Rental income	402,000.00	410,248.18
Others	385,196.13	99,270.44
Total	1,990,488,584.45	465,497,986.69

#### (2) Other Cash Payments Related to Operating Activities

Item	2012	2011
Payment for settlement and liquidation	206,138.70	109,179.65
Operating expenses and gain on foreign exchange	160,873,077.29	133,708,416.99
Others	9,322,015.59	400,000.00
Total	170,401,231.58	134,217,596.64

### 5.39 Supplementary Information for the Consolidates Statement of Cash Flows

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

Item	2012	2011
Net profit belonging to parent company's shareholders	1,943,597,633.32	1,234,257,856.08
minority shareholders' current earnings	1,589,199.90	52,875.30
Net profit	1,945,186,833.22	1,234,310,731.38
Add: Allowance for asset impairment	583,961,810.34	276,883,593.45
Depreciation of fixed assets	53,019,425.19	34,068,885.41
Amortization of intangible assets	23,992,085.24	17,047,317.12
Amortization of long-term deferred charges	12,919,181.64	6,640,415.73
Losses on disposal of fixed assets, intangible assets and other long-term assets	—	27,268.13
Losses on changes of fair value	(4,006,460.00)	(3,892,090.00)
Losses arising from investments	(2,234,524,543.84)	(1,564,290,804.35)
Decrease in deferred income tax assets	(57,000,991.86)	(29,290,089.88)
Increase in deferred income tax liabilities	—	—
Decrease in loans and advances to customers	(20,368,656,922.84)	(8,994,718,848.72)
Increase in customer deposits and deposits with banks and non-bank financial institutions	30,605,535,170.87	17,168,362,009.95
Net increase in placements with banks and non-bank financial institutions	(5,415,688,606.99)	9,725,360,000.00
Decrease in operating receivables	(11,271,259,657.31)	(5,519,877,448.01)

Continued

Item	2012	2011
Increase in operating payables	25,696,023,665.78	14,660,626,481.51
Decrease in other operating assets	(4,745,920.58)	(302,892.61)
Increase in other operating liabilities	60,758,176.83	23,549,915.22
Net cash flow from operating activities	19,625,513,245.69	27,034,504,444.33

**(2) Cash and Cash Equivalents**

Item	2012	2011
1. Cash	40,627,446,252.58	33,679,925,911.96
Including: Cash in hand	255,747,431.75	171,458,712.30
Deposits with central bank	6,562,390,108.64	4,747,903,784.53
Deposits with banks within 3 months	33,809,308,712.19	28,760,563,415.13
2. Cash equivalents	10,830,037,297.26	13,208,919,014.64
Including: Available-for-sale financial assets due within 3 months upon acquisition	—	618,106,990.00
Financial assets held for trading due within 3 months upon acquisition	—	99,959,100.00
Securities held under resale agreements due within 3 months upon acquisition	10,830,037,297.26	12,440,852,924.64
Held-to-maturity bonds investment due within 3 months upon acquisition	—	50,000,000.00
3. Total cash and cash equivalents	51,457,483,549.84	46,888,844,926.60

**5.40 Operating Segments**

The Bank's businesses mainly include four service segments:

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

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

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

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

The data of 2011 segment business has been rectified by classification of new business segments in order to make comparison.

## (1) Business Segments in 2012

Item	Corporate banking	Personal banking	Funding business	International business	Others	Total
1. Net interest income	1,296,842,184.98	158,930,942.94	1,253,761,978.00	246,207,484.22	—	2,955,742,590.14
Net fee and commission income	452,215,552.90	(15,424,183.87)	—	254,097,538.41	—	690,888,907.44
Investment income	—	—	63,089,712.90	—	—	63,089,712.90
Gain from fair value changes	—	—	4,006,460.00	—	—	4,006,460.00
Gain on foreign exchange	—	—	—	172,399,129.79	—	172,399,129.79
Other operating income	—	—	—	—	466,433.88	466,433.88
Business tax and surcharges	72,425,152.47	6,508,934.48	52,930,049.50	12,374,944.49	351,592.81	144,590,673.75
General and administrative expenses	414,668,913.82	37,266,787.86	303,050,050.72	70,852,523.14	2,013,038.35	827,851,313.89
Allowance for impairment loss	556,596,345.65	12,635,464.69	—	14,730,000.00	—	583,961,810.34
2. Operating profit	705,367,325.94	87,095,572.04	964,878,050.68	574,746,684.79	(1,898,197.28)	2,330,189,436.17
Non-operating income	—	—	—	—	15,992,296.13	15,992,296.13
Non-operating expenses	—	—	—	—	9,125,584.36	9,125,584.36
3. Profit before tax	705,367,325.94	87,095,572.04	964,878,050.68	574,746,684.79	4,968,514.49	2,337,056,147.94
Income tax	—	—	—	—	—	391,869,314.72
4. Net profit	—	—	—	—	—	1,945,186,833.22
5. Supplementary information	—	—	—	—	—	—
i. Depreciation and amortization expense	45,046,087.11	4,048,345.36	32,920,767.70	7,696,812.62	218,679.28	89,930,692.07
ii. Capital expenditure	124,234,821.03	11,165,130.94	90,793,805.75	21,227,418.40	603,106.36	248,024,282.48

## (2) Business Segments in 2011

Item	Corporate banking	Personal banking	Funding business	International business	Others	Total
1. Net interest income	1,051,981,479.29	89,404,300.54	808,567,062.93	62,487,059.46	—	2,012,439,902.22
Net fee and commission income	239,700,016.20	(10,223,206.40)	—	75,036,308.29	—	304,513,118.09
Investment income	—	—	(46,270,699.57)	—	—	(46,270,699.57)
Gain from fair value changes	—	—	3,892,090.00	—	—	3,892,090.00
Gain on foreign exchange	—	—	—	59,329,701.20	—	59,329,701.20
Other operating income	—	—	—	—	339,836.50	339,836.50
Business tax and surcharges	48,025,007.69	2,784,010.30	24,593,771.98	3,274,219.71	119,149.08	78,796,158.76
General and administrative expense	325,162,408.86	18,849,668.96	166,516,790.32	22,168,724.58	806,721.41	533,504,314.13
Allowance for impairment loss	267,128,799.43	9,735,888.22	—	—	18,905.80	276,883,593.45
2. Operating profit	651,365,279.51	47,811,526.66	575,077,891.06	171,410,124.66	(604,939.79)	1,445,059,882.10
Non-operating income	—	—	—	—	5,709,270.44	5,709,270.44
Non-operating expenses	—	—	—	—	475,137.46	475,137.46
3. Profit before tax	651,365,279.51	47,811,526.66	575,077,891.06	171,410,124.66	4,629,193.19	1,450,294,015.08
Income tax	—	—	—	—	—	215,983,283.70
4. Net profit	—	—	—	—	—	1,234,310,731.38
5. Supplementary information	—	—	—	—	—	—
i. Depreciation and amortization expense	35,201,741.81	2,040,645.43	18,026,933.31	2,399,962.90	87,334.81	57,756,618.26
ii. Capital expenditure	118,321,060.65	6,859,073.37	60,592,622.98	8,066,821.18	293,552.18	194,133,130.36

## 6. Related Party Relationships and Transactions

### 6.1 Related Party Relationships

#### (1) Information of the Parent Company:

(In RMB Billions)					
Name of the parent company	Registered address	Nature of business	Economic nature	Registered capital	Shareholding ratio (%)
China National Petroleum Corporation	Liupukang, Xicheng District, Beijing	Petroleum&gas exploitation	State-owned	379.863	82.00

#### Capital of Parent Company and Its Movement

(In RMB Billions)				
Name	31 December 2011	Increase	Decrease	31 December 2012
China National Petroleum Corporation	297.87	81.99	—	379.86

#### Shareholding Ratio of Parent Company and Its Movement

(In RMB Ten Thousands)				
Name	Shareholding amount		Shareholding ratio (%)	
	31 December 2011	31 December 2012	31 December 2011	31 December 2012
China National Petroleum Corporation	550,727.40	550,727.40	82.00	82.00

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

As at 31 December 2012, there was no shareholder who held voting shares of more than 5% (including 5%) except the Bank's parent company.

### 6.2 Information of the Subsidiaries

See Note 4.1 for the information of subsidiaries as at 31 December 2012.

### 6.3 Directors, Supervisors and Senior Management of the Bank

Name	Position	Transaction Type
Wang Guoliang	Chairman	No transaction
Xie Geguo	Vice Chairman	No transaction
Zhou Mingchun	Director	No transaction
Wen Qingshan	Director	No transaction
Tang Jian	Director	No transaction
Wan haichuan	Director	No transaction
Wang zhonglai	Director, President	No transaction
Pang Yueying	Independent Director	No transaction
Yu Zengbiao	Independent Director	No transaction

Continued

Name	Position	Transaction Type
Shi Junzhi	Independent Director	No transaction
Gao Jun	Chief Supervisor	No transaction
Yang Jiasi	External Supervisor	No transaction
Wei Guoliang	Supervisor	No transaction
Liu li	Employee Supervisor	No transaction
Wang wei	Employee Supervisor	No transaction
Jiang shangjun	Secretary of the Party Committee	No transaction
Xu Xinyuan	Board Secretary, Vice Secretary of the Party Committee	No transaction
Jing Lin	Chief Finance Officer	No transaction
Xie Pengfei	Vice President	No transaction
Xie Haibing	Chief Information Officer	No transaction
Zhang Li	Assistant President, Chief Legal Counsel	No transaction
He Fang	Assistant President	No transaction
He Ning	Assistant President	No transaction

#### 6.4 Other Related Party Relationship

Name of the company	Relationship
Karamary Baoji Steel Tube Co., Ltd.	Same ultimate controller
Beijing Huafuxinrong Property Management Co., Ltd.	Same ultimate controller
Beijing Jinyaguang Real Estate Management Co., Ltd.	Same ultimate controller
Beijing Petroleum Machinery Factory	Same ultimate controller
Beijing Zhongyouruifei Information Technology Co., Ltd.	Same ultimate controller
Beijing Zhongyou Oil Technology Co., Ltd.	Same ultimate controller
Chengdu shengguomao Property Management Co., Ltd.	Same ultimate controller
Chuanqing Drilling Engineering Co., Ltd.	Same ultimate controller
Daqing Petroleum Administration Bureau	Same ultimate controller
Daqing Oil Field Business Group Co., Ltd.	Same ultimate controller
Daqing Oil Field Real Estate Development Co., Ltd.	Same ultimate controller
Daqing Oil Field, Xinjiang East Tower Oil and Gas Exploration and Development Co., Ltd.	Same ultimate controller
Daqing Oil Co., Ltd.	Same ultimate controller
Northwest Asian Natural Gas Pipeline Co., Ltd.	Same ultimate controller
Northwest Asian Crude Oil Pipeline Co., Ltd.	Same ultimate controller
Karamay Pterosaurs Lubricating Oil Co., Ltd.	Same ultimate controller
Kunlun Financial Leasing Co., Ltd.	Same ultimate controller
Zhongyoukexin Chemical Co., Ltd., Langfang Development Zone	Same ultimate controller

Continued

Name of the company	Relationship
Sichuan Petroleum Group Co., Ltd.	Same ultimate controller
Tarim Oil Exploration and Development Headquarters	Same ultimate controller
Turpan-Hami Oil Exploration and Development Headquarters	Same ultimate controller
Xi'an Northwest Petroleum Pipeline Company	Same ultimate controller
Xi'an Changqing Property Management Co., Ltd.	Same ultimate controller
Xinjiang Petroleum Engineering Construction Co., Ltd.	Same ultimate controller
Xinjiang Petroleum Exploration and Design Institute	Same ultimate controller
Petroleum Administration Bureau of Xinjiang Uygur Autonomous Region	Same ultimate controller
Heiyoushan in Xinjiang Oilfield Co., Ltd.	Same ultimate controller
Gangfanggou Road Oil Supply Station of Xinjiang PetroChina Material Co., Ltd.	Same ultimate controller
Sunshine Travel (Beijing) Technology Co., Ltd.	Same ultimate controller
Changqing Petroleum Exploration Bureau	Same ultimate controller
China Huanqiu Contracting and Engineering Corp	Same ultimate controller
China National United Oil Co., Ltd.	Same ultimate controller
China Petroleum Engineering Construction Corp	Same ultimate controller
CNPC Offshore Engineering Iran Co., Ltd.	Same ultimate controller
CNPC Bohai Drilling Engineering Co., Ltd.	Same ultimate controller
CNPC Logging Co., Ltd.	Same ultimate controller
CNPC Offshore Engineering Co., Ltd.	Same ultimate controller
CNPC Economic and Technical Institute	Same ultimate controller
CNPC West Pipeline Co., Ltd.	Same ultimate controller
CNPC Xibu Drilling Engineering Co., Ltd.	Same ultimate controller
CNPC Greatwall Drilling Co., Ltd.	Same ultimate controller
China Petroleum Technology Development Co., Ltd.	Same ultimate controller
PetroChina Company Limited	Same ultimate controller
PetroChina Company Limited Qinghai Oilfield Branch	Same ultimate controller
PetroChina Company Limited (merged) Changqing Oilfield Branch	Same ultimate controller
CNPC Transportation Co., Ltd.	Same ultimate controller
Zhongman Petroleum and Natural Gas Group Co., Ltd.	Same ultimate controller
Zhongyi Property Insurance Co., Ltd.	Same ultimate controller
China Petroleum Finance Co., Ltd.	Same ultimate controller
China Oil Logging Technology Service Co., Ltd.	Same ultimate controller
The CPC Sunshine Property Management Co., Ltd.	Same ultimate controller
Xinjiang Dushanzi Petrochemical General Factory	Same ultimate controller
PetroChina Daqing Petrochemical General Factory	Same ultimate controller

Continued

Name of the company	Relationship
China Petroleum First Construction Company	Same ultimate controller
China Oil Logging Technology Service Co., Ltd.	Same ultimate controller
CNPC Greatwall Drilling Co., Ltd.	Same ultimate controller
PetroChina Urumqi Petrochemical General Factory	Same ultimate controller
PetroChina Company Limited Changqing Oilfield Branch	Same ultimate controller
China Petroleum Sixth Construction Co., Ltd.	Same ultimate controller
China Petroleum (Hong Kong) Finance Co., Ltd.	Same ultimate controller

### 6.5 Interest Paid to the Related Parties

(In RMB Ten Thousands)

Name of the company	Interest expense in 2012	Interest expense in 2011
PetroChina company limited	15,377.04	9,951.02
China National Petroleum Corporation	91,841.44	82,238.23
Other subsidiaries of the parent company	28,095.15	8,941.88

### 6.6 Interest Charged from the Related Parties

(In RMB Ten Thousands)

Name of the company	Interest income in 2012	Interest income in 2011
PetroChina company limited	22,906.58	—
Other subsidiaries of the parent company	1,964.66	3,690.63

### 6.7 Balance of the Related Party

(In RMB Ten Thousands)

Name of the company	Account name	31 December 2012	31 December 2011
PetroChina company limited	Customer deposits and deposits from banks and non-bank financial institutions	168,229.00	588,591.78
	Interest payable	3,337.89	2,246.32
China National Petroleum Corporation	Customer deposits and deposits from banks and non-bank financial institutions	4,169,752.87	3,481,518.43
	Interest payable	16,795.58	38,002.80
Other subsidiaries of the parent company	Loans and advances to customers	692,989.00	—
	Customer deposits and deposits from banks and non-bank financial institutions	1,514,771.00	809,975.22
	Deposits with banks and non-bank financial institutions	302,524.01	—
	Interest payable	22,409.76	5,448.55
	Interest receivable	1,287.35	66.15



## 6.8 Entrusted Deposits and Loans of the Related Parties

(In RMB Ten Thousands)	
Name	31 December 2012
PetroChina company limited	11,749,989.83
Other subsidiaries of the parent company	616,000.00

## 6.9 Guarantee Service

(In RMB Ten Thousands)	
Candidate	Amount
Other subsidiaries of the parent company	271,482.87

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

### 7.1 Contingencies about Contentious Matters

As at 31 December 2012, as plaintiff, the Bank still had 5 pending litigations, involving an amount of RMB1,174,600.

### 7.2 Commitments

#### (1) Capital Commitments

(In RMB Ten Thousands)		
Item	31 December 2011	31 December 2012
Contracted but not paid	8,577.41	10,407.52

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

#### (2) Operating Lease Commitments

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

Item	31 December 2012
Within 1 year	19,963,654.46
1 to 2 years	14,968,554.96
2 to 3 years	14,282,966.91
3 to 4 years	11,323,247.48
4 to 5 years	7,916,409.28
More than 5 years	7,335,543.96
Total	75,790,377.05

### (3) Commitments on Collateral Securities

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

Item	31 December 2012
Held-to-maturity investments	5,414,063,389.31
Of which: Financial bonds	998,360,239.91
Corporate bonds	4,415,703,149.40
Available-for-sale financial assets	898,649,950.00
Of which : Financial bonds	599,999,650.00
Corporate bonds	298,650,300.00
<b>Total</b>	<b>6,312,713,339.31</b>

### 7.3 Main Off-balance Sheet Item of Contingent Risks

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

Item	31 December 2011		
	Amount	Amount of guarantee	Guarantee ratio(%)
Bank acceptance bill	327,451,919.24	148,272,158.24	45.28
Letter of guarantee	2,802,868,897.31	258,340,524.29	9.22

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

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

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

## 8. Post Balance Sheet Events

None

## 9. Risk Management

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

The Bank's business activities make extensive use of financial instruments. The Bank absorbs the deposits of different maturities at fixed interest rates and invest them in high-quality assets to obtain above-average spreads. The Bank increases spreads by investing short-term funds in medium-term and long-term loans and bond investments with higher interest rates, meanwhile maintaining adequate liquidity in order to ensure timely repayments of debt upon maturity.

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

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

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

### 9.1 Credit Risk

Credit risk represents the financial 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, loan review and approval, loan and credit monitoring, and are implemented in strict adherence to the requirements of "Three measures and one guideline" promulgated by the CBRC, especially the management of the borrowers' entrusted payment.

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 a 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, 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 Investments

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

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

## (2) Management of Risk Quotes and Mitigation Measures

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

### A. Credit Limit Management

#### (a) Grant of Loans and Advances

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

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

The Bank manages its credit limits according to the credit types divided as personal business, corporate business, syndicated loans and credit assets bought from other banks:

#### (i) Personal Business

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

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

## (ii) Corporate Business

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

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

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

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

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

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

## (b) Bond Investments

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

## B. Risk mitigation Measures

### (a) Loan Guarantees and Collaterals

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

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

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

### (b) Credit Commitments

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

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

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

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



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

The criteria whether there is objective evidence of impairment include:

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

Quality of financial assets with individually material amount should be reviewed at least once a quarter. For assets with separate allowance for impairment loss 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 loss reserve on the following portfolio in accordance with historical data, experience, judgment and statistical technique:

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

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

Five categories	31 December 2012		31 December 2011	
	Loans and advances	Proportion (%)	Loans and advances	Proportion (%)
Subtotal of performing loans:	40,618,319,619.15	98.20	20,987,974,873.46	99.97
Pass	40,600,469,619.15	98.16	19,677,582,551.29	93.73
Special mention	17,850,000.00	0.04	1,310,392,322.17	6.24
Subtotal of non-performing loans:	745,042,827.93	1.80	6,730,650.78	0.03
Substandard	739,932,610.66	1.79	—	—
Doubtful	1,396,149.61	—	6,730,650.78	0.03
Loss	3,714,067.66	0.01	—	—
Total	41,363,362,447.08	100.00	20,994,705,524.24	100.00

Five categories of loans and advances and Allowance for impairment loss at the end of the year:

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

Five categories of loans and advances and Allowance for impairment loss at the beginning of the year:

Five categories	31 December 2011		
	Loans and advances	Proportion of provision (%)	Provision amount
Pass	19,677,582,551.29	1.88	370,344,975.25
Special mention	1,310,392,322.17	2.00	26,207,846.44
Substandard	–	–	–
Doubtful	6,730,650.78	76.10	5,121,953.66
Loss	–	–	–
Subtotal	20,994,705,524.24	1.91	401,674,775.35

Overdue and impaired loans and advances:

Item	31 December 2012	31 December 2011
Neither overdue nor impaired	40,586,365,398.07	20,987,286,251.29
Overdue but not impaired	33,077,195.38	7,419,272.95
Impaired	743,919,853.63	–
Less: Allowance for impairment loss	985,641,174.73	401,674,775.35
Net amount	40,377,721,272.35	20,593,030,748.89

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

Item	31 December 2012		
	Corporate loans	Personal loans	Total
Pass	39,312,377,854.88	1,271,137,543.19	40,583,515,398.07
Special mention	2,850,000.00	–	2,850,000.00
Substandard	–	–	–
Doubtful	–	–	–
Loss	–	–	–

Continued

Item	31 December 2012		
	Corporate loans	Personal loans	Total
Total	39,315,227,854.88	1,271,137,543.19	40,586,365,398.07
Less: Allowance for impairment loss	732,741,474.79	25,579,074.89	758,320,549.68
Net amount	38,582,486,380.09	1,245,558,468.30	39,828,044,848.39

Item	31 December 2011		
	Corporate loans	Personal loans	Total
Pass	19,144,533,885.68	532,752,365.61	19,677,286,251.29
Special Mention	1,310,000,000.00	—	1,310,000,000.00
Substandard	—	—	—
Doubtful	—	—	—
Loss	—	—	—
Total	20,454,533,885.68	532,752,365.61	20,987,286,251.29
Less: Allowance for impairment loss	387,290,828.74	9,248,220.51	396,539,049.25
Net amount	20,067,243,056.94	523,504,145.10	20,590,747,202.04

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

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

Item	31 December 2011		
	Corporate loans	Personal loans	Total
Overdue for 1-90 days (including 90 days)	296,300.00	392,322.17	688,622.17
Overdue for 90-360 days (including 360 days)	100,000.00	—	100,000.00
Overdue for 360 days to 3 years (including 3 years)	413,134.02	799,702.13	1,212,836.15
Overdue over 3 years	5,417,814.63	—	5,417,814.63
Total	6,227,248.65	1,192,024.30	7,419,272.95

Continued

Item	31 December 2011		Total
	Corporate loans	Personal loans	
Allowance for impairment loss	4,648,058.38	487,667.72	5,135,726.10
Net amount	1,579,190.27	704,356.58	2,283,546.85

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

Security	31 December 2012
Credit loans	–
Guarantee loans	740,205,785.97
Mortgaged loans	–
Pledged loans	3,714,067.66
Total	743,919,853.63
Less: Allowance for impairment loss	225,857,756.05
Net amount	518,062,097.58

## (3) Concentration of Credit Risk of Credit Assets

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

## (4) Maximum Credit Risk Exposure

The following table shows the maximum credit risk exposure of the Bank without consideration of collaterals and other credit enhancements on 31 December 2012. For balance sheet Item, the risk exposure of assets is the carrying value at the balance sheet date.

Item	31 December 2012	31 December 2011
Exposure to credit risk of balance sheet Item includes:		
Deposits with banks and non-bank financial institutions	48,513,427,457.97	36,803,938,667.28
Financial assets held for trading	1,098,150,138.36	572,271,120.00
Financial assets held under resale agreements	12,992,347,571.24	12,440,852,924.64
Loans and advances to customers	40,377,721,272.35	20,593,030,748.89
Available-for-sale financial assets	21,623,774,404.99	16,738,700,479.99
Held-to-maturity investments	19,794,276,463.51	22,727,606,701.13
Accounts receivable investments	13,687,603,263.89	–
Interest receivable	1,672,296,940.39	1,338,094,670.99
Others	8,971,887.94	2,413,193.76
Subtotal	159,768,569,400.64	111,216,908,506.68
Off-balance-sheet credit commitments exposure includes:		

Continued

Item	31 December 2012	31 December 2011
Letter of credit	30,807,615.20	—
Bank acceptance bill	959,967,490.02	327,451,919.24
Letter of guarantee	4,487,389,416.78	2,802,868,897.31
Subtotal	5,478,164,522.00	3,130,320,816.55
Total	165,246,733,922.64	114,347,229,323.23

## (5) Investment Bonds

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

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

The following table shows the distribution of credit rating of the bonds held by the Bank assessed by external rating agencies on 31 December 2011.

Item	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments
Renminbi in long-term debt (Repayment period of one year or above)			
AAA	261,584,180.00	4,330,640,460.00	15,755,197,202.84
AA- to AA+	210,727,840.00	9,614,601,549.99	639,047,990.10
Not rated	—	215,158,040.00	130,237,607.58
Treasury bond	—	—	172,873,308.22
Central bank bills	—	247,653,500.00	2,074,913,929.98
Financial bonds from policy bank	—	351,463,440.00	620,459,718.38
Other financial bonds	—	—	100,000,000.00
Subtotal	472,312,020.00	14,759,516,989.99	19,492,729,757.10
Renminbi in short-term debt (Overdue within one year)			
A-1 (Short-term financing bills)	99,959,100.00	378,549,750.00	449,861,956.03
AAA	—	744,812,250.00	782,511,343.90
AA- to AA+	—	615,511,010.00	50,389,294.20
Not rated	—	39,886,080.00	—
Treasury bond	—	—	160,239,826.93
Central bank bills	—	—	1,384,684,384.49
Financial bonds from policy bank	—	200,424,400.00	740,303,273.63
Other financial bonds	—	—	—
Subtotal	99,959,100.00	1,979,183,490.00	3,567,990,079.18
Total	572,271,120.00	16,738,700,479.99	23,060,719,836.28

## 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 loss, etc.

The following table shows the cash flow distribution of the Bank's assets and liabilities classified by their period to maturity. The period to maturity means period from the balance sheet date to the contractual expiration date. The amount of the account included in each period is the undiscounted contractual cash flows.

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

Item	Overdue	Repayable on demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
<b>Asset Items:</b>							
Cash and deposits with central bank	–	6,858,121,540.39	–	–	–	17,448,638,300.96	24,306,759,841.35
Deposits with banks and non-bank financial institutions	–	28,153,244,994.91	11,517,588,000.00	8,742,594,463.06	100,000,000.00	–	48,513,427,457.97
Financial assets held for trading	–	–	–	20,227,818.36	484,484,620.00	593,437,700.00	1,098,150,138.36
Financial assets held under resale agreements	–	–	11,854,060,966.65	1,138,286,604.59	–	–	12,992,347,571.24
Interest receivable	9,018,522.22	–	710,195,758.70	965,036,867.80	–	–	1,684,251,148.72
Loans and advances to customers	171,676,423.96	39,200,000.00	8,205,345,958.58	18,181,864,005.14	9,275,554,433.75	4,504,080,450.92	40,377,721,272.35
Available-for-sale financial assets	–	–	1,119,364,979.99	4,143,115,580.00	14,487,665,025.00	1,873,628,820.00	21,623,774,404.99
Held-to-maturity investments	–	–	520,367,208.28	3,381,407,308.47	15,086,061,206.60	978,269,284.95	19,966,105,008.30
Accounts receivable investments	–	–	2,042,925,860.28	9,601,751,543.33	2,042,925,860.28	–	13,687,603,263.89
Fixed assets	–	–	–	–	–	282,966,722.09	282,966,722.09
Construction in progress	–	–	–	–	–	50,544,397.88	50,544,397.88
Intangible assets	–	–	–	–	–	63,992,638.98	63,992,638.98
Deferred income tax assets	–	–	–	–	91,254,958.86	–	91,254,958.86
Other assets	–	–	9,309,561.16	6,720,560.13	60,336,808.41	–	76,366,929.70
Total assets	180,694,946.18	35,059,022,220.22	35,970,702,608.72	46,181,004,750.88	41,628,282,912.90	25,795,558,315.78	184,815,265,754.68
<b>Liability items:</b>							
Borrowings from central bank	–	–	–	25,000,000.00	–	–	25,000,000.00

Continued

Item	Overdue	Repayable on demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Deposits from banks and non-bank financial institutions	–	24,543,494,188.75	10,981,182,349.09	13,298,978,730.60	–	–	48,823,655,268.44
Placements from banks and non-bank financial institutions	–	–	2,000,000,000.00	–	–	–	2,000,000,000.00
Financial assets sold under repurchase agreements	–	–	4,588,563,814.27	6,084,917,852.72	–	–	10,673,481,666.99
Deposits from customers	–	54,762,778,186.17	10,275,484,458.27	17,248,719,948.07	22,488,526,972.35	54,183,025.21	104,829,692,590.07
Accrued staff costs	–	947,364.22	–	–	–	–	947,364.22
Taxes payable	–	219,566,717.86	–	–	–	–	219,566,717.86
Interest payable	–	371,130,034.00	122,733,569.94	536,583,626.61	152,700,743.83	367,746.91	1,183,515,721.29
Deferred income tax liabilities	–	–	–	–	–	–	–
Other liabilities	–	2,515,418,571.31	–	3,379,086.83	–	–	2,518,797,658.14
Total liabilities	–	82,413,335,062.31	27,967,964,191.57	37,197,579,244.83	22,641,227,716.18	54,550,772.12	170,274,656,987.01
Net liquidity	180,694,946.18	(47,354,312,842.09)	8,002,738,417.15	8,983,425,506.05	18,987,055,196.72	25,741,007,543.66	14,540,608,767.67

## (2) Maturity Analysis of the Assets and Liabilities as at 31 December 2011

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	–	4,919,362,496.83	–	–	–	13,449,396,569.68	18,368,759,066.51
Deposits with banks and non-bank financial institutions	–	14,800,564,057.04	18,703,374,610.24	3,300,000,000.00	–	–	36,803,938,667.28
Financial assets held for trading	–	–	99,959,100.00	–	281,643,420.00	190,668,600.00	572,271,120.00



Continued

Item	Overdue	Repayable on demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Financial assets held under resale agreements	–	–	12,440,852,924.64	–	–	–	12,440,852,924.64
Interest receivable	1,198,268.16	–	776,353,059.92	565,571,790.09	–	–	1,343,123,118.17
Loans and advances to customers	2,283,546.85	–	3,046,623,895.10	10,958,823,336.76	4,120,440,501.97	2,464,859,468.21	20,593,030,748.89
Available-for-sale financial assets	–	–	618,106,990.00	1,361,076,500.00	14,089,696,049.99	669,820,940.00	16,738,700,479.99
Held-to-maturity investments	–	–	50,000,000.00	3,517,990,079.18	18,070,385,544.70	1,422,344,212.40	23,060,719,836.28
Fixed assets	–	–	–	–	–	231,341,432.75	231,341,432.75
Intangible assets	–	–	–	–	–	36,517,337.22	36,517,337.22
Deferred income tax assets	–	–	–	–	61,842,684.12	–	61,842,684.12
Other assets	–	32,883.90	2,259,826.20	92,256.00	41,733,636.08	36,454.40	44,155,056.58
Total assets	3,481,815.01	19,719,959,437.77	35,737,530,406.10	19,703,553,962.03	36,665,741,836.86	18,464,985,014.66	130,295,252,472.43
Liability items:							
Deposits from banks and non-bank financial institutions	–	9,189,534,544.72	14,421,000,000.02	2,395,835,060.99	–	–	26,006,369,605.73
Financial assets sold under repurchase agreements	–	–	14,926,360,000.00	1,000,500,000.00	–	–	15,926,860,000.00
Deposits from customers	–	31,315,632,066.22	7,266,901,087.82	30,160,140,146.83	5,481,484,118.33	–	74,224,157,419.20
Accrued staff costs	–	2,373,220.93	–	–	–	–	2,373,220.93
Taxes payable	–	116,704,876.14	–	–	–	–	116,704,876.14
Interest payable	–	235,983,243.91	139,444,150.32	270,351,569.76	42,017,133.67	–	687,796,097.66
Other liabilities	–	54,927,980.27	–	484,118,187.64	5,906,767.28	–	544,952,935.19
Total liabilities	–	40,915,155,932.19	36,753,705,238.16	34,310,944,965.22	5,529,408,019.28	–	117,509,214,154.85
Net liquidity	3,481,815.01	(21,195,196,494.42)	(1,016,174,832.06)	(14,607,391,003.19)	31,136,333,817.58	18,464,985,014.66	12,786,038,317.58

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

Item	31 December 2012						Total
	Overdue	Repayable on demand	Within 3 months	3 months to 1 year	1 year to 5 years		
Letter of credit	–	30,807,615.20	–	–	–	–	30,807,615.20
Bank acceptance bill	2,800,000.00	–	727,932,238.75	229,235,251.27	–	–	959,967,490.02
Letter of guarantee	3,063,879,097.56	–	487,274,067.81	780,186,729.40	156,049,522.01	4,487,389,416.78	4,487,389,416.78
Total	3,066,679,097.56	30,807,615.20	1,215,206,306.56	1,009,421,980.67	156,049,522.01	5,478,164,522.00	5,478,164,522.00

Item	31 December 2011						Total
	Overdue	Repayable on demand	Within 3 months	3 months to 1 year	1 year to 5 years		
Letter of guarantee	204,219,496.81	–	258,340,524.29	1,486,709,534.00	853,599,342.21	2,802,868,897.31	2,802,868,897.31
Bank acceptance bill	–	–	108,897,588.00	218,554,331.24	–	327,451,919.24	327,451,919.24
Total	204,219,496.81	–	367,238,112.29	1,705,263,865.24	853,599,342.21	3,130,320,816.55	3,130,320,816.55

### 9.3 Market Risk

Market risk is the risk of loss, in respect of the on-balance sheet and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk may affect all market-risk-sensitive financial products, including loans, deposits, placements, securities and derivative financial instruments.

The Bank divides the business into trading accounts and bank accounts. Trading accounts include financial instruments and commodity positions held for trading purposes or for avoidance of the market risk of trading account which can be freely traded. The trading accounts are designed for profit from short-term price fluctuations. Bank accounts refer to the assets and liabilities out of the trading account. Risk Management Department is responsible for the identification, measurement and monitoring of the market risk other than the interest rate risk of the bank account. Asset and Liability Management Department is responsible for monitoring and management of interest rate risk of the bank account.

Currently, the trading accounts of the Bank include financial assets held for trading. Other assets and liabilities are presented in the bank accounts.

The Bank's exchange rate risk concerns foreign exchange exposures that are subject to exchange rate fluctuations in the market, which include those arising from structural imbalances between foreign exchange assets and foreign exchange liabilities denominated in different currencies.

The Bank's interest rate risk includes the structural interest rate risk from the commercial banking and from financial transaction positions. Interest rate risk is the inherent risk of the various businesses of the Bank. The mismatch of 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 risk value measurement, sensitivity analysis, reprising exposure, concentration analysis of foreign exchange risk as the main tools for monitoring market risk management.

The Bank separately monitors the market risk of trading portfolios and other non-trading portfolios. Since 2011, the Bank adopts value at risk (the "VaR") as the main tool of measuring and monitoring the trading portfolio market risk and exchange rate risk of head office. The following section includes trading portfolio VaR of the head office calculated by risk category, as well as analysis based on the exchange rate exposure and interest rate risk exposure (including trading portfolio and non-trading portfolio).

### (1) Value at Risk (VaR)

Value at Risk is a way to estimate the maximum possible loss at a given timeframe, relatively to a given confidence interval, due to changes in market interest rates, exchange rates or price. The Bank adopts the historical simulation method, selecting 250 days of historical market data on a daily basis and monitoring value at risk for the trading portfolio and exchange rate exposure (confidence interval is 99%, and the holding period is 1 day).

As at 31 December 2012, the market risk the Bank faces includes interest rate risk and exchange rate risk, and the trading account of the Bank is currency bonds, including short-term financing bills and medium-term notes. 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 2012, the VaR of trading account Renminbi bonds calculated under the historical simulation method is RMB2.01 million, that is to say, the maximum loss that may arise in the trading account Renminbi bonds in the next day will be RMB2.01 million; The value of exchange rate risk (VaR) is RMB4.21 million, and the maximum possible exchange losses of foreign exchange positions in the next day will be RMB4.21 million.

### (2) Exchange Rate Risk

In 2012, the international operations scale of the Bank increased rapidly, and the scope of business expanded, including deposits and placements in other banks and non-bank financial institutions of foreign exchange, letters of guarantee in foreign exchange, international trade finance, etc., among which interbank services in foreign exchange developed much rapidly.

The restriction on purchase of foreign exchange capital of the Bank approved by the State Administration of Foreign Exchange in 2011 was USD50 million. Given the pressure of Renminbi appreciation, the Bank purchased foreign exchange capital in batches to avoid the risk of exchange rate fluctuations, so current foreign exchange capital purchased is USD20 million and the Bank mitigates foreign exchange risk exposure by imposing limits on trade amounts of its counterparties.

In 2012, the exchange rate of Renminbi against the U.S. dollar, Euro and other major currencies mainly kept the trend of appreciation, so the exchange rate changes will affect the financial condition and cash flows to some extent, but the foreign currency transactions do not have a significant impact due to its relatively minor percentage to the scale of the whole business, and the impact of foreign currency exchange rate risk on the Bank is secondary.

### (3) Interest Rate Risk

Cash flow interest rate risk is the risk of future cash flows of financial instruments that will fluctuate with changes in market interest rates. The interest rate risk of fair value is the risk of the value of

certain financial instruments that will fluctuate with changes in market interest rates. The interest rate risk in the Bank arises from the mismatch of 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 through VaR.

Due to fluctuations in market interest rates, the spread of the Bank is likely to increase, but may also reduce or even generate losses due to unpredictable changes. The Bank mainly operates in accordance with the provisions of interest rate system in the central bank. Based on historical experience, the central bank generally adjusts the benchmark interest rate for interest-bearing loans and interest-bearing deposits on the same trend (but extent of fluctuation is not necessarily the same), so the Bank controls its interest rate risk primarily by controlling the distribution of maturity of loans and deposits.

In accordance with the provisions of the central bank, Renminbi lending rate is floating up and down around the benchmark interest rate. The discount rate of Renminbi bills is determined by the market, but cannot be lower than the rediscount rate quoted by the central bank. Renminbi deposit interest rate cannot be higher than benchmark interest rate of the central bank.

With the development of the Bank's foreign currency business, it pays close attention to local and foreign currency movements in interest rates, follows the changes in market interest rates, makes timely adjustments to the ratio of assets and liabilities in foreign currencies, and makes efforts to guard against interest rate risk.

A. The Bank makes a sensitivity analysis on the impact of changes in interest rates on its net income and equity.

Of which impact on the bank accounts by changes in interest rates:

(In RMB Ten Thousands)			
Item	2012		
	Sensitivity of net interest income	Sensitivity of equity	The proportion of net change in net capital(%)
An increase of 200 basis points	11,461.00	(114,403.75)	(8.10)

(In RMB Ten Thousands)			
Item	2011		
	Sensitivity of net interest income	Sensitivity of equity	The proportion of net change in net capital(%)
An increase of 200 basis points	(20,818.00)	(196,403.05)	(15.56)

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

(In RMB Ten Thousands)

Item	2012		
	Sensitivity of net interest income	Sensitivity of equity	The proportion of net change in net capital(%)
An increase of 200 basis points	25.00	(10,011.36)	(0.71)

(In RMB Ten Thousands)

Item	2011		
	Sensitivity of net interest income	Sensitivity of equity	The proportion of net change in net capital(%)
An increase of 200 basis points	1,228.00	(10,325.63)	(0.82)

B. The following table summarizes the Bank's interest rate risk exposure. Assets and liabilities in the table are classified by the earlier of the contractual re-pricing date or the maturity date. The financial assets are presented at book value.

Analysis of interest rate risk exposure classified by the earlier of the contractual re-pricing date or the maturity date of assets and liabilities as at 31 December 2012 :

Item	Within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue/non-interest bearing	Total
<b>Asset Items:</b>							
Cash and deposits with central bank	6,925,698,678.91	—	—	—	—	17,381,061,162.44	24,306,759,841.35
Deposits with banks and non-bank financial institutions	34,463,244,994.91	5,207,588,000.00	8,742,594,463.06	100,000,000.00	—	—	48,513,427,457.97
Financial assets held for trading	—	—	20,227,818.36	484,484,620.00	593,437,700.00	—	1,098,150,138.36
Financial assets held under resale agreements	9,354,761,179.52	2,499,299,787.12	1,138,286,604.60	—	—	—	12,992,347,571.24
Interest receivable	—	—	—	—	—	1,684,251,148.72	1,684,251,148.72
Loans and advances to customers	3,295,945,582.28	4,948,600,386.97	18,203,945,564.44	9,253,472,863.78	4,504,080,450.92	171,676,423.96	40,377,721,272.35
Available-for-sale financial assets	439,749,499.99	679,615,480.00	4,143,115,580.00	14,487,665,025.00	1,873,628,820.00	—	21,623,774,404.99
Held-to-maturity investments	99,986,818.73	420,380,389.55	3,381,407,308.47	15,086,061,206.60	978,269,284.95	—	19,966,105,008.30
Accounts receivable investments	—	2,042,925,860.28	9,601,751,543.33	2,042,925,860.28	—	—	13,687,603,263.89
Fixed assets	—	—	—	—	—	282,966,722.09	282,966,722.09
Construction in progress	—	—	—	—	—	50,544,397.88	50,544,397.88
Intangible assets	—	—	—	—	—	63,992,638.98	63,992,638.98
Deferred income tax assets	—	—	—	—	—	91,254,958.86	91,254,958.86
Other assets	—	—	—	—	—	76,366,929.70	76,366,929.70
Total assets	54,579,386,754.34	15,798,409,903.92	45,231,328,882.26	41,454,609,575.66	7,949,416,255.87	19,802,114,382.63	184,815,265,754.68
<b>Liability items:</b>							
Borrowings from central bank	—	—	25,000,000.00	—	—	—	25,000,000.00

Continued

Item	Within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue/non-interest bearing	Total
Deposits from banks and non-bank financial institutions	31,797,001,687.79	3,727,674,850.05	13,298,978,730.60	—	—	—	48,823,655,268.44
Placements from banks and non-bank financial institutions	—	2,000,000,000.00	—	—	—	—	2,000,000,000.00
Financial assets sold under repurchase agreements	5,423,055,000.00	—	5,250,426,666.99	—	—	—	10,673,481,666.99
Deposit from customers	54,760,583,015.37	10,255,026,821.68	17,248,719,948.07	22,488,526,972.35	54,183,025.21	22,652,807.39	104,829,692,590.07
Accrued staff costs	—	—	—	—	—	947,364.22	947,364.22
Taxes payable	—	—	—	—	—	219,566,717.86	219,566,717.86
Interest payable	—	—	—	—	—	1,183,515,721.29	1,183,515,721.29
Deferred income tax liabilities	—	—	—	—	—	—	—
Other liabilities	—	—	—	—	—	2,518,797,658.14	2,518,797,658.14
Total liabilities	91,980,639,703.16	15,982,701,671.73	35,823,125,345.66	22,488,526,972.35	54,183,025.21	3,945,480,268.90	170,274,656,987.01
Interest rate sensitivity gap	(37,401,252,948.82)	(184,291,767.81)	9,408,203,536.60	18,966,082,603.31	7,895,233,230.66	15,856,634,113.73	14,540,608,767.67

Analysis of interest rate risk exposure classified by the earlier of the contractual re-pricing date or the maturity date of assets and liabilities as at 31 December 2011:

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	18,123,934,511.61	—	—	—	—	244,824,554.90	18,368,759,066.51
Deposits with banks and non-bank financial institutions	25,455,336,867.28	8,048,601,800.00	3,300,000,000.00	—	—	—	36,803,938,667.28
Financial assets held for trading	99,959,100.00	—	—	281,643,420.00	190,668,600.00	—	572,271,120.00



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
Financial assets held under resale agreements	12,070,232,590.64	370,620,334.00	—	—	—	—	12,440,852,924.64
Interest receivable	—	—	—	—	—	1,343,123,118.17	1,343,123,118.17
Loans and advances to customers	1,085,374,198.56	1,961,249,696.53	17,544,123,306.95	—	—	2,283,546.85	20,593,030,748.89
Available-for-sale financial assets	509,618,110.00	1,584,311,010.00	1,920,019,860.00	12,054,930,559.99	669,820,940.00	—	16,738,700,479.99
Held-to-maturity investments	—	50,000,000.00	3,898,651,150.56	17,689,724,473.32	1,422,344,212.40	—	23,060,719,836.28
Fixed assets	—	—	—	—	—	231,341,432.75	231,341,432.75
Intangible assets	—	—	—	—	—	36,517,337.22	36,517,337.22
Deferred income tax assets	—	—	—	—	—	61,842,684.12	61,842,684.12
Other assets	—	—	—	—	—	44,155,056.58	44,155,056.58
Total assets	57,344,455,378.09	12,014,782,840.53	26,662,794,317.51	30,026,298,453.31	2,282,833,752.40	1,964,087,730.59	130,295,252,472.43
Liability items:							
Deposits from banks and non-bank financial institutions	18,760,534,544.74	4,850,000,000.00	2,395,835,060.99	—	—	—	26,006,369,605.73
Financial assets sold under repurchase agreements	11,926,860,000.00	2,999,500,000.00	1,000,500,000.00	—	—	—	15,926,860,000.00
Deposits with customers	31,315,632,066.22	7,266,901,087.82	30,160,140,146.83	5,481,484,118.33	—	—	74,224,157,419.20
Accrued staff costs	—	—	—	—	—	2,373,220.93	2,373,220.93
Taxes payable	—	—	—	—	—	116,704,876.14	116,704,876.14
Interest payable	—	—	—	—	—	687,796,097.66	687,796,097.66
Other liabilities	—	—	—	—	—	544,952,935.19	544,952,935.19
Total liabilities	62,003,026,610.96	15,116,401,087.82	33,556,475,207.82	5,481,484,118.33	—	1,351,827,129.92	117,509,214,154.85
Interest rate sensitivity gap	(4,658,571,232.87)	(3,101,618,247.29)	(6,893,680,890.31)	24,544,814,334.98	2,282,833,752.40	612,260,600.67	12,786,038,317.58

## 9.4 Agency Business

The Bank holds and manages assets for other organizations as an agent or as part of engagements in other commissioned businesses. The following financial information does not concern assets kept by the Bank as trustee, custodian or agent entrusted with the obligations of custody and return to the client at some time in the future, or gains generated thereof.

The Bank helps third-party client grant entrusted loans and make investments. As an intermediary, the Bank grants to the borrower the loan or investment in accordance with the requirements of the third-party principal who provides funds, and signs a contract with the third-party principal to be commissioned to manage and recover the loans or investments. The third-party principal determines the requirements and conditions of the loans or investments commissioned, including purposes, amounts, interest rates and repayment arrangements of loans or investments. The Bank charges fees on entrusted loans or investments and recognized as income when services are provided, but the risk of loss on the loans or investments will be assumed by the third party principal.

The amounts of entrusted loans and entrusted deposits of the Bank during the year are as follows:

Item	31 December 2012	31 December 2011
Entrusted deposits	149,349,968,340.33	72,992,109,106.08
Entrusted loans	149,347,820,541.16	72,990,717,201.48

Of which:

See Note 6.8 for entrusted deposits and entrusted loans of China National Petroleum Corporation and its controlled subsidiaries as at 31 December 2012.

## 10. Notes to Financial Statements

### 10.1 Cash and Deposits with Central Bank

Item	31 December 2012	31 December 2011
Cash in hand	246,269,774.47	165,812,437.99
Statutory deposit reserve with central bank	17,371,583,505.16	13,412,859,826.02
Surplus deposit reserve with central bank	6,540,178,886.39	4,742,049,228.45
Fiscal deposits with central bank	39,984,000.00	5,858,000.00
Total	24,198,016,166.02	18,326,579,492.46

## 10.2 Deposits with Banks and Non-bank Financial Institutions

Item	31 December 2012	31 December 2011
Deposits with domestic banks	48,524,658,815.95	23,326,850,020.32
Deposits with overseas banks	6,902,144.68	13,110,389,428.75
Less: Provision for bad debts with banks	–	–
Book value of deposits with banks and non-bank financial institutions	48,531,560,960.63	36,437,239,449.07

## 10.3 Interest Receivable

Item	31 December 2012	31 December 2011
Interest receivable on loans and advances	73,366,614.85	36,288,270.29
Interest receivable on deposits with central bank and other banks and non-bank financial institutions	404,305,288.44	170,483,110.80
Interest receivable on bond investments	1,199,993,935.56	1,121,333,031.78
Interest receivable on accounts receivable	–	–
Interest receivable on financial assets held under resale agreements	2,143,710.78	14,491,847.69
Less: Provision for bad debts of interest receivable	–	–
Book value of interest receivable	1,679,809,549.63	1,342,596,260.56

## 10.4 Loans and Advances to Customers

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

Category	31 December 2012		31 December 2011	
	Amount	Proportion (%)	Amount	Proportion (%)
Loans and advances to customers	40,973,095,683.01	100.00	20,863,708,923.48	100.00
Including: Corporate loans	40,039,601,929.59	97.72	20,436,666,134.33	97.95
Personal loans	933,493,753.42	2.28	427,042,789.15	2.05
Less: Allowance for impairment loss	975,884,505.63	100.00	400,124,812.84	100.00
Including: Corporate loans	958,100,815.26	98.18	391,644,552.13	97.88
Personal loans	17,783,690.37	1.82	8,480,260.71	2.12
Net loans and advances	39,997,211,177.38	100.00	20,463,584,110.64	100.00
Including: Corporate loans	39,081,501,114.33	97.71	20,045,021,582.20	97.95
Personal loans	915,710,063.05	2.29	418,562,528.44	2.05

### 10.5 Long-term Equity Investments

Item	December 2012	31 December 2011
Leshan Kunlun Rural Bank Co., Ltd.	40,000,000.00	40,000,000.00
Tacheng Kunlun Rural Bank Co., Ltd.	17,500,000.00	17,500,000.00
Less: Allowance for impairment loss	—	—
Book value	57,500,000.00	57,500,000.00

### 10.6 Fixed Assets

Item	31 December 2012	31 December 2011
Original cost	389,631,052.68	261,748,016.58
Accumulated depreciation	109,141,705.32	56,702,877.43
Allowance for impairment loss	71,587.53	71,587.53
Fixed assets	280,417,759.83	204,973,551.62

### 10.7 Intangible Assets

Item	31 December 2012	31 December 2011
Original cost	110,407,744.96	58,947,397.96
Accumulated amortization	45,058,052.65	21,073,007.41
Allowance for impairment loss	1,357,053.33	1,357,053.33
Net intangible assets	63,992,638.98	36,517,337.22

### 10.8 Deferred Income Tax Assets

Item	31 December 2012		31 December 2011	
	Temporary differences	Deferred Income tax assets	Temporary differences	Deferred income tax assets
Allowance for impairment loss	567,906,437.33	85,185,965.60	115,950,023.92	28,987,505.98
Changes in fair value of available-for-sale financial assets included in capital surplus	26,061,245.90	3,909,186.89	125,991,616.04	31,497,904.01
Net changes in fair value of financial assets held for trading	4,642,040.00	696,306.00	5,189,100.00	1,297,275.00
Total	598,609,723.23	89,791,458.49	247,130,739.96	61,782,684.99

### 10.9 Other Assets

Item	31 December 2012	31 December 2011
Deferred expenses	6,833,127.65	2,293,345.77
Other receivables	8,868,784.26	2,408,197.86
Long-term deferred expenses	59,368,617.42	38,670,702.69
Total	75,070,529.33	43,372,246.32

### 10.10 Deposits from Customers

Item	31 December 2012	31 December 2011
Corporate deposits	92,918,206,146.16	68,027,884,056.08
Personal deposits	11,268,176,692.70	5,938,281,735.47
Total	104,186,382,838.86	73,966,165,791.55

### 10.11 Operating Income

#### (1) Net Interest Income

Item	2012	2011
Interest income:		
Deposits with banks and non-bank financial institutions	1,063,645,858.18	509,324,868.45
Cash and deposits with central bank	265,174,267.28	209,663,952.28
Placements with banks and non-bank financial institutions	9,600,880.55	—
Loans and advances to customers	1,680,776,568.78	1,078,144,005.62
Discounted bills	333,012,738.75	14,591,406.88
Bond investments	1,815,411,525.88	1,610,561,503.92
Accounts receivable investments	356,023,305.06	—
Financial assets held under resale agreements	425,758,221.03	313,239,680.66
Subtotal	5,949,403,365.51	3,735,525,417.81
Interest expense:		
Deposits from banks and non-bank financial institutions	947,087,606.99	299,967,822.89
Placements from banks and non-bank financial institutions	1,407,083.33	—
Deposits from customers	1,789,256,140.70	1,203,159,522.35
Financial assets sold under repurchase agreements	278,580,402.13	228,750,186.43
Subtotal	3,016,331,233.15	1,731,877,531.67
Net interest income	2,933,072,132.36	2,003,647,886.14

## (2) Net Fee and Commission Income

Category	2012	2011
Fee and commission income:		
Settlement fee	25,123,925.80	5,502,275.96
Agency service fee	447,874,800.00	236,927,100.00
Agency business fee	5,227,974.19	3,352,230.50
Intermediary business fee	262,338,272.49	99,384,574.90
Subtotal	740,564,972.48	345,166,181.36
Fee and commission expense:		
Agency service expense	8,846,764.97	16,840,036.98
Settlement service expense	40,710,081.47	23,841,103.29
Subtotal	49,556,846.44	40,681,140.27
Net fee and commission income	691,008,126.04	304,485,041.09

## 10.12 Supplementary Information of the Statement of Cash Flow

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

Item	2012	2011
Net profit	1,940,541,118.92	1,233,982,425.73
Add: Provisions for impairment loss on assets	575,755,103.75	275,333,630.94
Depreciation of fixed assets	52,438,827.89	33,660,533.78
Amortization of intangible assets	23,992,085.24	17,047,317.12
Amortization of long-term deferred expenses	12,674,805.36	6,396,708.09
Losses on disposal of fixed assets, intangible assets and other long-term assets	—	27,268.13
Losses on changes in fair values	(4,006,460.00)	(3,892,090.00)
Investment losses	(2,234,524,543.84)	(1,564,290,804.35)
Decrease in deferred income tax assets	(55,597,490.62)	(29,230,090.75)
Increase in deferred income tax liabilities	—	—
Decrease in loans	(20,109,386,759.53)	(8,863,722,247.96)
Increase in deposits	30,220,217,047.31	16,918,039,526.04
Net increase of borrowing funds	(5,415,688,606.99)	9,725,360,000.00
Decrease in operating receivables	(10,812,007,092.36)	(5,326,633,700.61)
Increase in operating payables	25,858,850,566.88	14,258,472,621.23
Decrease in other operating assets	(4,539,781.88)	(341,669.61)
Increase in other operating liabilities	60,758,076.83	23,549,915.22
Net cash flows from operating activities	20,109,476,896.96	26,703,759,343.00

## (2) Cash and Cash Equivalents:

Item	2012	2011
1. Cash	40,720,485,338.77	33,301,725,863.36
Including: Cash in hand	246,269,774.47	165,812,437.99
Deposits with banks and non-bank financial institutions	33,934,036,677.91	28,393,864,196.92
Surplus deposit with central bank	6,540,178,886.39	4,742,049,228.45
2. Cash equivalents	10,830,037,297.26	13,208,919,014.64
Including: Bond investments maturing within three months (Securities held under resale agreements)	10,830,037,297.26	12,440,852,924.64
Bond investments maturing within three months (available-for-sale financial assets)	—	618,106,990.00
Bond investments maturing within three months (held- to-maturity investments)	—	50,000,000.00
Bond investments maturing within three months (financial assets held for trading)	—	99,959,100.00
3. Cash and cash equivalents	51,550,522,636.03	46,510,644,878.00

Bank of Kunlun Co., Ltd.  
19 January 2013

