



Annual Report 2016

Bank of Kunlun Corporation Limited



Company Profile

Formerly known as Karamay City Commercial Bank, Bank of Kunlun was established in 2006 after the restructuring of Karamay Urban Credit Cooperative. In April 2009, China National Petroleum Corporation (CNPC) took control of Karamay City Commercial Bank through sizable capital injection. In April 2010, the Bank was officially renamed Bank of Kunlun. Upon the restructuring, the Bank has pursued a business strategy featuring integration of industry with finance, differentiated operation and characteristic development.

Since the restructuring, with the support of regulatory authorities, local governments, shareholders and communities, the Bank has accelerated business and market development and strengthened business management by focusing on the business strategy with integration of industry and finance, following the development layout of “based in Xinjiang, relying on petroleum, China-oriented and going global” and centering on customer service, market orientation and mechanism construction. With increasing development strength, we have rapidly developed from a regional urban bank into a distinct commercial bank with nationwide influence.

The assets increased from RMB 21.6 billion in 2009 to RMB 293.2 billion in 2016, with a compound annual growth rate of 45.2%. Total profit increased from RMB 89 million to RMB 3.028 billion with a compound annual growth rate of 65.51%. The Bank has established 9 branches in such provinces and municipalities as Xinjiang, Shaanxi, Heilongjiang and Beijing and developed held shares in Leshan and Tacheng township banks. The Bank has 83 branches, nearly 8 times the number before the restructuring and 2,971 employees in total. With 25,000 corporate customers and 2.22 million bank cards issued, the Bank is still expanding its market and has become one of the fastest-growing commercial banks in China.

The primary business has been developing rapidly. For the purpose of development of business, the Bank formulated a financial service scheme covering the whole oil and gas industry chain, created the exclusive brand “Kunlun Express” and built a product system as “five programs and three loans” characterized by the integration of industry and finance, with customers from the integration accounting for 36% and the business scale exceeding 37%, gradually highlighting the effect of collaborative development of the industry and finance. Retailing business and savings deposits grew rapidly and credit loans for the CNPC employees boomed. The Bank has established good cooperative relationships with oil sector and CNPC sales enterprises and paid payroll to 450,000 employees on behalf of CNPC. For the financial market business, the Bank started from single fund-providing, constantly enriching the variety of the business, expanding the scale of assets and playing a significant role in the profit growth and liquidity safety of the whole bank. For the international banking business, the Bank has seized opportunities and opened a China-Iran cross border funds settlement channel and created the brand “Iran Road Program”, which contributed a lot to the implementation of the national strategy for overseas energy and the promotion of economic and trade exchanges between China and Iran.

In the future, the Bank will seek improvement in stability by following the fundamental principle of prudent development. By relying on energy and the Silk Road, staying abreast of the world, supporting real economy and servicing the country, the Bank will support the national supply-side structural reform at full steam, adhere to the strategy of integration of the industry and finance on a higher level and in an unshakable manner. The bank also will consolidate our energy sector market and the non energy sector market and press ahead with transformative development, better cost effectiveness, proactive risk control and deepening reform. Furthermore, the bank will accelerate the cultivation of corporate culture, strengthen the work of Party construction, hold aloft the banner of China’s petroleum industry spirit and implement the project of “One Core and Two Wings” so as for us to maintain our performance on a steady and upward trend trajectory and maintain our general prospects stable and harmonious. The bank is dedicated to build itself into a comprehensive, integrated, smart, innovative and respected commercial bank with unique characteristics.

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I. Definitions

In this Report, unless otherwise indicated in the context, the terms listed below shall be interpreted as follows:

The Company	means	Bank of Kunlun Corporation Limited and its subsidiaries
The Bank/Bank of Kunlun	means	Bank of Kunlun Corporation Limited
MOF	means	Ministry of Finance of the People's Republic of China
Restructuring	means	In April 2009, China National Petroleum Corporation (CNPC) restructured Karamay City Commercial Bank by taking a controlling interest in the Bank through subscription of new capital
<i>Company Law</i>	means	<i>Company Law of the People's Republic of China</i>
Articles of Association	means	The Articles of Association of Bank of Kunlun Corporation Limited
Karamay City Commercial Bank	means	Karamay City Commercial Bank Co., Ltd.
PBOC	means	The People's Bank of China
CBRC	means	China Banking Regulatory Commission
CSRC	means	China Securities Regulatory Commission
CNPC	means	China National Petroleum Corporation
CNPCCCL	means	CNPC Capital Company Limited

II. Important Notice

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of Bank of Kunlun Corporation Limited hereby guarantee that no information contained in this Report is false, misleading or intentionally omitted.

On March 29, 2017, the Bank considered and approved the body and summary of *2016 Annual Report of Bank of Kunlun Corporation Limited* at the ninth meeting of the fourth session of the Board of Directors of the Bank.

The financial statements of 2016 prepared by the Bank in accordance with PRC GAAP have been audited by BDO China Shu Lun Pan Certified Public Accountants LLP, which has issued a standard and unqualified auditor's report.

Board of Directors of Bank of Kunlun Corporation Limited

Mr. Jiang Shangjun, the Legal Representative and Director of the Bank, Mr. Wang Zhonglai, President of the Bank, Mr. Jing Lin, Vice President in charge of finance, and Mr. Tang Zongheng, General Manager of the Planning and Finance Department of the Bank hereby warrant and guarantee the authenticity and completeness of the financial statements contained in the 2016 Annual Report.

Notice on Material Risks

During the reporting period, the Bank did not identify any substantial risk that may exert any adverse impact on the future development strategy and the operating targets of the Bank. The Bank actively adopted measures to cope with various risks. For further details, please refer to the section titled "Management Discussion and Analysis – Risk Management" in the Report.

This Report shall only be used to enhance the public understanding of Bank of Kunlun, and not be relied on by any reader for any commercial purpose such as investment or trading, and any risk arising from such activities shall be solely assumed by the reader.

III. General Information

1. Legal Name in Chinese: 昆仑银行股份有限公司
Legal Name in English: BANK OF KUNLUN
CORPORATION LIMITED
Chinese Abbreviation: 昆仑银行
English Abbreviation: Bank of Kunlun
English Acronym: KLB

2. Legal Representative: Jiang Shangjun

3. Registered Capital: RMB 10,287,879,258.43
Registered Address: No.7 Century Avenue,
Karamay City, Xinjiang
Postal Code: 834000
Customer Service and Complaint Hotline: 40066-
96569
Website: <http://www.klb.cn/>

4. Secretary to Board of Directors: Jing Lin
Telephone: 0990-6239370 010-89026525
Fax: 0990-6969902 010-89025414
E-mail: ir@klb.com.cn

5. Newspaper for Information Disclosure: *Financial Times*
Website designated for publication of the Annual Report: <http://www.klb.cn/>
Place for keeping the Annual Report: Board of Directors' Office of the Bank

6. Legal Advisor: Dacheng Law Offices
Office Address: 7/F, Tower D, Parkview Green, No.9 Dongdaqiao Street, Chaoyang District, Beijing

7. Other Relevant Information:
Date of Incorporation: December 9, 2002
Date of Change of Registration Certificate:
January 11, 2017
Registration Authority: Karamay Administration for
Industry and Commerce
Unified Social Credit Code: 91650200745209781T
Financial Business License No.:
B0226H265020001

8. Audit Firm Engaged by the Bank: BDO CHINA
SHU LUN PAN Certified Public Accountants LLP
Office Address: 4/F, New Huangpu Financial
Plaza, No. 61 East Nanjing Road, Huangpu
District, Shanghai, PRC

9. Business Scope: absorption of public deposits;
disbursement of short, medium and long-term
loans, handling of domestic and international
settlement; handling of bill acceptance and discount;
issuance of financial bonds; agency issuance,
agency honoring and underwriting of government
bonds; purchase and sale of government bonds
and financial bonds; engagement in inter-bank
lending; purchase, sale and agency purchase and
sale of foreign exchange; engagement in bank card
business; provision of L/C services and guarantee;
agency receipts and payments and insurance
agency business; provision of safe deposit box
services; other business approved by the China
Banking Regulatory Commission. (For those items
subject to the approval under relevant laws, they
may not be carried out without the approval of the
relevant authorities)

This Report is prepared in both Chinese and English. Should there be any discrepancy in interpretation, the Chinese version shall prevail.

IV. Financial Highlights

Financial data and indicators in this Annual Report are derived from the auditor's report in the previous years. The Report is prepared in accordance with PRC GAAP, and unless otherwise specified, the data comes from the consolidated financial statements of the Company and is presented in RMB.

4.1 Main Financial Data

Operating results

Unit: RMB '0,000

Item	Year 2016	Year 2015	Year 2014
Net interest income	469,182	532,412	621,564
Net income from handling charges and commissions	15,214	41,675	64,731
Operating income	520,804	624,208	738,414
General operating and administrative expenses	167,616	165,915	133,003
Losses from asset impairment	42,774	85,238	232,500
Operating profit	300,628	347,551	347,392
Profit before tax	302,771	349,880	349,688
Net profit	255,178	295,661	293,708
Net profit attributable to the shareholders of the parent company	254,178	293,931	292,501
Total comprehensive income attributable to the shareholders of the parent company	224,334	318,707	391,156
Net cash flows from operating activities	(2,138,534)	(526,824)	2,415,448

As at the reporting period

Unit: RMB '0,000

Item	December 31, 2016	December 31, 2015	December 31, 2014
Total assets	29,320,822	29,028,110	27,829,909
Loans and advances to customers	10,404,796	8,830,395	7,306,313
Losses on impairment of loans	457,318	354,260	277,915
Net investment	8,871,738	7,631,219	8,880,422
Total liabilities	26,709,452	26,723,781	25,768,816
Deposits from customers	14,860,874	14,110,641	11,310,283
Deposits from banks and other financial institutions	9,909,351	11,268,467	12,425,848

Continued

Item	December 31, 2016	December 31, 2015	December 31, 2014
Loans from banks and other financial institutions	500,000		160,000
Equity attributable to shareholders of the parent company	2,605,064	2,298,705	2,056,755
Share capital	1,028,788	738,052	738,052
Net core tier 1 capital ⁽¹⁾	2,600,240	2,294,720	2,050,489
Net tier 1 capital ⁽¹⁾	2,600,491	2,294,895	2,050,596
Net capital ⁽¹⁾	2,790,371	2,490,358	2,262,452
Risk-weighted assets ⁽¹⁾	16,783,955	17,474,712	18,532,299

Note:(1) Calculated in accordance with the requirements in the *Administrative Measures on the Capital of Commercial Banks (for Trial Implementation)* issued by CBRC.

(2) In 2016, as part of CNPCCCL, the Bank was restructured and listed. It made retroactive adjustments to individual items in the 2015 annual financial report, causing increases or decreases of some items in the balance sheet. The data for 2015 disclosed in this report has been adjusted, hereinafter the same.

Per share data

Unit: RMB Yuan

Item	December 31, 2016	December 31, 2015	December 31, 2014
Net asset per share ⁽¹⁾	2.53	3.12	2.79
Basic earnings per share ⁽²⁾	0.34	0.40	0.40
Diluted earnings per share ⁽²⁾	0.34	0.40	0.40
Net cash flows per share from operating activities	(2.90)	(0.71)	3.27

Note:(1) Calculated by dividing equity attributable to the 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 the *Rules for the Information Disclosure and Compilation of Companies Publicly Issuing Securities No.9: Calculation and Disclosure of Return on Equity and Earnings per Share (Revised in 2010)* issued by CSRC.

4.2 Key Financial Indicators

Profitability

Item	Year 2016	Year 2015	Year 2014
Return on average total assets ⁽¹⁾ (%)	0.87	1.04	1.12
Return on weighted average equity ⁽²⁾ (%)	10.61	13.35	15.09
Return on weighted average equity after deducting non-operating gain/ (loss) ⁽²⁾ (%)	10.54	13.21	14.89
Net interest spread ⁽³⁾ (%)	1.51	1.66	2.17
Net interest margin ⁽⁴⁾ (%)	1.64	1.90	2.42
Ratio of net fee and commission income to operating income (%)	2.92	6.68	8.77
Cost-to-income ratio ⁽⁵⁾ (%)	32.18	26.58	18.01

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) Calculation methods are determined according to the *Rules for the Information Disclosure and Compilation of Companies Publicly Issuing Securities No.9: Calculation and Disclosure of Return on Equity and Earnings per Share (Revised in 2010)* issued by CSRC.

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

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

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

Asset Quality

Item	Year 2016	Year 2015	Year 2014
Non-performing loans (NPL) ratio ⁽¹⁾ (%)	1.71	1.15	0.88
Provision coverage ratio ⁽²⁾ (%)	256.62	348.98	430.09

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 on loans by balance of NPL.

Capital Adequacy

Item	Year 2016	Year 2015	Year 2014
Core tier 1 capital adequacy ratio ⁽¹⁾ (%)	15.49	13.13	11.06
Tier 1 capital adequacy ratio ⁽¹⁾ (%)	15.49	13.13	11.06
Capital adequacy ratio ⁽¹⁾ (%)	16.63	14.25	12.21
Total equity to total assets ratio (%)	8.91	7.94	7.41

Note: (1) Calculated in accordance with the requirements in the *Administrative Measures on the Capital of Commercial Banks (for Trial Implementation)* issued by CBRC.



V. Chairman's Statement



In 2016, the global economy remained sluggish. Economic and policy trends were obviously differentiated. China's economic fundamentals were stable and gained moderate growth momentum. The Central Bank continued implementing a prudent monetary policy with financial reform speeding up.

Under the complicated circumstances that domestic economy was under deteriorative downward pressure, the market-oriented reforms of interest rates sped up and the competition in the same industry intensified, the Bank adhered to the working principles of "quality first, efficiency orientation, moderate scale and harmonious development", focused on five topics including market development, efficiency improvement, personnel training, fine management, violation prevention and control, pressing ahead with diligent endeavors. The major business indicators have beaten expectations.

As at the end of 2016, the total assets of the Company amounted to RMB 293.2 billion, total deposits RMB 148.6 billion, total loans RMB 104 billion and the total profit RMB 3.028 billion; the return on

assets was 0.87% and return on capital 10.38%. The comprehensive strength of the Company was improved steadily. With a capital adequacy ratio of 16.63%, NPL ratio of 1.71% and the provision coverage ratio of 256.62%, the Company maintained good asset quality.

The accomplishments of the Bank amid such complex challenges were made possible under the guidance of the governments on different levels and regulatory authorities, the support of our shareholders, customers and social communities, and the industrious work of the entire staff. I would like to extend my gratitude on behalf of the Board of Directors.

We improved corporate governance and ensured compliance with rules. We completed equity transfer and capital increase. CNPC Capital Company Limited became the largest shareholder of the Bank and the changes in the registered capital had been approved by the regulatory authorities. We orderly convened the General Meetings, and the meetings of the Board of Directors and the Board of Supervisors; each organ of authority duly performed their own functions to strictly supervise and handle the resolutions. We continuously enhanced the construction of the corporate governance, and strengthened the governance and management by conducting inter-bank surveys, investigations and training for directors and supervisors. The Bank also enhanced the management of investor relation, improved the communication with shareholders, government and regulatory authorities, customers and the media and improved the transparency of the information disclosure.

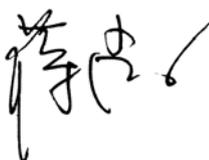
We made a good start based on the integration of industry and finance. Having understood, grasped and led the new norm of economic development, we accelerated our business and market development with smooth and orderly operation of main business by focusing on the development strategy of integration of industry and finance, adhering to the customer and market orientation. The feature of integration of industry and finance was highlighted; the construction of the platform of integration of industry and finance had achieved preliminary success; and "Kunlun Express" brand image had been improved; the results from personal business achieved a new high; credit loans of oil workers increased rapidly and the credit card qualification was also approved; the benefit level of international business was better than expected and the international trade financing became a new growth point; steady development of financial market business and smooth progress of innovation business made the Bank take a firm step to such strategic goal as becoming the most powerful and outstanding commercial bank in the field of energy under the "13th Five-year" Plan.

We strengthened the basic management and improved the development quality. The Bank improved the risk management system and key monitoring index system to promote the application of risk management tools and strengthen the compliance management of violation study and control. We steadily pushed forward the construction of "humanized, specialized, standardized, informationalized and refined" projects, with remarkable progress in refined management and on-line operation. We adhered to the bottom line of credit, strengthened the examination and approval, increased supervision and inspection efforts and actively promoted the adjustment of credit structure to restrain the deterioration of asset quality. We carried out field inspections themed with "two enhancements and two constraints" and increased penalties for violations. We continued to strengthen anti-money laundering. As a result, anti-money laundering assessment rating rose to Grade A. We enhanced internal audit and conducted 22 auditing projects. We vigorously promoted the recovery of non-performing assets and recovered NPL of RMB 129 million, exceeding the annual target.

We performed our social responsibilities and improved our brand image. In 2016, the Bank strictly carried out the national macro-policies, supported the supply-side structural reform, expanded inclusive finance, strengthened the credit support for agriculture, rural areas and farmers, and small and micro enterprises, and implemented the policies for reducing or exempting the charges. The Bank attached great importance to the issue of environmental and climate change, actively supporting green credit, increasing credit support for energy saving and emission reduction projects, advocating low-carbon operations and taking measures to reduce its energy consumption and carbon emission. We also adhered to the people-oriented approach to provide safe and convenient financial services for customers, better vocational and health insurance for the employees and economic aids for vulnerable groups in the society in order to construct a comprehensively harmonious enterprise. The reputations, brand image and market influence of the Bank were greatly improved by good operation and management, customer services and practical implementation of the social responsibilities.

In the present and the future, we are still confronted with grim internal and external situations and great pressure. The Bank will seek improvement in stability by following the fundamental principle of prudent development. By relying on energy and the Silk Road, staying abreast of the world, supporting real economy and servicing the country, the Bank will support the national supply-side structural reform at full steam, adhere to the strategy of integration of the industry and finance on a higher level and in an unshakable manner. The bank also will consolidate our energy sector market and the non energy sector market and press ahead with transformative development, better cost effectiveness, proactive risk control and deepening reform. Furthermore, the bank will accelerate the cultivation of corporate culture, strengthen the work of Party construction, hold aloft the banner of China's petroleum industry spirit and implement the project of "One Core and Two Wings" so as for us to maintain our performance on a steady and upward trend trajectory and maintain our general prospects stable and harmonious.

Spring marks a new start. We believe that, with the support of all shareholders and customers and the guidance of governments and regulatory authorities at all levels, the whole Bank will stay true to the mission, work hard and step forward for the dream to construct a comprehensive, intensive, intelligent and innovative commercial bank and to be a respected and first-class characteristic commercial bank with more confidence, perseverance and more pragmatic style.

Chairman: 

VI. President's Statement



In 2016, faced with complicated internal and external situations, Bank of Kunlun strictly implemented the regulatory requirements, and earnestly executed the decisions and plans of the General Meeting of Shareholders and the Board of Directors. With orderly management and development, robust business scale and profitability and accelerated team building and market layout, all business made preliminary achievements.

For the year, the Company realized a total consolidated profit of RMB 3.028 billion. As at the end of 2016, the total consolidated assets of the Company amounted to RMB 293.2 billion with year-on-year growth of RMB 2.9 billion/1%; total deposits amounted to RMB 148.6 billion and total loans to RMB 104 billion with the return on assets of 0.87%, return on capital of 10.38%, NPL ratio of 1.71%, provision coverage ratio of

256.62% and loan provision ratio of 4.40%.

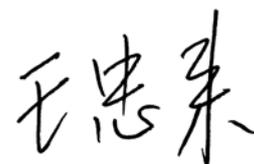
The Company's business marketing model was promoted innovatively and continuously. By establishing a comprehensive marketing mechanism of key business, key customers and key projects, the Company played its

positive role in the joint marketing and senior marketing, having achieved positive breakthroughs; the development of personal business was accelerated thanks to fresh market strategies and systematic development refinement. With tense but active production, a good trend of innovative development came into being; infrastructure construction of the financial market was accelerated; institutional processes and systems continued to be optimized and improved; product innovation was accelerated and the business development was consolidated; in the international business, the Company took initiative to adapt to the changes, actively participated in market competition, rapidly developed financing business for the trading through strengthening the connection and optimized business processes; the Company laid a solid foundation of risk prevention and control, further improved comprehensive risk management systems and achieved prominent results in self-investigations and rectification “two enhancements and two constraints” ; science and technology support and system support capabilities continued to be improved; the “two places and three centers” disaster recovery system was successfully completed and put into operation; industrial chain business product projects including “five connections and three loans” were successfully launched and the internet finance was accelerated; all channels were constructed in an orderly way; Ili Branch was opened; Kashgar Branch started a trial operation; 6 sub-branches and 1 community branch were approved to be established; remote finance, direct banking, WeChat banking and new mobile banking were successfully launched, hence the enhanced overall service ability of all the channels; the construction of the mechanism of “six capabilities” was promoted steadily and the competition for operating leaders and the change of party committee teams were successfully completed; all branches rooted in the market, strengthened their main responsibilities, gave full play to their respective advantages, took the initiative to participate in the competition and promoted various initiatives, with the market expanding capacity and development promotion capacity enhanced.

The aforementioned achievements would have been impossible without the support of our shareholders and customers, the guidance of government and regulatory authorities and the diligence of our staff. On behalf of the management, I would like to express my gratitude to all those who have been caring about and helping with the development of Bank of Kunlun. My highest tributes go to all the hard-working employees!

In 2017, the internal and foreign situation is still complicated and varying; the market competition will become fiercer and the tasks for reform and development are still huge. We will, under the leadership of the Board of Directors and the party committee and under the supervision of the regulatory authorities, handle soberly and take the initiative to act and promote the comprehensive financial ecosystem project with “one circle, one chain and one platform” , human resource, logistics and capital flows as the core, the characteristics of the integration of the banking and the oil and gas industry and the market blue ocean as two wings with the characteristics of Bank of Kunlun, so as to build a comprehensive, intensive, intelligent, innovative, characteristic and respected first-class commercial bank as much as possible.

President:



VII. Management Discussion & Analysis

7.1 Development Strategy

According to the strategic orientation of “constructing a commercial bank with feature of integration of industry and finance” , Bank of Kunlun will, during the 13th Five-year period, continue to center on the theme of “strengthening fundamentals, adjusting the structures, making refinement and seeking for practical results” ; comprehensively consider the changes in the external environment and steadily promote the implementation of strategies, thus striving to be a characteristic commercial bank with clear strategic direction, good corporate governance, strong profitability and sound management.

The Company shall firstly build a mature business model integrating the industry and finance to have strong core competitiveness, core technology channel groups and robust product pricing ability; then create a professional financial service mode with outstanding features in petroleum and petrochemical fields with mature operation, to promote financial services sector to CNPC, Sinopec, CNOOC and their industry chain customers; finally, create a characteristic international bank in the field of energy of China to expand the financial services for customers in the whole chain of both domestic and overseas energy industry.

7.2 Economic, Financial and Regulatory Environment

China’s economy was generally stable in 2016; the supply-side structural reforms made positive progress and the economic structure continued to be optimized. The rate of contribution of final consumption expenditures to GDP growth was 64.6%; the added value of the tertiary industry accounted for 51.6% of GDP; gross domestic product (GDP) grew by 6.7% YOY. Industrial production increased steadily and the performance of enterprises was improved. Consumer prices rose in a moderate way and the employment was stable as a whole.

Prudent monetary policies achieved good results. The liquidity of the banking system was reasonable and adequate; the monetary credit and social financing grew steadily and rapidly and interest rates kept low; the RMB exchange rate against a basket of currencies maintained basically stable and the

elasticity of exchange of RMB to the USD exchange rate was further enhanced. As at the end of 2016, the balance of the broad money (M2) amounted to RMB 155.0 trillion, implying an increase of 11.3% as compared with last year and a growth rate 2% lower than that at the end of last year. The balance of narrow money (M1) amounted to RMB 48.7 trillion, implying an increase of 21.4% as compared with last year and the growth rate was 6.2% higher than that at the end of last year. The increase in the amount of social finance was RMB 17.8 trillion, implying an increase of RMB 2.4 trillion as compared with last year.

In 2016, the national banking system supported the comprehensive promotion of “addressing overcapacity, reducing inventory, deleveraging, lowering costs, and bolstering areas of weakness”, and fully implemented inclusive finance, further enhancing the level of service to real economy. The establishment of private banks and consumer finance companies was normalized; pilot investment and loan interlinking were smoothly advanced; market-oriented debt-to-equity swap was officially started; the joint-stock system reform of financial asset management companies were fully implemented, and the financial management and trust registration system continued to be improved. Credit risk management and control in key areas have been strengthened to hold the bottom line of resisting systemic risks. The government functions and administration were streamlined and powers were delegated, having improved the effectiveness of regulation.

The asset scale of the banking industry grew steadily. As at the end of 2016, the total assets of banking financial institutions amounted to RMB 232 trillion, representing an increase of 15.80% YOY. The NPL ratio of commercial banks was 1.74%; provision coverage ratio 176.40%; return on assets 0.98%; return on capital 13.38%; and capital adequacy ratio 13.28%; reaching a high level compared with those of international banks.

7.3 Analysis of Financial Statements

7.3.1 Analysis of the Income Statement

Changes of key items in the income statement

Unit: RMB '0,000

Item	Year 2016	Year 2015	Increase/ (Decrease)	Rate of change (%)
Net interest income	469,182	532,412	(63,230)	(11.88)
Non-interest income	51,622	91,796	(40,174)	(43.76)
Operating income	520,804	624,208	(103,404)	(16.57)
Less: Operating expenses	220,176	276,658	(56,482)	(20.42)
Including: Business taxes and surcharges	9,737	25,461	(15,724)	(61.76)
General operating and administrative expenses	167,616	165,915	1,701	1.03
Losses from asset impairment	42,774	85,238	(42,464)	(49.82)
Other business costs	50	44	6	13.64
Operating profit	300,628	347,551	(46,923)	(13.50)
Plus: Net non-operating income	2,143	2,330	(187)	(8.03)

Continued

Item	Year 2016	Year 2015	Increase/ (Decrease)	Rate of change (%)
Profit before tax	302,771	349,880	(47,109)	(13.46)
Less: Income tax expenses	47,593	54,220	(6,627)	(12.22)
Net profit	255,178	295,661	(40,483)	(13.69)
Attributable to: Shareholders of the parent company	254,178	293,931	(39,753)	(13.52)

Net interest income

In 2016, the Company realized a net interest income of RMB 4.692 billion, implying a decrease of RMB 632 million or 11.88% as compared with last year, accounting for 90.09% of the operating income. The decrease of the net interest income mainly resulted from the influence from the size of assets and net interest margin. Among them, the net interest margin was 1.51%, implying a decrease of 0.15% as compared with last year; the average rate of return on the interest-bearing assets was 3.22%, implying a decrease of 0.72% as compared with last year; and the average rate of interest payment from the interest bearing liabilities was 1.71%, implying a decrease of 0.57% as compared with last year.

Non-interest income

In 2016, the Company realized a non-interest income of RMB 516 million, implying a decrease of RMB 402 million or 43.76% as compared with last year, accounting for 9.91% of the total operating income.

Unit: RMB '0,000

Item	Year 2016	Year 2015	Increase/ (Decrease)	Rate of change (%)
Income from handling charges and commissions	23,345	49,816	(26,471)	(53.14)
Less: Handling charges and commissions expenses	8,131	8,141	(10)	(0.12)
Net income from handling charges and commissions	15,214	41,675	(26,461)	(63.49)
Other non-interest related gains	36,408	50,120	(13,712)	(27.36)
Total	51,622	91,796	40,174	(43.76)

Net income from handling charges and commissions

Unit: RMB '0,000

Item	Year 2016		Year 2015	
	Balance	Proportion (%)	Balance	Proportion (%)
Income from handling charges and commissions	23,345	100.00	49,816	100.00
Commission income from domestic settlement fee	2,487	10.65	2,605	5.23
Commission income from agency service	2,491	10.67	5,028	10.09
Commission income from agency business	1,314	5.63	1,840	3.69
Commission income from other businesses	17,053	73.05	40,343	80.99

Continued

Item	Year 2016		Year 2015	
	Balance	Proportion (%)	Balance	Proportion (%)
Handling charges and commissions expenses	8,131	100.00	8,141	100.00
Agency handling expenses	59	0.73		
Commission expenses from other businesses	8,072	99.27	8,141	100.00
Net income from handling charges and commissions	15,214		41,675	

Interest expenses

Interest expenses on deposits

In 2016, the interest expenses on deposits of the Company amounted to RMB 2.406 billion, implying a decrease of RMB 114 million or 4.52% as compared with RMB 2.52 billion last year.

Operating expenses

Operating and administrative expenses

In 2016, the Company exercised strict cost management and control. The general operating and administrative expenses were RMB 1.676 billion, implying an increase of RMB 17 million or 1.03% as compared with last year.

Losses from asset impairment

In 2016, the impairment losses on assets were RMB 428 million, implying a decrease of RMB 425 million or 49.82% as compared with last year. The main reason was that, in accordance with the relevant provisions of the *Circular on Regulating Interbank Business of Financial Institutions*, the Bank determined that the proportion of provision of investment classified as receivables of other banks corresponding to that under other items was 1.2%, with slight decrease compared with last year, leading to the reversal of the provision of impairment of investment classified as receivables of RMB 650 million.

Income tax expenses

Unit: RMB '0,000

Item	Year 2016	Year 2015
Current income tax calculated according to the tax law and relevant provisions	52,381	63,587
Adjustment to deferred income tax	(4,787)	(9,368)
Others		
Total	47,593	54,220

7.3.2 Analysis of the Balance Sheet

Assets

As at the end of 2016, the total assets of the Company amounted to RMB 293.208 billion, implying an increase of RMB 2.929 billion or 1.01% as compared with last year. The interest-bearing assets amounted to RMB 290.698 billion, implying an increase of RMB 2.651 billion or 0.92% as compared with last year, and the non-interest bearing

assets amounted to RMB 2.511 billion, implying an increase of RMB 277 million or 12.38% as compared with last year.

Unit: RMB '0,000

Item	December 31, 2016		December 31, 2015	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	9,947,478	33.93	8,476,135	29.20
Financial assets held for trading	438,687	1.50	315,931	1.09
Held-to-maturity investments	2,137,873	7.29	1,779,568	6.13
Available-for-sale financial assets	1,437,487	4.90	679,762	2.34
Receivable investments	4,857,691	16.57	4,855,959	16.73
Loans to banks and other financial institutions	253,500	0.86	156,390	0.54
Deposits with banks and other financial institutions	6,149,632	20.97	6,674,844	22.99
Cash and deposits with central bank	3,262,987	11.13	3,135,441	10.80
Financial assets purchased under resale agreements	584,425	1.99	2,730,675	9.41
Total interest-bearing assets	29,069,760	99.14	28,804,705	99.23
Non-interest bearing assets	251,062	0.86	223,405	0.77
Total assets	29,320,822	100.00	29,028,110	100.00

Note: The assets mentioned above were the net values after deducting the provision of impairment.

Loans

As at the end of 2016, the total loans of the Company amounted to RMB 104.048 billion, implying an increase of RMB 15.744 billion or 17.83% as compared with last year. The corporate loans were RMB 95.810 billion, implying an increase of RMB 13.037 billion or 15.75% as compared with last year and the personal loans were RMB 8.238 billion, implying an increase of RMB 2.707 billion or 48.94% as compared with last year.

Unit: RMB '0,000

Item	December 31, 2016		December 31, 2015	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	10,404,796	100.00	8,830,395	100.00
Including: Company	9,580,983	92.08	8,277,296	93.74
Individual	823,812	7.92	553,099	6.26
Less: Provision for losses on loans	457,318	100	354,260	100
Including: Company	431,013	94.25	337,878	95.38
Individual	26,305	5.75	16,382	4.62
Net value of loans and advances to customers	9,947,478	100	8,476,135	100
Including: Company	9,149,970	91.98	7,939,418	93.67
Individual	797,507	8.02	536,717	6.33

Liabilities

As at the end of 2016, the total liabilities of the Company amounted to RMB 267.095 billion, implying a decrease of RMB 143 million or 0.05% as compared with last year. The interest-bearing liabilities amounted to RMB 262.028 billion, representing a decrease of RMB 864 million or 0.33% as compared with last year; and the non-interest bearing liabilities amounted to RMB 5.067 billion, implying an increase of RMB 720 million or 16.57% as compared with last year.

Unit: RMB '0,000

Item	December 31, 2016		December 31, 2015	
	Balance	Proportion (%)	Balance	Proportion (%)
Absorption of deposits	14,860,874	55.64	14,110,641	52.80
Deposits from banks and other financial institutions	9,909,351	37.10	11,268,467	42.16
Placements from banks and non-bank financial institutions and deposits from central bank	566,142	2.12	60,312	0.23
Financial assets sold for repurchase	718,054	2.69	814,737	3.05
Negotiable certificate of deposit	148,372	0.56	34,988	0.13
Total interest-bearing liabilities	26,202,793	98.10	26,289,145	98.37
Non- interest-bearing liabilities	506,659	1.90	434,636	1.63
Total	26,709,452	100.00	26,723,781	100.00

Deposits from customers

As at the end of 2016, the balance of deposits from customers of the Company was RMB 148.609 billion, implying an increase of RMB 7.502 billion or 5.32% as compared with last year. In terms of customer structure, the balance of corporate deposits was RMB 105.070 billion, implying a decrease of RMB 2.526 billion or 2.35% as compared with last year; and the personal deposits amounted to RMB 34.013 billion, implying an increase of RMB 5.111 billion or 17.68% as compared with last year; and the structured deposits amounted to RMB 9.525 billion, implying an increase of RMB 4.918 billion or 106.76% as compared with last year.

Unit: RMB '0,000

Item	December 31, 2016		December 31, 2015	
	Balance	Proportion (%)	Balance	Proportion (%)
I. Corporate deposits	10,507,039	70.70	10,759,688	76.25
Time deposits	3,504,555	23.58	3,246,451	23.01
Demand deposits	5,962,799	40.12	6,326,522	44.84
Fiscal deposits	12,936	0.09	4,995	0.04
Other deposits	137,617	0.93	79,012	0.56
Guarantee deposit received	889,132	5.98	1,102,709	7.81

Continued

Item	December 31, 2016		December 31, 2015	
	Balance	Proportion (%)	Balance	Proportion (%)
II. Personal deposits	3,401,336	22.89	2,890,280	20.48
Time deposits	2,191,337	14.75	1,801,116	12.76
Demand deposits	1,209,999	8.14	1,089,164	7.72
III. Structured deposits	952,499	6.41	460,674	3.26
Total	14,860,874	100.00	14,110,641	100.00

7.3.3 Analysis of the Statement of Cash Flows

The ending cash and cash equivalents were RMB 48.837 billion, decreasing by 21.698 billion or 30.76% compared with those at the beginning of the year, which was caused by the decrease of the net increase in deposits from customers, the due from banks, the increase in the net increase in deposits in Central Bank and other banks, and the cash outflows paid for investments compared with those last year.

— Net cash flows from operating activities

The net cash flows from operating activities for the year amounted to RMB -21.385 billion, implying a decrease of RMB 16.117 billion or 305.93% as compared with RMB -5.268 billion last year, mainly attributable to large decrease in cash flows from deposits from customers and due from banks, and the increase in deposits in Central Bank and other banks.

— Net cash flows from investing activities

The net cash flows from investing activities for the year amounted to RMB -5.162 billion, implying a decrease of RMB 19.511 billion or 135.97% as compared with RMB 14.349 billion last year, mainly owing to the increase in cash paid for bond investments during the year, resulting in decrease in cash flows.

— Net cash flows from financing activities

The net cash flows from financing activities for the year amounted to RMB 977 million, implying an increase of RMB 1.749 billion as compared with RMB -772 million last year, mainly attributable to the investment of RMB 7.588 billion attracted to increase capital and share and the payment of cash dividends of RMB 6.611 billion for 2015 and January-May 2016.

7.3.4 Segment Analysis

Segment operating results by business line

Unit: RMB '0,000

Item	Corporate banking	Personal banking	International business	Capital business	Total
I. Net interest income	333,704	38,121	97,357		469,182
Net income from handling charges and commissions	14,291	(3,149)	4,072		15,214
Investment income			12,449		12,449
Gains from changes in fair value			(4,789)		(4,789)
foreign exchange gains	28,658				28,658
Other operating income/cost				40	40
Business taxes and surcharges	9,073	663		1	9,737
Business and administrative expenses	88,724	19,009	59,480	402	167,616
Losses from asset impairment	93,357	9,923	(60,506)		42,774
II. Operating profit	185,500	5,376	110,116	(364)	300,628
Non-operating income				2,210	2,210
Non-operating expenses				67	67
III. Total profits before tax	185,500	5,376	110,116	1,779	302,771
Income tax	29,159	845	17,309	280	47,593
IV. Net profit	156,341	4,531	92,806	1,500	255,178

Segment operating results by geographical regions

Unit: RMB '0,000

Item	Inside Xinjiang	Outside Xinjiang	Total
I. Operating income	401,925	118,879	520,804
Interest income	633,996	285,873	919,869
Interest expenses	280,580	170,106	450,687
Intermediate business income	18,527	4,818	23,345
Fee and commission expenses	4,548	3,583	8,131
Other income	58	32	89
Investment income	12,449		12,449
Changes in fair value	(4,789)		(4,789)
Gains or losses on exchange	26,813	1,845	28,658
II. Operating expenses	150,809	69,367	220,176
Operating and administrative expenses	125,898	41,718	167,616
Business taxes and surcharges	5,680	4,057	9,737
Losses from asset impairment	19,211	23,563	42,774

Item			Continued
	Inside Xinjiang	Outside Xinjiang	Total
Other business costs	19	30	50
III. Total profits before tax	251,871	50,900	302,771
Income tax expenses	42,361	5,232	47,593
IV. Net profit	209,510	45,668	255,178

7.4 Business Overview

7.4.1 Corporate Banking

The Company's financial services focused on large and medium-sized customers and customers in petroleum & petrochemical industry chain. The Company promoted services for large and medium-sized customers to consolidate the business base, and developed the finance of petroleum & petrochemical industry chain to cultivate core competitiveness. During the reporting period, the Bank actively coped with adverse challenges including narrowed interest margins, shrinking demand of corporate finance and made efforts to promote service and product innovation to achieve sustainable development.

Corporate banking customers

As at the end of 2016, the Bank had 25,000 corporate customers, representing an increase of 17.79% as compared with last year, including 8,711 customers of petroleum & petrochemical industry chain, accounting for 35.53% of corporate customers. The customers of petroleum & petrochemical industry chain are dominated by small and micro enterprises. For profound financial services for these customers, the Company not only strictly implemented the development strategy of "integration of industry and finance", but also found a unique development path of small and



micro finance.

Corporate bank deposits

As at the end of 2016, the balance of corporate bank deposits of the Bank amounted to RMB 108.1 billion, basically equal to that of the last year. During the reporting period, the Bank's liability business achieved major breakthroughs, with the certificate of deposits of RMB 50 million firstly issued; Urumqi Branch and Xi'an Branch obtained the qualification of the state treasury cash management and deposit.

Corporate bank loans

As at the end of 2016, the balance of loans (excluding discount) in RMB and foreign currencies of the Bank amounted to RMB 57 billion, implying an increase of RMB 1.3 billion or 2.31% as compared with last year. NPL ratio of the Company was 2.72%, with an increase of 1.1 percentage points compared with that of last year.

Integration of the industry and finance

Banking in the petroleum & petrochemical industry chain is the main body of integration of the industry and finance. During the reporting period, great progress was achieved in the construction of the platform of integration of the industry and finance; financial system in the industry chain was optimized and launched, being able to support all of the business of featured products including "five programs and three loans". The Company set up chemical sales, materials procurement and other e-commerce platforms for core enterprises and laid a solid foundation for attracting mass customers. As at the end of 2016, the balance of "five programs and three loans" (namely Oil Enterprise Program, Commercial Credit Program, Supply Purchasing Program, Lease Financing Program, Investment Financing Program, Gas Loan, Promotion Loan and Commercial Guarantee Loan) was RMB 12.1 billion, basically equal to that at the beginning of the year and accounting for 23% of the corporate banking loans.

Micro and small finance services

The Company practiced regulations including "six mechanisms" and "four principles" and deepened the development in the pilot micro and small financial service departments of Karamay Branch, Korla Branch, Xi'an Branch and other branches. As a result, the Company has enhanced its ability to attract customers, the business processing efficiency and the capability in risk management for the micro and small enterprises of the Company. According to the statistics of the China Banking Regulatory Commission, there were more than 3,100 micro and small customers, small and micro loans of 10.446 billion, increasing by 24.94% as compared with those at the beginning of the year. It was the first time that the amount of small and micro loans exceeded RMB 10 billion.

7.4.2 Personal Banking

In 2016, the Bank actively responded to market changes, paid more attention to characteristic (integration of the industry and finance) development of retail business, accelerated product innovation and brand building, and strengthened the application promotion of retail products and services by relying on the internet financing platform, improved the integrated service ability of online and offline retail. Consequently, the comprehensive service level and market competitiveness of retail business continued to be enhanced.

Personal deposits

Focusing on customer needs and responding to the development of interest liberalization, the Bank launched “favorable interest deposits” product with floating interest rate, which further drove the personal deposit growth. The theme marketing activities “the tenth anniversary” continued throughout the year. Commemorative certificates of deposit were issued. The Bank carried out precise customer-oriented marketing to promote sustainable growth of personal deposits. As at the end of 2016, the balance of personal deposits of the Bank amounted to RMB 33.534 billion, implying an increase of 17.88% as compared with last year.

Personal loans

The Bank further strengthened the integration of industry and finance of personal loans and set a new goal to become perfect and stronger. It launched online personal loan products - “financial credit loan” and “salary loan” , completing the pilot personal loan business of direct bank. It optimized business processes, improved the efficiency of loan application and improved customers’ experience. The brand effect of “Kunlun personal loan drives the future” and “Kunlun easy loan benefits the future” began to emerge. As at the end of 2016, the balance of personal loans of the Bank amounted to RMB 7.332 billion, representing an increase of 57.41% as compared with last year, with an NPL ratio of 0.21%. Among them, the balance of credit loans applied by CNPC employees was RMB 1.667 billion and the accumulated amount of loans issued was RMB 2.020 billion, increasing by RMB 1.204 billion; the balance of entrusted loans for individual housing provident funds was RMB 4.182 billion, increasing by RMB 802 million.

Personal wealth management business

Following the new trend, the Bank accelerated business innovation to meet the diversified needs of customers. It sold products on a commission basis for Lion Fund and Yinhua Fund, launched “Youxinbao” T+0 products and VIP HNW wealth management products and agency sales of noble metal. It implemented regulatory requirements, set up special wealth management on the outlets, installed electronic monitoring equipment and implemented video and audio recording of wealth management and consignment business. It continued enriching the contents of value-added services for mid and high-value customers and improving the construction of classified service systems. It successfully joined “Asset Management Association of China” and “Commercial Bank Financial Alliance” to strengthen exchanges with the entities in the same industry. In 2016, the total sales of personal wealth management products amounted to RMB 49.185 billion, with a year-on-year growth rate of 53.66%; the total sales of agent fund products amounted to RMB 663 million, with a year-on-year growth rate of 172.84%; and the total sales of agent personal insurance products was RMB 217 million. The income from agency-type intermediation was RMB 49.3878 million, with a year-on-year growth rate of 8.38%. There were 1,426,400 individual customers, with an increase of 554,200 ones.

Bank cards

The Bank further strengthened cooperation with oil companies to help the development of main business achieve new results. It enriched the variety of bank cards, strengthened public and private connection and mining services, and issued “the tenth anniversary cards” , Changqing service cards and Herong co-branded cards. It optimized the financial IC cards-using environment, and vigorously promoted the issue of chip cards and the security for online and offline use of cards. It optimized the acceptance process for POS machine and launched settlement POS to meet the business needs of key customers. It obtained the qualification for issuing credit card business and issued financial

and social security cards in mature Xinjiang Branch. In 2016, the Bank newly issued 440,600 cards and accumulatively issued 2,221,100 cards with annual amount of consumption of RMB 10.121 billion, increasing by 3.98%. Income from bank card charges was RMB 21,159,800. The Bank developed 673 POS merchants and 797 preferential merchants.

Internet-based finance

We achieved new breakthroughs in internet finance. WeChat bank and direct bank were launched in succession, by which the retail business was promoted; the Bank continuously optimized the business functions of mobile banking and online banking, constantly improved customer experience. As a result, services and abilities of customer availability in electronic channels were significantly improved and became strong support for the development of retail business in turn. In 2016, the proportion of customers of online banking amounted to 31.64%; that of customers of mobile banking amounted to 15.77%, with an increase as compared with that of last year. There were 11,100 WeChat banking customers and 45,500 accounts activated via direct bank.

7.4.3 Financial Market Business

In 2016, under the adverse background including floundering macro economy, sharp downside market interest rates, increased credit risks and rare high-quality assets, the Bank followed the principle of steady development, vigorously implemented “11235” project and continued to strengthen the financial market business. As at the end of 2016, the assets in the balance sheet for the financial market business amounted to RMB 149.333 billion while the off-balance sheet assets RMB 20.778 billion and the liabilities RMB 65.987 billion.

Bond business



In 2016, the Bank further adjusted the bond allocation structure and enhanced the financing ability and reduced credit risks of the Bank by increasing the proportion of the interest rate products; increased the efforts to launch new products and used the means of interest arbitrage, effectively dealt with the changes in market interest rates by combining securities lending, interbank negotiable certificates of deposit or otherwise, flexibly utilized band trade, cross-variety arbitrage to increase income and complete the objectives of adjusting the structure of assets and liabilities of the Bank. As at the end of 2016, the book balance of the bond investments of the Bank amounted to RMB 32.647 billion, increasing by RMB 12.702 billion as compared with that at the end of 2015.

Capital business

With the liquidity in the treasury business guaranteed, the Bank closely followed the changes in market, utilized its own advantages in resources to promote the market vitality and participation for further profitability. In 2016, the trading sales of the repurchase of bond amounted to RMB 2.7 trillion and the trading sales of inter-bank loans amounted to RMB 118 billion.

Inter-bank business

In 2016, along with the increasingly stricter regulation and shrinking non-standard business, the Bank mainly adopted the strategies of “controlling risks, stabilizing operating, seeking for transformation, increasing products and improving services” for its inter-bank business, actively promoted the “standardization” of the non-standard business and optimization of the banking products, vigorously drove the structured financing business and realized elevation in business scale and customer service abilities. As at the end of 2016, the asset scale of interbank business was RMB 64.604 billion, of which due from banks and other financial institutions reached RMB 14.250 billion; investments classified as receivables were RMB 49.354 billion and loans from banks and other financial institutions were RMB 1 billion. The balance of inter-bank deposits was RMB 51.682 billion.

Bill business

In 2016, the Bank aimed to improve the capacity of expanding market, innovation ability, and risk control ability through the bill business; accelerated the business transformation; vigorously conducted turnover transactions; improved the efficiency of operation scales and realized the steady development of business and sustainable growth in profitability. As at the end of 2016, the scale of the bill discounting business amounted to RMB 39.2 billion.

Wealth management business

In 2016, the Bank’s wealth management business was steadily developed; as at the end of 2016, the balance of wealth management products was RMB 20.778 billion, with an increase of 25.59% as compared with that at the beginning of the year. In 2016, the Bank, in response to the customers’ demand, developed and launched Kunlun e Jinbao, Stone Flower VIP series and “Weekly Blooming” capital preservation products, optimizing the product system and satisfying the diverse wealth management demand of customers in a better way. In addition, the Bank actively promoted the transformation of wealth management business from debt driven growth to asset driven growth, achieving the innovation of investment in industry funds with financial capital, PPN, interbank negotiable certificate of deposit, stock brokerage income certificate, private placement and other business so that the level of asset management of the Bank was enhanced.

7.4.4 International Banking Business

In 2016, facing the complicated economic situation at home and abroad and under the background of the full implementation of the Belt and Road Initiative, international banking business of the Bank fully played channel advantages, adhered to the characteristic development path which integrated industry and finance, focused on corporate customers of large state-owned enterprises, petroleum and petrochemical enterprises, made its mission to serve and help domestic enterprises to go global, actively adapted to market changes, strengthened marketing, strengthened self-construction and strived to improve the operation and service efficiency. In a word, all the work was done in an orderly way.

Promptly adjust policies and actively take measures to adapt to changes in the market situation

Facing the changes in market environment, the Bank took the initiative at the beginning of the year to surrender part of the profits to customers; strengthened exchanges with overseas enterprises within the same industry to further consolidate mutual trust and cooperation; actively participated in market competition and won the recognition of relevant cooperative parties, having consolidated and developed our characteristic business.

Strengthen marketing and promote trade financing business to increase operating profits

While strengthening the marketing of key customers, the Bank, based on the fact of widely distributed small and medium-sized customers of international business, promoted business and held centralized customer seminars in such areas as East China, North China, Northwest and South China to vigorously promote its international trade financing products and services and accurately grasp and meet the customer's actual demand, with international trade financing business achieving massive growth as compared with that of last year.



Strengthen the team construction and improve professional quality and business level of employees

The Bank focused on personnel training and team building. It specially invited famous experts from the People's Bank of China, the State Administration of Foreign Exchange and other banks to teach anti-money laundering, regulatory policies, situation of international business and business knowledge of foreign guarantee and documents, provided door-to-door training for many times and actively built an international business learning-oriented talent team with strong learning abilities, high level of business and dense market consciousness.

Strive to enhance operation service efficiency and significantly to improve customers' experience

The Bank fully implemented concentrated background operation of international business and optimized business process and effectively activated human of business agency organizations, with the service quality, efficiency and specialty significantly increased.

7.4.5 Distribution Channels

For constructing distribution channels, the Bank insisted on the general principles of "business oriented and channel first". As at the end of 2016, the physical and electronic distribution channel system of the Bank was basically completed with the products being more functional; the operating efficiency was steadily enhanced and the consumers' rights and interests protection system was gradually improved, ensuring the sustainable development of quality and benefit of the Bank.

Physical outlet channels

In 2016, the development focused on all branches transferred from rapid expansion to structural optimization. At the branch level, to respond to the national Belt and Road Initiative and help build a regional financial center with "Urumqi - Ghulja - Kanas" as the core, the Bank succeeded in setting up a branch in Kashgar. As to the branches, the Bank had six new traditional sub-branches, 1 community branch and 6 sub-branches relocated and transformed. As at the end of 2016, the Bank had 83 branches and sub-branches, representing an increase of 8 as compared with 2015. At the same time, through promoting and implementing the new VIS (Visual Identity Standard) construction standards, the Bank brought new experiences for customers in terms of external image and internal layout of business outlets. It successfully developed and produced self-service card and u-key issuing machines, interactive device outside the counter, intelligent queuing and calling machines, multimedia self-service terminals of new version, VTM (Virtual Teller Machine) and other modern system and equipment, with intelligent level and service efficiency of business outlets enhanced steadily and customer service experience continuously improved.

Direct banking sales channels

In 2016, the Bank launched formally "Kunlun direct banking", opening the channels of online customers and playing an important role in supporting and ensuring the development of characteristic business integrating industry and finance. As at the end of 2016, the direct banking of the Bank has accumulatively attracted more than 70,000 users, and successively launched products including "financial credit loan", "Youxinbao" and "Kunlun e Jinbao" products with satisfactory sales performance. In terms of research and development of featured products, CNPC sales company and the Bank made significant progress through active cooperation.



Mobile banking channels

For adapting to the development of internet finance and highlighting the convenience of financial services, in 2016, the Bank comprehensively optimized the mobile banking system and launched the V2.0. The client end of the new version was sharply optimized in business function, customer experience and safety and the channel business volume was significantly increased, in which the transaction amount of self-service cost payment, wealth management products, and other functions increased by more than 30% as compared with that of last year, having been widely praised and winning the “best mobile banking experience award for 2016 regional urban commercial banks” .

Personal e-banking channels

Personal online banking highlighted the scenario reconstruction. The Bank launched online loan business, “Youxinbao” and other products by cooperating with many mainstream third-party payment businesses in continuously enriching application scenarios of bank cards and client ends, which continuously improved channel function. It completed security evaluation of the personal online banking system and connection with the telecom fraud risk management platform, further ensuring safety of electronic channels.

Corporate online banking channels

New business including NRA (Non-Resident Account) online banking, electronic commercial draft process reengineering, corporate online banking, direct connection of electronic commercial drafts among banks and enterprises was launched in corporate online banking. By providing enterprises with online charging, deposit trusteeship and other characteristic financial services via the B2B payment system platform, the Bank opened a new chapter of internet B2B financial service platform.

Through joint efforts of the whole bank, the distribution system was further improved in 2016, with an enhanced service scope and quality as well as higher customer service satisfaction. As at the end of 2016, the replacement rate of electronic channel business was 90.75%. According to the customer service satisfaction survey through telephone return visit of our customer service center, the customer satisfaction of the whole bank reached 95.33%.

7.4.6 Information Technology

The general work idea was “concentrating on priority projects, optimizing services and building teams” ; “two places and three centers” overall disaster recovery systems were built and put into operation; the goal of integration of the industry and finance and internet system construction was achieved; full life circle process control and production safety guarantee mechanism construction were continuously strengthened; independent control ability was increasingly enhanced; the production system was safely and smoothly operated; and system performance and business processing capabilities were continuously enhanced, which effectively boosted the integration of the industry and finance.

Guarantee work safety and promote the construction of information system

The Bank established and promised “the first-person responsibility system and the system of settlement on time, took a number of measures to ensure production safety, with the service availability of important information system exceeding 99.99%, built Beijing Changping Main Production Center and put it into use, improved the construction of back-up centers, thus forming an infrastructure pattern of “two places and three centers” ; set up technical support teams for integration of industry and finance and successfully completed the construction of industry chain finance projects, realizing the production and launch of all industry chain business products; smoothly operated direct banking, WeChat banking and other internet financial system, reinforced the security of mobile banking, online banking and other systems, basically realizing mobile marketing and enhancing the competitiveness of the field of internet finance.

Strengthen risk management and optimize IT service level

The Bank formulated a clear planning framework for information technology systems; defined specific grading and classification standards for systems and system formulation and revision plans; strengthened IT investment management, established a multi-level professional assessment mechanism, improved the quality standards for lifecycle management of information technology projects, carried out examination and evaluation of outsourcing services, made graded and classified management of outsourcing service providers to strengthen outsourcing risk management and ensure the quality of project construction; promoted the implementation of construction projects for information security system, re-arranged the structure of application systems and enhanced security compliance and service level of information technology.

Strengthen team building and improve self-control ability

The Bank completed the production of the version with 80 functions, including core and legal person loans, cultivated key employees for independent research and development and strengthened independent operation and maintenance of systems, with the degree of dependence on foreign service providers effectively reduced; determined the responsibility range of each post, established a professional and technical team for integrating the banking industry and the oil and gas industry and the production safety; focused on cultivating core talents in various fields; strengthened the research of information technology risk issues; successfully passed the acceptance of the *Research on the Development and Implementation of Online Industry Chain Finance Projects* and the *Research on the Information Security System of Banking Financial Institutions*, in which the *Research on the Development and Implementation of Online Industry Chain Finance Projects* won the 2016 Four-class Achievement Award for Research on Banking Information Technology Risk Management; the fund trusteeship platform project won the 2016

Outstanding Contribution Award for Science and Technology Innovation in Financial Industry.

7.4.7 Service Improvement

In 2016, the Bank's work was unfolded based on the theme "improving the level of financial services and safeguarding the interests of financial consumers". The Bank continued to offer the "customer-centered" service, further increased publicity and education efforts, and actively took various forms to serve customers and popularized consumer rights protection activities.



Through a variety of forms and channels, the Bank strengthened service management and defined hardware and software management requirements and standards. By establishing industry benchmarking outlets, it further regulated the service standards, improved the service environment, built the service images, rewarded the good and fined the bad with "customer satisfaction" as the focal point to improve the service level.

The Bank further improved institutional systems, organizational structure and division of responsibilities for protecting the rights and interests of consumers and defined the processing flows and system requirements for the protection; completed the deployment of video and audio recording systems in all business outlets of the whole bank with high quality and effectively carried out video and audio recording when selling banking wealth management and consignment products; the Bank mobilized its employees to learn the latest regulations on consumer protection and organized a series of activities for education and propaganda of consumer protection such as 3.15 Consumer Protection Day event, the Long March for Finance Knowledge, Bringing Finance Knowledge to Thousands of Households to improve the consumers' awareness and prevention of financial risks.

In the examination and evaluation on consumer protection of banking financial institutions for 2016 organized by Xinjiang Banking Regulatory Bureau, the Bank was the only legal person obtaining Class A in the examination and evaluation on consumer protection among all the banks in Xinjiang. Bank of Kunlun Karamay Branch was awarded the only outstanding unit on consumer protection in Karamay in 2016. Karamay Branch Daqing Road Sub-branch and Daqing Branch Business Department were awarded “1,000 Model Outlets” by the China Banking Association.

7.5 Risk Management

7.5.1 Organizational Structure of Risk Management

The Board of Directors and the Risk Management Committee are the supreme managing and decision-making body of the Bank's risk management structure; the Senior Management set up the Risk and Internal Control Management Committee (including special credit, market and operating committees) to be responsible for implementing and supervising the risk management of the Bank; the Risk and Compliance Department of the head office is responsible for the overall risk management, the comprehensive promotion of risk management, and the leading administrative departments of various risks of the head office are the subject of the risk management of the Bank; all departments of the head office and branches specifically implement the policies related to risk management. It initially formed a comprehensive risk management organizational structure covering various types of risks including credit risk, market risk, operational risk, liquidity risk, country-specific risk, reputation risk, strategic risk and legal risk. In 2016, the Bank continuously optimized the organization chart of risk management, specified the duties and responsibilities of risk management; improved the three-tier contact network for risk management; determined the risk information reporting patch and optimized the risk management reporting system; and increased the efforts to control substantial risks.



7.5.2 Credit Risk

Credit risks refer to the risks in economic losses of a bank because borrowers or counterparties fail to perform the obligations stipulated in the contract or the credit quality changes, which affects the value of financial products. Credit risk is the major risk for the Bank, and the management of it takes prudent principles on managing credit risk exposure.

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

The Bank strictly observed the guidance of CBRC concerning credit risk management and other relevant requirements, earnestly executed strategic decisions and objectives under the leadership of the Board of Directors and the Senior Management, and continuously optimized credit procedures. The Board of Directors took the final responsibility for the effectiveness of the credit risk management's implementation and monitoring. The Senior Management and its Risk Management and Internal Control Committee were the decision-making and coordinating organs, which were responsible for the approval of action plan and the coordination for the execution of action plan. Credit management department, as the leading department for credit risk management of the whole bank, took lead in credit risk management. Business departments including corporate business department, personal banking department, international business department, financial markets department and other related departments were responsible for marketing, due diligence, and specific post-lending management and post-investment management.

Credit risk management and control policies

The Bank actively applied the achievements of the New Basel Accord project, publicized and implemented the philosophy of integrated credit risk management; measured, monitored and controlled credit risks through information management system. The Bank carried out the promotion of corporate customer credit rating system and sufficiently applied customer credit rating in approving loans; optimized the corporate risk early warning function model constantly, collecting, researching and tracking early warning information.

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

Credit risk management of corporate loans

In 2016, the Bank kept promoting credit culture construction, reinforced inspection and supervision and raised the awareness of compliance and management through "two enhancements and two constraints" projects. The Bank also reinforced the collection and disposals of NPLs and took many measures to reduce NPLs including cash collection, recover loans, restructuring and conversion, etc.

The Bank kept improving the credit risk management policies and rules and optimized the credit management process. In 2016, the Bank continued to conduct the customer credit policy in a prudent and conservative manner. It was indicated in the policy that: the Bank adopted classified management for different industries, offered strong support for relevant industries in accordance with the Bank's strategic development and strictly controlled loan issuance in sensitive industries; actively expanded large clients and the clients in the field of integrating of finance with industry, properly reduced the scale of credit loans of small and medium-sized customers; under the unified guidelines of credit loan policies of the whole bank, each branch should, based on the practical situation and regional economic characteristics, formulate implementing rules for its credit policies, create its own advantages and encourage business innovation while paying close attention to potential risks. Besides, the Bank clarified and revised several policies and procedures of the credit risk management; optimized the credit system and the credit management procedures; continuously improved credit approval, post-lending management and other fundamental matters.

Credit risk management of retail loans

In 2016, in response to the adjustment of regulatory policies, the Bank promptly improved the implementing rules, and implemented differentiated management for the regions where the branches are located; improved the approval process for personal loan business beyond the authorization, established and perfected the personal loan business authorization mechanism; standardized the management of commercial housing mortgage collateral; further strictly controlled operational risks; strengthened pre-loan investigation and post-loan management to prevent the occurrence of NPLs; strengthened comprehensive risk investigations; rationally decentralized the structure of products and controlled the release of high risk products.

Credit risk management in treasury operations

The Bank constantly strengthened the management of duration of credit bonds of bank accounts, promptly did a follow-up and reported major risk events that may affect the downgrade or solvency of the bond issuing body. If the results of credit risk investigation of the bonds indicated that the solvency has been significantly deteriorated and the credit risks significantly increased, the Bank actively carried out market inquiry and chose to sell them, thus effectively reducing credit risks.

For interbank investment business, the Bank strictly screened counterparties and carefully judged market environment and industry dynamics to control credit risks. The counterparties in 2016 mainly consisted of quality commercial banks and trust companies with low default risks; the investment projects were dominated by the projects of state-owned enterprises and central enterprises with high repayment capacity and low default risks; the investment objects were widely distributed in different industries. For investment in real estate and platform assets, the Bank strictly required pre-management of risks, effectively controlled business access; the real estate assets were large and well-known real estate companies in the country; and platform assets were dominated by national or developed areas.

Credit asset quality management

According to the regulatory requirement on loan risk classification, on the one hand, the loans of Bank can be divided into five categories: pass, special mention, substandard, doubtful and losses; on the other hand, in order to implement the credit asset quality refined management and improve risk management, the Bank divided corporate loans into twelve grades. In 2016, the Bank revised the administrative measures for the quality classification of

corporate credit assets, and implemented the mentioned measures to guide its branches to strictly implement the definitions of the classification, to effectively strengthen the management of classification process and to reflect the conditions of assets.

Loan classification

As at the end of 2016, the total loans and advances of the Company amounted to RMB 104.048 billion, representing an increase of RMB 15.744 billion or 17.83% as compared with last year.

Five-tier classification for loans and advances

Unit: RMB '0,000

Five-class classification	December 31, 2016		December 31, 2015	
	Amount of loans and advances	Proportion in total amount (%)	Amount of loans and advances	Proportion in total amount (%)
Sub-total of PLs:	10,226,590	98.29	8,728,882	98.85
Pass	10,108,147	97.15	8,681,912	98.32
Other assets especially mentioned	118,443	1.14	46,970	0.53
Sub-total of NPLs:	178,206	1.71	101,513	1.15
Substandard	18,054	0.17	19,927	0.23
Doubtful	62,868	0.61	25,112	0.28
Loss	97,284	0.93	56,474	0.64
Total	10,404,796	100.00	8,830,395	100.00

In general, the quality of loans remained stable. As at the end of 2016, the balance of pass loans of the Company was RMB 101.082 billion, accounting for 97.15% of loans and advances with the decreased proportion of 1.17% and increasing by RMB 14.262 billion as compared with last year. The balance of especially mentioned loans was RMB 1.184 billion, increasing by RMB 715 million as compared with last year and accounting for 1.14% of loans and advances with an increasing proportion of 0.61%. The balance of NPLs was RMB 1.782 billion, with an increase of RMB 767 million or 0.56% as compared with that at the end of last year and the NPL ratio was 1.71%.

Distribution of loans by collateral

Unit: RMB '0,000

Guarantee method	December 31, 2016	Proportion (%)	December 31, 2015	Proportion (%)
Credit loans	2,513,285	24.16	1,897,553	21.49
Guaranteed loans	1,256,357	12.07	1,346,763	15.25
Mortgage loans	1,269,055	12.20	1,082,609	12.26
Pledged loans	1,501,505	14.43	1,810,496	20.50
Discount of bank acceptance bills	3,263,531	31.36	1,495,518	16.94
Discount of commercial acceptance bills	601,063	5.78	1,197,456	13.56
Total	10,404,796	100.00	8,830,395	100.00

As at the end of 2016, the balance of credit loans of the Company was RMB 25.133 billion, accounting for 24.16% of loans and advances with the increased proportion of 2.67% and increasing by RMB 6.157 billion as compared with last year. The balance of guaranteed loans was RMB 12.564 billion, accounting for 12.07% of loans and advances with the decreased proportion of 3.18% and decreasing by RMB 904 million as compared with last year. The balance of collateral loans was RMB 12.691 billion, accounting for 12.20% of loans and advances with the decreased proportion of 0.06% and increasing by RMB 1.864 billion as compared with last year. The balance of pledged loans was RMB 15.015 billion, accounting for 14.43% of loans and advances with the decreased proportion of 6.07% and decreasing by RMB 3.090 billion as compared with last year. The balance of discounted bank acceptance bills was RMB 32.635 billion, accounting for 31.36% of loans and advances with the increased proportion of 14.42%, increasing by RMB 17.680 billion as compared with last year. The balance of commercial acceptance bills was RMB 6.011 billion, accounting for 5.78% of loans and advances with the decreased proportion of 7.78% and decreasing by RMB 5.964 billion as compared with last year.

Loans granted to the top ten single clients of the Bank as at the end of 2016

Unit: RMB '0,000

Customer	Industry	Balance	Proportion in total loans and advances (%)
Customer 1	Manufacturing	200,000	1.92
Customer 2	Mining	148,062	1.42
Customer 3	Transport, warehousing and postal service	140,000	1.35
Customer 4	Wholesale and retail	100,000	0.96
Customer 5	Financial sector	100,000	0.96
Customer 6	Leasing and commercial service	99,000	0.95
Customer 7	Mining	89,700	0.86
Customer 8	Manufacturing	81,885	0.79
Customer 9	Manufacturing	77,846	0.75
Customer 10	Public management, social security and social organization	74,738	0.72
Total		1,111,231	10.68

The total amount of loans granted by the Company to the single largest customer accounted for 7.21% of the Company's net capital; the total amount of loans granted to the top ten single customers accounted for 40.07% of the Bank's net capital and 10.68% of the total loans and advances.

Overdue loans

Unit: RMB '0,000

Overdue period	December 31, 2016	December 31, 2015
1 to 90 days	9,327	17,336
91 to 360 days	73,130	74,323
1 to 3 years	86,179	25,993
Over 3 years	13,939	58
Total	182,575	117,710

As at the end of 2016, total amount of overdue loans of the Company amounted to RMB 1.82575 billion, increasing by RMB 648.64 million as compared with last year.

7.5.3 Market Risk

Market risk refers to the risk arising from losses on balance sheet and off-balance sheet business of a bank due to adverse changes in market price. The Bank is primarily exposed to interest rate risk and exchange rate risk, but not to risk of stock and commodity price. The Bank established a market risk management system covering risk identification, measurement, reporting, and control to continuously monitor and properly control market risk in transactions, as well as to ensure that market risk is controlled within tolerable and reasonable level for the Bank.

In 2016, the Bank constantly optimized the market risk management system, and deeply promoted the application of the risk measurement results in the business and management. The Bank set up limits for positions, stop-loss and risk value to enhance the control of risks; strengthened the application of market risk indicators in the performance assessments; exerted the guiding roles of risk measurement results in the business decision-making and formed the awareness of active risk management. The Bank utilized its Risk Management System and Market Risk Data Mart to conduct effective monitoring, management and reporting of the execution of limits and measurement results of risks.

7.5.4 Liquidity Risk

Liquidity risk refers to the risk that the Bank fails to raise funds on time or at a reasonable cost to settle liabilities, pay obligations and raise fund for other business development needs. Based on the specific reasons for the generation of risks, the liquidity risk includes premature drawing risk, early withdrawal risk, delay risk, risk of mismatching the period of assets and liabilities, the risk of asset realization, the risk of operating losses, and bank liquidity risks from affiliate related risks and the liquidity risk resulting from other system failure.

Liquidity risk management

The Bank set up a sound governance structure of liquidity risk management, defined the responsibilities of the Board of Directors, the Board of Supervisors, the Senior Management and its special committees as well as the relevant administrative departments in the liquidity risk management, and improved the strategies, policies and procedures for liquidity risk management. The Board of Directors of the Bank has the ultimate responsibility of liquidity risk management, while other levels are responsible for liquidity risk management and supervision.

The Bank attached great importance to the liquidity risk management. Its objectives are to realize full identification, accurate measurement, continuous monitoring and effective control of the liquidity risks of the Group and legal person, the affiliates, the branches and business lines through a complete and healthy liquidity risk management system, thus ensuring that the demands for liquidity can be met at a reasonable cost under normal operating conditions and stress.

In 2016, the Bank actively promoted and strengthened the management of liquidity risks in accordance with relevant

regulatory requirements of the *Administrative Measures for the Liquidity Risk of Commercial Banks (for Trial Implementation)* issued by CBRC with consideration of the internal and external changes. As a result, the liquidity was moderately loose. During the reporting period, the Bank mainly took the following measures to manage liquidity risks: firstly, the Bank improved the organizational structure of liquidity risks, optimized the liquidity risk management system, implemented the liquidity limit management, conducted regular stress tests and carried out emergency drills to ensure the effectiveness of emergency plans for liquidity risk management and to strengthen the liquidity risk reporting mechanism; secondly, the Bank reasonably arranged the structure of assets and liabilities to ensure a steady increase, a harmonious development of the main assets and liabilities and a substantial match of the use of the source of funds; thirdly, the Bank strengthened the management of active debts to ensure smooth financing channels including currency market, interbank deposit certificates, interbank deposits and the use of funds of central bank, and actively expanded large-sum deposit certificates and other innovative business varieties, diversified sources of active debts and supported asset business; fourthly, the Bank made daily liquidity management, dynamically adjusted liquidity portfolio management, strengthened the liquidity excess reserve management to maintain a reasonable excess reserves and improve day fund management efficiency. Finally, the Bank actively promoted constructing liquidity risk management system and improved the refinement and automation of liquidity risk management.

Liquidity risk analysis

As at the end of the reporting period, the Bank maintained sufficient quality asset reserves with liquidity in good condition, and all important liquidity indicators reflecting the liquidity conditions of the Bank complied with or were higher than the regulatory requirements. The specific indicators are as follows:

Main regulatory indicators		Regulation standards	December 31, 2016	December 31, 2015
Liquidity ratio ⁽¹⁾	Total	≥25%	30.50	37.16
RMB excess reserve ratio ⁽²⁾	RMB	≥2%	5.75	6.09
Liquidity coverage ratio (LCR) ⁽³⁾	Total	≥100%	371.59	302.55
Net stable fund ratio (NSFR) ⁽⁴⁾	Total	≥100%	122.98	151.50

Unit: %

Note: (1) Liquidity ratio=Liquid assets/ liquid liabilities; the figures in the table are the data of the Bank.

(2) RMB excess reserve ratio = (Reserves after taking of required deposit reserves + Vault Cash)/deposits; the figures in the table are the data of the Bank.

(3) LCR = qualified quality liquid assets/net cash outflows; the figures in the table are the data of the Bank

(4) NSFR= available stable fund/stable fund required; the figures in the table are the data of the Bank.

(5) The regulatory indicators in this table are calculated in accordance with the regulatory requirements and accounting standards applicable to the relevant period. The figures are not subject to retroactive adjustment.

The LCR of the Company was as follows:

Unit: RMB '0,000

Item	December 31, 2016	December 31, 2015
LCR (%) ⁽¹⁾	371.59	302.55
Qualified quality liquid assets	3,241,936	2,140,016
Net cash outflow of the next 30 days	872,456	707,335

Note: (1)LCR = qualified quality liquid assets/net cash outflows; the figures in the table are the data of the Bank.

(2)The regulatory indicators in this table are calculated in accordance with the regulatory requirements and accounting standards applicable to the relevant period; the figures are not subject to retroactive adjustment.

The Bank also assessed the liquidity risk status by regularly calculating and monitoring liquidity gap. As at the end of 2016, the accumulative positive liquidity gap increased as compared with last year and the overall liquidity was secure. The liquidity gap analysis of the Bank as at the end of 2016 was shown as follows:

Unit: RMB '0,000

Item	Overdue / Repayable on demand	Within a month	1-3 months	3 months to 1 year	Over 1 year	Undated	Total
December 31, 2016	1,147,340	(1,611,438)	300,679	3,819,793	(2,957,691)	1,899,856	2,598,540
December 31, 2015	5,671,923	1,046,891	(194,102)	(444,408)	(5,691,793)	1,894,272	2,282,783

Note: (1) Liquidity gap=assets due within a certain period-liabilities due within the same period; the figures in the table are the data of the Bank.

(2)The regulatory indicators in this table are calculated in accordance with the regulatory requirements and accounting standards applicable to the relevant period; the figures are not subject to retroactive adjustment.

7.5.5 Operational Risk

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

In 2016, the Bank further improved the operational risk management mechanism, optimized organizational structure, defined departmental responsibilities and specified submitting paths, processing time and evaluation requirements for major risk events, general risk events, risk matters, etc. According to the requirements of external environment and regulatory authorities, the Bank organized to carry out the supervision and inspection of operational risks, inspection of operating business, special inspections "two enhancements and two constraints" and other forms and lines of special inspections and random inspection, enhanced the awareness of the operational risks of all employees, improved the ability of risk identification and effectively made normalized management of operational risks. It continuously optimized the business process, improved the product systems, and comprehensively enhanced the risk control ability and the initiative of risk prevention. It strengthened the system construction and function improvement,

completed the construction of several policy projects including “value-added tax in lieu of business tax” and “integrating the business license, the organization code certificate, and the certificate of taxation registration into one document”, having reached regulatory requirements and constantly improve the ability of self-control system.

By carrying out the work mentioned above, the business operators of the Bank enhanced their consciousness of operational risk prevention, risk identification and control ability and the cooperation of risk prevention. They provided a guarantee for the smooth operation of the Bank’s business. The business operational risks were generally controlled. There were no significant loss events on operational risk in professional lines.

Legal risk management

The Board of Directors and the Senior Management of the Bank fully comprehended the legal risk at every layer and then forecasted and reacted against changes in markets or regulations, therefore they could take effective measures to rectify the defects promptly after their emergence. The authority and responsibilities of all departments in the legal risk management were clear and smoothly implemented.

In 2016, the Bank continued to enhance the legal review. It did well in the legal supports for the routine business, new product development and disposal of important matters to effectively prevent legal risks. It improved the legal management system, having revised the texts of 7 legal management systems including administrative measures for dispute cases; established and perfected the texts of format contracts including financial market business, international business and purchasing business; increased efforts to manage dispute cases and established and improved the law library; it increased the publicity of law and created a cultural atmosphere for the compliance with laws in the Bank by holding legal knowledge lectures, training and competitions.

Anti-money laundering management

The Bank put efforts into anti-money laundering in accordance with related regulations and laws. In 2016, it further optimized the anti-money laundering system and revised and formulated relevant rules such as the *Detailed Implementing Rules of Bank of Kunlun Co., Ltd for Money Laundering Risk Evaluation*. Moreover, it also improved reports on large-amount trades and suspicious trades and reinforced manual analysis and identity. The Bank optimized the anti-money laundering system according to the requirements of *the Circular on Finishing Anti-Terrorism Financing Work for Financial Institutions* issued by the central bank. The Bank organized the anti-money laundering publicity and related training effectively and essentially according to requirements of authorities. It also organized self-investigations and risk prevention for institutions at all levels in combination with situations of the Bank.

Information technology risk

Information technology risk refers to the risk of losses resulting from natural factors, employees, IT bugs and inadequate or defective management processes, when IT is applied by commercial banks, including operational risk, legal risk and reputational risk.

The Bank will periodically report the information technology risk management to the Risk and Internal Control Management Committee, the committee of risk management under the Board of Directors and the Board of Supervisors. The Bank constantly improved the management system of information technology risks, formulated and revised the administrative measures and detailed rules for the management; specified the management strategies,

organizational structure and responsibilities, management fields and evaluation process of information technology risks, risk liability, risk index system and evaluation standards etc.; analyzed the impact of the risks, conducted IT risk assessment and emergency drills and continuously improved the construction of information technology risk management system.

7.5.6 Interest Rate Risks of Bank Accounts

Interest rate risks of bank accounts refer to the risks that the interest rate level, term structure and other factors are subject to adverse changes, causing losses of the overall income and economic value of the bank accounts. Due to the fluctuation of market interest rates, the Bank's interest margin may increase or decrease, even suffer losses. Mainly following the operating business of interest rate systems in accordance with the provisions of the central bank and adhering to the principle of prudence, the Bank regularly measured the sensitivity gap of bank account interest rate, analyzed the gap to evaluate the interest rate risks and reasonably adjust the repricing term structure of interest-bearing assets and liabilities. As a result, the potential negative impact of interest rate changes on profitability was reduced.

Interest rate risks of bank accounts of the Bank were featured asset sensitivity. As at the end of 2016, if the difference between interest rates (namely benchmark risks) was considered, and all interest rates rose immediately by 200BP in proportion; the net interest income in the next year would increase by RMB 743 million when interest rates remained unchanged. In view of the benchmark risks, the repricing gap in the next year will be a positive gap; the balance of assets to be re-priced in the next year will be RMB 197 billion; the balance of liabilities to be re-priced will be RMB 138.4 billion, and the cumulative repricing gap will be RMB 58.6 billion. When the interest rate rises in proportion, the increase of the interest income of assets is greater than that of liabilities, so the net interest income increases.

7.5.7 Reputational Risk

Reputational risk is the risk of negative assessments or comments on a commercial bank from stakeholders as a result of its operation, management and other actions or external events. The Bank paid close attention to reputational risk management and established the information and opinion monitoring system. Through improving organization system, monitoring public opinions, increasing emergency response capacity, and strengthening positive voice and team construction, the bank brought reputational risk into the framework of corporate governance and comprehensive risk management so as to efficiently prevent reputational risk and deal with reputational emergencies. As a result, the efficiency, scientific nature and standardization of reputational risk management were ensured.

7.5.8 Strategic Risk

Strategic risk refers to the risk resulting from inappropriate business strategy of commercial banks or changes of external business environment. Currently, the Bank has set up a tertiary strategic risk management framework which constitutes the Board of Directors, the Senior Management and the Strategic Investment and Development Department. Under the direction of the Board of Directors, the Bank established a risk-oriented *13th Five-Year Development Plan for Bank of Kunlun*. The Plan stated the uncertainty of the current situation and future development of the Bank, and analyzed and judged potential risks and benefits, especially the integration of planning and management plan. In preparing the Plan, the Bank not only highlighted the operating characteristics, but also found

the most effective way to control strategic risks. Meanwhile, the Bank set up two preparation systems separately for head office and branches, ensuring the effective implementation of the Plan at the branch level. On the whole, the strategic risk management capability of the Bank was gradually improved and the development trend of strategic risks was relatively stable.

7.6 Capital Management

The Bank used capital to conduct management activities such as planning, measurement, allocation, and application in accordance with the capital regulatory requirements of the *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)*. The Bank implemented the capital management to enhance the awareness of capital constraints, to maintain rational capital adequacy ratio level, to always comply with the requirements of regulatory rules and policies, to continuously strengthen and improve the capital base, to support the implementation of the business growth and strategic planning, to enhance the capital restriction and incentive mechanism, to improve the capital allocation efficiency, to explore the capital supplement channels and to optimize in-balance-sheet and off-balance-sheet capital structure. The capital management scope of the Bank covers the Bank and its subsidiaries, and mainly includes the management of capital adequacy ratio, capital planning and capital financing management.

In 2016, the Bank continuously improved the capital management mechanism and effectively conveyed regulatory requirements; the Bank promoted the capital possession optimization in the Bank and focused on the studies of improving capital utilization efficiency and returns; the Bank attracted the investment of outside shareholders based on retaining profits to supplement the core tier 1 capital, constantly solidified the capital base of the whole bank and enhanced the ability to support the business development; the Bank allocated and utilized capital as a whole and promoted the sustainable and healthy development of all businesses. In 2016, all the indicators of capital management of the Bank were good and the capital adequacy ratio remained at an ideal level, which fully reflected the Bank's strong capital base and stable and sustainable management.

Capital adequacy ratio management

The capital adequacy ratio management is the core of the Bank's capital management, which reflects the Bank's steady operation and risk-resisting ability. The Bank took measures such as controlling asset growth, increasing internal capital reserve and external supplementary capital to timely monitor, analyze and report the capital adequacy ratio. By taking such steps, the Bank ensured that various capital adequacy ratios could meet the regulatory and internal management requirements, thus resisted the potential risks and supported the healthy and sustainable development of different businesses.

Based on *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)*, the Bank calculated, managed and disclosed the capital adequacy ratio. According to the requirement, the credit risk-weighted assets are measured by weight method, market risk-weighted assets by standard method and the operational risk-weighted assets by the basic indicator method.

As at the end of 2016, the capital adequacy ratio of the core tier 1 capital of the Company was 15.49%; that of tier 1 capital was 15.49% and the capital adequacy ratio was 16.63%, all meeting regulatory requirements. In 2016, the improvement in the capital adequacy ratio was mainly caused by the following factors: 1) the profits of the Company

maintained steady, effectively supplementing the core tier 1 capital and attracting external investment; 2) the Bank further enhanced the capital constraint mechanism, by which the risk-weighted assets were effectively controlled. Details are listed as below:

Table of Capital Adequacy Ratios

Unit: %

Item	December 31, 2016		December 31, 2015	
	Consolidated	Unconsolidated	Consolidated	Unconsolidated
Core tier 1 capital adequacy ratio	15.49	15.46	13.13	13.09
Tier 1 capital adequacy ratio	15.49	15.46	13.13	13.09
Capital adequacy ratio	16.63	16.59	14.25	14.21

Table of capital structure and capital adequacy ratios

Unit: RMB '0,000 (%)

Item	December 31, 2016	December 31, 2015	Rate of change (%)
Core tier 1 capital	2,608,207	2,302,264	13.29
Portion of paid-up capital that can be included	1,028,788	738,052	39.39
Portion of capital reserve that can be included	1,009,607	571,367	76.70
Surplus reserves	149,441	124,109	20.41
General risk reserves	278,270	278,173	0.03
Undistributed profits	138,958	587,003	76.33
Portion of capital of minority shareholders that can be included	3,143	3,559	(11.69)
Deduction item of core tier 1 capital supervision	7,967	7,543	5.62
Other intangible assets (excluding land use right)	7,967	7,543	5.62
Net core tier 1 capital	2,600,240	2,294,720	13.31
Other tier 1 capital	251	175	43.74
Portion of capital of minority shareholders that can be included	251	175	43.74
Deduction item of tier 1 capital supervision			
Net tier 1 capital	2,600,491	2,294,895	13.32
Tier 2 capital	189,880	195,463	(2.86)
Allowance for losses on excess loans	189,378	195,114	(2.94)
Portion of capital of minority shareholders that can be included	502	349	43.74
Deduction item of tier 2 capital supervision			
Total net capital	2,790,371	2,490,358	12.05
Total risk-weighted assets	16,783,956	17,474,712	(3.95)
Including: Credit risk-weighted assets	15,339,602	15,804,242	(2.94)

Continued

Item	December 31, 2016	December 31, 2015	Rate of change (%)
Market risk-weighted assets	264,370	464,742	(43.11)
Operational risk-weighted assets	1,179,984	1,205,728	(2.14)
Core tier 1 capital adequacy ratio (%)	15.49	13.13	Up by 2.36 percentage points
Tier 1 capital adequacy ratio (%)	15.49	13.13	Up by 2.36 percentage points
Capital adequacy ratio (%)	16.63	14.25	Up by 2.38 percentage points

Note: (1) Calculated in accordance with the requirements in the Administrative Measures on the Capital of Commercial Banks (for Trial Implementation) issued by CBRC, the figures in the table are the data of the Company.

(2) Net core tier 1 capital = Core tier 1 capital - Deduction item of core tier 1 capital supervision; Net tier 1 capital = Net core tier 1 capital + Other tier 1 capital - Other deduction items of tier 1 capital supervision; Total net capital = Net tier 1 capital + Tier 2 capital - Deduction item of tier 2 capital supervision.

(3) The regulatory indicators in this table are calculated in accordance with the regulatory requirements and accounting standards applicable to the relevant period.

In accordance with relevant provisions of the *Administrative Measures for Leverage Ratio* and the *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)*, the leverage ratios for measurements are presented as follows:

Table of leverage ratios

Unit: RMB '0'000 (%)

Item	December 31, 2016	December 31, 2015	Rate of change (%)
Tier 1 capital	2,608,458	2,302,438	13.29
Deduction of tier 1 capital	7,967	7,543	5.62
Net tier 1 capital	2,600,491	2,294,895	13.32
Adjusted balance of the balance sheet assets	28,784,267	26,317,330	9.37
Adjusted balance of off-balance sheet items	4,983,400	9,292,566	(46.37)
Total	33,767,668	35,609,896	(5.17)
Balance of securities financing trading assets	584,776	2,733,019	(78.60)
Leverage ratio (%)	7.57	5.99	Up by 1.58 percentage points

Note: (1) The figures in the table are the data of the Company.

(2) The regulatory indicators in this table are calculated in accordance with the regulatory requirements and accounting standards applicable to the relevant period.

Capital planning management

The capital planning management is to predict the capital demands and supplies in the future based on the regulations and the development strategies; to determine the capital gap in the future and to formulate capital replenishment measures inside and outside. The principles for the Bank's objectives of capital planning are: to be based on the regulatory requirements on capital, combine the business development planning of the industry, reserve the space for the capital buffer, and set a relatively safe and reasonable objective in capital adequacy ratio to keep the balance of the capital adequacy ratio and the return on capital. In 2016, the Bank's objective in the capital adequacy ratio was: the capital adequacy ratio of the core tier 1 capital was not less than 9%; that of the tier 1 capital was not less than 10% and that of the capital adequacy ratio was 12%.

Capital raising management

The capital raising management is to reasonably choose the required capital tools for capital financing, thus guaranteeing the external regulation and the internal capital management and optimizing the capital amount and structured based on the capital planning and the market environment. In 2016, to ensure the smooth implementation of the "13th Five-year Plan" of the Bank and consolidate the capital base, the Bank actively sought for external capital replenishment and attracted shareholders' capital increase in foreign currency amounting to RMB 1.597 billion based on supplementing capital with profits retained.

7.7 Human Resource Management

In 2016, the Bank conducted its human resource management according to the requirement for business development, and the Bank focused on the innovation in mechanism and system to constantly enhance the system construction and optimize the allocation of human resources. Firstly, the Bank formulated a series of systems and measures such as cadre management, performance appraisal, employee management and employee training, drove business transformation and enhanced risk prevention. Secondly, it changed the session of the party committee teams and the leadership teams of the branches and implemented the promotion system. Thirdly, it started the human resources improvement projects with the main goal of "protecting key departments, key positions and backbone talents" and "defining responsibility, quota, post, employee and specification". Fourthly, it innovated the training methods and deeply carried out a triune cadre team training mechanism featuring "training for presidents of sub-branches, young cadres and middle-level cadres". Finally, it worked out and implemented the three-year "300 talents" program, specified approaches for selecting talents and refined measures to cultivate talents.

7.8 Social Responsibilities

Continuously strengthen the construction of enterprise culture

In 2016, the Bank focused on constructing enterprise cultural concept system, revised the *Corporate Culture Handbook*, harmoniously integrated the spirit of dedication "Daqing and Man of Iron" with the spirit of competition "performance first", and shaped the soul of characteristic enterprise culture. It specified that the core value of "profession, compliance, integration and diligence" should be gradually cultivated, promoted and publicized. It also



gradually guided its employees to voluntarily comply with four concepts including management, service, learning and talent and to spontaneously make unremitting endeavor for the vision of the Bank. It adhered to the cultural management model of “respecting people”, “relying on people”, “caring about people”, “cultivating people” and “inspiring people” to promote corporate cultural landing. All the branches actively carried out characteristic revolutionary education activities including re-experiencing the Long March, carrying forward the spirit of Yan’an, visiting the former residence of great men; aroused the consciousness of Party members and strengthened their responsibility; maintained the advancement and purity of Party members, and showed the entrepreneurship of staff of Bank of Kunlun by staying true to the mission and spirit of arduous struggle.

With the registered address Karamay as a key area, the whole bank successfully organized a series of marketing activities themed with “gratitude for ten-year’ companion”, which united people and inspired confidence. Meanwhile, the said activities further enhanced brand recognition and influence of the Bank, promoted the understanding and support of customers, local governments at all levels, the People’s Bank of China, banking regulators, banks and other sectors of society, effectively stimulated the enthusiasm, initiative and creativity of all staff to start a business and further highlighted fruitful achievements of the enterprise culture construction, which was widely praised, and activated the integration of industry and finance, cooperation between banks and enterprises and common development.

At the end of 2016, according to the requirements of the Party Committee of the Xinjiang Uygur Autonomous Region and the People’s Government of Xinjiang Uygur Autonomous Region for deeply carrying out the activities themed with “understanding the people’s situation, benefiting the people’s livelihood and uniting the people’s hearts”, the Bank formulated the *Work Guidance on Effectively Conducting Activities Themed with Understanding the People’s Situation, Benefiting the People’s Livelihood and Uniting the People’s Hearts*. It selected 5 business backbones from the branches to set up a working group to work at villages for 5 years from January 2017. The working group will deeply conduct the instructions of the Central Government and the decision-making arrangements of the Xinjiang

Uygur Autonomous Region, go to the grass-roots, serve and keep in contact with the masses, and display the good social image of CNPC and Bank of Kunlun in the completion of various tasks.

The Bank made the “House of Employees” promotion and implementation scheme, determined the unified logo of “House of Employees” , further promoted the development of “House of Employees” construction in depth and consolidated the pilot results of “House of Employees” to spreading the compliance culture and home culture. It allocated special construction funds for “House of Employees” to effectively support the construction of “House of Employees” . Through the efforts in the past year, the working conditions of grass-roots employees have been significantly improved; their sense of belonging to the enterprise has also been significantly increased; the enthusiasm to start a business of the staff has been effectively stimulated; and the construction of a well-being enterprise has achieved phrasal results.

Constantly perform social responsibilities

The Bank organized the youth volunteering service activities of “learning from Lei Feng and making new achievements” in the whole bank. According to the actual situation, all units formulated their own schemes for volunteering service activities, established grass-roots youth volunteering service teams and organized characteristic youth volunteer service activities. The bank responded to the national call of “low carbon and environmental protection” , advocated green office, adhered to the low-carbon office standards and the environmental protection regulation “renewable energy first” . The Bank vigorously promoted the use of recycled paper and recycled pens, actively advanced paperless meetings and office automation, and built a low-carbon and environmentally-friendly office environment to reduce carbon for environmental protection. It actively promoted the employment of Xinjiang Autonomous Region. Its branches in Xinjiang recruited 160 persons in total, of whom 6 were ethnic minorities.

Actively promote green credit. In the credit, the Bank focused on the credit support for environmental protection, energy saving, clean energy, and green traffic energy conservation and environmental protection projects. In 2016, the Bank accumulatively issued loans of RMB 1.722 billion to customers in the natural gas industry and loans of RMB 15 million to the air pollution control business.

Actively carry out rural financial services. As of the end of 2016, the Bank supported the balance of loans for “agriculture, farmers and rural areas” of RMB 8.886 billion, of which the balance of loans for farmers was RMB 108 million; that of loans for rural enterprises was RMB 8.003 billion and that of urban agriculture loans reached RMB 774 million. In 2016, the Bank issued loans for farmers of RMB 135 million, of which those invested in south Xinjiang were RMB 120 million, giving great support for the financing of local rural farmers.

Strongly support the development of “small and micro” enterprises. In 2016, the Bank made efforts to promote the finance services for micro and small enterprises in the oil and gas industries and the results were satisfying. The ability to attract customers, the business processing efficiency and the capability in risk management for the micro and small enterprises of the whole bank were enhanced. As at the end of 2016, the balance of the loans for small and micro enterprises of the Bank broke RMB 10 billion, reaching RMB 10.446 billion, with an increase of RMB 2.085 billion or 24.94% as compared with that at the beginning of the year, and 6.86 percentage points over the growth rate of all loans; the number of borrowers of small and micro enterprises was 3,139, with an increase of 848 as compared with that at the beginning of the year; and the availability of loans to small and micro enterprises reached 98.83%, realizing the working objective of “achieving more in three aspects” in 2016.

Actively participate in public welfare undertakings. Karamay Branch issued 443 start-up and re-employment loans for laid-off workers, with a total amount up to RMB 30.94 million, of which 4 re-employment loans for laid-off disabled people amounted to RMB 0.38 million. Urumqi Branch organized and carried out more than 20 special campaigns which had successfully intercepted telecommunications fraud cases, saving economic losses of more than RMB 3,000. As a result, Bank of Kunlun fulfilled its social responsibilities and improved the social image. Daqing Branch cooperated with valued customers in starting public service activities themed with “Love in Kunlun makes you no longer feel alone” . It went to Sea Star Special Education School to visit autistic children, presented desks, chairs, books, toys, cakes and other supplies of life and learning, so that the children may enjoy better learning and living environment. Tuha Branch vigorously supported the “agriculture, farmers and rural area” and issued 70 loans of RMB 15 million for spring plowing and farming preparation concerning a planting area of over 18,000 mu. Korla Branch actively helped and supported the poor, disbursed funds of RMB 0.1 million, and implemented targeted poverty alleviation in Kuoshisatema Township, Qiemo County, Korla. In opening the window “elderly priority” , Xi’an Branch launched counter extension services for the special community like the disabled. In 2016 alone, Xi’an Branch accumulatively provided door-to-door services for special groups for multiple times. The operation and service center participated in “Aba Kalsang Flower Blossoming” public service activities, having presented cold protective clothing, cotton-padded clothes, sweaters, blankets and other warm clothing to the elderly and children of Aba County in three batches. It organized and carried out the “Children’s Day” special activity for the disabled children and orphans, and donated to the children welfare center 10 kinds of cleaning supplies, toys, milk powder, personal care items (401 items in total), praised in the “charity list” of the center; it continued to offer financial or material assistance to 4 poor students with a total amount of RMB 21,580 in 2016.

7.9 Outlook

Looking forward to the future, Bank of Kunlun will continue to rationally and scientifically boost the team building and career development as well as unite the team and help the staff with harmoniously humanistic care. General guidelines in a period of time in future are: fully implementing the spirit of the 18th National Congress of the Communist Party of China, the Third, Fourth, Fifth and Sixth Plenary Sessions of the Eighteenth Central Committee, earnestly implementing a series of requirements of regulatory authorities. The Bank will seek improvement in stability by following the fundamental principle of prudent development. By relying on energy and the Silk Road, staying abreast of the world, supporting real economy and servicing the country, the Bank will support the national supply-side structural reform at full steam, adhere to the strategy of integration of the industry and finance on a higher level and in an unshakable manner. The bank also will consolidate our energy sector market and the non energy sector market and press ahead with transformative development, better cost effectiveness, proactive risk control and deepening reform. Furthermore, the bank will accelerate the cultivation of corporate culture, strengthen the work of Party construction, hold aloft the banner of China's petroleum industry spirit and implement the project of "One Core and Two Wings" so as for us to maintain our performance on a steady and upward trend trajectory and maintain our general prospects stable and harmonious. The bank is dedicated to build itself into a comprehensive, integrated, smart, innovative and respected commercial bank with unique characteristics.



VIII. Changes in Share Capital and Shareholders

8.1 Changes in Share Capital

In December 2016, approved by the China Banking Regulatory Commission Xinjiang Bureau, the Bank increased capital and share once again. All shareholders contributed funds of RMB 7.588 billion (including increase of RMB 5.991 billion from dividends and additional capital of RMB 1.597 billion) and increased the registered capital of RMB 2.907 billion. After the capital increase, the Bank's registered capital reached RMB 10.288 billion from 7.381 billion as at the end of 2015.

8.2 Number of Shareholders and Proportion of Shareholding

As at December 31, 2016, the total number of shareholders of the Bank was 77, and the total number of shares was 10.288 billion. The shareholding proportion of legal person shareholders was 99.9908% and that of natural person shareholders was 0.0092%.

8.3 Top 10 Shareholders of the Bank and Shareholding Proportions

Unit: share

No.	Name of shareholder	Number of Shares Held	Shareholding ratio (%)
1	CNPC Capital Company Limited	7,930,712,499.85	77.09
2	Karamay City Finance Bureau	513,337,786.78	4.99
3	China Shipping Investment Co., Ltd.	384,604,330.37	3.74
4	Xinjiang Financial Investment Co., Ltd.	292,673,363.00	2.84
5	Xinjiang Uygur Autonomous Region State-owned Assets Investment Management Co., Ltd.	258,347,016.97	2.51
6	Shandong State-owned Assets Investment Holdings Co., Ltd.	199,829,696.98	1.94
7	Xinjiang Uygur Autonomous Region Financing and Guarantee Co., Ltd.	129,173,508.49	1.26
8	Xinjiang 3U Investment Group Co., Ltd.	68,686,275.09	0.67
9	Xinjiang Taishengxinrong Investment Co., Ltd.	56,879,807.02	0.55
10	Karamay City Construction Investment and Development Co., Ltd.	82,663,546.53	0.80



8.4 Controlling Shareholders and Actual Controller of the Bank

CNPCCCL replaced China National Petroleum Corporation (CNPC) to be the new controlling shareholder and actual controller of the Bank during the reporting period. As at the end of 2016, CNPCCCL held 7.931 billion shares of the Bank, with the proportion amounting to 77.09%.

CNPCCCL is specialized in managing financial business of the CNPC, being the platform for the integration of financial business, financial equity investment, financial asset management and supervision and financial business risk management and control of the CNPC.

The CNPCCCL is composed of Bank of Kunlun Corporation Limited, Kunlun Financial Leasing Co., Ltd., Generali China Life Insurance Co., Ltd. and other seven financial companies. The CNPCCCL takes strategic control over its holding financial enterprises, transfers the autonomy power in management to its subordinate enterprises, and strengthens the functional control including strategic management, capital operation, performance appraisal, compensation management and risk control over the subordinate financial enterprises through standardizing and perfecting corporate governance. Furthermore, CNPCCCL promotes the collaboration in integrating the industry and finance, enhances the cooperation among financial enterprises and realizes the sharing of resources.

8.5 Other Legal Person Shareholders Holding No Less Than 10% Shares

As at December 31, 2016, the Bank had no other shareholders who held no less than 10% of its shares.

IX. Directors, Supervisors, Senior Management, Employees and Institutions

9.1 Directors

Name	Position	Gender	Age	Date of Appointment
Jiang Shangjun	Chairman	Male	52	October 2014
Yan Hong	Director	Male	50	December 2016
Wang Zhonglai	Director	Male	53	May 2012
Liu Qiang	Director	Male	50	July 2014
Qu Haichao	Director	Male	45	November 2016
Chen Xinfa	Director	Male	56	December 2015
Tao Jianyu	Director	Male	45	April 2015
Ming Dong	Director	Male	45	February 2017
Pang Yueying	Independent director	Female	70	August 2011
Shi Junzhi	Independent director	Male	63	May 2012

Jiang Shangjun, Chairman

Professorate senior economist, graduated from Lanzhou University of Finance and Economics (major in Financial Accounting, MBA) and University of Houston (EMBA), USA, with nearly 30 years' working experience in finance and administration. Mr. Jiang used to be General Manager and Deputy Party Secretary of CNPC Northwestern Sales Company. He has served as Party Secretary of the Bank since September 2012, Director of the Bank since February 2013 and Vice Chairman of the Bank since March 2013. Mr. Jiang has been authorized to act for Chairman of the Bank since December 2013. From October 2014, he has acted as the Chairman of the Bank.

Yan Hong, Director

Professorate senior accountant, graduated from China Europe International Business School with master's degree. He used to be Chief Accountant of Daqing Petroleum Administration Bureau and Daqing Oilfield Limited Company. He has been serving as party secretary of Bank of Kunlun since October 2016 and Director of Bank of Kunlun since December 2016.

Wang Zhonglai, Director

Senior economist, graduated from Hangzhou Financial Cadres Management Institute (major in Software), Correspondence School of Central Party School (major in economics and management), and Nanjing University (major

in management science and engineering) with over 30 years' working experience in banking industry. He used to be General Manager of Operation Management Department of Shenzhen Development Bank. Mr. Wang held the post of Vice President of the Bank from January 2010, Director of the Bank from May 2012, and became President of the Bank in June 2012.

Liu Qiang, Director

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

Qu Haichao, Director

Senior engineer, graduated from China University of Petroleum - Beijing, majoring in petroleum engineering, Master Degree. He now serves as Deputy Chief Economist of the Capital Operation Department of CNPC. He has been serving as Director of the Bank since November 2016.

Chen Xinfu, Director

Professor-level senior engineer, graduated from Institute of Geology, China Earthquake Administration; he is currently the Secretary of Municipal Party Committee of Karamay, the Leader of Coordination Team of CNPC in Xinjiang Enterprise and the Secretary of Party Committee of Xinjiang Oilfield Company. He has been serving as Director of the Bank since December 2015.

Tao Jianyu, Director

Senior accountant, graduated from Renmin University of China, majoring in accounting. He currently serves as the Designated Director of Xinjiang Autonomous Region State-owned Assets Investment and Management Co., Ltd. He became the Director of the Bank in April 2015.

Ming Dong, Director

Senior economist, graduated from Central University of Finance and Economics, majoring in international finance and investment economics, Master of Economics. He serves as the Deputy General Manager and CPC member of COSCO Shipping Development Co., Ltd. and the General Manager of China Shipping Investment Co., Ltd. He was appointed as Director of the Bank in February 2017.

Pang Yueying, Independent Director

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

Shi Junzhi, Independent Director

Researcher and professor of Financial Research Institute of Chinese Academy of Social Sciences, General manager of National Trust Co., Ltd. Mr. Shi graduated from the Financial Research Institute of PBOC (major in Economics), Law

School of Renmin University of China (major in Law), engaged in finance for nearly 30 years. He 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 been serving as Independent Director of the Bank from May 2012.

9.2 Supervisors

Name	Position	Gender	Age	Date of Appointment
Luo Ping	Chief Supervisor	Male	59	March 2014
Cao Yinan	Equity Supervisor	Female	42	January 2015
Zhou Maoqing	External Supervisor	Male	62	April 2016
Zhang Lijun	External Supervisor	Female	58	April 2016
Ruan Kaikui	Employee Supervisor	Male	58	September 2015

Luo Ping, Chief Supervisor

Graduated from China University of Geosciences (Wuhan) and University of Wales, UK, Mr. Luo used to be Deputy Director General of the International Department of People's Bank of China, Director General of International Department I and Department of Banking Management, Director of International Department (Office of Hong Kong and Macau SARs & Taiwan Affairs), Deputy Director and Director of Training Center of CBRC. Mr. Luo has been serving as Employee Supervisor of the Bank and Chief Supervisor from March 2014.

Cao Yinan, Equity Supervisor

Master of Business Administration, graduated from China Europe International Business School (major in EMBA), Ms. Cao Yinan is currently the chairman and General Manager of Shandong Longxin Investment Co., Ltd. She has been serving as Supervisor of the Bank from January 2015.

Zhou Maoqing, External Supervisor

Researcher, postdoctor and doctoral supervisor of Financial Research Institute of Chinese Academy of Social Sciences, he graduated from the Department of Economics of Anhui University, Nanjing University and Institute of Financial Policy, Chinese Academy of Social Sciences. Main research fields of Mr. Zhou Maoqing are financial market, international finance, industrial economy etc. and his research results have won the second and third prize of the Excellent Achievements in Philosophy and Social Science at the provincial and ministerial level. Since April 2016, he has been an external supervisor of the Bank.

Zhang Lijun, External Supervisor

Senior accountant, Bachelor, Ms. Zhang Lijun engaged in accounting for more than 30 years. She served as Deputy General Manager (Researcher) of the Operations Management Department of ICBC Beijing Branch. Since April 2016, she has been an external supervisor of the Bank.

Ruan Kaikui, Employee Supervisor

Started work in 1975, and served as Deputy Director of Fund Settlement Center of Changqing Oil Exploration Bureau, the Deputy General Manager of Construction and Engineering Corporation, the Deputy General Manager, General Accountant and CPC member of the Construction and Engineering Corporation of Changqing Oilfield Branch; Used to be the Secretary of Party Committee and Vice President of Xi'an Branch of the Bank, he has been serving as the Employee Supervisor of the Bank from September 2015.

9.3 Senior Management

Name	Position	Gender	Age	Date of Appointment
Wang Zhonglai	President	Male	53	June 2012
Jing Lin	Vice President	Male	52	April 2013
He Fang	Vice President	Male	44	July 2016

Wang Zhonglai, President

Please refer to "9.1 Directors" .

Jing Lin, Vice President

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

He Fang, Vice President

Senior economist, graduated from Shenyang University of Technology, majoring in computer application, Master Degree; University of Illinois Urbana-Champaign, Master of Finance, engaged in economics and finance for 23 years. He used to serve as the Manager of International Business Department of China Petroleum Finance Co., Ltd., President and Assistant of Bank of Kunlun and General Manager of International Business Department. He became the Vice President of the Bank in July 2016.

9.4 Changes in Directors, Supervisors and Senior Management

Director

In April 2016, the Bank held the General Meeting of 2015, at which Mr. Qu Haichao was elected as the Director of the Bank; and his qualifications were approved by Xinjiang Banking Regulatory Bureau on November 4, 2016.

In November 2016, the Bank held the second General Meeting of 2016, at which Mr. Yan Hong and Mr. Ming Dong were elected as Directors of the Bank. The qualifications of Mr. Yan Hong and Mr. Ming Dong were approved by Xinjiang Banking Regulatory Bureau on December 28, 2016 and February 9, 2017 respectively.

Ms. Wang Zheng ceased to serve as the Director of the Bank since April 2016.

Supervisor

In April 2016, the Bank held the General Meeting of 2015, at which Ms. Zhang Lijun and Mr. Zhou Maoqing were elected as the External Supervisors of the Bank; and their qualifications have been reported to the regulatory authority for records.

Senior Management

In April 2016, the Bank held the third meeting of the fourth Board of Directors, at which Mr. He Fang was appointed as the Vice President of the Bank; and his qualification as a senior manager was approved by Xinjiang Banking Regulatory Bureau on July 4, 2016.

Mr. Xie Pengfei ceased to serve as the Vice President of the Bank since April 2016.

Mr. Xie Haibing ceased to serve as the Vice President of the Bank since July 2016.

9.5 Employees

As at the end of 2016, there were 2,971 employees altogether, of which 376 were from the head office, 161 from operation service center, 2,335 from branches, the international settlement service center and business department of head office, and 99 from village banks. The average age of employees was 33. The total number of employees had increased by 102 or 3.6% as compared with 2015. The number of employees with Master degrees or above was 310, accounting for 10% of the total. The number of employees with Bachelor degrees was 2,305, accounting for 78% of the total.

9.6 Payroll

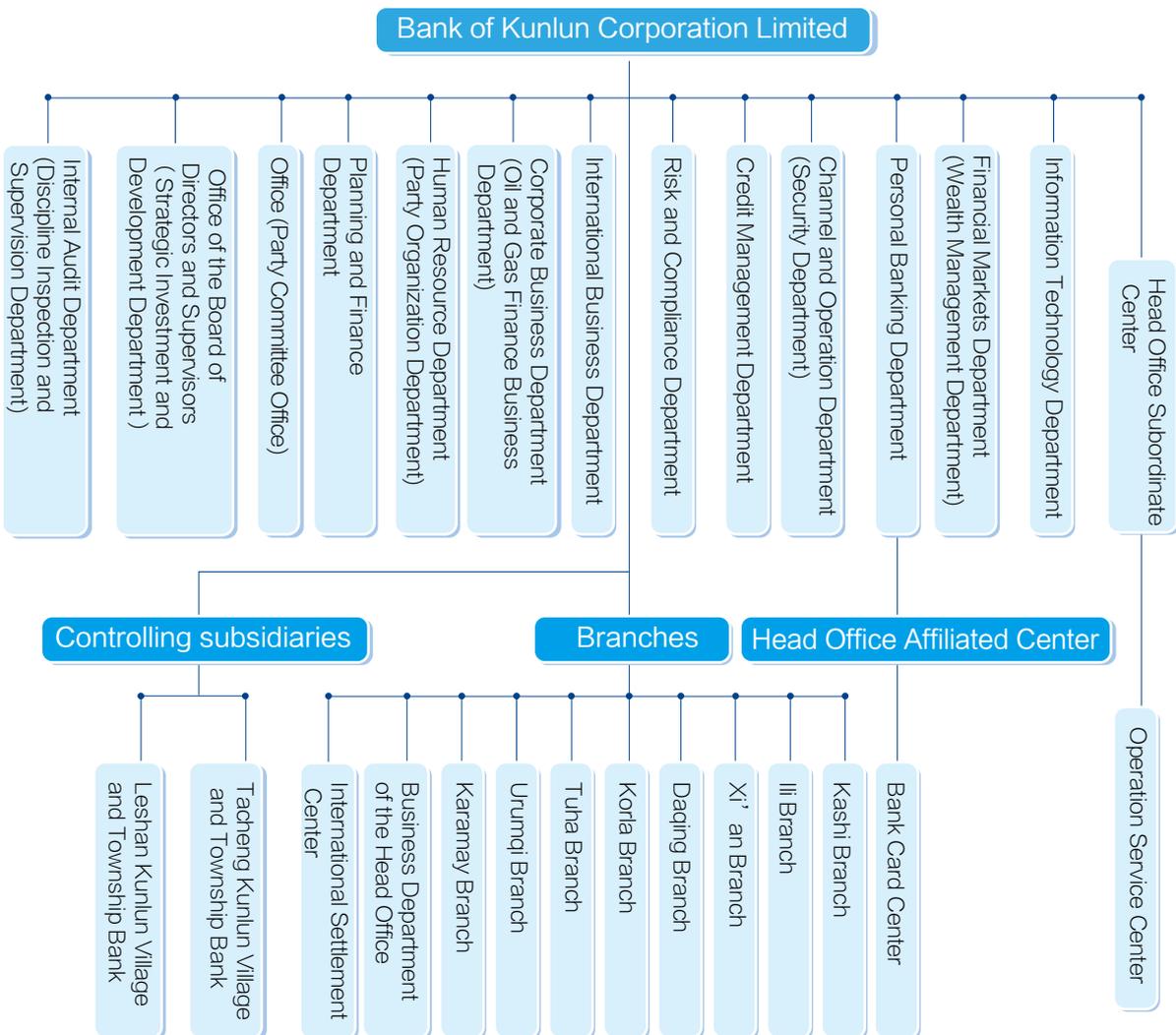
According to the *Regulatory Guidelines for Stability of Remuneration in Commercial Banks* promulgated by the CBRC, the Bank constantly improved the remuneration management system, perfected the risk control mechanism, fully reflected the distribution idea of remuneration directly linked to responsibility, performance, risk and ability, and formulated the *Measures for Remuneration Management of Bank of Kunlun* by following market-oriented remuneration management rules of commercial banks market and focusing on business development needs of the

whole bank. Meanwhile, according to the regulatory requirements, the Bank established a management mechanism for deferred payment of remuneration that matched the risk period and formulated the *Management Measures for Deferred Payment of Remuneration*, realizing fair, compliant and reasonable payment in 2016.

9.7 Institutions

In 2016, the Bank was set up according to the structure of “Head office - Branch - Sub-Branch” to steadily promote the construction of institutions at all levels. The head office established 13 functional departments, 1 subordinate center, which reports directly to head office and 9 branches including Karamay Branch, Urumqi Branch, Tuha Branch, Korla Branch, Daqing Branch, Xi’an Branch, Ili Branch, Kashgar Branch and International Business Settlement Center. As at the end of 2016, the Bank had 83 branches and sub-branches, implying an increase of 8 as compared with 2015.

Organizational Structure:



List of Institutions of Bank of Kunlun

As at December 31, 2016

No.	Head Office Business Department/Branches				Outlets				
	Name	Address	Postal code	Telephone	Fax	Name of Sub-Branch	Address	Postal code	Telephone
1	Head Office	No.7 Century Avenue, Karamay City, Xinjiang	834000	--	--	--	--	--	--
2	International Business Settlement Center	Floor 1, Building B, No.1 Financial Street, Xicheng District, Beijing	100033	010-89026956	010-63949491	--	--	--	--
3						Karamay Branch	No.7 Century Avenue, Karamay City, Xinjiang	834000	0990-6229957
4						Youyi Road Sub-Branch	No. 98 Youyi Road, Karamay, Xinjiang	834000	0990-6232984
5						Xingfu Road Sub-Branch	No. 3 Xingfu Road, Karamay, Xinjiang	834000	0990-6969912
6						Junggar west Road Sub-Branch	No. 224 Xintiandi Business Street, Junggar Road, Karamay, Xinjiang	834000	0990-6977797
7	Karamay Branch	No.7 Century Avenue, Karamay City, Xinjiang	834000	0990-6969907	0990-6229957	Shengli Road Sub-Branch	No. 118-36 Shengli Road, Karamay, Xinjiang	834000	0990-6244416
8						Zhonglou Sub-Branch	No. 1-4, Tiancheng Square, Qianjin New Village, Karamay, Xinjiang	834000	0990-6231373
9						Nanxin Road Sub-Branch	No. A16-105, Zefu, Karamay, Xinjiang	834000	0990-6253415
10						Xincheng Sub-Branch	No. 33 Shengli Road, Karamay, Xinjiang	834000	0990-6609019
11						Daqing Road Sub-Branch	No. 14 Daqing East Road, Dushanzi District, Karamay, Xinjiang	833699	0992-3684040
12						Huainan Road Sub-Branch	No. 46 Daqing Road, Dushanzi District, Karamay, Xinjiang	833699	0992-3688836

Continued

Head Office Business Department/Branches							Outlets			
No.	Name	Address	Postal code	Telephone	Fax	Name of Sub-Branch	Address	Postal code	Telephone	
13						Nanjing Road Sub-Branch	No. 21 Nanjing Road, Dushanzi District, Karamay, Xinjiang	833699	0992-3687719	
14						Zhongxing Road Sub-Branch	No. 36, Huayuan Road, Baijiantan District, Karamay, Xinjiang	834009	0990-6923341	
15						Kunlun Road Sub-Branch	No. 115 Youyi Road, Karamay, Xinjiang	834000	0990-6221879	
16						Yuezhong Road Sub-Branch	No. 1 Yuezhong Road, Baijiantan District, Karamay, Xinjiang	834008	0990-6981937	
17	Karamay Branch	No.7 Century Avenue, Karamay City, Xinjiang	834000	0990-6969907	0990-6229957	Jinlong Town Sub-Branch	No. 6 Yongsheng Road, Jinlong Town, Karamay, Xinjiang	834000	0990-6929722	
18						Youjian Sub-Branch	No. 8 Youjian Road, Karamay, Xinjiang	834000	0990-6926557	
19						Yuanlinshequ Sub-Branch	No. 117 Tahe Road, Karamay, Xinjiang	834000	0990-6892255	
20						Nanhu Community Sub-Branch	No. 338-1-18, Baihua Road, Karamay, Xinjiang	834000	0990-6220126	
21						Lvse Kangcheng Community Sub-Branch	No. 63-116 Jixiang Road, Karamay, Xinjiang	834000	0990-6988901	

Continued

No.	Head Office Business Department/Branches				Outlets				
	Name	Address	Postal code	Telephone	Fax	Name of Sub-Branch	Address	Postal code	Telephone
22						Business Department	No. 8 Minzhu Road, Urumqi, Xinjiang	830000	0991-2328114
23						Shihua Sub-Branch	Zhongyi Street, Shihua Block 2, Midong District, Urumqi, Xinjiang	830000	0991-6911321
24						Shiyouxincun Sub-Branch	No. 2219 Xinhua North Road, Urumqi, Xinjiang	830000	0991-3717861
25						Xizuan Sub-Branch	Xibulvgu Building, No. 752 Kashi West Road, Urumqi Economic and Technological Development Zone, Xinjiang	830000	0991-3717941
26						Youhao Sub-Branch	Yinzuo, New Times Hotel, No. 739 Youhao North Road, Urumqi, Xinjiang	830000	0991-4840932
27						Gaoxin District Sub-Branch	No. 99 West Five Tianjin North Road, Gaoxin District, Urumqi, Xinjiang	830000	0991-6692754
28						Huaidong Sub-Branch	The 4th Block, Huaidong Oil Base, Fukang, Xinjiang	831511	0994-3830861
29	Urumqi Branch	No. 8 Minzhu Road, Urumqi, Xinjiang	830000	0991-2360468	0991-2360071	Software Park Sub-Branch	Floor 1, Podium Building B, Entrepreneurship and Intelligence Building, Xinjiang Software Park, No. 455 Kanak Lake North Road, Jingjikaifa District, Urumqi, Xinjiang	830000	0991-7586277
30						Changji Sub-Branch	No. 69 Changning South Road, Changji, Xinjiang	831100	0994-2586817
31						Yingbin Road Community Sub-Branch	Rhine House, No. 1466, Yingbin Road, Urumqi, Xinjiang	830000	0991-3790045
32						Wuyi Road Sub-Branch	Building 1, Hongfu Hotel, No. 160, Wuyi Road, Urumqi, Xinjiang	830000	0991-5822050
33						Qianjin Road Sub-Branch	Wuika Group Building, No. 58 Qianjin Road, Urumqi, Xinjiang	830000	0991-2670057
34						Changchun Road Small and Micro Sub-Branch	No. 119, North Floor 1, East Lane 1, Changchun South Road, Urumqi, Xinjiang	830000	0991-6657224
35						Fukang Yaochi Road Community Sub-Branch	Ground floor, Yuansen International Garden, Fukang, Xinjiang	831500	0994-3512110
36						Henan West Road Sub-Branch	No. 192 Henan West Road, Urumqi High-tech Industrial Development Zone, Xinjiang	830000	0991-3692320

Continued

Head Office Business Department/Branches							Outlets		
No.	Name	Address	Postal code	Telephone	Fax	Name of Sub-Branch	Address	Postal code	Telephone
37						Business Department	Podium Building, West Side of Comprehensive Building, Construction Bank, the 6th Block, Fossil Oil Base, Hami, Xinjiang	839009	0902-2769069
38						Guangdong Road Sub-Branch	Floor 1, Lingxian Building, Guangdong Road, Hami, Xinjiang	839009	0902-2209398
39						Shanshan Fossil Oil Sub-Branch	Ground floor, North of Information Industry Development Office, Shanshan Fossil Oil Base, Tuha Oilfield, Shanshan County, Turpan Area, Xinjiang	839009	0995-8378918
40	Tuha Branch	Fossil Oil Base, Hami, Xinjiang (original Neibin Apartment)	839009	0902-2772543	0902-2763350	Yingbin Road Sub-Branch	Ground floor, Building 4, Qitulinkeyuan Community, Hongxing West Road, Hami, Xinjiang	839009	0902-6980997
41						Jianshe East Road Sub-Branch	No. 2 Jianshe East Road, Hami, Xinjiang	839009	0902-2231539
42						Nanhugongye yuanqu Sub-Branch	Floor 1, South Lake Industrial Park Management Committee Office Building, Hami, Xinjiang	839009	0902-2209398
43						Fossil Oil Base South Sub-Branch	Ground floor, Information Industry Development Office, Tuha Fossil Oil Base, Hami, Xinjiang	839009	0902-2769069
44						Business Department	No. 172 and 136, Xibin Road, Ranghulu District, Daqing, Heilongjiang	163453	0459-6069500
45						Lianhua Sub-Branch	No. 21 Maanshan Chengfeng West Road, Ranghulu District, Daqing, Heilongjiang	163411	0459-2616666
46	Daqing Branch	No. 172 and 136, Xibin Road, Ranghulu District, Daqing, Heilongjiang	163453	0459-5958355	0459-5958355	Shihua Sub-Branch	No. 427 Xinghua Street, Longfeng District, Daqing, Heilongjiang	163714	0459-6411733
47						Longfeng Sub-Branch	No. 142 Longfeng Street, Longfeng District, Daqing, Heilongjiang	163711	0459-6400880
48						Yuanwang Sub-Branch	No. 18 Xihu Street, Ranghulu District, Daqing, Heilongjiang	163453	0459-5956012

Continued

No.	Head Office Business Department/Branches				Outlets				
	Name	Address	Postal code	Telephone	Fax	Name of Sub-Branch	Address	Postal code	Telephone
49						Aolin Sub-Branch	Shop 10, Building D-04 and 05, Aolin International Apartment, Private Scientific & Technological Park, Ranghulu District, Daqing, Heilongjiang	163458	0459-5960177
50						Dongfeng Sub-Branch	No. 35 Dongfengxincunwei'er Road, Ranghulu District, Daqing, Heilongjiang	163311	0459-4600195
51						Donghu Sub-Branch	No. 10 Tianhu Road, Ranghulu District, Daqing, Heilongjiang	163000	0459-5732688
52						Xinchao Sub-Branch	Xinchaojiayuan S3 Shop 2 and Shop 3, Ranghulu District, Daqing, Heilongjiang	163453	0459-5912355
53						Dongcheng Yinzuo Sub-Branch	No. 40 Yinzuo Shangpin Shopping Mall, Saertu High-tech Development District, Daqing, Heilongjiang	163311	0459-4319096
54						Chengfeng Sub-Branch	No. 210 Chengfeng Street, Ranghulu District, Daqing, Heilongjiang	163411	0459-5681716
55	Daqing Branch	No. 172 and 136, Xibin Road, Ranghulu District, Daqing, Heilongjiang	163453	0459-5958355	0459-5958355	Ranghulu Sub-Branch	South 13 Commercial and Residential Building Shop 4, Xijing Road, Ranghulu District, Daqing, Heilongjiang	163712	0459-5593272
56						Dongcheng lingxiu Sub-Branch	No. 202, No. 204 and No. 206 Longfeng North Street and No.10 and No.12 Longfeng Road, Longfeng District, Daqing, Heilongjiang	163711	0459-6405950
57						Honggang Sub-Branch	Hongcheng International Subdistrict A1 Shop 4, Shop 5 and Shop 6, Honggang District, Daqing, Heilongjiang	163511	0459-6781100
58						Babaishang Sub-Branch	No.8 Babaishang South Road, Honggang District, Daqing, Heilongjiang	163413	0459-4989006
59						Chuangye Sub-Branch	Shop 13 and Shop 14 of High-rise Building and Ground Shop A6-37#, 38#, 39#, A#, and B#, Residential Region, Chuangyecheng, Ranghulu District, Daqing, Heilongjiang	163453	0459-4547071
60						Beifang Branch	No. 1, Kunlun Subsidiary Food Building, No. 120 Shengji Road, Ranghulu District, Daqing, Heilongjiang	163458	0459-5995029

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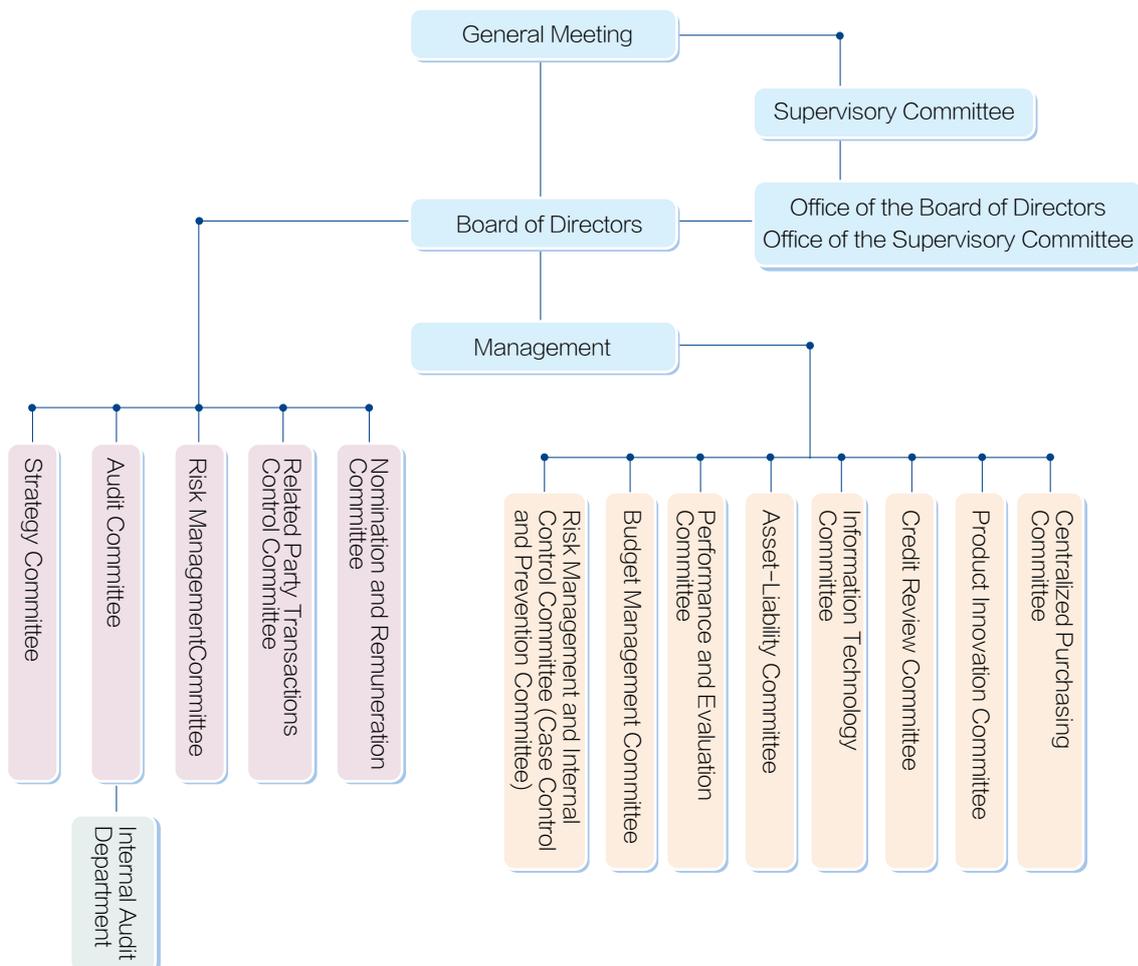
Head Office Business Department/Branches				Outlets					
No.	Name	Address	Postal code	Telephone	Fax	Name of Sub-Branch	Address	Postal code	Telephone
61						Business Department	Changqing Sulige Building B, No. 73 Fengchengsi Road, Xi'an, Shaanxi	710021	029-86978675
62						Xinglongyuan Sub-Branch	1st floor, Elder Activity Center, Fengchengsi Road, Xi'an	710021	029-86565276
63						High-Tech Development Area Sub-Branch	South Part of 1-2 Floor, Podium Building, High-Tech Electronic Communication Square, No. 56 Gaoxin Road, Xi'an	710075	029-88993312
64						Jinghe Industrial Park Sub-Branch	1-2 Floor, North Part of Office Building of infrastructure service, Changqingjinghe Yuan, East Gate of Longfengyuan Subdistrict, Changqing Oilfield, Gaoling, Xi'an, Shaanxi	710200	029-86022666
65						Jingwei Science and Technology Industrial Park Sub-Branch	South of West Gate, the 2nd Block, Jingxin Yuan, Jinghe Industrial Park, Gaoling, Xi'an	710200	029-86977333
66	Xi'an Branch	Changqing Sulige Building B, No. 73 Fengchengsi Road, Xi'an, Shaanxi	710021	029-86978855	029-86978910	Xiguanzheng Road Sub-Branch	Floor 1, Lianhu Culture Building, No.92 Xiguanzheng Road, Lianhu District, Xi'an	710082	029-88777700
67						Hanguang Road Sub-Branch	No. 232 Hanguang South Road, Xi'an, Shaanxi	710065	029-87306388
68						Xingqing Road, Sub-Branch	No. 97, Middle Section, Xingqing Road, Beilin District, Xi'an	710048	029-83211002
69						Weiyanghu Park Sub-Branch	Floor 1, Weiyang North Building, Weiyanghu Park Community, Dongfeng Road, Weiyang District, Xi'an	710021	029-86573012
70						Xixian New Area Qinhan xincheng Sub-Branch	East of the door of Changqing Petrochemical Living Area, Jinxu Road, Qinhanxincheng, Xixian New Area, Shaanxi	712042	029-38002222
71						Jingweiyuan Community Sub-Branch	No. 1 and 2 shops, Second District, Changqing Jingweiyuan Community, South Jinghuan Road, New Jingwei City, Gaoling County, Xi'an	710200	029-68602411
72						First Jingwei Community Sub-Branch	No. 1 Shop, Area A Square, Jingwei Community, Huncun 1 Road, Jingwei Industrial Zone, Xi'an	710200	029-68603662

No.	Head Office Business Department/Branches				Outlets				Continued
	Name	Address	Postal code	Telephone	Fax	Name of Sub-Branch	Address	Postal code	
73	Xi'an Branch	Changqing Sulige Building B, No. 73 Fengchengsi Road, Xi'an, Shaanxi	710021	029-86978855	029-86978910	Longfeng Garden Community Sub-Branch	B-106, Feng Square, Changqing Longfeng Garden Community, Majiawan, Gaoling County, Xi'an	710200	029-86024995
74						Haibolanxuan Community Sub-Branch	No. 4-10103 Shop, Haibolanxuan Community, Northeast Corner of Crossroad of Fengcheng 9 Road and Wenjing Road, Weiyang District, Xi'an	710021	029-86686718
75						Business Department	Floor 1, Huayu Business Building, Renmin East Road, Korla, Bazhou, Xinjiang	841000	0996-2926969
76						Tarim Fossil Oil Sub-Branch	Multifunctional Hall, 3th Block, Tazhi Community, Korla, Bazhou, Xinjiang	841000	0996-2176964
77						Tarim Fossil Oil Subdistrict small Sub-Branch	5th Block, Tazhi Community, Korla, Bazhou, Xinjiang	841000	0996-2174938
78	Korla Branch	Floors 1-3, Huayu Business Building, Renmin East Road, Korla, Xinjiang	841000	0996-2926906	0996-2926123	Xincheng Sub-Branch	Floor 1, Comprehensive Building, Geophysical Exploration Third Office, Airport Road, Korla, Bazhou, Xinjiang	841000	0996-2192303
79						Xiangli Road Sub-Branch	1-1-16, 17 of No.30 Xiangli Road, Korla, Xinjiang	841000	0996-2692001
80						East Renmin Road Sub-Branch	1F, New Complex Building, Bazhou People's Hospital, No. 56, East Renmin Road, Korla, Xinjiang	841000	0996-2953888
81						Shihua Avenue Sub-Branch	No. 14 to 19 Shop, No. 15 Building, Milan Chuntian, No. 44, Shihua Avenue, Jianshe Prefecture, Korla, Bazhou, Xinjiang	841000	0996-2699906
82						Taxinan Fossil Oil Sub-Branch	No. 8-2 Yingbin Road, Kuiyibage Town, Zepu, Kashi, Xinjiang	844800	0998-7522372
83	Yining Branch	No. 23, Sidalin Street, Yining City, Xinjiang	835000	0999-8062917	0999-8062919	Business Department	No. 23, Sidalin Street, Yining City, Xinjiang	835000	0999-8062920
84	Kashi Branch	Building 1, South Lake Xiushui Manor, No. 34, Banchao Road, Kashgar City, Kashgar, Xinjiang	844300	0998-6850082	0998-6850080	Business Department	Building 1, South Lake Xiushui Manor, No. 34, Banchao Road, Kashgar City, Kashgar, Xinjiang	844300	0998-6850100

X. Corporate Governance Report

10.1 Corporate Governance Structure

The Bank established the corporate governance structure in accordance with Company Law, Commercial Bank Law, etc., and the requirements of regulators, following the principle of “scientific decision-making, effective supervision, steady operation”. The structure was composed of the General Meeting, the Board of Directors, the Board of Supervisors and Senior Management, which respectively served as highest authority organ, decision-making body, supervisory body and executive body. The Bank made ongoing efforts to optimize the deployment of management and professionals to guarantee scientific and healthy development of the Bank, thus ensuring the sound operation of “clearly-defined responsibilities and accountability, coordination and effective checks and balances”.



10.2 Overview of Corporate Governance

A sound corporate governance is not only the key to the stable operation and healthy development of a bank, but also the assurance to the essential mission of continual and well protection of interests of investors. In 2016, the Bank strictly complied with related laws, regulations and regulatory requirements and insisted on enhancing the corporate governance as a major step for further development. It kept on optimizing the operating mechanism of corporate governance to enhance scientific decision-making and effective checks and balances. The Bank adjusted and supplemented members of the Board of Directors, continuously optimized the Company's governance system and organizational structure, strengthened the construction of Directors' and Supervisors' resumption, initiated the performance evaluation of Directors, Supervisors and Senior Management, and organized plentiful training, surveys and interbank exchange activities. Further efforts were made in information disclosure and investor relationship management. Management efficiency of the Bank was improved; interests of all parties have been effectively protected; and the work of corporate governance was proved to be fruitful.

Construction of the organizational framework of corporate governance

The Bank promptly enlarged the Board of Directors and the Board of Supervisors to ensure compliance and smooth operation of corporate governance. During the reporting period, one of the Directors of the Bank ceased to work as a Director due to the work adjustment, and a proposed Director terminated the application procedures for serving as a Director. Considering shareholders' rights and professional quality, the Bank added two Directors and two Supervisors in accordance with selection procedures. New Directors and Supervisors sought approval from or reported to the regulatory authority, thus ensuring the stable and orderly operation of the Board of Directors and the Board of Supervisors.

Construction of corporate governance mechanism

The Bank brought into full play the strategic decision-making role of the Board of Directors. During the reporting period, the Bank implemented the *13th Five-year Development Plan of Bank of Kunlun*, organized 2016 planning evaluation; added capital of RMB 2.907 billion to meet the development and capital adequacy requirements of the Bank; actively promoted the capital increase and share enlargement of 2016 and enhanced the ability to resist risks. It designed the Bank's investment plans and development plans for branches, capital supplement and other aspects, comprehensively planned the future development strategy for the Bank, effectively made scientific development decision, protected healthy development and safe operation of the Bank and effectively safeguarded the interests of shareholders, creditors and the Bank.

The Bank strengthened the supervisory function of the Board of Supervisors. In 2016, the Board of Supervisors of the Bank performed its function and supervisory responsibility by actively participating in major decision making and supervising financial activities with lots of precious comments and suggestions. By deepening the supervision and evaluation on the performances of the members of the Board of Directors, the Board of Supervisors and the Senior Management, and by continuous inspections on risk management, internal control compliance, internal and external audit and related party transaction, the Board of Supervisors played an important role in enhancing corporate governance, prompting operation management in compliance, and realizing the steady development of the Bank.

The Bank effectively enhanced the performance of the Directors and the Supervisors. Conferences and activities were held conscientiously by regulatory departments, and the relevant requirements had been implemented seriously. Plenty of training and surveys were held; comprehensive information was provided on time, and both internal and external communications were propelled. Bank of Kunlun subscribed professional journals and regularly published *Newspaper of Bank of Kunlun* to help the Directors and the Supervisors conveniently understand the supervision situation, industry development and the operating status of the Bank so as to improve their decision-making ability and performance.

The Bank continuously optimized risk management ability. In 2016, the Bank continuously optimized the organization of risk management; specified the duties and responsibilities of risk management; improved the risk management network; established the three-tier contact system for risk management; determined the risk information reporting patch and optimized the risk management reporting system. It further promoted the application of risk management tools in business management, and enhanced the control of substantive risks.

The Bank gave full play to the role of audit and supervision. In 2016, the Bank established an independent and vertical internal audit management system accountable to the Board of Directors to carefully perform audit supervision and service. It effectively supplemented the audit force, and constantly improved the construction of internal audit system by promoting the establishment of the audit division. It effectively improved the management of the whole bank by actively carrying out a number of audit projects, supervising the implementation of the rectification and giving full play to the audit immune system.

The Bank improved the construction of the incentive and disciplinary mechanism. In 2016, the Board of Directors intensified the supervision system of the Senior Management for urging them to work diligently and carried out performance assessment of the Senior Management in accordance with the *Administrative Measures for Performance Evaluation of Senior Management of Bank of Kunlun Co., Ltd (for Trial Implementation)*. The Board authorized the Management annually which regularly reported to the Board of Directors on its performance and operating management, including implementation of authorized matters, completion of annual target, risk management etc.

The Bank strengthened the information disclosure and investor-relationship management. In 2016, the Bank further enhanced information disclosure and investor relationship management via consistent improvement of the website of investor relations, aiming at effectively providing investors with more accurate and timely information, enriching disclosure content and dredging communication channels, exhibiting the characteristics of the Bank to investors and the society. The communication mechanism with shareholders was established not only to accept advices and update situations but also to show respect to both the will of major shareholders' management and the interests of the minority shareholders. The management of equity pledge was enhanced to standardize the equity pledge procedures and the equity transfer.

Construction of corporate governance regulations

In 2016, the Bank further strengthened the construction of the corporate governance system and committed to creating a well-governed bank. According to the relevant regulations and the requirements for improvement of the Bank, it continued to improve the corporate governance system. As a result, the *Administrative Measures for Shares of Bank of Kunlun*, etc. was amended to further clarify administrative requirements and improve management process.

10.3 General Meeting

10.3.1 Duties and responsibilities

Composed of all shareholders, the General Meeting is the supreme authority of the Bank. It is responsible for, business policies making and material investment plans of the Bank, deliberation and approval of the proposals on the annual financial budget, final accounts, profit distribution plans and loss recovery plans, the election and replacement of Directors, Shareholder Supervisors and External Supervisors, deliberation and approval of the work report of the Board of Directors and the work report of the Board of Supervisors, the adoption of resolutions on merger, division, dissolution, liquidation, change of corporate form, increase or decrease of registered capital, issuance and listing of corporate bonds or other negotiable securities and repurchase of stocks, and the amendment of the Articles of Association of the Bank.

10.3.2 Meetings

During the reporting period, the Bank organized 1 annual meeting and 2 extraordinary general meetings in total, received 2 reports and adopted 17 proposals through deliberation. The agenda and proposals for the meeting were arranged by the Board of Directors legally, fairly and reasonably to ensure that every proposal was fully discussed. Each meeting was convened in compliance with relevant legal procedures, thus ensuring shareholders' participation and exercise of their rights. The Bank engaged lawyers to witness meetings and issued legal opinions. Details of the meetings are as follows:

Annual general meeting

The Bank held 2015 Annual General Meeting on April 28, 2016 simultaneously in Beijing, Karamay, Urumqi and Shanghai through video; at the meeting, 2 reports were heard and 11 proposals were passed. The reports on related party transaction and the performance assessment of Directors and Supervisors were heard. A series of proposals were deliberated and adopted including 2015 Financial Report, 2015 Profit Distribution Plan, 2015 Annual Work Report of the Board of Directors, 2015 Annual Work Report of the Board of Supervisors, Work Reports of Independent Directors and External Supervisors, 2016 Operating Budget Arrangement, 2016 Investment Proposal, Standards for Operating Budget, Election of Directors or Supervisors, Adjustments to the Remuneration of Independent Directors and External Supervisors, and Revision of *Administrative Measures for Shares of Bank of Kunlun*. Substantial decisions were made on the General Meeting, implying its functional role.

Extraordinary general meeting

The Bank held the first extraordinary general meeting on July 15, 2016, simultaneously in Beijing, Karamay, Urumqi and Shanghai through video; at the meeting, the proposal on the free transfer of shares of China National Petroleum Corporation held in Bank of Kunlun Corporation Limited, the matters on profit distribution of Bank of Kunlun, the proposal on capital increase and share enlargement of Bank of Kunlun and other proposals were discussed and passed.

On November 24, 2016, the Bank held the second extraordinary general meeting, at which Mr. Yan Hong and Mr. Ming Dong were elected as Directors of the Bank.

10.4 Board of Directors and Special Committees

10.4.1 Responsibilities and composition of the Board of Directors

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

At the end of the reporting period, the Board of Directors of the Bank had 9 qualified Directors including 7 Equity Directors and 2 Independent Directors, led by Chairman Mr. Jiang Shangjun. All Equity Directors are experienced in banking business management or financial management with extensive professional expertise. Some of the Directors also have years of experience in the petroleum and natural gas industry. The Independent Directors are experts in finance and accounting, who are familiar with corporate finance and financial management.



10.4.2 Operation of the Board of Directors

The Board of Directors of the Bank exercises its functions in accordance with laws, administrative regulations, regulations and articles of the Bank, as well as the resolutions and authorization of the General Meeting. The Board of Directors shall hold at least one regular meeting every quarter.

The Board of Directors of the Bank has a Board Office, providing supports and services for the special committees and Directors which constitute an accurate and solid basis for decision-making.

10.4.3 Board Meeting

In 2016, the Bank held 4 Board meetings in total, at which 10 reports were heard and 36 proposals were deliberated. The main reports and proposals were as follows:

On April 8, 2016, the Bank held the third meeting of the fourth session of the Board of Directors, at which 1 report was heard and 22 proposals were adopted. Namely, the Board of Directors listened to the report of external audit of 2015, deliberated and adopted the proposals on the selection of the chairman of the fourth Board of Directors, the nomination of Directors, the nomination of members of the Special Committee of the Board of Directors, the appointment of the secretary of the Board of Directors, the appointment of vice president, the 2015 annual work report, the financial report, the profit distribution plan, the work report of the Board of Directors, the performance evaluation of Directors, the management of related party transactions, the information technology work, the 2016 operating budget, the investment proposal, the development plan for branches and the appointment of external auditor in 2016 and the convening of annual general meeting.

On July 13, 2016, the Bank held the fourth meeting of the fourth session of the Board of Directors, at which 1 report was heard and 7 proposals were adopted. The progress report on the resolutions of the third meeting of the fourth session of the Board of Directors was heard. At the meeting, the appointment of president assistant, the proposal on the free transfer of shares of China National Petroleum Corporation held in Bank of Kunlun Corporation Limited, the profit distribution of Bank of Kunlun, the proposal on capital increase and share enlargement of Bank of Kunlun were adopted through deliberation.

On August 16, 2016, the Bank held the fifth meeting of the fourth session of the Board of Directors, at which 4 reports were heard and 2 proposals were adopted. The Board of Directors heard the progress on the resolutions of the fourth meeting of the fourth session of the Board of Directors, the report on operation for the first half of 2016, the reports on the performance assessment of 2015 for the senior management and the opinions of Xinjiang Banking Regulatory Bureau on the performance evaluation of the chairman of the Board of Directors, president and the chairman of the Board of Supervisors of Bank of Kunlun in 2015. Through deliberation, it adopted the implementing scheme for capital increase and share enlargement in 2016 and the proposal on the resignation of Xu Xinyuan from the post of vice president, etc.

On November 9, 2016, the Bank held the sixth meeting of the fourth session of the Board of Directors, at which 4 reports were heard and 5 proposals were adopted. The Board of Directors listened to the progress report on the resolutions of the fifth meeting of the fourth session of the Board of Directors and the report on the operation and the disposal of NPL for Q1- Q3 2016. Through deliberation, the Board of Directors adopted the proposal on the nomination of Directors, the development of the articles of association of internal audit, capital adequacy ratio of H1 2016, the convening of the general meeting and other proposals.

During the reporting period, the Board of Director practically fulfilled their duties specified in the articles of association and accomplished the objectives to maximize the interests of all shareholders. All the Directors of the Bank exercised their rights cautiously, diligently and conscientiously, devoted enough time and energy to dealing with internal affairs of the Bank to ensure that the business conducts of the Bank were in compliance with rules and laws. In addition,

the Directors understood the operation of the Bank in time, and fulfilled other obligations stipulated by laws and the articles of association of the Bank.

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

During the reporting period, the Board of Directors seriously, comprehensively and strictly implemented relevant resolutions adopted at the General Meeting, and reported to the General Meeting in the annual report. During the reporting period, no matters were approved beyond the scope of the approval authority of the Board of Directors.

10.4.5 Independence and Performance of Independent Directors

During the reporting period, Ms. Pang Yueying and Mr. Shi Junzhi, as Independent Directors of the Bank carefully and responsibly devoted plenty of time to performing their duties. They attended all the meetings of the Board of Directors punctually, gave independent and objective advices on important decisions according to provisions of relevant documents including the related party transactions, profit distribution plan, etc. They actively attended the meetings of special committees, participated in routine work, actively learned and surveyed the internet finance as required by the Bank and conscientiously fulfilled their duties.

10.4.6 Special Committees of the Board of Directors

The Board of Directors has 5 special committees, namely the Strategy Committee, the Audit Committee, the Nomination and Remuneration Committee, the Risk Management Committee and the Related Party Transactions Control Committee which report to and are authorized by the Board of Directors in providing professional advice and making decisions on professional matters. The special committees regularly communicate with the Senior Management and departments on operating and risk conditions of the Bank, giving relevant opinions and suggestions.

The specific compositions and the specific performance of special committees are presented as follows:

Strategy Committee

The Strategy Committee is mainly responsible for considering the Bank's medium-term and long-term development strategies, business philosophy, development plan and major investment plan, and making recommendations to the Board. The Strategy Committee of the Bank consisted of 4 Directors, namely Mr. Jiang Shangjun, Mr. Chen Xinfu, Mr. Qu Haichao and Mr. Shi Junzhi in which Mr. Jiang Shangjun served as the Chairman.

During the reporting period, the Strategy Committee held 2 meetings, at which three proposals were adopted through deliberation, i.e. the development plan for branches of Bank of Kunlun in 2016, the investment proposal and the implementing schemes for capital increase and share enlargement. The committee actively promoted the formulation and implementation of the strategic planning of the Bank, strongly supporting the strategic decision-making of the Board of Directors.

Audit Committee

The Audit Committee is mainly responsible for supervising, inspecting and evaluating the internal control, financial information and internal audit of the Bank. The Audit Committee of the Board of Directors of the Bank consisted of 4 Directors, including Mr. Shi Junzhi, Mr. Liu Qiang, Mr. Tao Jianyu and Ms. Pang Yueying. Independent Director Mr. Shi Junzhi served as Chairman of the Committee.

During the reporting period, the Audit Committee held 3 meetings in total, at which 6 reports were heard and 8 proposals were deliberated. Namely, the Audit Committee listened to the reports on the internal audit and internal control compliance management in 2015, the operating conditions, compliance management and internal audit of H1 2016 and the operating conditions and internal audit of Q1-Q3 2016. Through deliberation, it adopted the proposals on the financial report, profit distribution plan, annual report and external audit report for 2015 and the budget arrangement, audit project plan and appointment of external auditor for 2016. The Audit Committee deepened the supervision on the Bank's operation and management, assessed continually internal control systems, supervised and evaluated the independence of the internal and external auditors, and promoted communication and cooperation between internal and external auditors so as to support the Board of Directors.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is mainly responsible for recommending candidates of Directors and Senior Management members to the Board of Directors, drafting procedures and standards for selection and appointment, formulating remuneration policies and plans, performance evaluation and assessment policies and procedures for Directors, Supervisors as well as Senior Management, and putting forward proposals on performance assessment and evaluation for Directors and the management. The Nomination and Remuneration Committee of the Board of Directors consisted of 4 Directors, namely Ms. Pang Yueying, Mr. Jiang Shangjun, Mr. Chen Xinfu and Mr. Shi Junzhi. Independent Director Ms. Pang Yueying served as the Chairman of the Committee.

During the reporting period, the Nomination and Remuneration Committee held 3 meetings in total, at which 10 proposals were deliberated. Proposals on 2015 performance evaluation for Directors, nomination of Directors, 2015 performance evaluation for the senior management, the appointment of the secretary to Board of Directors, vice president and the adjustment of the remuneration standards for independent directors were adopted through deliberation. The Committee played an important role in the appointment and performance assessment of Directors and the Senior Management.

Risk Management Committee

The Risk Management Committee is primarily responsible for controlling, managing, supervising and evaluating risks of the Bank. The Risk Management Committee of the Bank consisted of 4 Directors, namely Mr. Wang Zhonglai, Mr. Liu Qiang, Mr. Qu Haichao and Ms. Pang Yueying. Independent director Ms. Pang Yueying served as Chairman of the Committee.

During the reporting period, the Risk Management Committee held 2 meetings in total, at which 2 reports were heard and 5 proposals were deliberated. It listened to the comprehensive risk management report for 2015 and the first half of 2016. Through deliberation, it adopted proposals on 2015 IT work report, 2016 trading business strategy and market risk management strategies, the revision to the *Measures for Internal Control of Bank of Kunlun Corporation Limited*, the formulation of *Measures for Internal Management of Bank of Kunlun Corporation Limited* and the authorization relating to country risk management. The Risk Management Committee supervised and guided the operation of the Bank's risk management system, researched risk management countermeasures, and promoted effective running of the risk management system.

Related Party Transactions Control Committee

The Related Party Transactions Control Committee is mainly in charge of inspecting, monitoring, reviewing and approving the Bank's related party transactions, identifying the Bank's related parties, reviewing major related party transactions, receiving the reporting information of general related party transactions, and controlling the risks of related party transactions. The Related Party Transactions Control Committee of the Board of Directors consisted of 4 Directors, namely Mr. Shi Junzhi, Mr. Wang Zhonglai, Mr. Qu Haichao and Mr. Tao Jianyu. Independent director Mr. Shi Junzhi served as Chairman of the Committee.

During the reporting period, the Related Party Transactions Control Committee held 2 meetings in total, at which 2 reports were heard and 1 proposal was deliberated. The work reports on the related party transaction in H1 and Q3 of 2016 were heard and the proposal on updating the category of related parties of the Bank was considered and passed. The Committee proposed the control methods and the business development requirement to guarantee the operation of the related party transaction in compliance with laws and regulations

10.5 Board of Supervisors

10.5.1 Composition and Responsibilities of the board of supervisors

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

At the end of the reporting period, the Board of Supervisors of the Bank consisted of 5 members, including 1 Equity Supervisor, 2 External Supervisors and 2 Employee Supervisors. The Chief Supervisor of the Bank was Mr. Luo Ping. All Supervisors of the Bank are experienced in management with professional knowledge on finance and accounting.

10.5.2 Operation of the board of supervisors

The Board of Supervisors of the Bank performs its duties in accordance with laws, administrative regulations, the Articles of Association, and the resolutions and authorization of the General Meeting. The Board of Supervisors discusses the official matters at the meeting of the Board of Supervisors which shall be held at least one time in each quarter.

The Board of Supervisors has an Office of the Board of Supervisors, providing supports and services for the Board of Supervisors, and relevant basis for decision-making.

10.5.3 Board meetings

In 2016, the Bank organized and held 4 meetings of the Board of Supervisors in total, at which 12 reports were heard and 15 proposals were deliberated. Main reports and proposals were as follows:

On April 8, 2016, the Bank held the third meeting of the fourth Board of Supervisors, at which the reports on internal audit, external audit, related party transaction and other reports of 2015 were heard. Proposals on election of the chairman of the Board of Supervisors, the nomination of external supervisors, the adjustment to the standards for remuneration of external supervisors, 2015 annual report and summary, profit distribution plan, 2015 annual report and summary, 2015 work report of the Board of Supervisors, the performance evaluation of Directors and Supervisors, the comprehensive risk management, the internal control and compliance management and other proposals were adopted through deliberation.

On August 16, 2016, the Bank held the fourth meeting of the fourth Board of Supervisors, at which the participants heard reports of the progress of resolution of the third meeting of the fourth Board of Supervisors, the opinions of Xinjiang Banking Regulatory Bureau on the performance evaluation of the chairman of the Board of Directors, president and the chairman of the Board of Supervisors of Bank of Kunlun in 2015, the performance assessment for the senior management in 2015, the internal audit in H1 2016 and the implementation of the prompt letter of the management of the Board of Directors to the Board of Supervisors. Proposals such as the operation for the first half of 2016, the comprehensive risk management, the internal control and other proposals were adopted through deliberation.

On November 9, 2016, the Bank held the fifth meeting of the fourth Board of Supervisors, at which the participants heard reports of the progress of resolution at the fourth meeting of the fourth Board of Supervisors, the internal audit and the management of related party transactions for Q1-Q3 2016. Through deliberation, it adopted the proposals on the operation of Q1-Q3 2016 and the capital adequacy ratio of H1 2016.

On December 28, 2016, the Bank held the sixth meeting of the fourth Board of Supervisors, at which report of the progress of resolution at the fifth meeting of the fourth Board of Supervisors was heard.

10.5.4 Performance of External Supervisors

External Supervisors of the Bank performed their duties in accordance with the Company Law and the Articles of Associations of the Bank: They actively attended all the meetings of the Board of Supervisors and regular meetings, presenting independent opinions on proposals and playing an effective role in independent supervision. They all actively learned and surveyed internet financing organized by the Bank and fulfilled relevant responsibilities.

10.6 Senior Management

10.6.1 Composition and Responsibilities of the Senior Management

As the executive body of the Bank, the Senior Management is accountable to the Board of Directors. It was composed of 3 members, namely Mr. Wang Zhonglai, the President, Mr. Jing Lin, Vice President and Board Secretary (temporary), and Mr. He Fang, Vice President. Division of duties between the Senior Management and the Board of Directors was in strict compliance with such corporate governance documents as the Articles of Association, the rules for authorization of the Board of Directors, etc.

Based on laws, regulations, the Articles of Association, and the authorization of the Board, the President, led by the Board, is responsible for daily operation and management, implementing resolutions of the Board, drafting plans for the establishment, removing and merging of the internal management, branches and functional units, formulating annual business plans and investment schemes, and drawing up basic management regulations and specific rules. Vice President and other Senior Management members should assist the President by undertaking their individual responsibilities as arranged by the President, and be accountable to the President.

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

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

In 2016, in order to strengthen the constraint and supervision mechanism over the Senior Management and urge the Senior Management to fulfill their responsibilities diligently, the Bank conducted the performance evaluation of the Senior Management in accordance with the *Administrative Measures for Performance Evaluation of Senior Management of Bank of Kunlun Co., Ltd (for Trial Implementation)*.

10.7 Internal Control

During the reporting period, in line with the *Guidelines for Internal Control of Commercial Banks* promulgated by CBRC, the Bank continued to promote the internal control system, which further intensified internal control. It proceeded to strengthen internal mechanisms by streamlining and enhancing policies and procedures. It completed formulating and revising more than 100 rules and repealed 21 rules. The Bank evaluated the internal control of the year as required and had a comprehensive evaluation on the improvement of internal control manual, the internal control tests, the supervision and inspection, the improvement of the systems and procedures. No material defects or flaws in the internal control system were found in the course of evaluation. It resolved general problems found in the evaluation by strengthening training, implementing rectification and punishing violations.

10.8 Internal Audit

The Bank has established an independent and vertical internal audit management system which is accountable to the Board of Directors. During the reporting period, based on the policy of “auditing according to law, servicing the overall situation, concentrating on main point, emphasizing key points and seeking truth and reality”, the Bank constantly improved the internal auditing institutions and management systems, optimized the audit work processes, accelerated the information construction of audit, which effectively improved the audit work. The Bank also organized audit on economic responsibility, classification of credit asset quality, consumer rights protection and management of information technology risk. Through effectively detecting and analyzing problems, making proposals, and supervising correction, the internal audit prompted the Bank’s stable operation and sustainable development.”

10.9 Annual Audit Engagement

In 2016, the Bank engaged BDO China Shu Lun Pan Certified Public Accountants LLP to provide annual audit services for the Bank and the village and township banks it controlled. The total audit fee aggregated RMB 1.064 million.

XI. Report of the Board of Directors

The Board of Directors of the Bank hereby presents the Report of Board of Directors and the audited financial statements for the year ended December 31, 2016.

Principal business

The principal business of the Bank and its subsidiaries is providing banking and related financial services. The operating condition of the Bank is presented in the section headed “Management Discussion & Analysis - Business Overview” in this Annual Report.

Profits and dividends distribution

The profits and financial status of the Bank as at December 31, 2016 are presented in the appendix section headed “Independent Auditor’s Report and Financial Statements” in this Annual Report.

As approved at the 2015 Annual General Meeting, the Bank distributed the cash dividends for 2015 to all the shareholders registered as at December 31, 2015, which amounted to a total of RMB 774.955 million (pre-tax).

As approved at the first extraordinary general meeting in 2016, the Bank distributed the cash dividends to all the shareholders registered as at December 31, 2015 of RMB 8.12 for each 10 shares (pre-tax), which amounted to a total of RMB 5,992,985,100 (pre-tax).

As approved at the ninth meeting of the Fourth Board of Directors, the Bank prepared to distribute the cash dividends for 2016 to all the shareholders registered as at December 31, 2016, which amounted to a total of RMB 284,229,300 (pre-tax). The decision was implemented after approved at the Annual General Meeting on May 4, 2017.

Reserve

Changes in the reserves of the Bank until December 31, 2016 are presented in the section headed “Consolidated Statement of Changes in Equity” in the Independent Auditor’s Report in this Annual Report.

Summary of financial information

The three-year summary of the operating results, the assets and liabilities till December 31, 2016 are presented in the section headed “Financial Highlights” in this Annual Report.

Fixed assets

Changes in fixed assets till December 31, 2016 are presented in “Notes to the Financial Statements – Note 5 (11) Fixed Assets” in the Independent Auditor’s Report in this Annual Report.

Subsidiary

The details about subsidiaries of the Bank as at December 31, 2016 are presented in “Notes to the Financial Statements – Note 4 Business Combination and Consolidated Financial Statements” in the Independent Auditor’s Report in this Annual Report.

Directors, Supervisors and Senior Management

The information of the Directors, Supervisors and Senior Management is presented in the section headed “Directors, Supervisors, Senior Management, Employees and Institutions” in this Annual Report

Interests of Directors and Supervisors in material contracts

During the reporting period, no Directors or Supervisors of the Bank had any material interests, direct or indirect, in any contract of significance regarding the Bank’s business. No Directors or Supervisors of the Bank has entered into any service contract with the Bank which is not determined by the Bank within one year without payment of compensation (other than statutory compensation).

Equity of Directors and Supervisors in competing businesses

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

Related-party transactions

In 2016, in order to improve the management of related party transactions and avoid the risk arising from related party transactions, the Bank regularly amended and issued the *Related Parties Checklist of Bank of Kunlun Corporation Limited* for implementation. All the related-party transactions occurred in 2016 strictly followed the internal procedure of approval and regulatory filing process and various measures were taken to control the quantity of related party transactions.

Please refer to “Notes to the Financial Statements – Note 6 Related Party and Transactions” for particulars on the related-party transactions defined under relevant laws, regulations and accounting standards

Statement of the Board of Directors on the internal control responsibilities

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

Auditor

BDO China Shu Lun Pan Certified Public Accountants LLP has audited the 2016 Annual Financial Report prepared by the Bank in accordance with the Chinese Auditing Standards, and issued standard auditor’s reports with unqualified opinions.

By order of the Board of Directors
Jiang Shangjun
Chairman

XII. Report of the Board of Supervisors

12.1 Work of the Board of Supervisors

In 2016, pursuant to requirements of the *Company Law*, the Articles of Association and *Rules for Discussion of the Board of Supervisors*, in fulfillment of duties to all shareholders, the Board of Supervisors was oriented to the strategic objectives and the key work of the Bank. The Board of Supervisors assiduously supervised finance, risk management, internal control, performance evaluation and other processes, strengthened rank-and-file surveys and interbank exchanges, actively communicated with regulators, and played a key role in improving corporate governance and facilitating sound development for the Bank.

We enhanced the supervision on major financial operating activities. The Board of Supervisors reviewed the annual financial report, profits distribution plan and other proposals, probed into the changes of major financial data and pertinent reasons, and strengthened supervision on quality of external audit in order to ensure a truthful, accurate and integral financial information disclosure.

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

We enhanced the supervision on the performance of the Directors and Senior Management. By attending the meetings of the Board of Directors and the General Meeting as a nonvoting delegate, the Board of Supervisors supervised the performance of the Board of Directors and Senior Management in fulfilling their management duties according to relevant laws and regulations. Supervisors conducted the Senior Management performance evaluation and strengthened the supervision on the performance of Senior Management. Supervisors listened to the report of performance evaluation of Senior Management and the operation report of the Bank of 2016 to periodically understand the operation of the Bank and enhance the supervision of the Senior Management.

We enhanced self-construction of the Board of Supervisors. In 2016, the Bank added two external supervisors to enhance the system and organization construction. We convened 4 meetings of the Board of Supervisors, deliberated all the issues on the daily work of Board of Supervisors, produced a Report on the Work of the Board of Supervisors, and made suggestions on risk management and internal control, in an effort to facilitate the improvement of the Bank's management capabilities.

During the reporting period, the Board of Supervisors attended all meetings of the Board of Directors in 2016, supervised the formulation of resolutions at the meetings, the performance of fiduciary duties and operating activities of the Bank. We deemed that the Bank's leadership team was diligent and conscientious in implementing resolutions of the Board of Directors, and no irregularities were discovered during business operations.

12.2 Independent Opinions of the Board of Supervisors on Related Matters

Operation in accordance with the law

During the reporting period, the Bank operated in accordance with the *Company Law*, the *Commercial Bank Law* and the Articles of Association of the Bank. The decisions were made through legal and valid procedures. The Board of Supervisors did not find any violation of laws and regulations and the Articles of Association of the Bank or any act that contravened the interests of the Bank and shareholders in the performance of duties of the Directors and Senior Management.

Authenticity of the financial report

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

Purchase and sale of assets of the Company

During the reporting period, the Board of Supervisors did not find any insider trading or other act that contravened the shareholders' interests which would cause losses to the Bank in purchasing or selling the Bank's assets.

Related party transactions

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

Auditor's report

BDO China Shu Lun Pan Certified Public Accountants LLP issued standard auditor's report with unqualified opinions on the financial position and operation performances in 2016. The Board of Supervisors had no objection to that report.

Implementation of resolutions adopted at the general meeting

During the reporting period, the Board of Supervisors supervised the implementation of resolutions passed at the General Meeting. The Board of Supervisors deemed that the Board of Directors assiduously implemented relevant resolutions of the General Meeting without damaging the shareholders' interests.

Information disclosure

During the reporting period, the Bank voluntarily strengthened information disclosure. There were neither false records, misleading statements nor material omissions.

Internal control and risk management

During the reporting period, the Bank further improved the internal control processes, enhanced the legal review of businesses and strengthened the business examination, thus effectively preventing the risks.

Social responsibility

During the reporting period, the Bank proactively fulfilled its social responsibilities, implemented the national strategy of economic structure adjustment and development model transformation, made active efforts in aspects of economy, society and environment, optimized the credit structure, strengthened the credit support for agriculture, rural areas and farmers, and small and micro enterprises, improved service and enthusiastically contributed to public welfare, and facilitated the harmonious development of regional economy.

By order of the Board of Supervisors

Luo Ping
Chief Supervisor

XIII. Significant Events

13.1 Top Ten Shareholders and Changes during the Reporting Period

CNPCCCL replaced China National Petroleum Corporation (CNPC) to be the controlling shareholder of the Bank in 2016. The changes in top ten shareholders as at December 31, 2016 are presented in the section headed “Changes in Share Capital and Shareholders - Top 10 Shareholders of the Bank” .

13.2 Increase or Decrease of Share Capital

The Bank increased the registered capital by RMB 2.907 billion in 2016. The changes in registered capital as at December 31, 2016 are presented in the section headed “Changes in Share Capital and Shareholders - Changes in Shareholders” in the Annual Report.

13.3 Division or Merger

None.

13.4 Material Investment

None.

13.5 Material Asset Acquisition and Disposal

None.

13.6 Material Contracts and Performance

During the reporting period, the Bank had not held on trust to a material extent or entered into any material subcontract or lease arrangement in respect of assets of other corporations, and no other corporation had held on trust to a material extent or entered into any material sub-contract or lease arrangement in respect of the Bank’s assets. The provision of guarantees is in the ordinary course of business of the Bank. The Bank had no material contracts required to be disclosed.

13.7 Significant Lawsuits and Arbitration

In 2016, there were no lawsuits and arbitrations that have significant effects on operation.

13.8 Material Related Party Transaction

The Bank attached great importance to daily routine monitoring and management of credit related party transactions through strengthening process management, tightening risk approval and consolidating post-lending management, thus ensuring the compliance with laws and regulations. Related party transactions of the Bank adhered to general business principles, under the conditions that trade with related parties was no better than trade with non-related parties.

As at the end of 2016, the Bank has approved the credit line of RMB 3.6 billion of CNPC and the companies controlled by it, with the credit valid until September 30, 2017.

As at the end of 2016, the balance of related party transactions between the Bank, and CNPC and the companies controlled by it was RMB 2.309 billion. The balance didn't exceed 15% of net capital, meeting the regulatory requirements. The loan of CNPC and the companies controlled by it in the Bank was settled and the balance was 0. The balance of bank acceptance bill and foreign currency guarantees opened in the Bank were RMB 27 million and RMB 2.282 billion respectively. The usage of credit limit of CNPC and the companies controlled by it was controlled by the corporate business department of the head office who strictly guaranteed compliant business operation within the credit limit.

13.9 Penalties

In 2016, the Bank and its Directors, Supervisors and Senior Management were not subject to any punishment of regulatory authorities that may have significant effect on the operation of the Bank.

XIV. Auditor's Report and Financial Statements

The 2016 Annual Report of the Bank has been audited by BDO CHINA Shu Lun Pan Certified Public Accountants LLP according to the Auditing Standards of China's Certified Accountants, with a standard Auditor's Report with unqualified opinions.

1. Auditor's Report
 2. Audited Financial Statements
 3. Notes to Financial Statements
- (See Annex for details)



XV. Documents Available for Inspection

- 1.The accounting statements signed by the legal representative, President, Chief Finance Officer, and officers in charge of finance.
- 2.The original Auditor's Report affixed with the seals of by accounting firm and the signature of the CPAs.
- 3.The original files and notices disclosed by the Bank in *Financial Times* during the reporting period.
- 4.Articles of Association of the Bank.

XVI. Acknowledging Opinions of Directors and Senior Management on 2016 Annual Report

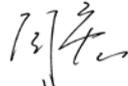
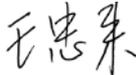
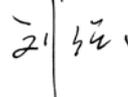
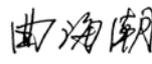
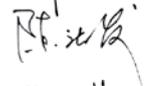
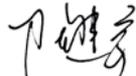
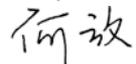
According to the Guidelines on Corporate Governance of Commercial Banks, we, as the Directors and Senior Management of Bank of Kunlun Corporation Limited, after fully understanding and reviewing the 2016 Annual Report and its abstract, give the following opinions:

I. The Bank strictly implemented the Chinese Accounting Standards, and the 2016 Annual Report and its abstract fairly reflect the financial position and the operating results of the Bank for the year ended December 31, 2016.

II. The 2016 financial report of the Bank has been audited by BDO CHINA Shu Lun Pan Certified Public Accountants LLP, which has issued a standard Auditor's Report with unqualified opinions.

III. We hereby guarantee that the information disclosed herein is free from any false record, misleading representation or material omissions.

Signatures of Directors and Senior Management:

Jiang Shangjun		Yan Hong	
Wang Zhonglai		Liu Qiang	
Qu Haichao		Chen Xinfu	
Tao Jianyu		Pang Yueying	
Shi Junzhi		Jing Lin	
He Fang			

Bank of Kunlun Corporation Limited

Bank of Kunlun Corporation Limited

For the Year Ended December 31, 2016 Auditors' Report and Financial Statements



Auditors' Report

PCPAR [2017] No. ZA10834

To all shareholders of Bank of Kunlun Corporation Limited:

We have audited the accompanying financial statements of Bank of Kunlun Corporation Limited (hereinafter referred to as "the Company"), which comprise the consolidated balance sheet and the Company's balance sheet as at December 31, 2016, the consolidated income statement and the Company's income statement, the consolidated statement of cash flows and the Company's statement of cash flows, the consolidated statement of changes in owners' equity and the Company's statement of changes in owners' equity for the year then ended and notes to the financial statements.

1. Management's Responsibility for the Financial Statements

The management of the Company is responsible for the preparation and fair presentation of these financial statements. They are responsible for: (1) preparing the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation of the financial statements; (2) designing, implementing and maintaining the internal control necessary to make sure the financial statements are free from material misstatement, whether due to fraud or error.

2. Auditors' Responsibilities

Our responsibility as auditors is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Certified Public Accountants in China. Those standards require us to comply with professional and ethical requirements of Chinese certified public accountants, and plan and perform the audit to obtain reasonable assurance that whether the financial statements are free from any material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgments, including the assessment of the risks of material misstatements of the financial statements, whether due to frauds or errors. In making those risk assessments, we consider that the internal control is relevant to the preparation and fair presentation of the financial statements in order to design an audit procedure that is appropriate in the circumstances, but not for the purpose of conveying an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of the selected accounting policies and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate enough to support our audit opinion.

3. Opinion

We hold that the financial statements of the Company are prepared in accordance with Accounting Standards for Business Enterprises and present fairly in all material respects and reflect the consolidated financial position and the Company's financial position as at December 31, 2016 and the consolidated operating results and the Company's operating results and cash flows for the year then ended.



BDO China Shu Lun Pan
Certified Public Accountants LLP

Certified Public Accountant of China: Kang Jiyan



Certified Public Accountant of China: Zhu Haiping



Shanghai, China
February 22, 2017

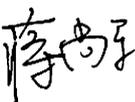
Bank of Kunlun Corporation Limited
Consolidated Balance Sheet

Monetary Unit: RMB

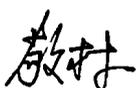
Item	Note 5	December 31, 2016	December 31, 2015
Assets			
Cash and deposits in the central bank	5.1	32,629,870,037.31	31,354,411,256.28
Deposits with banks and other financial institutions	5.2	61,496,316,989.72	66,748,442,230.80
Loans to banks and other financial institutions	5.3	2,535,000,000.00	1,563,900,000.00
Financial assets measured at fair value through current profit or loss	5.4	4,386,871,389.97	3,159,314,858.35
Financial assets purchased under resale agreements	5.5	5,844,254,308.03	27,306,750,577.58
Interest receivable	5.6	1,107,052,500.68	925,367,421.96
Loans and advances to customers	5.7	99,474,778,137.79	84,761,351,554.39
Available-for-sale financial assets	5.8	14,374,870,604.99	6,797,615,421.81
Held-to-maturity investments	5.9	21,378,730,529.68	17,795,677,947.72
Receivable investments	5.10	48,576,905,752.59	48,559,585,993.50
Long-term equity investments			
Fixed assets	5.11	324,994,315.48	275,338,787.20
Construction in progress	5.12	46,330,165.07	94,159,495.21
Intangible assets	5.13	79,970,352.39	75,876,646.99
Deferred income tax assets	5.14	730,702,282.87	665,750,598.79
Other assets	5.15	221,574,435.03	197,553,747.27
Total assets		293,208,221,801.60	290,281,096,537.85
Liabilities and shareholders' equity			
Borrowings from the central bank	5.17	661,424,269.78	603,118,981.27
Deposits from banks and other financial institutions	5.18	99,093,505,468.94	112,684,665,357.93
Loans from banks and other financial institutions	5.19	5,000,000,000.00	
Financial assets sold under repurchase agreements	5.20	7,180,535,000.00	8,147,367,150.00
Absorption of deposits	5.21	148,608,741,986.50	141,106,410,815.30
Employee compensation payable	5.22	18,214,636.92	12,026,232.04
Taxes and surcharges payable	5.23	193,172,411.67	215,694,929.26
Interest payable	5.24	2,445,451,351.46	2,227,083,272.58
Estimated liabilities			
Bonds payable	5.25	1,483,722,549.99	349,880,805.56
Deferred income tax liabilities	5.14		17,496,735.02

Continued

Item	Note 5	December 31, 2016	December 31, 2015
Other liabilities	5.26	2,409,756,449.82	1,874,064,170.88
Total liabilities		267,094,524,125.08	267,237,808,449.84
Shareholders' equity			
Share capital	5.27	10,287,879,258.43	7,380,523,495.35
Capital reserve	5.28	10,193,943,406.89	5,513,100,628.34
Other comprehensive income	5.29	(97,870,459.51)	200,571,416.31
Surplus reserve	5.30	1,494,412,683.53	1,241,089,777.52
General risk reserve	5.31	2,782,696,413.24	2,781,728,753.53
Undistributed profits	5.32	1,389,581,918.41	5,870,032,961.40
Equity attributable to owners of the parent company		26,050,643,220.99	22,987,047,032.45
Minority equity		63,054,455.53	56,241,055.56
Total shareholders' equity		26,113,697,676.52	23,043,288,088.01
Total liabilities and shareholders' equity		293,208,221,801.60	290,281,096,537.85

Legal Representative: 

President: 

Vice President in Charge of Finance: 

Head of the Accounting Department: 

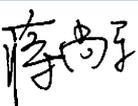
Bank of Kunlun Corporation Limited
Consolidated Income Statement

Monetary Unit: RMB

Item	Note 5	Year 2016	Year 2015
I. Operating income	5.33	5,208,038,966.75	6,242,082,754.61
Net interest income	1	4,691,818,150.25	5,324,123,759.13
Interest income		9,198,687,883.68	11,030,616,481.49
Interest expenses		4,506,869,733.43	5,706,492,722.36
Net income from handling charges and commissions	2	152,139,501.36	416,754,904.40
Income from handling charges and commissions		233,449,593.16	498,164,013.55
Handling charges and commissions expenses		81,310,091.80	81,409,109.15
Investment income ("()" for losses)	3	124,492,456.48	285,017,839.09
Gains from changes in fair value ("()" for losses)	4	(47,887,949.60)	1,653,852.60
Foreign exchange gains ("()" for losses)	5	286,584,171.65	213,011,815.42
Other business income	6	892,636.61	1,520,583.97
II. Operating expenses	5.34	2,201,758,952.77	2,766,577,206.59
Taxes and surcharges	1	97,367,678.53	254,611,355.70
Operating and administrative expenses	2	1,676,158,059.23	1,659,145,725.36
Losses from asset impairment	3	427,737,945.31	852,381,588.92
Other business costs		495,269.70	438,536.61
III. Operating profits ("()" for losses)		3,006,280,013.98	3,475,505,548.02
Plus: Non-operating income	5.35	22,102,172.85	26,845,371.70
Less: Non-operating expenses	5.36	672,641.71	3,548,964.24
IV. Total profits ("()" for total losses)		3,027,709,545.12	3,498,801,955.48
Less: Income tax expenses	5.37	475,931,227.19	542,196,617.26
V. Net profits ("()" for net loss)		2,551,778,317.93	2,956,605,338.22
Net profit attributable to owners of the parent company		2,541,779,567.96	2,939,310,057.09
Minority equity		9,998,749.97	17,295,281.13
VI. Other comprehensive income net of tax	5.40	(298,441,875.82)	247,761,963.18
(I) Other comprehensive income to be classified into profits or losses later		(298,441,875.82)	247,761,963.18
Gains or losses on changes in fair value of available-for-sale financial assets		(298,441,875.82)	247,761,963.18
VII. Total comprehensive income		2,253,336,442.11	3,204,367,301.40
Total comprehensive income attributable to owners of the parent company		2,243,337,692.14	3,187,072,020.27
Total comprehensive income attributable to minority shareholders		9,998,749.97	17,295,281.13
VIII. Earnings per share:	5.38		

Continued

Item	Note 5	Year 2016	Year 2015
(I) Basic earnings per share		0.34	0.40
(II) Diluted earnings per share		0.34	0.40

Legal Representative: 

President: 

Vice President in Charge of Finance: 

Head of the Accounting Department: 

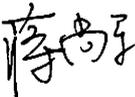
Bank of Kunlun Corporation Limited
Consolidated Statement of Cash Flows

Monetary Unit: RMB

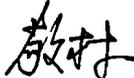
Item	Note 5	Year 2016	Year 2015
I. Cash flows from operating activities:	5.41		
Net increase in customer bank deposits and placement from banks and other financial institutions			16,429,772,875.38
Net increase in borrowings from the central bank		58,305,288.51	578,118,981.27
Net increase in loans from other financial institutions		6,714,000,000.00	
Net decrease in deposits in the central bank and other banks and financial institutions			8,344,589,729.77
Net decrease in financial assets measured at fair value through current profit or loss		198,345,249.29	
Net increase in repurchase business capital		26,345,737,391.04	
Cash received from interest, handling charges and commissions		5,972,430,800.79	7,597,595,220.18
Cash received from other operating activities	1	317,188,525.75	16,838,277,947.92
Sub-total of cash inflows from operating activities		39,606,007,255.38	49,788,354,754.52
Net increase in loans and advances to customers		15,744,007,078.86	15,250,188,899.50
Net increase in deposits in the central bank and other banks and financial institutions		28,891,102,793.06	-
Net decrease in customer bank deposits and placement from banks and other financial institutions		6,088,828,717.79	-
Net decrease in loans from other financial institutions			2,542,000,000.00
Net increase in financial assets measured at fair value through current profit or loss			101,912,975.63
Net decrease in repurchase business capital			8,308,479,310.05
Cash paid for interest, handling charges and commissions		4,386,480,085.88	5,699,087,860.54
Cash paid to and on behalf of employees		694,997,579.29	668,049,914.39
Cash paid for taxes and surcharges		797,966,825.30	1,166,843,224.95
Cash paid for other operating activities	2	4,387,964,254.84	21,320,036,732.22
Sub-total of cash outflows from operating activities		60,991,347,335.02	55,056,598,917.28
Net cash flows from operating activities		(21,385,340,079.64)	(5,268,244,162.76)
II. Cash flows from investing activities:			
Cash received from disposal of investments		119,471,770,261.39	69,370,336,137.81
Cash received from returns on investments		3,402,435,117.06	4,480,780,554.12
Net cash received from disposal of fixed assets, intangible assets and other long-term assets			
Cash received from other investing activities		49,778.13	990,285.39
Sub-total of cash inflows from investing activities		122,874,255,156.58	73,852,106,977.32
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		200,300,346.46	215,825,011.13

Continued

Item	Note 5	Year 2016	Year 2015
Cash paid for investments		127,835,562,506.59	59,287,079,019.67
Sub-total of cash outflows from investing activities		128,035,862,853.05	59,502,904,030.80
Net cash flows from investing activities		(5,161,607,696.47)	14,349,202,946.52
III. Cash flows from financing activities:			
Cash received from investors		7,588,198,541.63	
Including: Cash received by subsidiaries from investments			
Cash received from bonds issue			
Cash received from other financing activities			
Sub-total of cash inflows from financing activities		7,588,198,541.63	
Cash paid for distribution of dividends and profits or payment of interest		6,611,114,648.18	772,129,495.80
Cash paid for other financing activities			
Sub-total of cash outflows from financing activities		6,611,114,648.18	772,129,495.80
Net cash flows from financing activities		977,083,893.45	(772,129,495.80)
IV. Effect of fluctuation of exchange rate on cash			
		3,872,132,770.33	2,563,413,969.40
V. Net increase in cash and cash equivalents	5.42	(21,697,731,112.33)	10,872,243,257.36
Plus: Balance of cash and cash equivalents at the beginning of the period		70,534,607,973.24	59,662,364,715.88
VI. Balance of cash and cash equivalents at the end of the period		48,836,876,860.91	70,534,607,973.24

Legal Representative: 

President: 

Vice President in Charge of Finance: 

Head of the Accounting Department: 

Bank of Kunlun Corporation Limited
Consolidated Statement of Changes in Owners' Equity

Item	Year 2016						Total shareholders' equity	
	Share capital	Capital reserve	comprehensive income	Other income	Surplus reserve	General risk reserve		Undistributed profits
I. Balance as at the end of last year	7,380,523,495.35	5,513,100,628.34	200,571,416.31	1,241,089,777.52	2,781,728,753.53	5,870,032,961.40	56,241,055.56	23,043,288,088.01
Plus: Adjustments for changes in accounting policies								
Adjustments for correction of accounting errors in prior year								
II. Balance as at the beginning of the year	7,380,523,495.35	5,513,100,628.34	200,571,416.31	1,241,089,777.52	2,781,728,753.53	5,870,032,961.40	56,241,055.56	23,043,288,088.01
III. Increases/decreases in the current year ("0" for decreases)	2,907,355,763.08	4,680,842,778.55	(298,441,875.82)	253,322,906.01	967,659.71	(4,480,451,042.99)	6,813,399.97	3,070,409,588.51
(I) Total comprehensive income			(298,441,875.82)			2,541,779,567.96	9,998,749.97	2,253,336,442.11
(II) Capital contributed or reduced by owners	2,907,355,763.08	4,680,842,778.55						7,588,198,541.63
1. Capital contributions of owners	2,907,355,763.08	4,680,842,778.55						7,588,198,541.63
2. Amounts of share-based payments recognized in owners' equity								
3. Others								
(III) Profit distribution				253,322,906.01	967,659.71	(7,022,230,610.95)	(3,185,350.00)	(6,771,125,395.23)
1. Withdrawal of surplus reserves				253,322,906.01		(253,322,906.01)		
2. Withdrawal of general risk reserves					967,659.71	(967,659.71)		
3. Profits distributed to owners						(6,767,940,045.23)	(3,185,350.00)	(6,771,125,395.23)

Monetary Unit: RMB

Continued

Item	Year 2016						Total shareholders' equity		
	Share capital	Capital reserve	comprehensive income	Other comprehensive income	Surplus reserve	General risk reserve		Undistributed profits	Minority equity
4. Others (Withdrawal of bonus and fund)									
(IV) Internal carry-forward of owner's equity									
1. Conversion of capital reserves into share capital									
2. Conversion of surplus reserves into share capital									
3. Surplus reserves for offsetting losses									
4. General risk reserves for offsetting losses									
5. Others									
IV. Balance as at the end of the year	10,287,879,258.43	10,193,943,406.89	(97,870,459.51)	1,494,412,683.53	2,782,696,413.24	1,389,581,918.41	63,054,455.53	26,113,697,676.52	

Legal Representative:  President:  Vice President in Charge of Finance:  Head of the Accounting Department: 

Bank of Kunlun Corporation Limited
Consolidated Statement of Changes in Owners' Equity

Item	Year 2015						Total shareholders' equity	
	Share capital	Capital reserve	comprehensive income	Other income	Surplus reserve	General risk reserve		Undistributed profits
I. Balance as at the end of last year	7,380,523,495.35	5,513,100,628.34	(47,190,546.87)	949,482,224.19	2,348,393,372.02	4,423,240,282.64	43,384,034.55	20,610,933,490.22
Plus: Adjustments for changes in accounting policies								
Adjustments for correction of accounting errors in prior year								
II. Balance as at the beginning of the year	7,380,523,495.35	5,513,100,628.34	(47,190,546.87)	949,482,224.19	2,348,393,372.02	4,423,240,282.64	43,384,034.55	20,610,933,490.22
III. Increases/decreases in the current year ("0" for decreases)			247,761,963.18	291,607,553.33	433,335,381.51	1,446,792,678.76	12,857,021.01	2,432,354,597.79
(I) Total comprehensive income			247,761,963.18			2,939,310,057.09	17,295,281.13	3,204,367,301.40
(II) Capital contributed or reduced by owners								
1. Capital contributions by owners								
2. Amounts of share-based payments recognized in owners' equity								
3. Others								
(III) Profit distribution				291,607,553.33	433,335,381.51	(1,492,517,378.33)	(4,438,260.12)	(772,012,703.61)
1. Withdrawal of surplus reserves				291,607,553.33		(291,607,553.33)		
2. Withdrawal of general risk reserves					433,335,381.51	(433,335,381.51)		
3. Profits distributed to owners						(767,574,443.49)	(4,438,260.12)	(772,012,703.61)

Monetary Unit: RMB

Continued

Year 2015

Item	Share capital	Capital reserve	comprehensive income	Other comprehensive income	Surplus reserve	General risk reserve	Undistributed profits	Minority equity	Total shareholders' equity
4. Others (Withdrawal of bonus and fund)									
(IV) Internal carry-forward of owner's equity									
1. Conversion of capital reserves into share capital									
2. Conversion of surplus reserves into share capital									
3. Surplus reserves for offsetting losses									
4. General risk reserves for offsetting losses									
5. Others									
IV. Balance as at the end of the year	7,380,523,495.35	5,513,100,628.34	200,571,416.31	1,241,089,777.52	2,781,728,753.53	5,870,032,961.40	56,241,055.56	23,043,288,088.01	

Legal Representative: 

President:



Vice President in Charge of Finance:



Head of the Accounting Department:



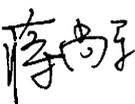
Bank of Kunlun Corporation Limited
Balance Sheet

Monetary Unit: RMB

Item	Note 10	December 31, 2016	December 31, 2015
Assets			
Cash and deposits in the central bank	10.1	32,506,994,842.22	31,227,775,244.91
Deposits with banks and other financial institutions	10.2	61,707,887,312.97	67,003,795,652.78
Loans to banks and other financial institutions		2,535,000,000.00	1,563,900,000.00
Financial assets measured at fair value through current profit or loss		4,386,871,389.97	3,159,314,858.35
Financial assets purchased under resale agreements		5,844,254,308.03	27,306,750,577.58
Interest receivable	10.3	1,103,174,338.74	911,768,577.08
Loans and advances to customers	10.4	98,438,549,799.98	83,776,268,610.40
Available-for-sale financial assets		14,374,870,604.99	6,797,615,421.81
Held-to-maturity investments		21,378,730,529.68	17,795,677,947.72
Receivable investments		48,576,905,752.59	48,559,585,993.50
Long-term equity investments	10.5	57,500,000.00	57,500,000.00
Fixed assets	10.6	320,225,342.10	270,307,932.96
Construction in progress		37,744,075.07	94,159,495.21
Intangible assets	10.7	79,698,824.67	75,463,452.55
Deferred income tax assets	10.8	721,211,817.54	660,404,003.71
Other assets	10.9	218,078,036.95	193,701,108.15
Total assets		292,287,696,975.50	289,453,988,876.71
Liabilities and shareholders' equity			
Borrowings from the central bank		623,424,269.78	578,118,981.27
Deposits from banks and other financial institutions		99,553,823,966.66	112,994,403,351.18
Loans from banks and other financial institutions		5,000,000,000.00	
Financial assets sold under repurchase agreements		7,180,535,000.00	8,147,367,150.00
Absorption of deposits	10.10	147,414,437,926.56	140,130,943,175.29
Employee compensation payable		17,799,098.59	11,914,052.07
Taxes and surcharges payable		189,915,597.00	210,753,027.11
Interest payable		2,437,143,118.07	2,216,295,848.66
Estimated liabilities			
Bonds payable		1,483,722,549.99	349,880,805.56
Deferred income tax liabilities			17,496,735.02
Other liabilities		2,401,500,226.88	1,866,466,209.22
Total liabilities		266,302,301,753.53	266,523,639,335.38
Shareholders' equity			

Continued

Item	Note 10	December 31, 2016	December 31, 2015
Share capital		10,287,879,258.43	7,380,523,495.35
Capital reserve		10,192,889,490.69	5,512,046,712.14
Other comprehensive income		(97,870,286.15)	200,571,589.67
Surplus reserve		1,494,412,683.53	1,241,089,777.52
General risk reserve		2,772,520,643.27	2,772,520,643.27
Undistributed profits		1,335,563,432.20	5,823,597,323.38
Total shareholders' equity		25,985,395,221.97	22,930,349,541.33
Total liabilities and shareholders' equity		292,287,696,975.50	289,453,988,876.71

Legal Representative: 

President: 

Vice President in Charge of Finance: 

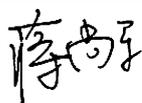
Head of the Accounting Department: 

Bank of Kunlun Corporation Limited
Income Statement

Monetary Unit: RMB

Item	Note 10	Year 2016	Year 2015
I. Operating income	10.11	5,142,538,598.51	6,179,757,690.79
Net interest income	1	4,619,167,575.02	5,252,332,095.56
Interest income		9,115,523,259.98	10,949,243,024.24
Interest expenses		4,496,355,684.96	5,696,910,928.68
Net income from handling charges and commissions	2	152,698,351.93	416,669,898.82
Income from handling charges and commissions		231,775,734.49	496,753,452.99
Handling charges and commissions expenses		79,077,382.56	80,083,554.17
Investment income ("0" for losses)		131,117,456.48	294,572,970.27
Gains from changes in fair value ("0" for losses)		(47,887,949.60)	1,653,852.60
Foreign exchange gains ("0" for losses)		286,584,171.65	213,011,815.42
Other business income		858,993.03	1,517,058.12
II. Operating expenses		2,149,588,736.89	2,730,028,228.43
Taxes and surcharges		95,570,680.23	251,304,713.78
Operating and administrative expenses		1,642,823,750.67	1,628,888,842.44
Losses from asset impairment		410,699,036.29	849,396,135.60
Other business costs		495,269.70	438,536.61
III. Operating profits ("0" for losses)		2,992,949,861.62	3,449,729,462.36
Plus: Non-operating income		15,572,545.16	2,434,497.92
Less: Non-operating expenses		640,946.86	3,367,467.46
IV. Total profits ("0" for total losses)		3,007,881,459.92	3,448,796,492.82
Less: Income tax expenses		474,652,399.86	532,720,959.58
V. Net profits ("0" for net loss)		2,533,229,060.06	2,916,075,533.24
VI. Other comprehensive income net of tax		(298,441,875.82)	247,761,963.18
(I) Other comprehensive income to be classified into profits or losses later		(298,441,875.82)	247,761,963.18
Gains or losses on changes in fair value of available-for-sale financial assets		(298,441,875.82)	247,761,963.18
VII. Earnings per share:			
(I) Basic earnings per share		0.34	0.39
(II) Diluted earnings per share		0.34	0.39

Legal Representative:



President:



Vice President in Charge of Finance:



Head of the Accounting Department:



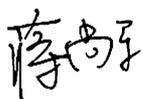
Bank of Kunlun Corporation Limited
Statement of Cash Flows

Monetary Unit: RMB

Item	Note 10	Year 2016	Year 2015
I. Cash flows from operating activities:	10.12		
Net increase in customer bank deposits and placement from banks and other financial institutions			16,366,137,330.56
Net increase in borrowings from the central bank		45,305,288.51	578,118,981.27
Net increase in loans from other financial institutions		6,714,000,000.00	
Net decrease in deposits in the central bank and other banks and financial institutions			8,322,452,808.63
Net decrease in financial assets measured at fair value through current profit or loss		198,345,249.29	
Net increase in repurchase business capital		26,345,737,391.04	
Cash received from interest, handling charges and commissions		5,877,361,551.52	7,520,775,447.53
Cash received from other operating activities		389,517,197.00	16,813,038,614.97
Sub-total cash inflows from operating activities		39,570,266,677.36	49,600,523,182.96
Net increase in loans and advances to customers		15,675,602,154.79	15,162,442,039.48
Net increase in deposits in the central bank and other banks and financial institutions		28,892,378,597.41	
Net decrease in customer bank deposits and placement from banks and other financial institutions		6,157,084,633.25	
Net decrease in borrowings from the central bank			
Net decrease in loans from other financial institutions			2,542,000,000.00
Net increase in financial assets measured at fair value through current profit or loss			101,912,975.63
Net decrease in repurchase business capital			8,308,479,310.05
Cash paid for interest, handling charges and commissions		4,370,744,053.68	5,683,784,337.79
Cash paid to and on behalf of employees		675,358,464.70	649,025,271.70
Cash paid for taxes and surcharges		789,370,187.33	1,156,041,130.72
Cash paid for other operating activities		4,375,640,510.35	21,312,132,572.50
Sub-total cash outflows from operating activities		60,936,178,601.51	54,915,817,637.87
Net cash flows from operating activities		(21,365,911,924.15)	(5,315,294,454.91)
II. Cash flows from investing activities:			
Cash received from disposal of investments		119,471,770,261.39	69,370,336,137.81
Cash received from returns on investments		3,409,060,117.06	4,490,335,685.30
Net cash received from disposal of fixed assets, intangible assets and other long-term assets			
Cash received from other investing activities		42,182.42	990,285.39
Sub-total cash inflows from investing activities		122,880,872,560.87	73,861,662,108.50
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		190,608,721.81	210,634,919.32

Continued

Item	Note 10	Year 2016	Year 2015
Cash paid for investments		127,835,562,506.59	59,287,079,019.67
Sub-total cash outflows from investing activities		128,026,171,228.40	59,497,713,938.99
Net cash flows from investing activities		(5,145,298,667.53)	14,363,948,169.51
III. Cash flows from financing activities:			
Cash received from investors		7,588,198,541.63	
Including: cash received by subsidiaries from investments			
Cash received from bonds issue			
Cash received from other financing activities			
Sub-total cash inflows from financing activities		7,588,198,541.63	
Cash paid for distribution of dividends and profits or payment of interest		6,607,929,298.18	767,691,235.68
Cash paid for other financing activities			
Sub-total cash outflows from financing activities		6,607,929,298.18	767,691,235.68
Net cash flows from financing activities		980,269,243.45	(767,691,235.68)
IV. Effect of fluctuation of exchange rate on cash		3,872,132,770.33	2,563,413,969.40
V. Net increase in cash and cash equivalents	2	(21,658,808,577.90)	10,844,376,448.32
Plus: Balance of cash and cash equivalents at the beginning of the period		70,452,686,808.44	59,608,310,360.12
VI. Balance of cash and cash equivalents at the end of the period		48,793,878,230.54	70,452,686,808.44

Legal Representative: President: Vice President in Charge of Finance: Head of the Accounting Department: 

Bank of Kunlun Corporation Limited
Statement of Changes in Owners' Equity

Item	Year 2016						Total shareholders' equity	
	Share capital	Capital reserve	comprehensive income	Other income	Surplus reserve	General risk reserve		Undistributed profits
I. Balance as at the end of last year	7,380,523,495.35	5,512,046,712.14	200,571,589.67	1,241,089,777.52	2,772,520,643.27	5,823,597,323.38	22,930,349,541.33	
Plus: Adjustments for changes in accounting policies								
Adjustments for correction of accounting errors in prior year								
II. Balance as at the beginning of the year	7,380,523,495.35	5,512,046,712.14	200,571,589.67	1,241,089,777.52	2,772,520,643.27	5,823,597,323.38	22,930,349,541.33	
III. Increases/decreases in the current year ("+" for increases)	2,907,355,763.08	4,680,842,778.55	(298,441,875.82)	253,322,906.01	(4,488,033,891.18)		3,055,045,680.64	
(I) Total comprehensive income			(298,441,875.82)			2,533,229,060.06	2,234,787,184.24	
(II) Capital contributed or reduced by owners	2,907,355,763.08	4,680,842,778.55					7,588,198,541.63	
1. Capital contributions by owners	2,907,355,763.08	4,680,842,778.55					7,588,198,541.63	
2. Amounts of share-based payments recognized in owners' equity								
3. Others								
(III) Profit distribution				253,322,906.01	(7,021,262,951.24)		(6,767,940,045.23)	
1. Withdrawal of surplus reserves				253,322,906.01	(253,322,906.01)			
2. Withdrawal of general risk reserves								
3. Profits distributed to owners					(6,767,940,045.23)		(6,767,940,045.23)	

Monetary Unit: RMB

Continued

Item	Year 2016					Total shareholders' equity		
	Share capital	Capital reserve	comprehensive income	Other surplus reserve	General risk reserve		Undistributed profits	Minority equity
4. Others (Withdrawal of bonus and fund)								
(IV) Internal carry-forward of owner's equity								
1. Conversion of capital reserves into share capital								
2. Conversion of surplus reserves into share capital								
3. Surplus reserves for offsetting losses								
4. General risk reserves for offsetting losses								
5. Others								
IV. Balance as at December 31, 2016	10,287,879,258.43	10,192,889,490.69	(97,870,286.15)	1,494,412,683.53	2,772,520,643.27	1,335,563,432.20		25,985,395,221.97

President: 

President:



Vice President in Charge of Finance:



Head of the Accounting Department:



Bank of Kunlun Corporation Limited
Statement of Changes in Owners' Equity

Item	Year 2015						Total shareholders' equity		
	Share capital	Capital reserve	comprehensive income	Other income	Surplus reserve	General risk reserve		Undistributed profits	Minority equity
I. Balance as at the end of last year	7,380,523,495.35	5,512,046,712.14	(47,190,373.51)	949,482,224.19	2,339,185,261.76	4,400,039,168.47	20,534,086,488.40		
Plus: Adjustments for changes in accounting policies									
Adjustments for correction of accounting errors in prior year									
II. Balance as at the beginning of the year	7,380,523,495.35	5,512,046,712.14	(47,190,373.51)	949,482,224.19	2,339,185,261.76	4,400,039,168.47	20,534,086,488.40		
III. Increases/decreases in the current year ("0" for decreases)			247,761,963.18	291,607,553.33	433,335,381.51	1,423,558,154.91	2,396,263,052.93		
(I) Total comprehensive income			247,761,963.18			2,916,075,533.24	3,163,837,496.42		
(II) Capital contributed or reduced by owners									
1. Capital contributions by owners									
2. Amounts of share-based payments recognized in owners' equity									
3. Others									
(III) Profit distribution				291,607,553.33	433,335,381.51	(1,492,517,378.33)	(767,574,443.49)		
1. Withdrawal of surplus reserves				291,607,553.33		(291,607,553.33)			
2. Withdrawal of general risk reserves					433,335,381.51	(433,335,381.51)			
3. Profits distributed to owners						(767,574,443.49)	(767,574,443.49)		

Year 2015								
Item	Share capital	Capital reserve	comprehensive income	Surplus reserve	General risk reserve	Undistributed profits	Minority equity	Total shareholders' equity
4. Others (Withdrawal of bonus and fund)								
(IV) Internal carry-forward of owner's equity								
1. Conversion of capital reserves into share capital								
2. Conversion of surplus reserves into share capital								
3. Surplus reserves for offsetting losses								
4. General risk reserves for offsetting losses								
5. Others								
IV. Balance as the end of the year	7,380,523,495.35	5,512,046,712.14	200,571,589.67	1,241,089,777.52	2,772,520,643.27	5,823,597,323.38		22,930,349,541.33

陈尚子
President:

陈琳
President:

Vice President in Charge of Finance:

敬村
Head of the Accounting Department:

敬村
Head of the Accounting Department:

敬村
Head of the Accounting Department:

Bank of Kunlun Corporation Limited
Notes to the Financial Statements
For the Year Ended December 31, 2016
(The following amounts are expressed in RMB unless otherwise stated)

1. Company Profile

1.1 Company Profile and History

Bank of Kunlun Corporation Limited (hereinafter referred to as “Bank of Kunlun” or “the Company”) was formerly known as Karamay Commercial Bank Co., Ltd. growing out of the former Karamay Urban Credit Cooperative. The Cooperative was established jointly by the former Karamay Maoyuan Urban Credit Cooperative and Rongxing Urban Credit Cooperative in December 2002 and started its business after the approval of the *Official Reply to Agreeing Karamay Urban Credit Cooperative to Start Business* (K.Y.J. [2002] No. 173) promulgated by the People’s Bank of China Central Subbranch. The registered capital at its establishment reached RMB 55.217 million.

In December 2005, after the *Official Reply to Agreeing on the Establishment of Karamay Commercial Bank* (K.Y.J.F. [2005] No. 33), promulgated by the China Banking Regulatory Commission Karamay Sub-bureau was approved, the Company was restructured into a commercial bank based on Karamay Urban Credit Cooperative, with registered capital changing to RMB 100.6662 million. On May 17, 2006, after the approval of the *Official Reply to the Starting of Business of Karamay Commercial Bank* (X.Y.J.F. [2006] No. 128) promulgated by the China Banking Regulatory Commission Xinjiang Bureau, the Company was approved to start its business and was registered in Karamay Administration for Industry and Commerce on May 30, 2006.

In December 2008, after the Document (Y.J.F. [2008] No. 552) promulgated by the China Banking Regulatory Commission and the Document (X.Y.J.F. [2008] No. 216) promulgated by the China Banking Regulatory Commission Xinjiang Bureau was approved, the Company increased capital and shares again. Consequently, its registered capital was increased to RMB 180.6662 million.

According to the *Official Reply to the Scheme of Karamay Commercial Bank for Increase in Capital and Shares* (X.Y.J.F. [2009] No. 13) promulgated by the China Banking Regulatory Commission Xinjiang Bureau on January 22, 2009, the *Official Reply to Issues concerning Contributions of China National Petroleum Corporation in Karamay Commercial Bank Co., Ltd.* (G.Z.C.Q. [2009] No. 188) promulgated by the State-owned Assets Supervision and Administration Commission on March 23, 2009, the *Official Reply of the China Banking Regulatory Commission to Contributions of China National Petroleum Corporation in Karamay Commercial Bank Co., Ltd.* (Y.J.F. [2009] No. 108) promulgated by the China Banking Regulatory Commission on April 15, 2009 and other documents, China National Petroleum Corporation invested RMB 2.81 billion in the Company, in which RMB 2,081.4815 million was used to increase registered capital. Then the registered capital of the Company was changed to RMB 2,262.1477 million.

On April 2, 2010, after the approval of the *Official Reply to the Scheme of Karamay Commercial Bank for Increase in Capital and Shares* (X.Y.J.F. [2010] No. 71) promulgated by the China Banking Regulatory Commission Xinjiang Bureau, the Company increased its capital again. After the increase, registered capital of the Company was changed to RMB

4,203.8726 million, in which RMB 3,657.3691 million was contributed by China National Petroleum Corporation.

On April 20, 2010, after the approval of the Document (Y.J.F. [2010] No.165) promulgated by the China Banking Regulatory Commission, “Karamay Commercial Bank Co., Ltd.” was renamed as “Bank of Kunlun Corporation Limited” (Bank of Kunlun for short) which was registered in Karamay Administration for Industry and Commerce on May 7, 2010 and obtained the business license (registration number: 650200040000052).

On April 2, 2011, after the approval of the *Official Reply to the Scheme of Bank of Kunlun Corporation Limited for Increase in Capital and Share in 2011* (X.Y.J.F. [2011] No. 67) promulgated by the China Banking Regulatory Commission Xinjiang Bureau, Bank of Kunlun increased capital again. After the increase, the registered capital of Bank of Kunlun amounted to RMB 6,716.1878 million, in which RMB 5,507.274 million was contributed by China National Petroleum Corporation.

On May 7, 2013, after the approval of the *Official Reply to the Scheme of Bank of Kunlun Corporation Limited for Increase in Capital and Shares in 2013* (X.Y.J.F. [2013] No. 55) promulgated by the China Banking Regulatory Commission Xinjiang Bureau, Bank of Kunlun increased shares of RMB 664.3357 million. After the increase, the registered capital reached RMB 7,380.5235 million, in which RMB 5,690.1416 million was contributed by China National Petroleum Corporation.

On December 7, 2016, after the official reply of the *Official Reply to the Scheme of Bank of Kunlun Corporation Limited for Increase in Capital and Shares in 2016* (X.Y.J.F. [2016] No. 104) promulgated by the China Banking Regulatory Commission Xinjiang Bureau, Bank of Kunlun increased shares of RMB 2,907.3558 million. After the increase, the registered capital was changed to RMB 10,287.8793 million, in which RMB 7,930.7125 million was contributed by CNPC Capital Company Limited.

The registered address of the Company is located at No. 7, Century Avenue, Karamay and the legal representative is Jiang Shangjun. The Corporate Business License Registration Number is 650200040000052 and institution code of Financial License is B0226H265020001. The unified social credit code on business license of the Company was changed to 91650200745209781T on January 11, 2017.

1.2 Branches

As at December 31, 2016, the Company owned eight branches, namely Karamay Branch, Urumqi Branch, Tuha Branch, Korla Branch, Daqing Branch, Xi’an Branch, Ili Branch, Kashgar Branch, and International Business Settlement Center in Beijing, head office, etc.

As at December 31, 2016, the Company has two holding subsidiaries, namely, Tacheng Kunlun Village Bank Co., Ltd. and Leshan Kunlun Village Bank Co., Ltd..

1.3 Principal Business Activities and Services

The business activities specified in the Business License of the Company include absorption of public deposits,

disbursement of short, medium and long-term loans, handling of domestic and international settlement, handling of bill acceptance and discount, issuance of financial bonds, agency issuance, agency honoring and underwriting of government bonds, purchase and sale of government bonds and financial bonds, engagement in inter-bank lending; purchase, sale and agency purchase and sale of foreign exchange; engagement in bank card business; provision of L/C services and guarantee; agency receipts and payments and insurance agency business; provision of safe deposit box services; and other business approved by the China Banking Regulatory Commission.

1.4 Scope of the Consolidated Financial Statements

As at December 31, 2016, subsidiaries within the scope of the consolidated financial statements of the Company were listed as follows:

Name of subsidiaries
Leshan Kunlun Village Bank Co., Ltd.
Tacheng Kunlun Village Bank Co., Ltd.

There was no change in the scope of the consolidated financial statements in 2016 compared with that of 2015. For the specific situation of subsidiaries within the scope of consolidation, please refer to Note "4. Business Combinations and Consolidated Financial Statements" .

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

2.1 Statement of Compliance with Accounting Standards for Business Enterprises

The financial statements, which have been prepared by the Company in accordance with requirement of “2.2 Basis of preparation” , present the true and accurate financial position, operating outcome and cash flow in all respects.

2.2 Basis for Preparation for Financial Statements

The Company prepares its financial statements on a going concern basis, and recognizes and measures its accounting items in accordance with the *Accounting Standards for Business Enterprises - Basic Standards* and relevant accounting standards, application guidelines, interpretations, etc. (hereinafter collectively referred to as the “Accounting Standards for Business Enterprises”) promulgated by the Ministry of Finance and the *Administrative Measures for the Provision of Reserves by Financial Enterprises* (C. J. [2012] No. 20) on the basis of actual transactions and events.

2.3 Accounting Period

The accounting year of the Company is from January 1 to December 31 in calendar year. The reporting period of the financial statements is the accounting year from January 1, 2016 to December 31, 2016.

2.4 Functional Currency

The functional currency of the Company shall be RMB.

2.5 Measurement Attributes Applied Accounting Measurement

The recognition, measurement and reporting of the Company’s financial accounting are conducted on the accrual basis. Except the fair value, net realizable values and present value covered in the notes, others shall follow the historical cost convention as 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 Company’s consolidated financial statements is determined on the basis of control and all subsidiaries are included in the consolidated financial statements.

The accounting policies and accounting periods adopted by all subsidiaries included in the consolidation scope of the consolidated financial statements shall be consistent with those of the Company.

The consolidated financial statements were based on the financial statements of the Company and its subsidiaries and prepared by the Company 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 effects arising from the internal transactions between the Company and each of its subsidiaries, and between its subsidiaries on the consolidated balance sheet, consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in owners' equity are offset.

2.7 Accounting for Transactions Denominated in Foreign Currency

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

At the balance sheet date, the monetary items in foreign currency are translated into the functional currency at the foreign exchange rate prevailing on the balance sheet date, and the resulting exchange differences are recognized in the current profit or loss. Non-monetary items in foreign currency measured at historical cost are translated at the exchange rate on the date of initial transactions; non-monetary items in foreign currency measured at fair value are translated into RMB at the exchange rate on the date of recognition of fair value. The differences between amount of translated functional currency and original functional currency belong to non-monetary items in foreign currency of available-for-sale financial assets, and shall be recognized in other comprehensive income. The differences arising from other items are recognized in the current profit or loss.

2.8 Cash and Cash Equivalents

Cash refers to cash on hand and deposits available for payment at any time, which includes cash on hand, unrestricted deposits at the central bank which are available for payment, current deposits in banks and other financial institutions and deposits in banks and other financial institutions due within three months. Cash equivalents refer to the short-term and highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value, including bond investments and bonds purchased under resale, etc.

2.9 Financial Assets and Liabilities

2.9.1 Classification, Recognition and Measurement of Financial Assets

According to the purpose of acquisition, the Company classifies the financial assets into four categories as follows: the financial assets measured at fair value through current profit or loss, including financial assets measured at fair value through current profit or loss and financial assets designated to be measured at fair value through current profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The financial assets are measured at fair value at initial recognition. For the financial assets not measured at fair value through current profit or loss, relevant transaction costs directly attributable to purchase of the financial assets should be added at initial recognition.

(1) Financial Assets Measured at Fair value through Current Profit or Loss

Financial assets measured at fair value through current profit or loss include financial assets held for trading or financial assets designated to be measured at fair value through current profit or loss by the management at initial recognition. Gains from such financial assets during the holding period and changes in fair value of such financial assets measured at fair value are recognized in the current profit or loss on investments. Differences between the fair value and the initial book value are recognized as investment income upon disposal and profits or losses from changes in fair values shall be adjusted at the same time.

(2) Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable recovery amount and fixed maturity, which the Company has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortized cost (calculated with the effective interest method) less provision for impairment. The gains or losses arising from amortization, impairment or de-recognition of the held-to-maturity investments shall be included in the current profit or loss.

If the Company sold or reclassified its held-to-maturity investments of large amount (large amount is relative to the total amount of such investments before the sale or re-classification) in the current accounting period or in the previous two accounting years before the maturity date, the Company shall not reclassify any financial asset as held-to-maturity investments, except those meeting the following conditions: the date of sale or reclassification is so close to the maturity date or redemption date of such investments (for example, within three months prior to the maturity) that changes in market interest rates have no significant effect on the fair value of such investments; the sale or reclassification occurred after almost all the initial principals of the investments has been recovered in the agreed payment or prepayment method; such sale or reclassification may be attributable to any independent event beyond control of the Company, or it is expected that it will not recur and its amount is difficult to be reasonably estimated.

(3) Loans and Receivables

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

Loans and receivables of the Company include loans and advances to customers, deposits in the central bank, deposits in banks and other financial institutions, financial assets purchased under resale agreements and other receivables. Loans and advances to customers by the Company include general loans, discount, advances (including advances for Banker's acceptance bills, for L/C and for secured advances, etc.), trade financing and credit card overdrafts, etc.

Overdue loans refer to the loans which cannot 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 Company and the passive advances arising from insufficient funds of acceptance applicant, or overdue trade financing or advances related to off-balance-sheet items (such as L/C and guarantees). Such advances shall be converted into overdue loans from the date of advance.

The value of loans and receivables shall be measured at the amortized cost (calculated with the effective interest method) less provision for impairment. The gains or losses arising from amortization, impairment or derecognition of loans and receivables shall be included in the current profit or loss.

(4) Available-for-Sale Financial Assets

Available-for-sale financial assets refer to non-derivative financial assets designated as available-for-sale financial assets, investments not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through current profit or loss. Financial assets are subsequently measured at fair value. The unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are included in other comprehensive income before the de-recognition or impairment of such financial assets. When such financial assets are derecognized or impaired, the accumulated changes in fair value previously recognized in other comprehensive income should be transferred to the current profit or loss. The interest income related to available-for-sale financial assets is included in the current profit or loss.

2.9.2 Classification, Recognition and Measurement of Financial Liabilities

The Company divides its financial liabilities into the financial liabilities measured at fair value through current profit or loss and other financial liabilities according to the purpose of acquisition.

(1) Financial Liabilities Measured at Fair Value through Current Profit or Loss

Financial liabilities measured at fair value through current profit or loss include financial liabilities held for trading and financial liabilities designated by the management to be measured at fair value through profit or loss at initial recognition. Such financial liabilities are included in the current profit or loss at costs related to the amount initially recognized at fair value; during the holding period, the costs and the changes in all fair values measured at fair value at the end of the period are included in the current profit or loss. Differences between the fair value and the initial book value are recognized as investment income upon disposal and profit or loss on changes in fair value is adjusted at the same time.

(2) Other Financial Liabilities

Except for the financial liabilities designated as held for trading or financial liabilities measured at fair value through current profit or loss, deposits from banks and other financial institutions, absorption of deposits, financial assets sold under repurchase agreements, bonds payable and other payables belong to other financial liabilities and are initially recognized at the sum of fair value and relevant expenses. The subsequent measurement is based on the amortized cost.

2.9.3 Recognition of Fair Value of Financial Assets and Liabilities

The fair value of a financial instrument with an active market is recognized at the price quoted for it in the active market. The fair value of a financial instrument without an active market is recognized by the use of valuation techniques.

2.9.4 Transfer and De-recognition of Financial Assets and Liabilities

(1) Financial Assets

The financial assets shall be derecognized when a contractual right to receive future cash flows of the financial asset

ends, or the Company has transferred almost all the risks and rewards associated with the ownership of the financial asset, or when the Company has waived the control over the financial asset although it has neither transferred nor retained all the risks and rewards associated with the ownership of the financial asset.

When the financial asset is transferred, if nearly all the risks and rewards associated with the ownership of the financial asset are retained, the financial asset is not derecognized. Where the Company has neither transferred nor retained all the risks and rewards associated with the ownership of the financial asset and does not waive the control over the financial asset, the relevant financial assets and liabilities shall be recognized to the extent of its continuing involvement in transferred financial assets.

(2) Financial Liabilities

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

2.10 Long-term Equity Investments

2.10.1 Recognition of Initial Investment Costs

For a long-term equity investment obtained by payments in cash, the initial costs shall be the purchase price actually paid.

2.10.2 Subsequent Measurement and Recognition of Profit or Loss

(1) Subsequent Measurement

The investments in subsidiaries are accounted for under the cost method, and are adjusted under the equity method for the purpose of preparing the consolidated financial statements.

(2) Recognition of Gains and Losses

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

2.10.3 Definition of Joint Control or Significant Influence over the Investee

The term 'joint control' refers to the contractually agreed sharing of control over an arrangement, which exists only when the relevant activities under the arrangement reach a consensus on sharing control over relevant activities. Where the Company and other investors exert common joint control over the investee and the Company is entitled to the net assets of the investee, the investee is the joint venture of the Company.

Significant influence refers to the power to participate in decision-making about the financial and operating policies of an enterprise rather than the power to control or jointly control the formulation of such policies with other parties. Where the Company has significant influence on the investee, the investee is its associate.

2.11 Accounting Method of Fixed Assets

2.11.1 Recognition Criteria of Fixed Assets

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

- (1) It is probable that the economic benefits relating to the fixed assets will flow into the Company;
- (2) The costs of the fixed assets can be measured reliably.

2.11.2 Classification of Fixed Assets

Fixed assets are classified into: buildings and constructions, transportation vehicles, electronic equipment, machinery and office equipment.

2.11.3 Initial Measurement of Fixed Assets

The fixed assets shall be initially measured at actual costs on acquisition.

The costs of purchased fixed assets shall be recognized at the purchase prices, related taxes, transportation costs, handling costs, installation costs and professional service fees attributable to the fixed assets incurred before the fixed assets can be put into their actual intended use.

If the payment for the purchased fixed asset is delayed beyond the normal credit terms and actually is of the financing nature, the cost of the fixed asset shall be recognized according to the purchase price's present value.

The costs of self-constructed fixed assets consist of necessary expenditures incurred before the constructed assets can be put into their actual intended use.

As for fixed assets which are used by debtor for the settlement of his liabilities by debt restructuring, the book-entry value should be initially stated based on the fair value. Differences between the book values of restructured debts and the fair value of the fixed assets for the settlement of liabilities are included in the current profit or loss;

Under the premise that the exchange of non-monetary assets has commercial substance and the fair values of assets traded in or traded out can be measured reliably, the book-entry value of fixed assets traded in is recognized at the fair values of the fixed assets traded out, unless there is any conclusive evidence to indicate that the fair value of the assets traded in is more reliable. As for the exchange of non-monetary assets which does not meet the above premise, the costs of the fixed assets traded in should be the book values of the assets traded out and relevant taxes and surcharges payable, and no profit or loss shall be recognized.

2.11.4 Depreciation and Provision Methods of Fixed Assets

Depreciation is provided on a category basis with 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 the 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%
Transportation vehicles	5 years, 8 years	19.00%, 11.88%
Electronic equipment	4 years, 5 years	23.75%, 19.00%
Machinery and office equipment	5 years, 10 years, 12 years	19.00%, 9.50%, 7.92%

2.12 Accounting Methods of Construction in Progress

2.12.1 Category of Construction in Progress

Construction in progress is accounted for on an individual project basis.

2.12.2 Criteria and Timing of Conversion of Construction in Progress into Fixed Assets

The book-entry values of the fixed assets are stated at total expenditures incurred before construction in progress meets the final requirement for its intended use. If the construction in progress has met the final requirement for its intended use but the final accounts of the completed project have not been settled, the estimated values of project budget, construction price or actual costs should be included in the costs of relevant fixed assets, and the provision for depreciation of fixed assets shall be made according to the Company's policies for depreciation of the fixed assets when the working condition is reached; adjustment shall be made to the estimated value based on the actual costs after the settlement of final accounts of the completed project, but depreciation already provided is not adjusted.

2.13 Accounting of Intangible Assets

2.13.1 Valuation Method of Intangible Assets

The intangible assets shall be initially measured at cost.

The costs of purchased intangible assets include purchase prices, relevant taxes and surcharges and other expenditures that are directly attributable to the intangible assets before they reach working conditions for their intended use. If the payment for an intangible asset is of the financing nature and delayed beyond the normal credit terms, the cost of the intangible asset shall be determined on the basis of the present value of the purchase price.

For intangible assets acquired from the debtors for the settlement of his liabilities by debt restructuring, their book-entry values should be initially stated based on their fair values. Differences between the book values of restructured debts and the fair values of the intangible assets for the settlement of liabilities are included in the current profit or loss;

On the premise that non-monetary assets trade is of commercial nature or the fair value of the assets traded in or out can be reliably measured, the intangible assets traded in with non-monetary assets should be recognized at the fair value of the assets traded out, unless any unambiguous evidence indicates that the fair value of the assets traded in is more reliable; when it comes to the non-monetary assets trade not meeting the aforesaid premise, the book value of the assets traded out and related taxes and surcharges payable should be recognized as the cost of the intangible assets, and no profit or loss shall be recognized.

The costs of intangible assets developed internally and independently include: costs of materials and labor services used for developing the intangible assets, registration fees, amortization of other patent rights and proprietary rights used in the process of development and interest expenses for assets eligible for capitalization as well as other direct expenses incurred to make the intangible asset meet the final requirement for their intended use.

2.13.2 Useful Lives and Amortization of Intangible Assets

All intangible assets of the Company are those with limited useful lives. They are amortized over their expected useful lives on a straight-line basis as of the current month of acquisition.

The estimated useful lives of intangible assets with limited useful lives of the Company are:

Item	Estimated useful lives
Land use right	30 years
Software	1-10 years

At the end of each period, the useful lives and amortization methods of intangible assets with limited useful lives should be reviewed.

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

2.13.3 Criteria of Classification into the Research Phase and Development Phase on Internal Research and Development Projects

Research phase: making original and planned investigation to gain new scientific or technological knowledge and understanding.

Development phase: applying research findings and other knowledge to a plan or design for the purpose of production of new or substantially improved material, device or product before the start of commercial production or use.

Expenditure incurred during the research phase of internal research and development projects shall be included in current profit or loss.

2.13.4 Criteria for Capitalization of Expenditures during the Development Phase

Expenditure on the development phase of an internal research and development project shall be recognized as intangible assets only when they can satisfy all of the following criteria:

- (1) There is technical feasibility in completing the intangible assets, so that they can be available for use or sale;
- (2) There is an intention to complete and use or to sell the intangible assets;
- (3) The method that the intangible assets generate economic benefits, including the existence of a market for products produced by the intangible assets or for the intangible themselves, can be proved; if the intangible asset will be used internally, its usefulness can be proved;

- (4) Adequate technical, financial and other kinds of resources are available to complete the assets, and the Bank has the ability to use or sell assets;
- (5) The costs attributable to the intangible asset during its development phase can be measured reliably.

The Company will include the costs during the research phase in the item of construction in progress.

2.14 Accounting Method of Long-term Deferred Expenses

Long-term deferred expenses refer to paid expenses with the beneficial period more than one year (excluding one year). They are recorded at actual cost and amortized evenly over the beneficial period.

2.15 Fiduciary Activities

Entrusted loans and entrusted financing are the two major fiduciary activities of the Company. Entrusted loans refer to the loans where the principal provides funds and the Company issues, supervises, uses and assists in collection of loans on behalf of the principal according to the object, purpose, terms and interest rates of the loans determined by the principal. All risks, profits and losses as well as responsibilities of all fiduciary activities are borne by the principal and the Company only receives the handling charges.

Entrusted wealth management refers to the business in which the Company designs and issues products on its own, and then invests the raised funds in related financial markets or purchases the related financial products according to terms specified in the contract for the product. The investment gains and risks shall be borne by the principal or shared between the principal and the Company as specified in the contract for the product.

The fiduciary business in which the Company does not benefit from the gains and is not exposed to the risks is not reflected in the balance sheet.

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

The transactions of financial assets purchased under resale agreements refer to the transactions in which the relevant assets (including bonds and notes) are purchased from counterparties at a certain price according to the contract or agreement and then the same financial products are resold at the agreed price upon the expiration date of the contract or agreement. Financial assets purchased under resale agreements are stated at the actual cost on the date of purchase, and are presented in the "financial assets purchased under resale agreements" in the balance sheet. For financial products purchased under resale agreements, the financial products purchased will serve as collateralized financing transactions and collateral of such financing transactions.

Transaction of financial assets sold under repurchase agreements refers to the transaction conducted according to the contract or agreement, by which related assets (including bonds and notes) are sold to counterparties at a certain price, and brought back at the agreed price upon the expiration date of the contract or agreement. Financial assets sold under repurchase agreements are stated at the actual proceeds on the date of sale, and are presented in the

“financial assets sold under repurchase agreements” in the balance sheet. Financial products sold under repurchase agreements will continue to be reflected in the Company’s balance sheet and calculated according to relevant 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 Main Assets

2.17.1 Financial Assets

The Company checks the book value of financial assets other than those measured at fair value through current profit or loss on each balance sheet date so as to determine whether there is evidence that the financial assets have been impaired as a result of one or more incidents. Where there is evidence that the financial assets have been impaired, provision for impairment shall be made. Impairment incidents refer to those that occur after the initial recognition of such assets, have effect on the expected future cash flows and effect can be reliably measured.

(1) Financial Assets Measured at Amortized Cost

If there is objective evidence that an impairment loss on financial assets (including loans and receivables, and held-to-maturity investments) measured at amortized cost incurred, the book value of the financial assets shall be written down to the present value of the estimated future cash flows (excluding the future credit losses that have not been incurred yet). The amount written down shall be recognized as impairment losses on financial assets and included in the current profit or loss. The present value of estimated future cash flows should be discounted and determined at the original effective interest rate after considering the value of related collaterals (deducting the expenses incurred upon acquisition and sale the collaterals). The original effective interest rate is one used when the financial assets are recognized initially. For the Company’s loans, receivables and held-to-maturity investments subject to floating-rate, the prevailing effective interest rate stipulated in the contract may be taken as the discount rate when the recoverable amount is calculated.

The Company individually assesses the material credit assets to make clear whether there are objective evidences of impairment while individually or collectively assesses other financial assets. If the Company determines that no objective evidence of impairment exists for an individually assessed credit asset, whether material or not, it shall still be included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. For the financial assets assessed individually for impairment, impairment losses shall be recognized at the difference between the present value of the estimated future cash flows and their book value and provision shall be accordingly made. For the financial assets that are collectively assessed, the financial asset portfolio is recognized with reference to the migration rate model, historical experience losses and other methods depending on different types of portfolio.

After the Company confirms the provision for impairment losses of the financial assets measured at amortized cost, if the financial assets can be proved to have been recovered and are objectively related to an event occurred after recognition of the loss (such as the debtor’s credit rating has been improved), the originally-recognized impairment

loss shall be reversed and included in the current profit or loss. However, after the reversal, the book value shall not exceed the amortized cost of the financial assets on the date of reversal if there is no provision for impairment.

(2) Available-for-Sale Financial Assets

If the fair value of available-for-sale financial assets has significantly declined at the end of the period, or the downtrend is expected to be not temporary after relevant factors are considered, the impairment shall be recognized even if such financial assets are not derecognized, the accumulated losses on decreases in fair value originally and directly included in other comprehensive incomes shall be all transferred to the current profit or loss. The transferred amount of the accumulated losses shall be the difference between the initial acquisition costs of assets (deducting principal recovered and amortized amount) and the current fair value minus the impairment losses previously recognized in profit or loss.

Once the impairment losses of investments in equity instruments classified as available-for-sale financial assets have been recognized, they shall not be reversed through profit or loss. For impairment losses of equity instruments classified as available-for-sale financial assets, if their fair values increase in the subsequent accounting period and such increase is objectively related to the matters occurring after the recognition of the original impairment losses, the previously recognized impairment losses shall be reversed to the current profit or loss.

(3) Financial Assets Measured at Cost

If there is evidence that unquoted equity instruments not measured at fair value are impaired because its fair value cannot be measured reliably, the amount of impairment loss is recognized at the difference between the book value of the financial assets and the present value of expected future cash flows discounted and calculated at the prevailing market rate of return for a similar financial asset, and is included in the current profit or loss. Once the impairment loss incurred is recognized, it shall not be reversed.

Where the long-term equity investments are calculated under cost method according to the *Accounting Standards for Enterprises No. 2 - Long-term Equity Investments* and do not have quoted price in the active market so that their fair value cannot be reliably measured, the impairment shall also be treated according to the above principle.

2.17.2 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 Company assesses whether evidence of impairment exists at the end of each period.

If impairment of asset exists, the Company shall estimate the recoverable amount of the asset. The recoverable amount is the higher of the net amount of its fair value minus the disposal expenses and the present value of its estimated future cash flows.

Where the measurement of recoverable amount shows that the asset's recoverable amount is lower than its book value, the book value of assets shall be written down to their recoverable amount. The amount written down shall be recognized as impairment losses and charged to the current profit or loss. Provisions for impairment of the assets are made accordingly.

After the impairment losses of assets are recognized, the depreciation or amortization charges for the impaired assets are adjusted accordingly in future periods so as to amortize the post-adjustment book values of the assets (less their estimated net residual values) over their remaining useful lives on a systematic basis.

Once recognized, the impairment loss of long-term non-financial assets shall not be reversed in subsequent accounting periods.

For the losses on impairment of long-term non-financial assets, the recoverable amount may be estimated individually.

2.18 Employee Compensation

Employee compensation refers to all forms of remuneration or compensation offered by the Company in exchange for services provided by its employees or terminate the labor relation. Employee compensation of the Company includes short-term compensation, post-employment benefits and dismissal benefits.

(1) Short-term Compensation

The Company shall, during the accounting period when employees offer service, recognize the short-term remuneration actually incurred as liabilities and charge the same to the current profit or loss or the costs of the relevant assets.

The corresponding amount of employee compensation shall, during the accounting period when the employees offer service, be calculated and recognized at social insurance premiums and housing provident funds paid for employees by the Company, as well as labor union funds and employee education funds withdrawn according to the basis and proportion of provision stipulated.

The employee benefits that are not monetary shall be measured at fair value.

(2) Dismissal Benefits

When the Company cannot unilaterally withdraw the dismissal benefits offered due to the plan on termination of the labor relation or the layoff proposal, or recognize the costs or fees associated with reorganizing the payment of the termination benefits (whichever is earlier), the employee compensation liabilities arising from the termination benefits shall be recognized and included in the current profit or loss.

(3) Post-employment Benefits

The Company participates in defined contribution plans.

During the period when the employees offer service, the Company pays basic endowment insurance and unemployment insurance for its employees in accordance with the relevant provisions of the local government, and calculates payables according to the payment base and proportion specified by the local government. The said payables shall be recognized as liabilities and included in the current profit or loss or the costs of relevant assets.

The Company establishes an enterprise annuity system, and affords the enterprise annuity funds collectively with individuals. The part of enterprise annuity funds assumed by the Company will be withdrawn at 5% of the total salaries of last year from the cost of the Company; the part assumed by the individual at 1% of the payment base of the basic endowment insurance in that year from the salaries of the employees by the Company.

2.19 Interest Income and Expenses

For financial instruments measured at amortized cost and interest-bearing financial instruments in available-for-sale financial assets, the interest income and expenses are recognized in the income statement at the effective interest rate of financial instruments on an accrual basis.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and amortizing interest income and interest expenses during the relevant period. Effective interest rate refers to the interest rate used to discount the future cash flows on the expected expiration date to obtain the net book value or within an appropriate shorter period of the financial instruments. The Company will consider all contractual terms of the financial instruments instead of future credit losses when estimating the future cash flows. Transaction costs, discount or premium, all expenses related to the actual interest rate received and paid between the parties to the contract will be considered in calculation of the actual interest rate.

If the financial assets are impaired, relevant interest income shall be determined at the discount rate of future cash flows taking account of impairment losses.

2.20 Income from Handling Charges and Commissions

Income from handling charges and commissions is usually recognized on an accrual basis in the provision of related services.

2.21 Operating Leases

The Company classifies the lease where the lessor retains the main risks and rewards as operating lease. The Company's operating leases include rented business places and equipment. The rental payments are included in the operating expenses on a straight-line basis during the lease period.

The Company's rental expenses collected for leased assets shall be amortized according to the straight-line method over the whole lease period including the rental-free period and recognized as rental income. The initial direct cost associated with leasing transactions paid by the Company should be included in the current cost; the cost of large amount shall be capitalized and included by stages in the current income according to the same base recognized at the income from leasing over the whole lease period.

When the Company bears costs related to the lease that should be borne by the lessee, it shall deduct the part of expenses from the total rents and amortize the remaining part over the lease period.

2.22 Accounting Method of Income Tax

Income tax includes current income tax and deferred income tax. Except transactions or events included in shareholders' equity, others shall be included in current profit or loss as income tax expense or income.

The Company shall, at the applicable rate of income tax and based on total profit recognized in the accounting statements, make provision for taxes payable and current income tax expenses after corresponding estimates on and tax adjustments to tax-free income and non-deductible expenses according to the existing tax legislations and the interpretations.

There would be temporary differences of assets and liabilities due to different accounting and tax basis. Deferred income tax assets or liabilities are recognized with debt method based on such temporary differences which will generate taxable income in the future. Temporary difference refers to the difference between the book value of the asset or liability and its tax base; as for an item not recognized as an asset or liability, if its tax base can be determined in light of tax laws, the difference between the tax base and its book value also belongs to temporary difference.

The Company reviews the book value of deferred income tax assets on each balance sheet date and, if it is unlikely to have sufficient taxable income to reverse the deferred income tax assets in part or in whole, the deferred income tax assets shall be written down according to the part that cannot be reversed.

2.23 Segment Reporting

Business segment refers to a specific portfolio consisting of a set of assets and operating activities and faces risk returns different from that of assets and operating activities in other business segments. The Company makes this report mainly by different business segments. The transfer price between two segments is recognized at deposit-loan interest rates published by the People's Bank of China and interbank market interest rates according to the source of funds and lending term. Expenses are allocated in different segments according to the benefit. Business of the Company is mainly distributed as follows: Corporate banking, personal banking, fund business and other business.

2.24 Significant Accounting Estimates and Judgments Made in the Application of Accounting Policies

The Company shall conduct continuous evaluation of significant estimates and key assumptions used based on historical experience and other factors, including reasonable expectation of future events. The significant 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:

2.24.1 Impairment Losses on Loans and Advances to Customers

The Company regularly conducts evaluation on the losses on impairment of the portfolio loans and advances to customers in addition to the independent evaluation on corporate non-performing loans that have been identified.

If the impairment loss takes place, the Company will estimate the amount of impairment loss. The amount of impairment losses is the difference between the book value of loans and advances to customers and the present value of expected future cash flows. When assessing the amount of impairment loss, the Company needs to make significant judgment on whether there are objective evidences that the impairment losses of loans and advances to customers have been incurred and to make significant estimates on the present value of estimated future cash flows.

2.24.2 Income Tax

The ultimate tax treatment of many transactions in the daily business activities is subject to uncertainty, so the Company needs to make a large amount of estimates according to the historical experience when making provision for income tax. For the expected tax issues, the Company recognizes relevant liabilities based on the estimates whether it is necessary to pay additional taxes. If the final result of these tax matters is different from the amounts estimated before, such differences will have an impact on the recognition of their income tax and deferred income tax during the recognition period.

2.24.3 Basis for classification of Held-to-Maturity Investments

The Company classifies the non-derivative financial assets with fixed or determinable payments and fixed expiration date as held-to-maturity investments. This classification involves significant judgments. When making relevant judgments, the Company will consider whether it is willing to and is able to hold such investments until the expiration date. If the Company sells the held-to-maturity investments with large amount before expiration date of the investment, it must classify all portfolios of held-to-maturity investments as available-for-sale investments and measure relevant investments at fair value instead of amortized cost.

2.24.4 Recognition Method of Fair Value of Financial assets and Liabilities

The fair value of a financial instrument with an active market is recognized at the price quoted for it in the active market. The fair value of a financial instrument without an active market is recognized by using valuation techniques. At the time of valuation, the Company uses the applicable techniques with enough data and information support and inputs that are consistent with market participants' trading assets or liabilities in relevant asset or liability transactions, and gives priority to the use of relevant observable inputs. Unobservable inputs are used only when it is impossible or impracticable to obtain relevant observable inputs.

2.25 Change in Significant Accounting Policies and Accounting Estimates and Corrections of Accounting Errors in Prior Periods, and the Effect thereof

(1) Implementation of the Provisions on the Accounting Treatment of Value-added Tax

The Ministry of Finance promulgated the *Circular on the Provisions on the Accounting Treatment of Value-added Tax* (C. K. [2016] No. 22) on December 3, 2016. Main impacts of the Company's implementation of the provisions are as follows:

Contents of and reasons for changes in accounting policies	Name and amount of the affected items in the financial statements
(1) Adjust the item "business taxes and surcharges" in the income statement to the item "taxes and surcharges" therein.	Taxes and surcharges
(2) Reclassify the property tax, land use tax, vehicle use tax and stamp tax incurred in the Company's operating activities from the item "general and administrative expenses" into the item "business taxes and surcharges", without adjustment to the compared data.	Increased taxes and surcharges in 2016 amount to RMB 8,039,168.02, and the decreased general and administrative expenses in 2016 amount to RMB 8,039,168.02.

(2) Implementation of the *Interpretation on the Accounting Standards for Business Enterprises No. 8*

The Ministry of Finance issued the *Circular on Issuing the Interpretation on the Accounting Standards for Business Enterprises No. 8* (C. K. [2015] No.23) on December 16, 2015. The Company included the break-even financial management for 2015 in the statements and made retroactive adjustments, as listed in Note "2.25.3" in this Report.

(3) The Company corrected and wrote off the changes in the fair value of the available-for-sale financial bonds, subject to the provision for asset impairment in 2015, and made retroactive adjustments.

The adjustments at the beginning of 2016 caused by the said (2) and (3) were listed as follows:

Items of balance sheet	Balance audited as at January 1, 2016	Balance audited as at December 31, 2015	Adjustments to opening balance caused by other factors
Deposits with banks and other financial institutions	66,748,442,230.80	66,170,096,230.80	578,346,000.00
Financial assets measured at fair value through current profit or loss	3,159,314,858.35	6,911,049,858.35	(3,751,735,000.00)
Interest receivable	925,367,421.96	776,130,892.96	149,236,529.00
Available-for-sale financial assets	6,797,615,421.81	6,105,109,573.16	692,505,848.65
Held-to-maturity investments	17,795,677,947.72	16,423,177,947.72	1,372,500,000.00
Receivable investments	48,559,585,993.50	47,497,917,561.15	1,061,668,432.35
Total assets	290,281,096,537.85	290,178,574,727.85	102,521,810.00
Other comprehensive income	200,571,416.31	98,049,606.31	102,521,810.00
Equity attributable to owners of the parent company	22,987,047,032.45	22,884,525,222.45	102,521,810.00
Total owners' equity	23,043,288,088.01	22,940,766,278.01	102,521,810.00
Total liabilities and owners' equity	290,281,096,537.85	290,178,574,727.85	102,521,810.00

3. Taxation

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

Tax type	Basis of tax assessment	Tax rate
Business tax	Levied based on the taxable operating income (business tax in lieu of VAT as of May 1, 2016)	5% / 3%
Value-added tax	Value-added tax payable shall be the difference obtained by the output taxes calculated based on the revenue from the sale of goods and taxable services as computed by tax laws less the input taxes allowed to be deducted for the current period	6% / 3%
Enterprise income tax	Calculated and paid at taxable income	15% / 25% / 7.5%

3.1 Business Tax

Business tax shall be calculated and paid at 5% of operating income by the Company and at 3% by its subsidiaries. Operating income includes interest income from loans, income from intermediary services and other operating income, but does not include revenues from transactions with financial institutions.

3.2 Value-added Tax

According to the *Provisions on Pilot Transitional Policies for Value-added Tax in Lieu of Business Tax* (C. S. [2016] No. 36), the *Circular on Further Specifying the Policies on Financial Industry under the Comprehensive Promotion of the Pilot Collection of Value-added Tax in Lieu of Business Tax* (C. S. [2016] No.46), the *Supplementary Circular on Value-added Tax Policies on Interbank Transactions of Financial Institutions* (C. S. [2016] No.70) and other relevant documents issued by the Ministry of Finance and the State Administration of Taxation, as of May 1, 2016, the financial industry shall be subject to value-added tax in lieu of business tax.

When it comes to the output tax, loan interest, handling charges and commission income, investment income and other taxable incomes from primary business shall be levied at the rate of 6%, while parts of other business shall follow 17%, 13% and the corresponding rate respectively according to the policy. In terms of input tax, appropriate rates depend on specific type including purchase of goods, services and real estate. Subsidiaries shall be subject to value-added tax at the collection rate of 3% in accordance with the simple taxation method.

3.3 Enterprise Income Tax

In 2015, for enterprise income tax of the Company, the West Region completed the final settlement at a reduced rate of 15% and other regions at 25%. The Company is expected to continually enjoy the preferential policies in 2016, so enterprise income tax in this reporting period was still calculated according to the rate of final settlement in 2015.

The subsidiary Leshan Kunlun Village Bank Co., Ltd. was subject to enterprise income tax at the rate of 25%.

The subsidiary Tacheng Kunlun Village Bank Co., Ltd. meets the requirements set forth in the *Catalogue of Preferred Enterprise Income Tax for Key Encouraged Industries in Poor Areas of Xinjiang (Provisional)*, so, subject to consent by the Emin County Office, SAT, it may enjoy the tax preferential policy “exemption of income tax for the first two years of making profit and 50% tax reduction for the following three years” as of January 1, 2012. At the same time, it is exempted from 40% of enterprise income tax belonging to the local branches during the prescribed periods. In conclusion, the enterprise income tax for 2016 was subject to a rate of 7.5%.

4. Business Combinations and Consolidated Financial Statements

4.1 Information of Subsidiaries Acquired through Establishment

Name of subsidiaries	Enterprise type	Registered capital	Actual investment amount of the Company as at December 31, 2016	Total shareholding ratio of the Company	Total voting ratio enjoyed by the Company	Consolidated financial statements?
Leshan Kunlun Village Bank Co., Ltd.	Domestic financial company	RMB 50 million	RMB 40 million	80.00%	80.00%	Yes
Tacheng Kunlun Village Bank Co., Ltd.	Domestic financial company	RMB 32.07 million	RMB 17.50 million	54.57%	54.57%	Yes

4.2 Scope of and Change in Consolidated Statements

Scope of consolidation for 2016 includes Bank of Kunlun Corporation Limited and its subsidiaries Leshan Kunlun Village Bank Co., Ltd. and Tacheng Kunlun Village Bank Co., Ltd..

There were no changes in the scope of consolidation compared to that of 2015.

5. Notes to the Consolidated Financial Statements (Negative Figures are shown in “()”)

5.1 Cash and Deposits in the Central Bank

Item	December 31, 2016	December 31, 2015
Cash on hand	360,735,028.65	362,735,687.54
Statutory reserve with the central bank	24,437,470,085.27	23,188,195,071.77
Balances with the central bank	7,793,776,923.39	7,757,724,496.97
Fiscal deposits in the central bank	37,888,000.00	45,756,000.00
Total	32,629,870,037.31	31,354,411,256.28

5.1.1 See Note 5.42.2 for deposits with the central bank included in cash and cash equivalents as at December 31, 2016.

5.1.2 The Company shall pay RMB deposit reserves, foreign currency deposit reserves and fiscal deposits to the People's Bank of China in accordance with the regulations, but such deposits may not be used for daily operations. The RMB deposit reserve ratio was 14.5% and 15% respectively on December 31, 2016 and December 31, 2015. The foreign currency deposit reserve ratio was 5% and 5% on both December 31, 2016 and December 31, 2015. The RMB deposit reserves and foreign currency deposit reserves include deposits of government departments and organizations, extra-budgetary fiscal deposits, personal deposits, corporate deposits, credit balance of liabilities less assets of margin deposits and fiduciary activities, etc.

5.2 Deposits with Banks and Other Financial Institutions

Item	December 31, 2016	December 31, 2015
Deposits with domestic banks and other financial institutions	61,522,241,622.05	66,788,768,846.51
Deposits with overseas banks and other financial institutions	6,063,293.47	5,887,704.37
Less: Provision for bad debts of deposits with banks and other financial institutions	31,987,925.80	46,214,320.08
Book value of deposits with banks and other financial institutions	61,496,316,989.72	66,748,442,230.80

See Note 5.42.2 for deposits with banks and other financial institutions included in cash and cash equivalents as at December 31, 2016.

5.3 Loans to Banks and Other Financial Institutions

Item	December 31, 2016	December 31, 2015
Loans to banks and other financial institutions	2,600,000,000.00	1,604,000,000.00
Less: Provision for impairment of loans to banks and other financial institutions	65,000,000.00	40,100,000.00
Book value of loans to banks and other financial institutions	2,535,000,000.00	1,563,900,000.00

See Note 5.42.2 for loans to banks and other financial institutions included in cash and cash equivalents as at December 31, 2016.

5.4 Financial Assets Measured at Fair Value through Current Profit or Loss

Item	Fair value as at December 31, 2016	Fair value as at January 1, 2016	Book value as at December 31, 2016	Accumulated changes in fair value
Financial investments held for trading	4,386,871,389.97	3,159,314,858.35	4,433,467,121.22	(46,595,731.25)
Bond investment	4,386,871,389.97	3,159,314,858.35	4,433,467,121.22	(46,595,731.25)
-Government bonds	600,744,890.00	20,129,760.00	610,072,750.00	(9,327,860.00)
-Financial bonds	2,408,126,499.97		2,445,394,371.22	(37,267,871.25)

Continued

Item	Fair value as at December 31, 2016	Fair value as at January 1, 2016	Book value as at December 31, 2016	Accumulated changes in fair value
-Corporate bonds		138,731,460.00		
-Other creditor's rights	1,378,000,000.00	3,000,453,638.35	1,378,000,000.00	
Total	4,386,871,389.97	3,159,314,858.35	4,433,467,121.22	(46,595,731.25)

See Note 5.42.2 for financial assets measured at fair value through current profit or loss included in cash and cash equivalents as at December 31, 2016.

5.5 Financial assets Purchased under Resale Agreements

5.5.1 Classification by Collateral

Item	December 31, 2016	December 31, 2015
Bonds	5,428,495,000.00	12,946,250,000.00
Notes	418,683,185.53	14,372,165,545.69
Less: Provision for bad debts of financial assets purchased under resale agreements	2,923,877.50	11,664,968.11
Total	5,844,254,308.03	27,306,750,577.58

5.5.2 Classification by Counterparty

Counterparty	December 31, 2016	December 31, 2015
Banks	3,664,849,555.53	20,731,304,248.84
Others	2,179,404,752.50	6,575,446,328.74
Total	5,844,254,308.03	27,306,750,577.58

5.5.3 See Note 5.42.2 for financial assets purchased under resale agreements included in cash and cash equivalents as at December 31, 2016.

5.6 Interest Receivable

5.6.1 Changes in Balances

Item	December 31, 2016	December 31, 2015
Interest receivable on deposits with the central bank	10,854,725.62	11,614,819.16
Interest receivable on interbank deposits	35,888,080.72	63,732,010.03
Interest receivable on purchase under resale agreements	6,403,826.89	3,695,154.06
Loan interest receivable	102,624,685.94	133,763,741.48
Interest receivable on trading bonds	52,833,821.17	6,146,382.52
Interest receivable on available-for-sale and held-to-maturity bonds	424,685,918.81	188,395,596.02
Interest on receivable investments	143,767,622.55	149,236,529.00

Continued

Item	December 31, 2016	December 31, 2015
Interest receivable on held-to-maturity investments	356,213,818.98	368,783,189.69
Total	1,133,272,500.68	925,367,421.96
Less: Provision for bad debt of interest receivables	26,220,000.00	
Book value:	1,107,052,500.68	925,367,421.96

5.6.2 Interest on Overdue Loans

Item	Maturity date	December 31, 2016	December 31, 2015
Corporate loan	Within three months	712,163.55	3,382,526.12
Private loan	Within three months	747,435.05	1,166,786.14
Interest on available-for-sale financial assets receivable	Over three months	26,220,000.00	13,292,083.33
Total		27,679,598.60	17,841,395.59

5.6.3 As at December 31, 2016, there was no overdue interest due to shareholders with 5% or above of shares of the Company.

5.7 Loans and Advances to Customers

5.7.1 Composition of Loans and Advances to Customers

(1) Loans and Advances to Customers by Company and Individual

Category	December 31, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Loans and advances to customers	104,047,957,243.78	100	88,303,950,164.92	100
Including: Company	95,809,833,917.18	92.08	82,772,963,768.02	93.74
Individual	8,238,123,326.6	7.92	5,530,986,396.90	6.26
Less: Provision for losses on loans	4,573,179,105.99	100	3,542,598,610.53	100
Including: Company	4,310,129,567.80	94.25	3,378,781,183.13	95.38
Individual	263,049,538.19	5.75	163,817,427.40	4.62
Net value of loans and advances to customers	99,474,778,137.79	100	84,761,351,554.39	100
Including: Company	91,499,704,349.38	91.98	79,394,182,584.89	93.67
Individual	7,975,073,788.41	8.02	5,367,168,969.50	6.33

(2) Loans and Advances to Customers by Regional Distribution

Regional distribution	December 31, 2016	Proportion (%)	December 31, 2015	Proportion (%)
South China	1,866,807,200.00	1.79	2,582,452,933.00	2.92
North China	31,784,717,106.51	30.55	30,415,442,328.47	34.45
East China	10,345,831,758.41	9.94	2,117,670,774.12	2.40

Continued

Regional distribution	December 31, 2016	Proportion (%)	December 31, 2015	Proportion (%)
Northeast China	7,403,604,618.06	7.12	5,494,533,089.99	6.22
Northwest China	47,171,964,017.75	45.34	41,623,354,033.73	47.14
Southwest China	2,744,586,441.93	2.64	3,111,643,962.75	3.52
Central China	2,730,446,101.12	2.62	2,958,853,042.86	3.35
Total loans and advances	104,047,957,243.78	100	88,303,950,164.92	100
Less: Provision for losses on loans	4,573,179,105.99		3,542,598,610.53	
Including: Provision made on single basis	1,532,158,235.29		994,262,823.01	
Provision made on portfolio basis	3,041,020,870.70		2,548,335,787.52	
Book value of loans and advances	99,474,778,137.79		84,761,351,554.39	

(3) Loans and Advances by Guarantee

Guarantee method	December 31, 2016	Proportion (%)	December 31, 2015	Proportion (%)
Credit loans	25,132,854,399.86	24.16	18,975,529,388.37	21.49
Guaranteed loans	12,563,565,786.76	12.07	13,467,631,976.63	15.25
Mortgage loans	12,690,546,216.76	12.20	10,826,093,895.79	12.26
Pledged loans	15,015,054,220.28	14.43	18,104,961,749.32	20.50
Discount of Banker's acceptance bills	32,635,312,014.05	31.36	14,955,182,072.26	16.94
Discount of commercial acceptance bills	6,010,624,606.07	5.78	11,974,551,082.55	13.56
Total	104,047,957,243.78	100	88,303,950,164.92	100

(4) Analysis of Changes in Overdue Loans

A. Changes in Overdue Loans ^(Note)

Item	Year 2016	Year 2015
Balance as at the beginning of the year	1,177,102,745.98	829,093,069.53
Increase	808,126,403.91	436,395,893.15
Decrease	159,483,428.97	88,386,216.70
Balance as at the end of the year	1,825,745,720.92	1,177,102,745.98

Note: The above table of overdue loans shows the balance of loans before provision of impairment.

B. Overdue Loans by Overdue Period

Item	December 31, 2016				Total
	Overdue for 1-90 days (including 90 days)	Overdue for 90-360 days (including 360 days)	Overdue for 360 days to 3 years (including 3 years)	Overdue for over 3 years	
Credit loans	7,322,110.79	1,160,464.69			8,482,575.48
Guaranteed loans	38,698,161.57	19,750,992.07	600,303,467.29	128,346,979.26	787,099,600.19

Continued

Item	December 31, 2016				Total
	Overdue for 1–90 days (including 90 days)	Overdue for 90–360 days (including 360 days)	Overdue for 360 days to 3 years (including 3 years)	Overdue for over 3 years	
Mortgage loans	13,351,473.44	114,948,928.89	191,187,169.93	203,372.48	319,690,944.74
Pledged loans	33,894,031.01	595,441,945.42	70,294,563.97	10,842,060.11	710,472,600.51
Discount of Banker's acceptance bills					
Total	93,265,776.81	731,302,331.07	861,785,201.19	139,392,411.85	1,825,745,720.92

Item	December 31, 2015				Total
	Overdue for 1–90 days (including 90 days)	Overdue for 90–360 days (including 360 days)	Overdue for 360 days to 3 years (including 3 years)	Overdue for over 3 years	
Credit loans	7,428,264.17	81,311,372.84			88,739,637.01
Guaranteed loans	36,450,753.25	533,734,932.26	174,393,697.13	406,652.13	744,986,034.77
Mortgage loans	87,090,643.34	70,681,321.04	41,267,831.83	176,334.97	199,216,131.18
Pledged loans	41,386,028.35	57,507,316.87	44,267,597.80		143,160,943.02
Discount of Banker's acceptance bills	1,000,000.00				1,000,000.00
Total	173,355,689.11	743,234,943.01	259,929,126.76	582,987.10	1,177,102,745.98

(5) Corporate Loans and Advances by Industry

Industry	December 31, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Agriculture, forestry, animal husbandry and fishery	200,955,000.00	0.21	410,168,398.00	0.50
Mining	8,471,754,647.57	8.84	10,380,245,844.85	12.54
Manufacturing	13,415,441,031.53	14.00	10,201,080,936.52	12.32
Production and supply of electricity, gas and water	6,863,650,022.75	7.16	6,819,550,672.04	8.24
Construction	3,059,709,294.43	3.19	4,660,052,997.28	5.63
Transport, warehousing and postal service	6,012,009,137.26	6.27	3,243,760,563.12	3.92
Information transmission, computer service and software	208,108,295.24	0.22	166,177,250.00	0.20
Commercial trade	8,814,028,996.44	9.20	9,456,864,667.09	11.43
Accommodation and catering	5,950,000.00	0.01	19,100,000.00	0.02
Financial services	1,017,000,000.00	1.06	100,000,000.00	0.12
Real estate	1,852,400,000.00	1.93	1,748,150,000.00	2.11
Leasing and commercial service	3,075,814,639.15	3.21	3,431,246,710.21	4.15

Continued

Industry	December 31, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Scientific research, technical services and geological survey	988,094,382.50	1.03	930,185,156.92	1.12
Water conservancy, environment, public facilities and investment	1,615,615,425.48	1.69	2,324,445,425.48	2.81
Residents services and other services	53,456,424.71	0.06	27,881,991.70	0.03
Education	624,250,000.00	0.65	1,001,000,000.00	1.21
Health, social security and social welfare	95,280,000.00	0.10	113,720,000.00	0.14
Culture, sports and entertainment	43,000,000.00	0.04	45,000,000.00	0.05
Public management and social organization	747,380,000.00	0.78	764,600,000.00	0.92
Discounted assets	38,645,936,620.12	40.35	26,929,733,154.81	32.54
Total loans	95,809,833,917.18	100	82,772,963,768.02	100

(6) Corporate Loans and Advances by Nature

Nature	December 31, 2016	December 31, 2015
General loans	44,749,203,202.50	43,238,572,826.98
Discount	38,645,936,620.12	26,929,733,154.81
Trade financing funds	12,414,694,094.56	12,604,657,786.23
Total	95,809,833,917.18	82,772,963,768.02

(7) Personal Loans and Advances by Variety

Variety	December 31, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Housing mortgage	5,124,829,050.84	62.21	3,531,563,189.91	63.85
Others	3,113,294,275.76	37.79	1,999,423,206.99	36.15
Total personal loans and advances	8,238,123,326.60	100	5,530,986,396.90	100

5.7.2 Provision for Losses on Loans

Item	Year 2016			Year 2015		
	Individual	Portfolio	Total	Individual	Portfolio	Total
Balance as at the beginning of the year	994,262,823.01	2,548,335,787.52	3,542,598,610.53	628,536,488.04	2,150,613,407.30	2,779,149,895.34
Provision	537,895,412.28	492,685,083.18	1,030,580,495.46	375,091,933.14	397,722,380.22	772,814,313.36
Other decrease						
Write-off				9,365,598.17		9,365,598.17
Balance as at the end of the year	1,532,158,235.29	3,041,020,870.70	4,573,179,105.99	994,262,823.01	2,548,335,787.52	3,542,598,610.53

5.7.3 Analysis of Client Concentration

As at December 31, 2016, top 10 borrowers were:

Client	Industry	Balance	Proportion in total loans and advances (%)
Client 1	Manufacturing	2,000,000,000.00	1.92
Client 2	Mining	1,480,616,394.46	1.42
Client 3	Transport, warehousing and postal service	1,400,000,000.00	1.35
Client 4	Wholesale and retail	1,000,000,000.00	0.96
Client 5	Financial services	1,000,000,000.00	0.96
Client 6	Leasing and commercial service	990,000,000.00	0.95
Client 7	Mining	897,000,000.00	0.86
Client 8	Manufacturing	818,845,535.35	0.79
Client 9	Manufacturing	778,464,000.00	0.75
Client 10	Public management, social security and social organization	747,380,000.00	0.72
Total		11,112,305,929.81	10.68

As at December 31, 2015, top 10 borrowers are:

Client	Industry	Balance	Proportion in total loans and advances (%)
Client 1	Wholesale and retail	1,710,057,933.00	1.94
Client 2	Education	1,000,000,000.00	1.13
Client 3	Wholesale and retail	960,000,000.00	1.09
Client 4	Mining	899,000,000.00	1.02
Client 5	Wholesale and retail	800,000,000.00	0.91
Client 6	Water conservancy, environment and public facilities	775,000,000.00	0.88
Client 7	Manufacturing	774,464,000.00	0.88
Client 8	Public management, social security and social organization	764,600,000.00	0.87
Client 9	Transport, warehousing and postal service	700,000,000.00	0.79
Client 10	Manufacturing	688,872,884.43	0.78
Total		9,071,994,817.43	10.29

5.7.4 As at December 31, 2016, there was no loans from shareholders with 5% or above of shares of the Company.

5.8 Available-for-sale Financial Assets

Item	December 31, 2016	December 31, 2015
Government bonds	510,980,460.00	123,305,880.00
Financial bonds	11,595,273,140.00	2,759,747,330.00
Corporate bonds	2,528,133,840.00	3,557,570,990.00
Others		603,766,008.14
Subtotal	14,634,387,440.00	7,044,390,208.14
Less: Provision for impairment of available-for-sale financial assets	259,516,835.01	246,774,786.33
Total	14,374,870,604.99	6,797,615,421.81

Category	December 31, 2016		
	Bond cost	Changes in fair value	Fair value
Government bonds	508,605,522.28	2,374,937.72	510,980,460.00
Financial bonds	11,728,709,603.62	(133,436,463.62)	11,595,273,140.00
Corporate bonds	2,512,213,827.22	15,920,012.78	2,528,133,840.00
Total	14,749,528,953.12	(115,141,513.12)	14,634,387,440.00

Category	December 31, 2015		
	Bond cost	Changes in fair value	Fair value
Government bonds	120,979,967.47	2,325,912.53	123,305,880.00
Financial bonds	2,673,327,518.63	86,419,811.37	2,759,747,330.00
Corporate bonds	3,428,442,221.93	129,128,768.07	3,557,570,990.00
Other debt instruments	603,766,008.14		603,766,008.14
Total	6,826,515,716.17	217,874,491.97	7,044,390,208.14

See Note 7.2.2 for the mortgage of available-for-sale financial assets as at December 31, 2016.

5.9 Held-to-maturity Investments

Item	December 31, 2016	December 31, 2015
National bonds	3,668,027,456.00	849,245,389.27
Financial bonds	11,142,052,419.71	6,936,284,761.96
Corporate bonds	1,331,158,916.85	5,662,984,228.65
Other debts	5,248,135,524.73	4,353,836,679.17
Total	21,389,374,317.29	17,802,351,059.05
Less: Provision for impairment of held-to-maturity investments	10,643,787.61	6,673,111.33
Book value	21,378,730,529.68	17,795,677,947.72

1. See Note 5.42.2 for held-to-maturity investments included in cash and cash equivalents as at December 31, 2016.
2. See Note 7.2.2 for the mortgage of held-to-maturity investments as at December 31, 2016.

5.10 Investments Classified as Receivables

Item	December 31, 2016	December 31, 2015
Banking products		
Trust products	49,324,089,830.19	48,235,809,999.97
Others	30,000,000.00	1,750,889,000.03
Less: Provision for impairment of receivables held for investment	777,184,077.60	1,427,113,006.50
Book value	48,576,905,752.59	48,559,585,993.50

5.11 Fixed Assets

5.11.1 Details of Balance of Fixed Assets

Item	December 31, 2016	December 31, 2015
Original cost of fixed assets	733,461,395.75	614,692,186.66
Accumulated depreciation	408,395,492.74	339,281,811.93
Provision for impairment of fixed assets	71,587.53	71,587.53
Net fixed assets	324,994,315.48	275,338,787.20

5.11.2 Statement of Changes in Fixed Assets

Fixed assets	Buildings and constructions	Transportation facilities	Electronic equipment	Machinery and office equipment	Total
I. Original book value					
1. Balance as at the beginning of the year	100,075,705.20	15,363,812.92	489,679,088.77	9,573,579.77	614,692,186.66
2. Increase in 2016	34,888,872.31	730,069.23	84,383,037.69	436,826.94	120,438,806.17
(1) Purchase			679,486.00		679,486.00
(2) Construction in progress transfer in	34,888,872.31	730,069.23	83,703,551.69	436,826.94	119,759,320.17
(3) Other increases					
3. Decrease in 2016			1,669,597.08		1,669,597.08
(1) Disposal or write-off			1,669,597.08		1,669,597.08
4. Balance as at the end of the year	134,964,577.51	16,093,882.15	572,392,529.38	10,010,406.71	733,461,395.75
II. Accumulated depreciation					
1. Balance as at the beginning of the year	17,525,640.43	8,605,126.03	310,754,556.54	2,396,488.93	339,281,811.93
2. Increase in 2016	4,315,074.64	1,595,676.08	63,864,466.41	919,723.91	70,694,941.04
(1) Provision	4,315,074.64	1,595,676.08	63,864,466.41	919,723.91	70,694,941.04
(2) Others					
3. Decrease in 2016			1,581,260.23		1,581,260.23
(1) Disposal or write-off			1,581,260.23		1,581,260.23
4. Balance as at the end of the year	21,840,715.07	10,200,802.11	373,037,762.72	3,316,212.84	408,395,492.74
III. Provision for impairment					
1. Balance as at the beginning of the year	71,587.53				71,587.53
2. Increase in 2016					
(1) Provision					
(2) Others					
3. Decrease in 2016					

Continued

Fixed assets	Buildings and constructions	Transportation facilities	Electronic equipment	Machinery and office equipment	Total
(1) Disposal or write-off					
4. Balance as at the end of the year	71,587.53				71,587.53
IV. Book value					
1. Book value as at the beginning of the year	113,052,274.91	5,893,080.04	199,354,766.66	6,694,193.87	324,994,315.48
2. Book value as at the beginning of the year	82,478,477.24	6,758,686.89	178,924,532.23	7,177,090.84	275,338,787.20

As at December 31, 2016, original value of buildings and constructions with pending certificate of title was RMB 46,592,422.13, accumulated depreciation RMB 4,992,971.44 and net amount RMB 41,599,450.69.

5.12 Construction in Progress

Category	December 31, 2015	Increase in 2016	Amount transferred to fixed assets	Other decreases	December 31, 2016
Branches and network construction	33,395,700.57	42,766,209.54	48,254,886.42	11,231,819.41	16,675,204.28
Information technology construction	59,243,824.19	132,421,930.73	62,282,612.86	106,118,647.48	23,264,494.58
Office operation and security construction	1,519,970.45	16,841,106.19	9,901,306.89	2,069,303.54	6,390,466.21
Total	94,159,495.21	192,029,246.46	120,438,806.17	119,419,770.43	46,330,165.07

5.13 Intangible Assets

5.13.1 Balance of Intangible Assets

Item	December 31, 2016	December 31, 2015
Original value of intangible assets	302,853,146.84	255,411,863.24
Accumulated amortization	221,525,741.12	178,178,162.92
Provision for impairment of intangible assets	1,357,053.33	1,357,053.33
Net amount of intangible assets	79,970,352.39	75,876,646.99

5.13.2 Statement of Changes in Intangible Assets

Item	Land use rights	Software	Total
I. Original book value			
1. Balance as at the beginning of the year	69,510.41	255,342,352.83	255,411,863.24
2. Increase in 2016		47,441,283.60	47,441,283.60

Continued

Item	Land use rights	Software	Total
3. Decrease in 2016			
(1) Disposal			
(2) Transfer out			
4. Balance as at the end of the year	69,510.41	302,783,636.43	302,853,146.84
II. Accumulated amortization			
1. Balance as at the beginning of the year	36,125.25	178,142,037.67	178,178,162.92
2. Increase in 2016	2,341.02	43,345,237.18	43,347,578.20
(1) Provision	2,341.02	43,345,237.18	43,347,578.20
3. Decrease in 2016			
(1) Disposal			
(2) Transfer out			
4. Balance as at the end of the year	38,466.27	221,487,274.85	221,525,741.12
III. Provision for impairment			
1. Balance as at the beginning of the year		1,357,053.33	1,357,053.33
2. Increase in 2016			
(1) Provision			
3. Decrease in 2016			
(1) Disposal			
(2) Transfer out			
4. Balance as at the end of the year		1,357,053.33	1,357,053.33
IV. Book value			
1. Book value as at the beginning of the year	33,385.16	75,843,261.83	75,876,646.99
2. Book value as at the end of the year	31,044.14	79,939,308.25	79,970,352.39

5.14 Deferred Income Tax Assets/Deferred Income Tax Liabilities

5.14.1 Deferred Income Tax Assets

Item	December 31, 2016	December 31, 2015
Provision for asset impairment	706,441,696.23	665,750,598.79
Changes in fair value of available-for-sale financial assets attributable to other comprehensive income	17,271,226.95	
Changes in fair value of financial assets measured at fair value through current profit or loss	6,989,359.69	
Total	730,702,282.87	665,750,598.79

5.14.2 Deferred Income Tax Liabilities

Item	December 31, 2016	December 31, 2015
Changes in fair value of available-for-sale financial assets attributable to other comprehensive income		17,302,902.29
Changes in fair value of financial assets measured at fair value through current profit or loss		193,832.73
Total		17,496,735.02

5.15 Other Assets

5.15.1 Details of Balance

Item	December 31, 2016	December 31, 2015
Deferred expenses	20,564,965.63	20,875,329.36
Other receivables	66,973,126.55	58,499,465.85
Debt-offsetting assets		
Long-term deferred expenses	107,507,648.49	118,178,952.06
Taxes to be deducted	26,528,694.36	
Total	221,574,435.03	197,553,747.27

5.15.2 Other Receivables

(1) Details of Balance

Item	December 31, 2016	December 31, 2015
Advances to suppliers		6,077,238.00
Advances for legal costs	14,972,597.53	11,338,180.56
Deposits	2,850,170.00	1,327,100.00
Bad debts in prior periods		86,587.60
Others	51,182,908.82	40,333,743.49
Total	69,005,676.35	59,162,849.65
Less: Provision for bad debts of other receivables	2,032,549.80	663,383.80
Net amount	66,973,126.55	58,499,465.85

(2) Aging Analysis

Aging	December 31, 2016			
	Amount	Proportion (%)	Provision for bad debts	Net amount
Within 1 year	17,442,145.74	86.08	1,397,622.17	16,044,523.57
1 year to 2 years	50,102,843.01	13.43	508,706.96	49,594,136.05
2 to 3 years	687,100.00	0.12		687,100.00
Over 3 years	773,587.60	0.37	126,220.67	647,366.93
Total	69,005,676.35	100.00	2,032,549.80	66,973,126.55

Aging	December 31, 2015			
	Amount	Proportion (%)	Provision for bad debts	Net amount
Within 1 year	51,765,924.05	25.28	537,163.13	51,228,760.92
1 year to 2 years	6,541,082.00	72.61		6,541,082.00
2 to 3 years		1.00		
Over 3 years	855,843.60	1.12	126,220.67	729,622.93
Total	59,162,849.65	100	663,383.80	58,499,465.85

(3) As at December 31, 2016, there were no dues from shareholders with 5% or above of shares of the Company.

5.15.3 Long-term Deferred Expenses

Item	Operating lease rent	Improvement expenses for fixed assets under operating leases	Others	Total
Amount as at the beginning of the year	7,622,145.10	95,308,277.01	15,248,529.95	118,178,952.06
Increase in 2016	8,278,800.00	8,022,042.11	14,940,695.32	31,241,537.43
Amortization in 2016	4,449,718.00	28,858,806.25	8,604,316.75	41,912,841.00
Transfer-out in 2016				
Amount as at the end of the year	11,451,227.10	74,471,512.87	21,584,908.52	107,507,648.49

5.16 Statement of Asset Impairment

Item	Year 2016							Balance as at the end of the year
	Balance as at the beginning of the year	Increase in 2016		Decrease in 2016				
		Provision in 2016	Other increases	Reversal due to recovery of value of assets	Foreign currency translation differences	Write-off in 2016	Other decreases	
1. Provision for bad debts of other receivables	663,383.80	1,369,166.00					2,032,549.80	
2. Provision for impairment of debt-offsetting assets		851,972.68			851,972.68			
3. Provision for losses on loans	3,542,598,610.53	1,030,580,495.46					4,573,179,105.99	

Continued

Item	Year 2016						Balance as at the end of the year
	Balance as at the beginning of the year	Increase in 2016		Decrease in 2016			
		Provision in 2016	Other increases	Reversal due to recovery of value of assets	Foreign currency translation differences	Write-off in 2016	Other decreases
4. Provision for impairment of receivables held for investment	1,427,113,006.50	(649,928,928.90)					777,184,077.60
5. Provision for impairment of intangible assets	1,357,053.33						1,357,053.33
6. Provision for impairment of fixed assets	71,587.53						71,587.53
7. Deposits with banks and other financial institutions	46,214,320.08	(14,226,394.28)					31,987,925.80
8. Loans to banks and other financial institutions	40,100,000.00	24,900,000.00					65,000,000.00
9. Financial assets purchased under resale agreements	11,664,968.11	(8,741,090.61)					2,923,877.50
10. Provision for impairment of available-for-sale financial assets	246,774,786.33	12,742,048.68					259,516,835.01
11. Provision for impairment of held-to-maturity investments	6,673,111.33	3,970,676.28					10,643,787.61
12. Provision for bad debt of interest receivables		26,220,000.00					26,220,000.00
Total	5,323,230,827.54	427,737,945.31			851,972.68		5,750,116,800.17

For the Year Ended December 31, 2015							
Item	Balance as at the beginning of the year	Increase in 2015		Decrease in 2015		Balance as at the end of the year	
		Provision in 2015	Other increases	Reversal due to recovery of value of assets	Foreign currency translation differences		Write-off in 2015
1. Provision for bad debts of other receivables	934,671.07	537,163.13		54,665.55		753,784.85	663,383.80
2. Provision for impairment of debt-offsetting assets	119,219,258.76			12,817,764.02		106,401,494.74	
3. Provision for losses on loans	2,779,149,895.34	772,814,313.36				9,365,598.17	3,542,598,610.53
4. Provision for impairment of receivables held for investment	1,599,460,364.92	(172,347,358.42)					1,427,113,006.50
5. Provision for impairment of intangible assets	1,357,053.33						1,357,053.33
6. Provision for impairment of fixed assets	71,587.53						71,587.53
7. Deposits with banks and other financial institutions	33,931,063.58	12,283,256.50					46,214,320.08
8. Loans to banks and other financial institutions	21,522,740.00	18,577,260.00					40,100,000.00
9. Financial assets purchased under resale agreements	16,144,781.12	(4,479,813.01)					11,664,968.11
10. Provision for impairment of available-for-sale financial assets	9,363,707.91	237,411,078.42					246,774,786.33
11. Provision for impairment of held-to-maturity investments	6,214,992.82	458,118.51					6,673,111.33
Total	4,587,370,116.38	865,254,018.49		12,872,429.57		116,520,877.76	5,323,230,827.54

5.17 Borrowings from the Central Bank

Item	December 31, 2016	December 31, 2015
Borrowings from the central bank	661,424,269.78	603,118,981.27

5.18 Deposits from Banks and other Financial Institutions

Item	December 31, 2016	December 31, 2015
Interbank deposits	88,270,089,629.83	102,338,093,974.97
Deposits with other financial institutions	10,823,415,839.11	10,346,571,382.96
Total	99,093,505,468.94	112,684,665,357.93

5.19 Loans from Banks and other Financial Institutions

Item	December 31, 2016	December 31, 2015
Interbank borrowings	3,500,000,000.00	
Borrowings from non-bank financial institutions	1,500,000,000.00	
Total	5,000,000,000.00	

5.20 Financial Assets Sold under Repurchase Agreements

5.20.1 Classification by Collateral

Item	December 31, 2016	December 31, 2015
Bonds	7,180,535,000.00	5,400,244,000.00
Notes		2,747,123,150.00
Total	7,180,535,000.00	8,147,367,150.00

5.20.2 Classification by counterparty

Counterparty	December 31, 2016	December 31, 2015
Interbank	5,586,535,000.00	6,647,367,150.00
Other financial institutions	1,594,000,000.00	1,500,000,000.00
Total	7,180,535,000.00	8,147,367,150.00

5.21 Absorption of Deposits

5.21.1 Details of Balance

Item	December 31, 2016	December 31, 2015
1. Demand deposits	71,727,984,711.43	74,156,851,057.79
Including: Corporate client	59,627,997,863.70	63,265,215,194.01
Individual client	12,099,986,847.73	10,891,635,863.78
2. Time deposits	66,483,904,284.83	55,082,405,712.38
Including: Corporate client	41,815,548,366.59	35,280,011,398.12
Individual client	24,668,355,918.24	19,802,394,314.26

Continued

Item	December 31, 2016	December 31, 2015
3. Fiscal deposits	129,360,835.57	49,946,591.85
4. Other deposits	10,267,492,154.67	11,817,207,453.28

5.21.2 See Note 6.9 for the deposits of shareholders with 5% or above of shares of the Company as at December 31, 2016.

5.22 Employee Compensation Payable

Item	Amount as at January 1, 2016	Increase in 2016	Amount paid in 2016	Amount as at December 31, 2016
Short-term compensation				
I. Salary, bonus, allowance and subsidy		451,157,904.81	451,157,904.81	
II. Employee welfare		43,436,397.20	43,436,397.20	
III. Social insurance premiums		33,191,973.18	33,191,973.18	
Including:				
1. Medical insurance premiums		29,896,996.09	29,896,996.09	
2. Work-related injury insurance premiums		1,230,173.18	1,230,173.18	
3. Maternity insurance premiums		2,064,803.91	2,064,803.91	
4. Other social insurance premiums				
IV. Housing provident funds	29,610.00	42,405,077.78	42,434,687.78	
V. Labor union expenditures and employee education expenses	11,996,622.04	17,437,765.37	11,219,750.49	18,214,636.92
VI. Short-term compensated absences				
VII. Short-term profit sharing plan				
VIII. Other short-term compensation		14,874,464.39	14,874,464.39	
Subtotal	12,026,232.04	602,503,582.73	596,315,177.85	18,214,636.92
Post-employment benefits				
I. Basic endowment insurance premiums		73,511,851.16	73,511,851.16	
II. Unemployment insurance premiums		3,729,136.43	3,729,136.43	
III. Enterprise annuity payments		21,422,024.85	21,422,024.85	
IV. Other commercial insurance premiums				
Subtotal		98,663,012.44	98,663,012.44	
Dismissal benefits				
I. Early retirement benefits				
II. Other dismissal benefits		19,389.00	19,389.00	
Subtotal		19,389.00	19,389.00	
Other long-term employee benefits				
I. Deferred payment for compensation				

Continued

Item	Amount as at January 1, 2016	Increase in 2016	Amount paid in 2016	Amount as at December 31, 2016
II. Others				
Subtotal				
Total	12,026,232.04	701,185,984.17	694,997,579.29	18,214,636.92

5.23 Taxes and Surcharges Payable

Item	December 31, 2016	December 31, 2015
Enterprise income tax	169,795,436.10	135,301,045.38
Value-added tax		
Business tax		56,413,468.08
Urban maintenance and construction tax		3,930,922.39
Education surtax		2,820,764.23
Individual income tax	18,314,958.69	14,275,517.24
Stamp tax	3,903,647.81	139,476.46
Others	1,158,369.07	2,813,735.48
Total	193,172,411.67	215,694,929.26

5.24 Interest Payable

5.24.1 Details of Balance

Item	December 31, 2016	December 31, 2015
Interest payable on the borrowings from the central bank	29,027.78	22,534.72
Interest payable on interbank borrowings	1,219,722.22	
Interest payable on interbank deposits	368,276,928.89	340,438,580.40
Interest payable on financial assets sold for repurchase	2,121,290.45	1,903,594.34
Interest payable on deposits	2,073,804,382.12	1,884,718,563.12
Total	2,445,451,351.46	2,227,083,272.58

5.24.2 See Note 6.9 for interest payable of shareholders with 5% or above of shares of the Company as at December 31, 2016.

5.25 Bonds Payable

Item	December 31, 2016	December 31, 2015
Interbank deposits issued	1,483,722,549.99	349,880,805.56
Total	1,483,722,549.99	349,880,805.56

5.26 Other Liabilities

5.26.1 Details of Balance

Item	December 31, 2016	December 31, 2015
Dividends payable	160,039,799.09	29,052.04
Other payables	2,071,794,301.51	1,725,650,292.58
Deferred income	24,241,417.14	22,728,707.94
Other current liabilities	153,680,932.08	125,656,118.32
Total	2,409,756,449.82	1,874,064,170.88

5.26.2 Other Payables

(1) Details of Balance

Item	December 31, 2016	December 31, 2015
Payment suspended for long time	5,997,698.42	4,901,629.17
Other payables	2,065,796,603.09	1,720,748,663.41
Total	2,071,794,301.51	1,725,650,292.58

(2) As at December 31, 2016, there were no other dues to shareholders with 5% or above of shares of the Company.

5.27 Share Capital

Name of investor	December 31, 2015		Increase in 2016	Decrease in 2016	December 31, 2016	
	Investment amount	Proportion (%)			Investment amount	Proportion (%)
China National Petroleum Corporation	5,690,141,618.63	77.10		5,690,141,618.63		
CNPC Capital Company Limited			7,930,712,499.85		7,930,712,499.85	77.09
Other state-owned shareholders	1,466,556,018.72	19.86	578,932,993.11		2,045,489,011.83	19.88
Capital contributed by collective entity	223,271,961.02	3.03	87,457,262.79		310,729,223.81	3.02
Private capital	553,896.98	0.01	394,625.96		948,522.94	0.01
Total	7,380,523,495.35	100	8,597,497,381.71	5,690,141,618.63	10,287,879,258.43	100

5.28 Capital Reserve

Item	December 31, 2015	Increase or decrease in 2016	December 31, 2016
Stock premium	5,513,100,628.34	4,680,842,778.55	10,193,943,406.89

5.29 Other Comprehensive Income

Item	Amount incurred in 2016				December 31, 2016	
	December 31, 2015	Increase in 2016	Decrease in 2016	Income tax		Amount attributable to the parent company after tax
I. Other comprehensive income that may be reclassified into profits or losses later						
1. Net after-tax value of changes in fair value of available-for-sale financial assets	200,571,589.67	(351,108,089.20)	(52,666,213.38)	(298,441,875.82)	(97,870,286.15)	
Changes in fair value of available-for-sale financial assets	235,966,576.08	(351,108,089.20)		(351,108,089.20)	(115,141,513.12)	
Effects of changes in fair value of available-for-sale financial assets on income tax	(35,394,986.41)		(52,666,213.38)	52,666,213.38	17,271,226.97	
2. Share in other comprehensive income of investee that will be reclassified into profits or loss under equity method	(173.36)					(173.36)
Total	200,571,416.31	(351,108,089.20)	(52,666,213.38)	(298,441,875.82)	(97,870,459.51)	

5.30 Surplus Reserve

Item	December 31, 2015	Withdrawal in 2016	December 31, 2016
Statutory surplus reserves	1,241,089,777.52	253,322,906.01	1,494,412,683.53

5.31 General Risk Reserves

Item	Year 2016	Year 2015
Balance as at the beginning of the year	2,781,728,753.53	2,348,393,372.02
Increase	967,659.71	433,335,381.51
Decrease		
Balance as at the end of the year	2,782,696,413.24	2,781,728,753.53

According to the requirements of the Administrative Measures for the Withdrawal of Reserves by Financial Enterprises (C. J. [2012] No. 20) promulgated by the Ministry of Finance on March 30, 2012, the balance of general reserves of financial enterprises engaging in banking business in principle shall not be lower than 1.5% of the closing balance of risk assets.

5.32 Undistributed Profits

Item	Year 2016	Year 2015
Balance as at the beginning of the year	5,870,032,961.40	4,423,240,282.64
Plus: Net profit in the year	2,541,779,567.96	2,939,310,057.09
Less: Withdrawal of statutory surplus reserves	253,322,906.01	291,607,553.33
Withdrawal of general risk reserves	967,659.71	433,335,381.51
Profit distributed to owners	6,767,940,045.23	767,574,443.49
Balance as at the end of the year	1,389,581,918.41	5,870,032,961.40

According to the resolution of the general meeting of the Company, cash dividends distributed to owners in 2015 were RMB 774.955 million; cash dividends as at the end of May 2016 distributed to owners were RMB 5.993 billion.

5.33 Operating Income

5.33.1 Net Interest Income

Category	Year 2016	Year 2015
Interest income		
Deposits with banks and other financial institutions	373,420,355.46	443,935,698.94
Deposits with the central bank	384,608,594.09	360,097,096.54
Loans to banks and other financial institutions	78,793,216.77	73,094,674.39
Loans and advances to customers	2,861,949,294.20	3,419,788,759.76

Continued

Category	Year 2016	Year 2015
Discount	1,245,844,072.08	1,219,734,453.54
Bond investment	906,475,688.95	1,033,861,156.20
Receivable investments	2,735,213,609.78	3,190,769,598.02
Financial assets purchased under resale agreements	474,380,239.01	1,184,717,460.09
Interest income from trading bonds	102,886,467.79	102,686,904.84
Interest income from interbank deposits	35,116,345.55	1,930,679.17
Subtotal	9,198,687,883.68	11,030,616,481.49
Interest expenses		
Interbank deposits	1,938,778,175.62	2,774,668,750.50
Borrowings from the central bank	747,326.39	1,117,090.28
Loans from banks and other financial institutions	20,457,583.34	15,327,607.00
Absorption of deposits	2,406,411,675.11	2,520,326,569.28
Financial assets sold for repurchase	132,431,728.54	392,867,049.74
Interest expenses for interbank deposits	8,043,244.43	2,185,655.56
Subtotal	4,506,869,733.43	5,706,492,722.36
Net interest income	4,691,818,150.25	5,324,123,759.13

5.33.2 Net Income from Handling Charges and Commissions

Category	Year 2016	Year 2015
Income from handling charges and commissions		
Income from settlement charges	24,869,502.98	26,053,669.65
Income from agency handling charges	38,050,080.82	68,679,480.24
Income from bank card charges	21,468,500.21	24,788,575.81
Income from charges for foreign exchange settlement and sales	78,213,219.11	310,127,080.65
Income from guarantee business charges	14,986,276.73	11,926,150.54
Income from charges for financial services	47,427,256.58	31,195,169.44
Handling charges for syndicated loans	1,447,379.46	19,688,650.00
Income from other charges	6,987,377.27	5,705,237.22
Subtotal	233,449,593.16	498,164,013.55
Handling charges and commissions expenses		
Settlement handling expenses	2,828,212.10	1,789,470.61
Bank card handling expenses	56,079,633.31	49,418,227.56
Agency handling expenses	1,648,808.43	947,914.38
Handling expenses for business vouchers	5,746,320.23	10,450,746.20
Handling expenses for collateral services	1,647,288.65	866,286.00

Continued

Category	Year 2016	Year 2015
Handling expenses for short message services	3,910,840.58	5,283,703.31
Other handling expenses	9,448,988.50	12,652,761.09
Subtotal	81,310,091.80	81,409,109.15
Net income from handling charges and commissions	152,139,501.36	416,754,904.40

5.33.3 Investment Income

Item	Year 2016	Year 2015
Income from financial instruments measured at fair value through the current profit or loss	95,789,730.51	208,766,669.78
Income from available-for-sale financial assets	28,702,725.97	76,251,169.31
Total	124,492,456.48	285,017,839.09

5.33.4 Gains from Changes in Fair Value

Item	Year 2016	Year 2015
Financial assets measured at fair value through current profit or loss	(47,887,949.60)	1,653,852.60

5.33.5 foreign Exchange Gains

Item	Year 2016	Year 2015
Gains or losses on exchange	286,584,171.65	213,011,815.42

5.33.6 Other Business Income

Item	Year 2016	Year 2015
Rental income	364,245.39	360,000.00
Others	528,391.22	1,160,583.97
Total	892,636.61	1,520,583.97

5.34 Operating Expenses

5.34.1 Taxes and Surcharges

Item	Year 2016	Year 2015
Business tax	65,377,116.99	226,935,813.96
Urban construction tax	13,629,017.67	15,808,655.21
Education surtax	9,799,124.12	11,348,842.26
Others	8,562,419.75	518,044.27
Total	97,367,678.53	254,611,355.70

5.34.2 Operating and Administrative Expenses

Item	Year 2016	Year 2015
Employee expenses	701,185,984.17	673,983,696.70
Daily business expenses	337,935,095.89	343,215,802.11
Depreciation of fixed assets	70,694,941.04	73,115,523.67
Amortization of long-term deferred expenses	41,912,841.00	36,357,098.34
Amortization of intangible assets	43,347,578.20	51,358,147.00
Operating expenses for electronic equipment	139,541,362.95	159,400,059.11
Security fees	32,692,649.34	31,999,360.37
Property management fees	29,118,955.02	27,591,344.15
Taxes and surcharges	4,017,724.97	5,522,650.29
Rental fees	275,710,926.65	256,602,043.62
Total	1,676,158,059.23	1,659,145,725.36

5.34.3 Losses from Asset Impairment

Item	Year 2016	Year 2015
Losses on bad debts of interest receivable	26,220,000.00	
Losses on bad debts of other receivables	1,369,166.00	482,497.58
Losses on bad debts of deposits with banks and other financial institutions	(14,226,394.28)	12,283,256.50
Losses on bad debts of loans to banks and other financial institutions	24,900,000.00	18,577,260.00
Losses on bad debts of financial assets purchased under resale agreements	(8,741,090.61)	(4,479,813.01)
Losses on impairment of loans	1,030,580,495.46	772,814,313.36
Losses on impairment of available-for-sale financial assets	12,742,048.68	237,411,078.42
Losses on impairment of held-to-maturity investments	3,970,676.28	458,118.51
Losses on impairment of receivables held for investment	(649,928,928.90)	(172,347,358.42)
Losses on depreciation of debt-offsetting assets	851,972.68	(12,817,764.02)
Total	427,737,945.31	852,381,588.92

5.35 Non-operating Income

Item	Year 2016	Year 2015
Total gains from disposal of non-current assets		898,678.15
Including: Gains from disposal of fixed assets		898,678.15
Income from penalty settlement	5,414.49	2,170.00
Government grants	16,471,718.80	25,119,682.83
Other gains	5,625,039.56	824,840.72
Total	22,102,172.85	26,845,371.70

5.36 Non-operating Expenses

Item	Year 2016	Year 2015
Total losses from disposal of non-current assets	46,154.43	81,176.11
Including: Losses on disposal of fixed assets	46,154.43	81,176.11
Donation expenditures	401,995.00	910,000.00
Penalties and overdue fines	158,942.16	2,370,437.60
Others	65,550.12	187,350.53
Total	672,641.71	3,548,964.24

5.37 Income Tax Expenses

Item	Year 2016	Year 2015
Current income tax expenses	523,805,517.05	635,872,291.49
Deferred income tax expenses	(47,874,289.86)	(93,675,674.23)
Total	475,931,227.19	542,196,617.26

5.38 Earnings per Share

5.38.1 Table of Earnings per Share

Item	Year 2016		Year 2015	
	Earnings per share (RMB/share)		Earnings per share (RMB/share)	
	Diluted earnings per share	Basic earnings per share	Diluted earnings per share	Basic earnings per share
Net profit attributable to ordinary shareholders of the Company	0.34	0.34	0.40	0.40

5.38.2 Return on Equity

Item	Weighted average return on equity (%)	
	Year 2016	Year 2015
Net profit attributable to ordinary shareholders of the Company	10.61	13.35

5.39 Capital Adequacy Ratio

According to the requirements of the *Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)* issued by the China Banking Regulatory Commission, core Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio as at December 31, 2016 were disclosed:

Continued

Item	December 31, 2016	December 31, 2015
Core Tier 1 capital adequacy ratio (BIII)	15.49%	13.13%
Tier 1 capital adequacy ratio (BIII)	15.49%	13.13%
Capital adequacy ratio (BIII)	16.63%	14.25%

5.40 Other Comprehensive Income

Item	Year 2016	Year 2015
1. Gains (losses) from available-for-sale financial assets	(115,141,513.12)	217,874,491.97
Less: Effect of available-for-sale financial assets on income tax in the year	(52,666,213.38)	25,630,615.27
Net amount included in other comprehensive income in the previous period and transferred into the current profit or loss	235,966,576.08	(55,518,086.48)
Sub-total	(298,441,875.82)	247,761,963.18
2. Others		
Total	(298,441,875.82)	247,761,963.18

5.41 Notes to the Statement of Cash Flows

5.41.1 Cash Received from Other Operating Activities

Item	Year 2016	Year 2015
Temporary credits to be transferred	905,268.07	2,824,933.32
Government grants	16,473,631.20	25,120,604.15
Rental income	344,761.90	360,000.00
Others	299,464,864.58	16,809,972,410.45
Total	317,188,525.75	16,838,277,947.92

5.41.2 Cash Paid for Other Operating Activities

Item	Year 2016	Year 2015
Payments for funds to be settled	34,665,600.63	1,364,524,302.42
Payments for business expenses	816,155,716.79	819,254,718.76
Others	3,537,142,937.42	19,136,257,711.04
Total	4,387,964,254.84	21,320,036,732.22

5.42 Supplementary Information to the Statement of Cash Flows

5.42.1 Net Profit Adjusted to Cash Flows from Operating Activities

Item	Year 2016	Year 2015
Net profit of the parent company in the year	2,541,779,567.96	2,939,310,057.09
Minority equity	9,998,749.97	17,295,281.13
Net profit ("()" for losses)	2,551,778,317.93	2,956,605,338.22
Plus: Provision for asset impairment	427,737,945.31	852,381,588.92
Depreciation of fixed assets	70,694,941.04	73,115,523.67
Amortization of intangible assets	43,347,578.20	51,358,147.00
Amortization of long-term deferred expenses	41,912,841.00	36,357,098.34
Losses on disposal of fixed assets, intangible assets and other long-term assets	46,154.43	(817,502.04)
Losses on changes in fair value	47,887,949.60	(1,653,852.60)
Investment losses	(3,757,748,989.88)	(4,509,648,593.31)
Decrease in deferred income tax assets	(47,680,457.13)	(93,869,506.96)
Increase in deferred income tax liabilities	(193,832.73)	193,832.73
Decrease in loans	(15,744,007,078.86)	(15,250,188,899.50)
Increase in deposits	7,502,331,171.20	28,003,583,982.25
Net increase in lending	31,909,737,391.04	(11,200,479,310.05)
Decrease in operating receivables	(28,886,327,680.86)	8,526,888,601.85
Increase in operating payables	(11,673,384,296.12)	(12,183,381,247.90)
Decrease in other operating assets	(851,972.68)	12,817,764.02
Increase in other operating liabilities	(3,870,620,061.13)	(2,541,507,127.40)
Net cash flows from operating activities	(21,385,340,079.64)	(5,268,244,162.76)

5.42.2 Cash and Cash Equivalents

Item	Year 2016	Year 2015
I. Cash	39,132,612,325.85	70,534,607,973.24
Including: Cash on hand	360,735,028.65	362,735,687.54
Deposit in the central bank available for payment	7,793,776,923.39	7,757,724,496.97
Deposits with banks and other financial institutions with the contract period within three months	29,418,100,373.81	62,414,147,788.73
Loans from banks and other financial institutions with the contract period within three months	1,560,000,000.00	
II. Cash equivalents	9,704,264,535.06	
Including: Financial assets purchased under resale agreements maturing within three months as of the date of purchase	5,841,332,180.88	
Held-to-maturity investments maturing within three months as of the date of purchase	2,484,932,354.18	
Financial assets held for sale maturing within three months as of the date of purchase	1,378,000,000.00	
III. Balance of cash and cash equivalents as at the end of the year	48,836,876,860.91	70,534,607,973.24

5.43 Segment Reporting

As of 2016, business of the Company covers the following four segments:

Corporate banking business refers to all RMB-related services provided for corporate clients, including deposits, loans, and RMB intermediary services, etc..

Personal banking business refers to RMB-related banking services provided for personal customers, including savings, personal loans and settlement business, etc..

Capital business refers to RMB-related bond investment, repurchase and resale business, etc..

Other business includes all corporate business, personal business and capital business relating to foreign currency.

5.43.1 Business Segments in 2016

Item	Corporate banking business	Personal banking business	Capital business	Other business	Total
I. Net interest income	3,337,042,212.98	381,206,307.08	973,569,630.19		4,691,818,150.25
Net income from handling charges and commissions	142,910,924.28	(31,491,046.81)	40,719,623.89		152,139,501.36
Investment income			124,492,456.48		124,492,456.48
Gains from changes in fair value			(47,887,949.60)		(47,887,949.60)
Foreign exchange gains	286,584,171.65				286,584,171.65
Other operating income/cost				397,366.91	397,366.91
Taxes and surcharges	90,730,080.73	6,628,179.61		9,418.19	97,367,678.53
Business and administrative expenses	887,242,001.29	190,091,584.07	594,801,045.37	4,023,428.50	1,676,158,059.23
Losses from asset impairment	933,569,523.35	99,232,110.79	(605,063,688.83)		427,737,945.31
II. Operating profit	1,854,995,703.54	53,763,385.80	1,101,156,404.42	(3,635,479.78)	3,006,280,013.98
Non-operating income				22,102,172.85	22,102,172.85
Non-operating expenses				672,641.71	672,641.71
III. Total profits before tax	1,854,995,703.54	53,763,385.80	1,101,156,404.42	17,794,051.36	3,027,709,545.12
Income tax	291,590,183.43	8,451,165.41	173,092,798.72	2,797,079.63	475,931,227.19
IV. Net profit	1,563,405,520.11	45,312,220.39	928,063,605.70	14,996,971.73	2,551,778,317.93

5.43.2 Business Segments in 2015

Item	Corporate banking business	Personal banking business	Capital business	Other business	Total
I. Net interest income	3,640,158,958.50	331,323,426.87	1,352,641,373.76		5,324,123,759.13
Net income from handling charges and commissions	406,406,236.84	(21,326,424.49)	31,675,092.05		416,754,904.40
Investment income			285,017,839.09		285,017,839.09

Continued

Item	Corporate banking business	Personal banking business	Capital business	Other business	Total
Gains from changes in fair value			1,653,852.60		1,653,852.60
Foreign exchange gains	213,011,815.42				213,011,815.42
Other operating income/cost				1,082,047.36	1,082,047.36
Business taxes and surcharges	237,208,834.24	17,343,153.87		59,367.59	254,611,355.70
Business and administrative expenses	832,855,432.50	142,036,478.68	680,279,603.64	3,974,210.54	1,659,145,725.36
Losses from asset impairment	700,012,813.64	60,466,233.28	91,902,542.00		852,381,588.92
II. Operating profit	2,489,499,930.38	90,151,136.55	898,806,011.86	(2,951,530.77)	3,475,505,548.02
Non-operating income				26,845,371.70	26,845,371.70
Non-operating expenses				3,548,964.24	3,548,964.24
III. Total profits before tax	2,489,499,930.38	90,151,136.55	898,806,011.86	20,344,876.69	3,498,801,955.48
Income tax	385,788,752.29	13,970,393.84	139,284,699.57	3,152,771.56	542,196,617.26
IV. Net profit	2,103,711,178.09	76,180,742.71	759,521,312.29	17,192,105.13	2,956,605,338.22

5.44 Analysis on Changes in Significant Financial Position

5.44.1 Analysis on Changes in Significant Assets and Liabilities

Item	December 31, 2016	December 31, 2015	Change ratio	Analysis on changes in balance
Loans to banks and other financial institutions	2,535,000,000.00	1,563,900,000.00	62.1%	Balance increased considerably, but most of the increase was highly liquid amounts.
Financial assets measured at fair value through current profit or loss	4,386,871,389.97	3,159,314,858.35	38.9%	Because of the downtrend of the market fair value, the Company reduced the transactions of risky corporate debts and turned to the transactions of government bonds and financial bonds with relatively steady fair value; at the same time, due to the continuous decline of fair value, the Company suspended the disposal of assets held by it, leading to the increase of the balance.
Financial assets purchased under resale agreements	5,844,254,308.03	27,306,750,577.58	(78.6%)	The balance reduced, but the volume of transactions increased. Due to the decrease in market return of the business this year, the stock capital was changed to invest in other higher-yielding assets.

5.44.2 Analysis on Changes in Significant Profits and Losses

Item	Year 2016	Year 2015	Change ratio	Analysis on changes
Income from handling charges and commissions	233,449,593.16	498,164,013.55	(53.14%)	Influenced by international oil prices, the volume of foreign exchange settlement and sale business fell sharply.
Gains from changes in fair value	(47,887,949.60)	1,653,852.60	(2995.54%)	The fair value of the bonds decreased significantly this year.

6. Related Party Relationship and Transactions

6.1 Related Parties and Related Party Relationship

6.1.1 Parent Company of the Company:

Name of the parent company	Registered address	Nature of business	Economic nature	Registered capital (RMB '00,000,000)	Shareholding ratio in the Company (%)
CNPC Capital Company Limited	No. 1 Financial Street, Xicheng District, Beijing	Investment management etc.	Limited liability company	141.99	77.09

Registered capital of the parent company and its changes

Unit: RMB '00,000,000

Related party	December 31, 2015	Increase in 2016	Decrease in 2016	December 31, 2016
CNPC Capital Company Limited	0.99	140.99		141.99

Shareholding ratio of the parent company and its changes

Unit: RMB '0,000

Related party	Amount of shares held		Shareholding ratio	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
CNPC Capital Company Limited	793,071.25	0.00	77.09%	0.00

6.1.2 Ultimate Controller of the Company

Ultimate controller of the Company is China National Petroleum Corporation.

6.1.3 Shareholders with 5% or above of Shares of the Company

Except the parent company of the Company, as at December 31, 2016, there were no other shareholders with 5% or above of shares of the Company.

6.2 Subsidiaries of the Company

See Note 4.1.

6.3 Directors, Supervisors and Senior Management of the Company

6.4 Relationship with Other Related Parties

Company	Relationship
CNPC (Beijing) Technology Development Company Limited	Controlled by the same ultimate controller
Chinese Petroleum Society	Controlled by the same ultimate controller
China Petroleum Materials Corporation	Controlled by the same ultimate controller
CNPC Urumqi General Petrochemical Works	Controlled by the same ultimate controller
CNPC Transportation Company Limited	Controlled by the same ultimate controller
China Petroleum Hong Kong (Holding) Limited	Controlled by the same ultimate controller
China National Oil and Gas Exploration and Development Corporation	Controlled by the same ultimate controller
CNPC Offices Service Center	Controlled by the same ultimate controller
International Business Department of CNPC	Controlled by the same ultimate controller
CNPC Research Institute of Tubular Goods	Controlled by the same ultimate controller
China Petroleum Pipeline Engineering Co., Ltd.	Controlled by the same ultimate controller
PetroChina Company Ltd.	Controlled by the same ultimate controller
CNPC Auditing Service Center	Controlled by the same ultimate controller
CNPC Ningxia Chemical Works	Controlled by the same ultimate controller
CNPC Linyuan Refinery	Controlled by the same ultimate controller
CNPC Liaoyang Petrochemical Fiber Company	Controlled by the same ultimate controller
CNPC Lanzhou Petrochemical Company	Controlled by the same ultimate controller
CNPC Jinzhou Petrochemical Corporation	Controlled by the same ultimate controller
CNPC Jinxi Refining and Chemical Complex	Controlled by the same ultimate controller
China Petroleum Technology & Development Corporation	Controlled by the same ultimate controller
CNPC Drilling Research Institute	Controlled by the same ultimate controller
CNPC Capital Company Limited	Controlled by the same ultimate controller
CNPC Greatwall Drilling Company	Controlled by the same ultimate controller
CNPC Southwest Pipeline Co., Ltd.	Controlled by the same ultimate controller
CNPC Xibu Drilling Engineering Company Limited	Controlled by the same ultimate controller
CNPC Xibu Pipeline Company Limited	Controlled by the same ultimate controller
CNPC Research Institute of Science and Technology	Controlled by the same ultimate controller
CNPC Economics & Technology Research Institute	Controlled by the same ultimate controller
CNPC JiChai Power Equipment Company	Controlled by the same ultimate controller
China Petroleum Offshore Engineering Ltd.	Controlled by the same ultimate controller
CNPC Engineering Consulting Co., Ltd.	Controlled by the same ultimate controller
CNPC Engineering Co., Ltd.	Controlled by the same ultimate controller
China Petroleum Engineering Co., Ltd.	Controlled by the same ultimate controller

Continued

Company	Relationship
CNPC Engineering Construction Service Center	Controlled by the same ultimate controller
CNPC Southeast Asia Pipeline Co., Ltd.	Controlled by the same ultimate controller
BGP INC., China National Petroleum Corporation	Controlled by the same ultimate controller
CNPC Northeast Refining & Chemical Engineering Co., Ltd.	Controlled by the same ultimate controller
CNPC Chuangqing Drilling Engineering Company Limited	Controlled by the same ultimate controller
China Petroleum Logging (CPL) Co., Ltd.	Controlled by the same ultimate controller
CNPC Bohai Drilling Engineering Company Limited	Controlled by the same ultimate controller
CNPC Bohai Petroleum Equipment Manufacturing Company Limited	Controlled by the same ultimate controller
CNPC HSE Research Institute	Controlled by the same ultimate controller
CNPC Harbin Refinery	Controlled by the same ultimate controller
China Petroleum Engineering & Construction Corp.	Controlled by the same ultimate controller
CNPC Fushun Petrochemical Corporation	Controlled by the same ultimate controller
CNPC Daqing General Petrochemical Works	Controlled by the same ultimate controller
CNPC Dalian Petrochemical	Controlled by the same ultimate controller
China Petroleum News	Controlled by the same ultimate controller
China National United Oil Corporation	Controlled by the same ultimate controller
China Kunlun Contracting & Engineering Corporation	Controlled by the same ultimate controller
China Huanqiu Contracting & Engineering Corp.	Controlled by the same ultimate controller
China Huayou (Group) Corporation	Controlled by the same ultimate controller
China Huaming International Investment Corporation	Controlled by the same ultimate controller
Changqing Petroleum Exploration Bureau	Controlled by the same ultimate controller
Yumen Petroleum Administration	Controlled by the same ultimate controller
Petroleum Administration Bureau of Xinjiang Uygur Autonomous Region	Controlled by the same ultimate controller
Xinjiang Dushanzi Petroleum and Petrochemical Complex	Controlled by the same ultimate controller
Tuha Petroleum Exploration and Development Headquarters	Controlled by the same ultimate controller
Tianjin Climate Exchange Co. Ltd.	Controlled by the same ultimate controller
Tarim Petroleum Exploration and Development Headquarters	Controlled by the same ultimate controller
Sichuan Petroleum Administration Bureau	Controlled by the same ultimate controller
Petroleum Industry Press Co., Ltd.	Controlled by the same ultimate controller
Qinghai Petroleum Administration	Controlled by the same ultimate controller
Liaohai Petroleum Exploration Bureau	Controlled by the same ultimate controller
Jidong Petroleum Exploration and Development Company	Controlled by the same ultimate controller
Jilin Petroleum (Group) Co., Ltd.	Controlled by the same ultimate controller
Jilin Chemical Group Company	Controlled by the same ultimate controller
Huabei Petroleum Administration	Controlled by the same ultimate controller

Continued

Company	Relationship
Strait Energy Investment Company Limited	Controlled by the same ultimate controller
Guangzhou Petroleum Training Center	Controlled by the same ultimate controller
PetroChina Guangxi Oil Storage Ltd.	Controlled by the same ultimate controller
Daqing Petroleum Administration Bureau	Controlled by the same ultimate controller
Dalian West Pacific Petrochemical Company Ltd.	Controlled by the same ultimate controller
Dagang Oilfield Group Co., Ltd.	Controlled by the same ultimate controller
Beijing Petroleum Machinery Plant	Controlled by the same ultimate controller
Beijing Petroleum Managers Training Institute	Controlled by the same ultimate controller
Beijing Huamei Shiji International Technology Co., Ltd.	Controlled by the same ultimate controller
Beijing Huachang Real Estate Co., Ltd.	Controlled by the same ultimate controller
Baoji Oilfield Machinery Co., Ltd.	Controlled by the same ultimate controller
Baoji Petroleum Steel Pipe Co., Ltd.	Controlled by the same ultimate controller
CNPC Baoji Petroleum Steel Pipe Plant	Controlled by the same ultimate controller
China National Petroleum Corporation Middle East FZE	Controlled by the same ultimate controller

6.5 Interest Paid to Related Parties

Company	Interest expenses in 2016 (RMB '0,000)	Interest expenses in 2015 (RMB '0,000)
China National Petroleum Corporation and the companies controlled by it	95,105.04	90,356.25
Other related parties subordinate to China National Petroleum Corporation	22,152.67	16,769.35
Total	117,257.71	107,125.60

6.6 Interest Charged on Related Parties

Company	Interest income in 2016 (RMB '0,000)	Interest income in 2015 (RMB '0,000)
China National Petroleum Corporation and the companies controlled by it	2,237.24	3,264.58
Other related parties subordinate to China National Petroleum Corporation	186.69	403.53
Total	2,423.93	3,668.11

6.7 Rent Paid to Related Parties

Company	Rent expense in 2016 (RMB '0,000)	Rent expense in 2015 (RMB '0,000)
China National Petroleum Corporation and the companies controlled by it	12,292.68	11,334.24

6.8 Property Management Fees Paid to Related Parties

Company	Property payment in 2016 (RMB '0,000)	Property payment in 2015 (RMB '0,000)
China National Petroleum Corporation and the companies controlled by it	2,703.38	1,854.34

6.9 Balance of Related Parties

Related party	Item	Balance as at December 31, 2016 (RMB '0,000)	Balance as at January 1, 2016 (RMB '0,000)
China National Petroleum Corporation and the companies controlled by it	Absorption of deposits	5,392,445.32	4,591,243.31
	Interbank deposits	160,800.30	142,314.92
	Interest payable	75,726.42	72,750.94
	Loans and advances to customers		60,000.00
	Deposits with banks and other financial institutions	171,200.29	241,673.35
	Other payables	6,197.08	3,442.36
	Other receivables		24.31
	Interest receivable	(20.88)	83.44
Other related parties subordinate to China National Petroleum Corporation	Absorption of deposits	1,069,084.24	1,106,092.77
	Interest payable	32,120.64	25,742.41
	Loans and advances to customers	17,000.00	3,000.00
	Other payables	102.97	
	Other receivables	3.50	
	Interest receivable	693.37	666.19

6.10 Entrusted Loans

Name of entrusting company	Balance as at December 31, 2016 (RMB '0,000)	Balance as at January 1, 2016 (RMB '0,000)
China National Petroleum Corporation and the companies controlled by it	2,790,411.34	7,227,551.62

6.11 Handling Charges for Entrusted Loans

Company	Item	Amount in 2016 (RMB '0'000)	Amount in 2015 (RMB '0'000)
China National Petroleum Corporation and the companies controlled by it	Income from entrusted loans	1,915.11	4,038.44

6.12 Guarantee Business - Guarantee for Others

Guarantee	Balance as at December 31, 2016 (RMB '0,000)	Balance as at January 1, 2016 (RMB '0,000)
China National Petroleum Corporation and the companies controlled by it	230,958.83	256,815.93
Other related parties subordinate to China National Petroleum Corporation	37,433.73	584.99

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

7.1 Contingencies Arising from Litigation

As at December 31, 2016, the Company as the plaintiff had 29 pending lawsuits with the amount totaling RMB 1,125,904,299.48; while the Company as the defendant had 5 pending lawsuits with the amount totaling RMB 50,964,370.45.

7.2 Commitments

7.2.1 Commitments on Operating Lease

As at the end of each period, minimum rental payments for irrevocable agreements on leasing business premises and office buildings in future:

Item	December 31, 2016	December 31, 2015
Within one year	277,208,094.29	239,588,800.39
1 to 2 years	64,761,900.21	61,955,748.25
2 to 3 years	45,829,303.21	47,046,333.00
3 to 4 years	47,555,078.91	27,938,682.36
4 to 5 years	35,335,665.61	32,757,847.36
Over 5 years	55,856,021.54	23,545,311.88
Total	526,546,063.77	432,832,723.24

7.2.2 Commitments on Pledge of External Assets

(1) Part of the Company's bonds are pledged for sales under repurchase agreements between banks, agency of treasury deposits and other business. The balances on the balance sheet date were as follows:

Item	December 31, 2016	December 31, 2015
Held-to-maturity investments	4,557,806,400.00	4,310,000,000.00
Including: Financial bonds	3,335,000,000.00	3,810,000,000.00
National bonds	182,806,400.00	
Corporate bonds	1,040,000,000.00	500,000,000.00
Available-for-sale financial assets	3,190,000,000.00	1,118,000,000.00
Including: Financial bonds	2,570,000,000.00	1,000,000,000.00
National bonds		118,000,000.00
Corporate bonds	620,000,000.00	
Total	7,747,806,400.00	5,428,000,000.00

(2) Part of the Company's bonds were lent to interbank. The balances on the balance sheet date were as follows:

Item	December 31, 2016	December 31, 2015
Held-to-maturity investments	3,400,000,000.00	
Including: Financial bonds	900,000,000.00	
National bonds	2,500,000,000.00	
Corporate bonds		
Financial assets measured at fair value through current profit or loss	300,000,000.00	
Including: Financial bonds	100,000,000.00	
National bonds	200,000,000.00	
Corporate bonds		
Total	3,700,000,000.00	

7.3 Main Off-balance Sheet Items about Contingent Risks

Item	December 31, 2016		
	Amount	Margin	Proportion of margin (%)
Banker's acceptance bill	7,665,452,307.95	2,034,680,469.08	26.54%
Letter of guarantee	4,236,855,156.98	1,375,796,326.56	32.47%

Item	December 31, 2015		
	Amount	Margin	Proportion of margin (%)
Banker's acceptance bill	8,767,884,502.40	2,992,792,148.43	34.13
Letter of guarantee	4,131,831,720.15	1,456,811,417.90	35.26

Banker's acceptance bills belong to the credit business issued by the payee or the payer (or the applicant for acceptance), which are applied to the Company by the applicant for acceptance and examined and approved by the Company to accept commercial bills.

Letter of guarantee refers to the credit business that the Company promises, by issuing a letter of guarantee at the request of the applicant or the client, to the beneficiary to perform obligations or bear responsibilities as agreed in the letter of guarantee when the applicant fails to perform the obligations agreed or events committed in the contract.

8. Post Balance Sheet Events

None.

9. Risks of Financial Instruments

The Company mainly carries out its deposit and loan business based on the interest rate system established by the People's Bank of China.

Financial instruments are extensively used in the Company's operating activities. The Company absorbs deposits of different terms at fixed interest rates and uses such funds in high quality assets to obtain above-average spreads. The Company uses short-term funds to make medium and long term loans and bond investments with high interest rates to increase spreads and maintain sufficient liquidity to ensure prompt payment after liabilities are due.

Such financial instruments also include providing credit, guarantee or other commitments besides financial assets measured at fair value through current profit or loss, loans and advances to customers, available-for-sale financial assets, held-to-maturity investments, financial assets purchased under resale agreements, loans to banks and other financial institutions, deposits with banks and other financial institutions, receivables held for investment, other receivables etc..

The Board of Directors and its special committees, the Senior Management and its special committees are the supreme managing and decision-making body of the Company's risk management structure. Risk and compliance department and leading departments of all risk categories are the main body of the risk management of the Company. All departments and branches specifically implement the policies concerning the risk management. The Company initially forms a comprehensive risk management organizational structure covering various types of risks including credit risk, liquidity risk, market risk, operational risk, liquidity risk, country-specific risk, reputation risk, strategic risk and legal risk. In 2016, the Company established the three-tier contact system for risk management, determined the risk information reporting path and optimized the risk management reporting system.

In this process, the Company will face various risks. Description and analysis of major risks are as follows:

9.1 Credit Risk

Credit risks represent the financial loss of a bank that borrowers or counterparties fail to perform the obligations stipulated in the contract or the credit quality changes, which affects the value of financial products. Credit risk is prominent in operating activities of the Company, and the management took prudent principles on managing credit risk exposure.

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

The Company strictly observes the guidance of CBRC regarding credit risk management and other relevant requirements; earnestly executes strategic decisions and objectives under the leadership of the Board of Directors and the Senior Management; and continuously optimizes credit procedures. The Board of Directors takes the final responsibility for the effective credit risk management. The Senior Management and its Risk Management and Internal Control Committee, the decision-making and coordinating body of the Company to manage credit risks, are responsible for the approval of action plan and the coordination for the execution of action plan. Business departments, including corporate business department, personal banking department, international business department, financial markets department and other related departments are the first defense line of credit risk management, responsible for marketing, due diligence, and specific post-lending management and post-investment management. Credit management department, as the leading department for credit risk management of the whole bank, takes lead in credit risk management. Risk and compliance department is responsible for setting up risk preference of credit risk, researching and implementing credit risk management methodology and non-performing loan management; the information technology department is responsible for credit risk unified data management of the whole bank. The internal audit department, is responsible for independent examination and evaluation on the appropriateness, effectiveness and efficiency of the risk management policy, mechanism and procedures.

The Company actively took advantage of the achievements of the Internal Rating System for Credit Risk, publicized and implemented the philosophy of integrated credit risk management; measured and monitored risk through information management system; sufficiently used customer credit rating in approving loans; further popularized credit risk measurement tools, put corporate credit risk early warning function model into production and utilized RAROC in supporting project-financing loans approval process.

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

Credit Risk Management of Corporate Loans:

In 2016, the Company continued to promote credit culture construction, reinforced inspection and supervision, raised the awareness of compliance and management. The Company also reinforced the collection and disposals of non-performing loans and took many measures to reduce non-performing loans including cash collection, recover loans, restructuring and conversion, etc.

The Company continued to improve the credit risk management policies, rules and optimized the credit management process. In 2016, the Company kept conducting the customer credit policy in a prudent and conservative manner. It was indicated in the policy that: the Company adopted classified management to different industries, offered full support for relevant industries in accordance with the Company's strategic development and strictly controlled loan issuance to sensitive industries; actively developed key clients as well as clients in the field of intergrating of finance with industry and properly downsize the credit of small and medium-sized clients; under the unified guidance of credit policies of the Company, each branch shall, based on the situation of the Company and the characteristics of regional economy, research and formulate its implementing rules for credit policies, and lead it to establish their own advantages and encourage business innovation while paying close attention to potential risks. Besides, the Company clarified several policies and procedures concerning credit risk management, optimized credit system and credit management working procedures and continuously improved credit approval, post-lending management and other fundamental things.

Credit Risk Management in Treasury Operations:

The Company continued to strengthen the management of the duration of bank account credit debts, tracked and reported downgrades of bond issuing bodies and major risk events that may affect the solvency of the bond issuing bodies. For the bonds whose results of the credit risk investigation show significantly deteriorated solvency and significantly increased credit risks, the Company actively carried out market inquiries and sold bonds at the right time to effectively reduce credit risks.

As to interbank investment business, the Company strictly screened counterparties and carefully judged market environment and industry dynamics to strictly control credit risks. Counterparties were dominated by quality commercial banks and trust companies with low risks of default; investment projects were dominated by the projects of state-owned and central enterprises with high repayment ability; investment subjects involve wide distribution of industries. For investment in real estate and platform assets, the Company strictly require pre-management of risks, effectively control business access. The real estate assets were in the charge of large well-known domestic real estate companies; and platform assets were dominated by national or developed areas.

Credit Risk Management of Retail Loans:

In 2016, for regulatory policy adjustments, the Company promptly adjusted and improved the implementing rules and implement differentiated management in the region where each branch was located; improved approval process beyond authorization for personal loan business and established and enhanced the personal loan business authorization mechanism; standardized the management of collateral of commercial housing mortgage loans to further control operational risks; strengthened the pre-loan investigation and post-loan management, prevented non-performing loans; strengthened troubleshoot of overall risks, rationally decentralized the structure of products and

strictly controlled the launch of high risk products.

9.1.1 Measurement of Credit Risks

(1) Loans and Advances to Customers

According to the regulatory requirement on loan risk classification (the provisions of the China Banking Regulatory Commission on the *Guidelines on Risk-based Loan Classification*), on the one hand, the Company divided loans into five categories: pass, special mention, substandard, doubtful and loss. On the other hand, in order to implement credit asset quality refined management and improve risk management level, the Company divided corporate loans into twelve grades. In 2016, the Company revised the administrative measures for the quality classification of corporate credit assets, and implemented the mentioned measures since September to guide its branches to strictly implement the definitions of the classification, to effectively strengthen the management of classification process and to reflect the conditions of assets.

The *Guidelines on Risk-based Loan Classification* require commercial banks of China to classify corporate and personal loans into the following five categories: pass, special mention, substandard, doubtful and loss; specifically, substandard, doubtful and loss loans are deemed as non-performing loans. Meanwhile, the Company includes the off-balance sheet business in the united credit management of customers, implements the credit line management and classifies the main off-balance sheet business by risks.

(2) Bonds and Interbank Investment

The Company sets a credit limit for each capital trading client (including counterparties, bond issuers, etc.). The Capital Trading Department makes bond investment and interbank investments within the limit.

RMB bond investment mainly includes national bonds issued by the Ministry of Finance, notes issued by the People's Bank of China in public and financial bonds issued by state policy banks; other bond credit entities must meet the relevant requirements of regulators and the basic conditions specified by the Company.

Interbank investment mainly refers to asset management products, trust products, financial products and non-standard debt investments issued by banks and other financial institutions.

9.1.2 Risk Limit Management and Mitigation Measures

The Company regularly evaluates the existing and potential clients' repayment ability, properly adjusts credit limit, and promptly develops risk control measures to control credit risks mainly through preparing and implementing strict investigation, examination, approval and granting. Meanwhile, obtaining collateral and guarantee is also a way adopted by the Company to control credit risks.

(1) Credit Risk Limit Management

A. Loans and Advances to Customers

The Company has formulated credit management policies for customers, which specify the credit limit of a single customer, a single group, region and industry, and specific monitoring and management of loan borrowers. In view of working capital loans, the Company shall forecast needs of working capital of customers and gradually increase the level of credit risk management in accordance with the *Interim Administrative Measures for Working Capital Loans*.

The Risk and Compliance Department of the Company shall write a report on credit risk control on a quarterly basis to analyze overall risks, policy risks, industrial risks, regional risks, concentration risks, new loans risks, stock loan risk, non-performing loan risks of credit business of the whole bank and forming reasons and to put forward credit risk control strategies and policy measures, including adjusting authorization and adjusting business structure; timely report customers with overall, sudden and tendentious significant problems occurred in the industry, region or business, related-party transactions of group customers, the influence of changes in big customers, analyze risk factors, deliberate and prepare policy measures to control and prevent risks, and regularly analyze the implementation of relevant risk limits. The quarterly report shall be submitted to the Risk Management Committee for deliberation, and shall regularly disclose the relevant information in accordance with the provisions of the Company on information disclosure and requirements for regulatory disclosure of regulators.

The Company implements credit management according to personal business, corporate business, indirect syndicated loans or purchase of credit assets of other banks:

a. Personal Business

The personal credit business of the Company includes personal consumption loans, personal business loans, individual housing loans and other business.

For personal credit business of the Company, the Business Management Department is responsible for the control of the whole process of personal credit, strictly follows hierarchical authorization and approval and implements real-time risk monitoring.

b. Corporate Business

Corporate credit business includes short-term, medium and long-term loans, discount and other balance sheet credit business, issuance of Banker's acceptance bills, issuance of a letter of guarantee and other off-balance sheet credit business.

With guidance of the Risk Management Committee and under the unified credit authorization of Credit Management Department, the Bank carried out product marketing and business activities according to the variety credit products, business characteristics and risk control; internal horizontal and vertical authorization of decision-making of loan is implemented for credit activities; the Credit Management Department takes the lead to implement centralized and unified monitoring on risks within the whole process, including acceptance, investigation, review, approval, granting and post-granting management of each credit activity.

c. Syndicated Loans or Purchase of Credit Assets from Other Banks

Syndicated loans, sometimes also called participated syndicated loans, refer to the syndicated loans managed by the leading bank which constitutes a consortium with the transferee and acts as the agent bank; the leading bank separately signs a loan contract with the borrower and grants loans or promises to grant loans to the borrower; then the leading bank arranges other potential banks to grant loans by transferring the remaining loans or promised loans.

Purchase of credit assets from banks refers to interbank financing business where the Company and other banking financial institutions independently transfer unexpired credit assets within their business scope in accordance with laws and regulations according to the agreement.

The Credit Management Department and the Credit Examination Committee shall examine and approve activities of participating in syndicated loan business and buying out credit assets. The Company grants credit lines to the borrower independent of the leading bank or the transferor. The limit of transferred credit assets shall never exceed that of the borrower determined by the Company. In addition, the Company will carry out the relevant requirements of the *Circular of the China Banking Regulatory Commission on Further Regulating the Credit Asset Transfer Business of Banking Financial Institutions* (Y.J.F. [2010] No. 102) promulgated by the China Banking Regulatory Commission and further standardize purchase of credit assets.

B. Bond Investment

The Company sets limits for bond investment portfolio, limits for issuers, limits for a single issuance and other structure limits to control credit risks of bonds at the portfolio level.

(2) Risk Mitigation Measures Include:

A. Loan Guarantees, Mortgage and Pledge

The Company will require the borrower to provide a guarantor or mortgage and pledge as risk mitigation according to degree of credit risks. As a guarantee method, mortgage and pledge are generally used in credit business. Mortgage and pledge accepted by the Company mainly include negotiable documents, bonds, equities, real estate, land use rights, machinery equipment, vehicles, etc..

Professional appraisal agencies designated by the Company appraise the mortgage/pledge. In the process of business review, appraisal reports issued by professional appraisal agencies are generally used as reference for decision-making.

For loans with third-party guarantee, the Company assesses the guarantor's financial position, credit records and ability to perform the obligations according to the same procedures and standards as those of the main borrower.

B. Credit Commitments

Credit commitments are mainly expected to provide customers with necessary funds. The Company opens L/C, issues a letter of guarantee or provides irrevocable guarantee for draft acceptance; that is to say, the Company will pay the loan when the customer cannot fulfill its payment obligations to a third party, so the Company undertakes the same credit risks. In some cases, the Company will collect deposits to reduce credit risks arising from providing the service. Deposits will be collected at a certain percentage of committed amounts according to the customer's credit capacity, business credit rating and other risk degrees.

C. Analysis on Impairment of Credit Assets and Policies for Provision of Reserves

The loan officers classify outstanding loans based on the borrower's repayment ability, the overdue time of the guarantee, mortgage and pledge as well as other factors. Classification of quality of credit assets shall be initiated by the customer manager of the major business department which shall put forward opinions for the examination and approval of the person in charge according to the annual authorization. The Company classifies credit assets based on the information obtained from post-loan inspection quarterly in principle.

Classification of personal loans in five categories shall, according to the default, be initiated by the customer manager of the front business department who shall put forward opinions for examination and approval of the person in charge according to the annual authorization.

According to the provisions of accounting policies, if there is objective evidence that the expected future cash flows of loans have been reduced and the reduced amount can be estimated, the Company shall recognize that the customer's loan has been impaired; as a result, the provision for impairment shall be made.

The criteria whether there is objective evidence of impairment include:

- a Default or delay in interest or principal;
- b The borrower suffers financial difficulties (i.e., deterioration of equity ratio, proportion of net profit in income and other indicators);
- c The debtor breaches the provisions of the relevant contract;
- d Events that may lead to bankruptcy of the debtor occur;
- e Market competitive position of the borrower becomes worsening; and
- f Rating is downgraded below investment grade.

The Company shall review the quality of significant financial assets at least once a quarter. For assets subject to separate provision of reserves, the Company assesses their losses one by one to determine the provision of the reserves. In the process of evaluation, the Company usually takes the mortgage value, the pledge value and the status of future cash flows into consideration.

The Company makes provision for the following asset groups according to historical data, experience-based judgment and statistical techniques:

- a Assets portfolio with insignificant single amount and similar credit risk characteristics;
- b Assets that have been suffered but have not yet been identified.

Loans and advances to customers on the balance sheet date are classified into five categories as follows:

Five categories	December 31, 2016		December 31, 2015	
	Amount of loans and advances	Proportion in total amount (%)	Amount of loans and advances	Proportion in total amount (%)
Sub-total of performing loans:	102,265,896,439.2	98.29	87,288,822,185.28	98.85
Pass	101,081,470,648.97	97.15	86,819,123,980.80	98.32
Special mention	1,184,425,790.23	1.14	469,698,204.48	0.53
Sub-total of non-performing loans:	1,782,060,804.58	1.71	1,015,127,979.64	1.15
Substandard	180,541,076.58	0.17	199,269,619.36	0.23
Doubtful	628,676,982.99	0.61	251,118,099.06	0.28
Loss	972,842,745.01	0.93	564,740,261.22	0.64
Total	104,047,957,243.78	100	88,303,950,164.92	100

Five categories and impairment of loans and advances to customers as at December 31, 2016

Five categories	December 31, 2016		
	Amount of loans and advances	Proportion of provision (%)	Amount of provision
Pass	101,081,470,648.97	2.95	2,985,983,628.94
Special mention	1,184,425,790.23	3.06	36,224,303.12
Substandard	180,541,076.58	57.47	103,755,094.70
Doubtful	628,676,982.99	75.46	474,373,334.22
Loss	972,842,745.01	100	972,842,745.01
Sub-total	104,047,957,243.78	4.40	4,573,179,105.99

Five categories and impairment of loans and advances to customers as at December 31, 2015

Five categories	December 31, 2015		
	Amount of loans and advances	Proportion of provision %	Amount of provision
Pass	86,819,123,980.80	2.93	2,540,929,827.02
Special mention	469,698,204.48	13.95	65,529,080.65

Continued

Five categories	December 31, 2015		
	Amount of loans and advances	Proportion of provision %	Amount of provision
Substandard	199,269,619.36	72.58	144,631,831.94
Doubtful	251,118,099.06	90.30	226,767,609.71
Loss	564,740,261.22	100	564,740,261.22
Subtotal	88,303,950,164.92	4.01	3,542,598,610.53

Default and impairment classification of loans and advances to customers

Item	December 31, 2016	December 31, 2015
Not yet overdue or impaired	102,177,211,522.86	87,123,347,418.94
Overdue but not impaired	88,684,916.34	165,474,766.34
Impaired	1,782,060,804.58	1,015,127,979.64
Less: Provision for impairment	4,573,179,105.99	3,542,598,610.53
Net amount	99,474,778,137.79	84,761,351,554.39

(1) The breakdown of the credit risks of the loans and advances which have not been yet overdue or impaired are as follows according to the five categories:

Item	December 31, 2016		
	Corporate loans	Personal loans	Total
Pass	92,912,000,967.63	8,149,683,587.77	101,061,684,555.40
Special mention	1,099,117,139.63	16,409,827.83	1,115,526,967.46
Substandard			
Doubtful			
Loss			
Total	94,011,118,107.26	8,166,093,415.60	102,177,211,522.86
Less: Provision for impairment	2,777,672,880.02	241,559,424.03	3,019,232,304.05
Net amount	91,233,445,227.24	7,924,533,991.57	99,157,979,218.81

Item	December 31, 2015		
	Corporate loans	Personal loans	Total
Pass	81,311,825,454.98	5,482,143,445.47	86,793,968,900.45
Special mention	317,500,000.00	11,878,518.49	329,378,518.49
Substandard			
Doubtful			
Loss			
Total	81,629,325,454.98	5,494,021,963.96	87,123,347,418.94
Less: Provision for impairment	2,425,831,620.09	160,903,121.52	2,586,734,741.61
Net amount	79,203,493,834.90	5,333,118,842.44	84,536,612,677.33

(2) Analysis on the terms of loans and advances which have been overdue but not impaired

Item	December 31, 2016		
	Corporate loans	Personal loans	Total
Overdue for 1-90 days (including 90 days)	43,378,883.11	29,450,871.35	72,829,754.46
Overdue for 90-360 days (including 360 days)	12,020,000.00	3,835,161.88	15,855,161.88
Overdue for 360 days to 3 years (including 3 years)			
Overdue for over 3 years			
Total	55,398,883.11	33,286,033.23	88,684,916.34
Provision for impairment	1,788,016.49	1,187,611.52	2,975,628.01
Net value	53,610,866.62	32,098,421.71	85,709,288.33

Item	December 31, 2015		
	Corporate loans	Personal loans	Total
Overdue for 1-90 days (including 90 days)	84,555,470.24	22,655,124.80	107,210,595.04
Overdue for 90-360 days (including 360 days)	48,850,000.00	9,414,171.30	58,264,171.30
Overdue for 360 days to 3 years (including 3 years)			
Overdue for over 3 years			
Total	133,405,470.24	32,069,296.10	165,474,766.34
Provision for impairment	18,751,148.12	973,017.94	19,724,166.06
Net value	114,654,322.12	31,096,278.16	145,750,600.28

(3) Impaired loans and advances by type of guarantee

Guarantee method	December 31, 2016	December 31, 2015
Credit loans		88,637,646.29
Guaranteed loans	744,901,438.62	669,035,281.52
Mortgage loans	295,144,774.11	145,211,316.54
Pledged loans	742,014,591.85	112,243,735.29
Total	1,782,060,804.58	1,015,127,979.64
Less: Provision for impairment	1,550,971,173.93	936,139,702.86
Net amount	231,089,630.65	78,988,276.78

9.1.3 Credit Risk Concentration of Credit Assets

If credit clients or counterparties concentrate in an industry or area, or share some economic characteristics, credit risks usually increase.

9.1.4 Maximum Credit Risk Exposure

The Company's maximum credit risk exposure without mortgage, pledge and other credit enhancement measures as at December 31, 2016 is listed as follows: For items in the balance sheet, risk exposure of assets is the book value on the balance sheet date.

Item	December 31, 2016	December 31, 2015
Credit risk exposure of items of balance sheet includes:		
Deposits with banks and other financial institutions	61,496,316,989.72	66,748,442,230.80
Loans to banks and other financial institutions	2,535,000,000.00	1,563,900,000.00
Financial assets measured at fair value through current profit or loss	3,786,126,499.97	3,139,185,098.35
Financial assets purchased under resale agreements	5,844,254,308.03	25,606,750,577.58
Loans and advances to customers	99,474,778,137.79	84,761,351,554.39
Available-for-sale financial assets	14,163,890,144.99	6,674,309,541.81
Held-to-maturity investments	17,710,703,073.68	16,946,432,558.45
Receivable investments	48,576,905,752.59	48,559,585,993.50
Interest receivable	1,096,523,413.67	921,423,192.39
Others	66,973,126.55	58,499,465.85
Subtotal	254,751,471,446.99	254,979,880,213.12
Off-balance sheet credit risk exposure includes:		
Letter of credit		
Banker's acceptance bill	7,665,452,307.95	8,767,884,502.40
Letter of guarantee	4,236,855,156.98	4,131,831,720.15
Subtotal	11,902,307,464.93	12,899,716,222.55
Total	266,653,778,911.92	267,879,596,435.67

9.1.5 Investment Bonds

The table below lists rating distribution of bonds of the Company held by external rating agencies on December 31, 2016

Table of bond rating	Bonds held for trading	Available-for-sale financial assets	Held-to-maturity investments
Medium and long-term bonds			
AAA	20,064,090.00	1,867,402,820.00	4,691,073,515.57
AA- to AA+		277,343,220.00	50,085,401.28

Continued

Table of bond rating	Bonds held for trading	Available-for-sale financial assets	Held-to-maturity investments
A- to A+			
Below A			
Unrated	4,366,807,299.97	12,489,641,400.00	16,648,215,400.44
Including: Central government bonds	580,680,800.00	210,980,460.00	102,027,456.00
The central bank bills			
Financial bonds of policy banks	2,408,126,499.97	11,595,273,140.00	11,142,052,419.71
Other financial bonds	1,378,000,000.00	683,387,800.00	5,404,135,524.73
Subtotal	4,386,871,389.97	14,634,387,440.00	21,389,374,317.29
Short-term bonds			
AAA			
AA- to AA+			
A- to A+			
Below A			
Unrated			
Including: Central government bonds			
The central bank bills			
Financial bonds of policy banks			
Other financial bonds			
Subtotal			
Total	4,386,871,389.97	14,634,387,440.00	21,389,374,317.29

9.2 Liquidity Risk

The liquidity risks refer to the risks originating from the failure of the Company to obtain adequate fund in time or at reasonable cost so as to repay the matured debts or other payment obligations and meet the needs of other funds for other normal business development. Based on the specific reasons for the generation of risks, the liquidity risk includes premature drawing risk, early withdrawal risk, delay risk, risk of mismatching the period of assets and liabilities, the risk of asset realization, the risk of operating losses, and bank liquidity risks from affiliate related risks and the liquidity risk resulting from other system failure.

Liquidity Risk Management

The Company established a sound governance structure of liquidity risk management; defined the duties of the board of directors, the board of supervisors, senior management special committee and the relevant administrative departments in the liquidity risk management, and improved the strategies, policies and procedures for the liquidity risk management. The Board of Directors of the Company bears the ultimate responsibility of liquidity risk management, while other staff are in charge of their respective functions of liquidity risk management and supervision.

The Company attached great importance to the liquidity risk management. The objectives were to realize full identification, accurate measurement, continuously monitoring and effective control of the liquidity risks of the Group and legal person, the affiliates, the branches and business lines by establishing a complete and healthy liquidity risk management system to ensure that the demands for liquidity could be satisfied at a reasonable costs under normal operating conditions and stress.

In 2016, due to the changes in internal and external situation, the Company actively promoted the management of liquidity risks in accordance with relevant regulatory requirements of the *Administrative Measures for the Liquidity Risk of Commercial Banks (for Trial Implementation)* ([2015] No. 9) issued by CBRC and in combination of the practical business management needs. The liquidity was moderate as a whole. During the reporting period, the Company mainly took the following measures for the liquidity risk management: firstly, improving the organizational structure of liquidity risks, optimizing the liquidity risk management system, implementing the liquidity limit management, conducting regular stress tests and carrying out emergency drills to ensure the effectiveness of emergency plans for liquidity risk management and to strengthen the liquidity risk reporting mechanism; secondly, reasonably arranging the structure of assets and liabilities to ensure a steady increase and a harmonious development of main assets and liabilities, and a substantial match of the use of the source of funds; thirdly, strengthening the management of active debts to ensure smooth financing channels including currency market, interbank deposit certificates, interbank deposits and the use of funds of the central bank, and actively expanding large-sum deposit certificates and other innovative business varieties, diversified sources of active debts and supported asset business; fourthly, making daily liquidity management, dynamically adjusting liquidity portfolio management, strengthening the liquidity excess reserve management to maintain a reasonable level of excess reserves and improve day capital management efficiency. Fifthly, actively promoting the construction of the liquidity risk management system and improving the level of automation and refinement of liquidity risk management.

9.2.1 Maturity Date of Assets and Liabilities as at December 31, 2016

The table below presented on the balance sheet date of 2016 presents the analysis on maturity date of assets and liabilities.

Item	Overdue	Payment at sight	Within 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Assets:							
Cash and deposits in the central bank		8,192,399,952.04				24,437,470,085.27	32,629,870,037.31
Deposits with banks and other financial institutions		14,205,267,350.46	14,693,094,351.00	32,597,955,288.26			61,496,316,989.72
Loans to banks and other financial institutions			1,560,000,000.00	975,000,000.00			2,535,000,000.00
Financial assets measured at fair value through current profit or loss		1,378,000,000.00			1,757,511,739.97	1,251,359,650.00	4,386,871,389.97
Financial assets purchased under resale agreements			5,844,254,308.03				5,844,254,308.03
Interest receivable	1,459,598.60	3,615,136.51	629,261,108.57	472,716,657.00			1,107,052,500.68
Loans and advances to customers	315,146,569.68		17,044,228,641.51	55,131,533,070.88	14,574,390,773.96	12,409,479,081.76	99,474,778,137.79
Available-for-sale financial assets			450,329,372.67	791,493,651.02	11,852,452,220.54	1,280,595,360.76	14,374,870,604.99
Held-to-maturity investments			3,513,701,732.49	4,326,617,166.72	12,300,826,951.17	1,237,584,679.30	21,378,730,529.68
Receivable investments			8,865,100,850.00	26,166,757,714.77	13,350,947,187.82	194,100,000.00	48,576,905,752.59
Fixed assets and construction in progress						371,324,480.55	371,324,480.55
Intangible assets						79,970,352.39	79,970,352.39
Deferred income tax assets					730,702,282.87		730,702,282.87
Other assets		110,287,371.79		3,779,414.75	107,507,648.49		221,574,435.03
Total assets	316,606,168.28	23,889,569,810.80	52,599,970,364.27	120,465,852,963.40	54,674,338,804.82	41,261,883,690.03	293,208,221,801.60

Continued

Item	Overdue	Payment at sight	Within 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Liabilities:							
Borrowings from the central bank			282,905,417.50	378,518,852.28			661,424,269.78
Deposits from banks and other financial institutions		21,440,789,026.32	32,076,634,475.54	44,576,081,967.08	1,000,000,000.00		99,093,505,468.94
Loans from banks and other financial institutions			5,000,000,000.00				5,000,000,000.00
Financial assets sold under repurchase agreements			7,180,535,000.00				7,180,535,000.00
Absorption of deposits		81,025,139,458.69	22,022,496,427.51	27,996,462,770.83	17,233,297,976.73	331,345,352.74	148,608,741,986.50
Employee compensation payable		18,214,636.92					18,214,636.92
Taxes and surcharges payable		193,172,411.67					193,172,411.67
Interest payable		240,070,115.93	553,585,870.94	816,585,701.24	830,465,687.12	4,743,976.23	2,445,451,351.46
Bonds payable			993,056,466.66	490,666,083.33			1,483,722,549.99
Deferred income tax liabilities							
Other liabilities		2,402,990,250.28	6,766,199.54				2,409,756,449.82
Total liabilities		105,320,375,899.81	68,115,979,857.69	74,258,315,374.76	19,063,763,663.85	336,089,328.97	267,094,524,125.08
Net amount of liquidity	316,606,168.28	(81,430,806,089.01)	(15,516,009,493.42)	46,207,537,588.64	35,610,575,140.97	40,925,794,361.06	26,113,697,676.52

9.2.2 Maturity Date of Assets and Liabilities as at December 31, 2015

The table below presented on the balance sheet date of 2015 presents the analysis on maturity date of assets and liabilities.

Item	Overdue	Payment at sight	Within 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Assets:							
Cash and deposits in the central bank		8,166,216,184.51			23,188,195,071.77		31,354,411,256.28
Deposits with banks and other financial institutions		62,368,036,230.80	2,340,507,000.00	2,016,399,000.00	23,500,000.00		66,748,442,230.80
Loans to banks and other financial institutions			1,023,900,000.00	40,000,000.00	500,000,000.00		1,563,900,000.00
Financial assets measured at fair value through current profit or loss		3,000,453,638.35			148,753,990.00	10,107,230.00	3,159,314,858.35
Financial assets purchased under resale agreements			27,306,750,577.58				27,306,750,577.58
Interest receivable	4,549,312.26	1,434,330.54	200,752,373.88	321,869,582.86	344,812,229.91	51,949,592.51	925,367,421.96
Loans and advances to customers	189,129,964.92		14,549,295,535.54	44,723,820,254.90	11,979,191,314.41	13,319,914,484.62	84,761,351,554.39
Available-for-sale financial assets			578,715,743.16	1,213,613,188.65	3,671,137,330.00	1,334,149,160.00	6,797,615,421.81
Held-to-maturity investments			5,413,335,996.06	4,664,067,103.48	6,687,948,990.32	1,030,325,857.86	17,795,677,947.72
Receivable investments			12,453,409,881.04	28,666,594,753.75	7,439,581,358.71		48,559,585,993.50
Fixed assets and construction in progress						369,498,282.41	369,498,282.41
Intangible assets						75,876,646.99	75,876,646.99
Deferred income tax assets					665,750,598.79		665,750,598.79

Continued

Item	Overdue	Payment at sight	Within 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Other assets		78,454,058.02		920,737.19	118,178,952.06		197,553,747.27
Total assets	193,679,277.18	73,614,594,442.22	63,866,667,107.26	81,647,284,620.83	31,578,854,764.20	39,380,016,326.16	290,281,096,537.85
Liabilities:							
Borrowings from the central bank			439,058,981.27	164,060,000.00			603,118,981.27
Deposits from banks and other financial institutions		69,345,363,456.69	16,820,584,643.97	25,517,983,290.19	1,000,733,967.08		112,684,665,357.93
Loans from banks and other financial institutions							
Financial assets sold under repurchase agreements		8,147,367,150.00					8,147,367,150.00
Absorption of deposits		83,026,325,835.78	17,834,357,569.32	28,815,184,389.77	11,430,543,020.43		141,106,410,815.30
Employee compensation payable		12,026,232.04					12,026,232.04
Taxes and surcharges payable		215,694,929.26					215,694,929.26
Interest payable		215,585,434.26	358,745,438.54	672,235,917.59	980,516,482.19		2,227,083,272.58
Bonds payable			349,880,805.56				349,880,805.56
Deferred income tax liabilities					17,496,735.02		17,496,735.02
Other liabilities		1,867,297,597.34	6,766,573.54				1,874,064,170.88
Total liabilities		154,682,293,485.37	43,956,761,162.20	55,169,463,597.55	13,429,290,204.72		267,237,808,449.84
Net amount of liquidity	193,679,277.18	(81,067,699,043.15)	19,909,905,945.06	26,477,821,023.28	18,149,564,559.48	39,380,016,326.16	23,043,288,088.01

9.2.3 Analysis on Maturity Date of Off-balance Sheet Credit commitments in each period

December 31, 2016	Overdue	Payment at sight	Within 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Banker's acceptance bill	65,365,027.07	3,232,656,109.57	4,367,431,171.31			7,665,452,307.95	
Letter of guarantee	2,748,447,753.90	498,614,434.80	794,863,164.70	194,929,803.58		4,236,855,156.98	
Total	2,813,812,780.97	3,731,270,544.37	5,162,294,336.01	194,929,803.58		11,902,307,464.93	

December 31, 2015	Overdue	Payment at sight	Within 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Banker's acceptance bill	126,241,495.91	4,035,234,193.37	4,606,408,813.12			8,767,884,502.40	
Letter of guarantee	2,174,976,313.39	299,476,899.75	1,267,058,165.65	390,043,628.56		4,131,831,720.15	
Total	2,301,217,809.30	4,334,711,093.12	5,873,466,978.77	390,043,628.56		12,899,716,222.55	

9.2.4 Analysis on Contractual Cash Flows

The table below presents the distribution of cash flows of financial assets and financial liabilities in the balance sheet of the Company during the remaining maturity period. The remaining maturity period refers to the maturity period as of the balance sheet date to the maturity date stipulated in the contract. Amounts of items listed in each period are undiscounted contractual cash flows.

Analysis on contractual cash flows as at December 31, 2016

Item	Overdue	Payment at sight	Within 3 months	3 months to 1 year	1–5 years	Over 5 years	Total
Financial assets:							
Cash and deposits in the central bank		8,192,404,687.60	99,039,169.40	293,768,458.16	1,571,054,618.88	24,437,470,085.27	34,593,737,019.31
Deposits with banks and other financial institutions		14,212,964,801.04	14,830,747,458.11	32,693,280,659.91		30,075,388.89	61,767,068,307.95
Loans to banks and other financial institutions			1,618,563,333.33	1,048,684,722.22			2,667,248,055.55
Financial assets measured at fair value through current profit or loss		1,378,000,000.00		92,362,000.00	2,159,448,000.00	1,362,362,000.00	4,992,172,000.00
Financial assets purchased under resale agreements			5,861,508,229.88				5,861,508,229.88
Loans and advances to customers	2,167,358,091.21		18,438,168,030.86	58,672,050,321.74	20,263,215,193.27	20,192,336,387.15	119,733,128,024.23
Available-for-sale financial assets	230,000,000.00		784,764,000.00	1,120,594,000.00	13,445,190,000.00	1,504,265,000.00	17,084,813,000.00
Held-to-maturity investments			3,707,198,870.00	4,777,654,000.00	13,682,933,180.00	1,342,766,990.00	23,510,553,040.00
Receivables held for investment			9,235,561,875.00	27,972,509,096.23	14,674,642,337.03	261,700,000.00	52,144,413,308.26
Total financial assets	2,397,358,091.21	23,783,369,488.64	54,575,550,966.58	126,670,903,258.26	65,796,483,329.18	49,130,975,851.31	322,354,640,985.18

Item	Overdue	Payment at sight	Within 3 months	3 months to 1 year	1-5 years	Over 5 years	Continued	
							Total	Total
Financial liabilities:								
Borrowings from the central bank		285,971,268.40	379,190,641.22				665,161,909.62	
Deposits from banks and other financial institutions		21,440,789,026.31	32,452,611,150.86	45,468,040,341.55	1,243,262,500.00		100,604,703,018.72	
Loans from banks and other financial institutions			5,002,679,444.44				5,002,679,444.44	
Financial assets sold under repurchase agreements			7,184,822,264.88				7,184,822,264.88	
Absorption of deposits		81,264,230,567.66	22,435,291,163.53	29,094,581,515.28	19,491,414,165.36	336,089,328.97	152,621,606,740.80	
Bonds payable			1,000,000,000.00	500,000,000.00			1,500,000,000.00	
Total financial liabilities		102,705,019,593.97	68,361,375,292.11	75,441,812,498.05	20,734,676,665.36	336,089,328.97	267,578,973,378.46	
Net contractual cash flows in balance sheet		2,397,358,091.21	(78,921,650,105.33)	(13,785,824,325.53)	51,229,090,760.21	45,061,806,663.82	48,794,886,522.34	54,775,667,606.72

Analysis on contractual cash flows as at December 31, 2015

Item	Overdue	Payment at sight	Within 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Financial assets:							
Cash and deposits in the central bank		8,166,220,575.73	92,865,388.07	278,465,672.70	1,485,150,254.39	23,536,881,836.11	33,559,583,727.00
Deposits with banks and other financial institutions		62,408,516,475.66	2,395,805,490.41	2,099,492,830.49	25,147,219.44		66,928,962,016.00
Loans to banks and other financial institutions			1,078,378,888.89	59,850,000.00	509,244,444.44		1,647,473,333.33
Financial assets measured at fair value through current profit or loss		3,000,561,751.60			161,235,536.12	10,476,480.56	3,172,273,768.28
Financial assets purchased under resale agreements			27,960,562,764.99				27,960,562,764.99
Loans and advances to customers	1,385,185,389.05		15,953,826,347.12	48,107,494,940.42	17,652,072,539.74	17,852,867,074.48	100,951,446,290.81
Available-for-sale financial assets			583,398,879.91	1,377,211,622.97	4,237,075,585.44	1,472,946,185.81	7,670,632,274.13
Held-to-maturity investments			5,479,006,882.29	5,073,990,887.38	7,333,420,422.79	1,109,293,362.67	18,995,711,555.13
Receivables held for investment			13,686,346,694.93	30,811,129,582.04	8,001,074,711.10		52,498,550,988.07
Total financial assets	1,385,185,389.05	73,575,298,802.99	67,230,191,336.61	87,807,635,536.00	39,404,420,713.46	43,982,464,939.63	313,385,196,717.74
Financial liabilities:							
Borrowings from the central bank			443,424,432.08	164,459,138.75			607,883,570.83
Deposits from banks and other financial institutions		69,349,147,498.17	17,080,793,070.77	26,355,219,208.08	1,127,033,459.02		113,912,193,236.04
Loans from banks and other financial institutions							

Continued

Item	Overdue	Payment at sight	Within 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Financial assets sold under repurchase agreements			8,160,956,097.10				8,160,956,097.10
Absorption of deposits	83,226,109,571.56	18,224,602,855.36	29,752,719,596.13	13,579,002,337.67			144,782,434,360.72
Bonds payable			350,609,972.23				350,609,972.23
Total financial liabilities	152,575,257,069.73	44,260,386,427.54	56,272,397,942.96	14,706,035,796.69			267,814,077,236.92
Net contractual cash flows in balance sheet	1,385,185,389.05	(78,999,958,266.74)	22,969,804,909.07	31,535,237,593.04	24,698,384,916.77	43,982,464,939.63	45,571,119,480.82

9.3 Market Risk

Market risk refers to the risk arising from losses on balance sheet and off-balance sheet business of a bank due to adverse changes in market price. The Company is primarily exposed to interest rate risk and exchange rate risk, but not to risk of stock and commodity price risk. The Company has established a market risk management system covering risk identification, measurement, reporting, and management, etc. to continuously monitor and properly control market risk in transactions and keep the market risk of the Company within a tolerable and reasonable level.

The Company set the bond position limit, the stop-loss limit for single bond, the exchange exposure limit and the exchange value limit to reinforce the control over the material risks; it also strengthened the application of market risk indicator in the performance assessment, exerted the guiding roles of risk measurement results in the business decision-making and formed the awareness of active risk management; it utilized the value at risk (VaR) tools to adjust the structure of the foreign currency and reduced the level of exchange risks. The Company applied its Risk Management System and Market Risk Data Mart to conduct effective monitoring, management and reporting on the measurement results of risks and the execution of risk limits.

9.3.1 Exchange Rate Risk

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

9.3.2 Trading-book Interest Risk

The Company's trading-book interest risk mainly arose from the influence of interest-rate changes on fair value of financial instruments in the trading book. Interest rate risk of the Company mainly came from the losses of fair value changes when the price of RMB bonds and money market funds in the trading book fell. The Company adopted various methods to measure and control interest rate risk in the trading book including exposure analysis, value at risk analysis, duration analysis, sensitivity analysis and stress test.

As at the end of 2016, the Company's trading account bonds consisted of policy financial debts, national debts, local government debts, middle and short-term notes, local corporate debts, among which the policy financial debts accounted for the largest proportion. Bond market maintained the trend of volatility. Throughout this year, yield rate of bonds was on a slight rise. According to the calculation, the value of DV01 was RMB -1.3855 million and the duration was 4.55.

9.3.3 Interest Rate Risks of Bank Accounts

Due to the fluctuation in market interest rates, the Company's interest margin may increase or decrease, even causing losses as unpredictable changes. The Company mainly operates the business in compliance with the interest rate system prescribed by the central bank. Based on historical experience, the central bank generally adjusts benchmark interest rates of interest-bearing loans and interest-bearing deposits (but the range of changes may vary), so the

Company mainly controls its interest rate risks through the distribution of the maturity date of loans and deposits.

According to the provisions of the central bank, RMB loan interest rates may float up and down on basis of the benchmark interest rate. Although RMB note discount rate is determined by the market, it should not be lower than the rediscount rate prescribed by the central bank, while RMB deposit interest rate cannot be higher than the benchmark interest rate prescribed by the central bank.

With the development of foreign currency business of the Company, the Company pays close attention to the trend of domestic and foreign interest rates, keeps up with changes in the market interest rate and promptly adjusts allocation of assets and liabilities in domestic and foreign currencies to prevent interest rate risks to the best of its ability.

A. Income and Equities of the Company

Specifically, effect of fluctuation in exchange rate on bank accounts:

Item	Year 2016		
	Sensitivity of net interest income (RMB '0,000)	Sensitivity of equities (RMB '0,000)	Proportion of changes in net value in net capital
An increase of interest of 200 basis points	0.00	(25,356.11)	(0.91%)

Item	Year 2015		
	Sensitivity of net interest income (RMB '0,000)	Sensitivity of equities (RMB '0,000)	Proportion of changes in net value in net capital
An increase of interest of 200 basis points	36,006.00	(55,850.78)	(2.27%)

Specifically, effect of fluctuation in exchange rate on trading accounts:

Item	Year 2016		
	Sensitivity of net interest income (RMB '0,000)	Sensitivity of equities (RMB '0,000)	Proportion of changes in net value in net capital
An increase of interest of 200 basis points	(39,175.00)	(182,452.06)	(6.58%)

Item	Year 2015		
	Sensitivity of net interest income (RMB '0,000)	Sensitivity of equities (RMB '0,000)	Proportion of changes in net value in net capital
An increase of interest of 200 basis points	5,752.00	(1,042.80)	(0.04%)

B. The table below summarizes the interest rate risk exposure of the Company. Assets and liabilities in the balance sheet shall be classified according to the earlier of re-pricing date of the contract and the maturity date while financial assets are measured at book value.

Analysis on interest rate risk exposure of re-pricing date or expiration date (whichever is earlier) of assets and liabilities on December 31, 2016							
Item	Within a month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Overdue/non-accrual	Total
Assets:							
Cash and deposits in the central bank	7,793,776,923.39			24,437,470,085.27	398,623,028.65	32,629,870,037.31	
Deposits with banks and other financial institutions	2,442,093,176.75	12,254,430,851.00	32,597,955,288.26		14,201,837,673.71	61,496,316,989.72	
Loans to banks and other financial institutions	975,000,000.00	585,000,000.00	975,000,000.00			2,535,000,000.00	
Financial assets measured at fair value through current profit or loss	1,378,000,000.00			1,757,511,739.97	1,251,359,650.00	4,386,871,389.97	
Financial assets purchased under resale agreements	793,571,240.00	5,050,683,068.03				5,844,254,308.03	
Interest receivable						1,107,052,500.68	1,107,052,500.68
Loans and advances to customers	19,391,626,776.09	16,036,308,858.94	62,543,860,545.97	630,287,470.06	557,547,917.05	99,474,778,137.79	
Available-for-sale financial assets		450,329,372.67	791,493,651.02	11,852,452,220.54	1,280,595,360.76	14,374,870,604.99	
Held-to-maturity investments	330,191,635.12	3,183,510,097.37	4,326,617,166.72	12,300,826,951.17	1,237,584,679.30	21,378,730,529.68	
Receivable investments	388,200,000.00	8,476,900,850.00	26,166,757,714.77	13,350,947,187.82	194,100,000.00	48,576,905,752.59	
Fixed assets and construction in progress						371,324,480.55	371,324,480.55
Intangible assets						79,970,352.39	79,970,352.39
Deferred income tax assets						730,702,282.87	730,702,282.87

Continued

Item	Within a month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Overdue/non-accrual	Total
Other assets						221,574,435.03	221,574,435.03
Total assets	33,492,459,751.35	46,037,163,098.01	127,401,684,366.74	39,892,025,569.56	28,958,657,692.38	17,426,231,323.56	298,208,221,801.60
Liabilities:							
Borrowings from the central bank	34,929,618.97	247,975,798.53	378,518,852.28				661,424,269.78
Deposits from banks and other financial institutions	40,155,789,026.32	13,361,634,475.54	44,576,081,967.08	1,000,000,000.00			99,093,505,468.94
Loans from banks and other financial institutions	5,000,000,000.00						5,000,000,000.00
Financial assets sold under repurchase agreements	7,180,535,000.00						7,180,535,000.00
Absorption of deposits	88,829,634,659.54	12,841,826,610.95	27,996,462,770.83	17,233,297,976.73	331,345,352.74	1,376,174,615.71	148,608,741,986.50
Employee compensation payable						18,214,636.92	18,214,636.92
Taxes and surcharges payable						193,172,411.67	193,172,411.67
Interest payable						2,445,451,351.46	2,445,451,351.46
Bonds payable			993,056,466.66	490,666,083.33			1,483,722,549.99
Deferred income tax liabilities							
Other liabilities						2,409,756,449.82	2,409,756,449.82
Total liabilities	141,200,888,304.83	26,451,436,885.02	73,944,120,056.85	18,723,964,060.06	331,345,352.74	6,442,769,465.58	267,094,524,125.08
Interest rate sensitivity exposure	(107,708,428,553.48)	19,585,726,212.99	53,457,564,309.89	21,168,061,509.50	28,627,312,339.64	10,983,461,857.98	26,113,697,676.52

Analysis on interest rate risk exposure of re-pricing date or expiration date (whichever is earlier) of assets and liabilities on December 31, 2015

Item	Within a month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Overdue/non-accrual	Total
Assets:							
Cash and deposits in the central bank	7,757,724,496.97			23,188,195,071.77		408,491,687.54	31,354,411,256.28
Deposits with banks and other financial institutions	62,452,036,230.80	2,256,507,000.00	2,016,399,000.00	23,500,000.00			66,748,442,230.80
Loans to banks and other financial institutions	459,900,000.00	564,000,000.00	40,000,000.00	500,000,000.00			1,563,900,000.00
Financial assets measured at fair value through current profit or loss	2,864,453,638.35	136,000,000.00		148,753,990.00	10,107,230.00		3,159,314,858.35
Financial assets purchased under resale agreements	27,306,750,577.58						27,306,750,577.58
Interest receivable						925,367,421.96	925,367,421.96
Loans and advances to customers	22,162,295,178.61	13,661,892,487.71	47,217,863,658.85	826,228,289.45	703,941,974.85	189,129,964.92	84,761,351,554.39
Available-for-sale financial assets	167,387,983.16	411,327,760.00	1,213,613,188.65	3,671,137,330.00	1,334,149,160.00		6,797,615,421.81
Held-to-maturity investments	1,496,189,514.72	3,917,146,481.34	4,664,067,103.48	6,687,948,990.32	1,030,325,857.86		17,795,677,947.72
Receivable investments	5,737,373,590.55	6,580,136,597.14	28,772,223,192.34	7,469,852,613.47			48,559,585,993.50
Fixed assets and construction in progress						369,498,282.41	369,498,282.41
Intangible assets						75,876,646.99	75,876,646.99
Deferred income tax assets						665,750,598.79	665,750,598.79
Other assets						197,553,747.27	197,553,747.27
Total assets	130,404,111,210.74	27,527,010,326.19	83,924,166,143.32	19,327,421,213.24	26,266,719,294.48	2,831,668,349.88	290,281,096,537.85
Liabilities:							
Borrowings from the central bank	91,278,981.27	347,780,000.00	164,060,000.00				603,118,981.27
Deposits from banks and other financial institutions	81,885,683,456.69	4,280,264,643.97	25,517,983,290.19	1,000,733,967.08			112,684,665,357.93

Item	Continued					Total
	Within a month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	
Loans from banks and other financial institutions						
Financial assets sold under repurchase agreements	579,273,150.00	7,568,094,000.00				8,147,367,150.00
Absorption of deposits	91,554,059,798.70	8,514,164,146.17	28,815,184,389.77	11,430,543,020.43		141,106,410,815.30
Employee compensation payable					12,026,232.04	12,026,232.04
Taxes and surcharges payable					215,694,929.26	215,694,929.26
Interest payable					2,227,083,272.58	2,227,083,272.58
Bonds payable	349,880,805.56					349,880,805.56
Deferred income tax liabilities					17,496,735.02	17,496,735.02
Other liabilities					1,874,064,170.88	1,874,064,170.88
Total liabilities	174,460,176,192.22	20,710,302,790.14	54,497,227,679.96	12,431,276,987.51	5,138,824,800.01	267,237,808,449.84
Interest rate sensitivity exposure	(44,056,064,981.48)	6,816,707,536.05	29,426,938,463.36	6,896,144,225.73	26,266,719,294.48	(2,307,156,450.13)
						23,043,288,088.01

9.4 Fair Value of Financial Assets and Liabilities

Fair value refers to the price received from an asset or paid for transfer of a liability by a market participant in an orderly transaction on the measurement date. Fair value estimation is performed according to the relevant market information and information relating to various financial instruments at specific timing. The valuation of fair value estimate for various financial instruments is based on the following methods and assumptions:

Financial instruments measured at fair value are divided into the following three levels. When open market quotes are unavailable, the Company recognizes the fair value of financial instruments through a number of valuation techniques or inquiries.

Level 1: Using quotes of the identical assets or liabilities in active markets, including securities and some government bonds traded in some exchanges.

Level 2: Using valuation techniques - directly or indirectly use all observable inputs other than market quotes of assets or liabilities in Level 1, including the majority of over-the-counter derivative contracts and bonds of which price (including valuations and settlement of CCDG) is obtained from price providers or the site of China Central Depository & Clearing Co., Ltd. ("CCDC").

Level 3: Use valuation techniques - use any input not based on observable market data (unobservable inputs).

(1) Financial Instruments Measured at Fair Value

On December 31, 2016, the Company's financial instruments measured at fair value are listed according to the above three levels:

	Level 1	Level 2	Level 3	Total
Financial assets- Financial assets held for trading-		4,386,871,389.97		4,386,871,389.97
Including: Trading bonds investment		3,008,871,389.97		3,008,871,389.97
Trading fund investment		1,378,000,000.00		1,378,000,000.00
Available-for-sale financial assets		14,374,870,604.99		14,374,870,604.99
Total		18,761,741,994.96		18,761,741,994.96

On December 31, 2015, the Company's financial instruments measured at fair value are listed as the above three levels below:

	Level 1	Level 2	Level 3	Total
Financial assets- Financial assets held for trading-		3,159,314,858.35		3,159,314,858.35
Including: Trading bonds investment		158,861,220.00		158,861,220.00

Continued

	Level 1	Level 2	Level 3	Total
Trading fund investment		3,000,453,638.35		3,000,453,638.35
Available-for-sale financial assets		6,797,615,421.81		6,797,615,421.81
Total		9,956,930,280.16		9,956,930,280.16

The fair value of a financial instrument with an active market is recognized at the price quoted for it in the active market. The fair value of a financial instrument without an active market is recognized in valuation techniques. Valuation techniques include reference to the price to be used in the transactions by the voluntary parties who are familiar with the instruments in recent market transactions, or the current fair value of other substantially identical assets or liabilities, or determined by using discounted cash flow, etc. Related valuation assumptions consist of prepayment rates, estimated credit loss rate, interest rate or discount rate. The bonds held by the Company were listed and traded in China's interbank bond market and their pricing and trading all adopt the relevant parameters of Shibor interbank interest rate curve recognized by the market. Therefore, the Company's financial instruments measured at fair value are classified into Level 2, which leads to a same financial asset at Level 3.

(2) Fair Value of Financial Instruments not Measured at Fair Value

Item	Year 2016			Year 2015		
	Book value	Fair value	Level	Book value	Fair value	Level
Held-to-maturity investments	21,378,730,529.68	21,331,424,562.20	Level 2	17,795,677,947.72	18,048,243,549.50	Level 2

Except for the above items, so far there is still no fair value for other financial instruments due to short term or no active market, there is still no fair value.

9.5 Agency Business

The Company, being an agent or engaging in other custody businesses, holds and manages assets for other institutions. The financial information does not include the information on the custody assets that the Company (as a trustee, custodian, agent, etc.) merely assumes the obligations and promises to return to the customer and the revenues arising therefrom.

The Company grants entrusted loans and makes investments on behalf of the third party client. The Company (as an intermediary) grants entrusted loans and makes investments based on the will of the third party client who provides funds and signs a contract with the third party client to agree to be responsible for the management and recovery of loans or investments. The third party client may, at its sole discretion, decide the requirements and terms of entrusted loans, including purpose, amount, interest rate and repayment schedule of the loans or investments. Handling charges for entrusted loans or investments collected by the Company shall be duly recognized as revenue at the rendering of services, but the risks arising from losses on the loans or investments shall be borne by the third party client.

Amounts of entrusted loans and deposits of the Company at the end of the reporting period are as follows:

Item	December 31, 2016	December 31, 2015
Entrusted funds	36,108,336,531.16	76,857,097,762.90
Entrusted loans	36,108,289,931.16	76,853,205,674.83

Including:

Refer to Note 6.10 for the deposits of entrusted loans of China National Petroleum Corporation and its holding subsidiaries as at December 31, 2016.

10. Notes to the Financial Statements of the Company

10.1 Cash and Deposits in the Central Bank

Item	December 31, 2016	December 31, 2015
Cash on hand	345,777,504.65	348,686,764.34
Statutory reserve with the central bank	24,354,384,465.03	23,098,833,647.18
Balances with the central bank	7,768,944,872.54	7,734,498,833.39
Fiscal deposits in the central bank	37,888,000.00	45,756,000.00
Total	32,506,994,842.22	31,227,775,244.91

10.2 Deposits with Banks and Other Financial Institutions

Item	December 31, 2016	December 31, 2015
Deposits with domestic banks and other financial institutions	61,733,929,803.86	67,044,019,505.82
Deposits with overseas banks and other financial institutions	6,063,293.47	5,887,704.37
Less: Provision for bad debts of deposits with banks and other financial institutions	32,105,784.36	46,111,557.41
Book value of deposits with banks and other financial institutions	61,707,887,312.97	67,003,795,652.78

10.3 Interest Receivable

Item	December 31, 2016	December 31, 2015
Interest receivable on deposits with the central bank	10,807,507.84	11,566,930.77
Interest receivable on interbank deposits	37,014,171.00	65,473,469.62
Interest receivable on purchase under resale agreements	6,403,826.89	3,695,154.06
Loan interest receivable	97,667,651.50	118,471,325.40
Interest receivable on trading bonds	52,833,821.17	6,146,382.52

Continued

Item	December 31, 2016	December 31, 2015
Interest receivable on available-for-sale and held-to-maturity bonds	424,685,918.81	188,395,596.02
Interest on receivable investments	143,767,622.55	149,236,529.00
Interest receivable on held-to-maturity investments	356,213,818.98	368,783,189.69
Total	1,129,394,338.74	911,768,577.08
Less: Provision for bad debt of interest receivables	26,220,000.00	
Book value	1,103,174,338.74	911,768,577.08

10.4 Loans and Advances to Customers

Loans and advances to customers by company and individual

Category	December 31, 2016		December 31, 2015	
	Amount	Proportion (%)	Amount	Proportion (%)
Loans and advances to customers	102,963,020,439.29	100	87,287,418,284.50	100
Including: Company	95,631,251,052.21	92.88	82,629,255,768.02	94.66
Individual	7,331,769,387.08	7.12	4,658,162,516.48	5.34
Less: Provision for losses on loans	4,524,470,639.31	100	3,511,149,674.10	100
Including: Company	4,301,332,594.47	95.07	3,371,488,333.13	96.02
Individual	223,138,044.84	4.93	139,661,340.97	3.98
Net value of loans and advances to customers	98,438,549,799.98	100	83,776,268,610.40	100
Including: Company	91,329,918,457.74	92.78	79,257,767,434.89	94.61
Individual	7,108,631,342.24	7.22	4,518,501,175.51	5.39

10.5 Long-term Equity Investments

Item	December 31, 2016	December 31, 2015
Leshan Kunlun Village Bank Co., Ltd.	40,000,000.00	40,000,000.00
Tacheng Kunlun Village Bank Co., Ltd.	17,500,000.00	17,500,000.00
Less: Provision for impairment		
Book value	57,500,000.00	57,500,000.00

10.6 Fixed Assets

Item	December 31, 2016	December 31, 2015
Original cost of fixed assets	723,147,499.30	605,413,184.21
Accumulated depreciation	402,850,569.67	335,033,663.72
Provision for impairment of fixed assets	71,587.53	71,587.53
Fixed assets	320,225,342.10	270,307,932.96

10.7 Intangible Assets

Item	December 31, 2016	December 31, 2015
Original value of intangible assets	302,428,146.84	254,986,863.24
Accumulated amortization	221,372,268.84	178,166,357.36
Provision for impairment of intangible assets	1,357,053.33	1,357,053.33
Net amount of intangible assets	79,698,824.67	75,463,452.55

10.8 Deferred Income Tax Assets

Item	December 31, 2016		December 31, 2015	
	Temporary differences	Deferred income tax assets	Temporary differences	Deferred income tax assets
provision for asset impairment	4,646,341,539.33	696,951,230.90	4,402,693,358.07	660,404,003.71
Changes in fair value of available-for-sale financial assets attributable to other comprehensive income	115,141,513.00	17,271,226.95		
Net changes in fair value of financial assets measured at fair value through profit or loss	46,595,731.27	6,989,359.69		
Total	4,808,078,783.60	721,211,817.54	4,402,693,358.07	660,404,003.71

10.9 Other Assets

Item	December 31, 2016	December 31, 2015
Deferred expenses	19,671,065.29	19,954,592.17
Other receivables	66,202,183.81	58,430,595.85
Debt-offsetting assets		
Long-term deferred expenses	105,310,775.18	115,315,920.13
Taxes to be deducted	26,894,012.67	
Total	218,078,036.95	193,701,108.15

10.10 Absorption of Deposits

Item	December 31, 2016	December 31, 2015
1. Demand deposits	71,183,099,066.31	73,762,649,567.43
Including: Corporate client	59,369,026,301.12	63,146,928,075.97
Individual client	11,814,072,765.19	10,615,721,491.46
2. Time deposits	65,875,859,682.68	54,515,021,555.15
Including: Corporate client	41,400,626,678.49	34,892,596,745.20
Individual client	24,475,233,004.19	19,622,424,809.95
3. Fiscal deposits	129,360,835.57	49,946,591.85
4. Other deposits	10,226,118,342.00	11,803,325,460.86
Total	147,414,437,926.56	140,130,943,175.29

10.11 Operating Income

10.11.1 Net Interest Income

Item	Year 2016	Year 2015
Interest income		
Deposits with banks and other financial institutions	381,377,903.81	454,365,426.54
Deposits with the central bank	383,137,855.74	358,368,468.68
Loans to banks and other financial institutions	78,793,216.77	73,094,674.39
Financial assets purchased under resale agreements	474,380,239.01	1,184,717,460.09
Loans and advances to customers	2,772,188,923.43	3,329,714,202.77
Notes discounted	1,245,844,072.08	1,219,734,453.54
Bond investment	906,475,688.95	1,033,861,156.20
Receivable investments	2,735,213,609.78	3,190,769,598.02
Interest income from trading bonds	102,995,404.86	102,686,904.84
Interest income from interbank deposits	35,116,345.55	1,930,679.17
Subtotal	9,115,523,259.98	10,949,243,024.24
Interest expenses		
Interbank deposits	1,945,088,108.44	2,785,942,844.59
Loans from banks and other financial institutions	20,457,583.34	15,327,607.00
Absorption of deposits	2,390,335,020.21	2,500,587,771.79
Financial assets sold for repurchase	132,431,728.54	392,867,049.74
Interest expenses for interbank deposits	8,043,244.43	2,185,655.56
Subtotal	4,496,355,684.96	5,696,910,928.68
Net interest income	4,619,167,575.02	5,252,332,095.56

10.11.2 Net Income from Handling Charges and Commissions

Category	Year 2016	Year 2015
Income from handling charges and commissions:		
Income from settlement charges	24,805,612.24	25,995,868.06
Income from agency handling charges	37,111,114.08	68,318,250.98
Income from bank card charges	20,984,325.61	24,314,489.29
Income from charges for foreign exchange settlement and sales	78,213,219.11	310,127,080.65
Income from guarantee business charges	14,986,276.73	11,926,150.54
Income from charges for financial services	47,252,901.93	31,081,792.05
Handling charges for syndicated loans	1,447,379.46	19,688,650.00
Income from other charges	6,974,905.33	5,301,171.42
Subtotal	231,775,734.49	496,753,452.99
Handling charges and commissions expenses:		
Settlement handling expenses	2,768,728.81	1,752,092.02
Bank card handling expenses	54,239,565.79	48,502,538.88
Agency handling expenses	1,648,808.43	947,914.38
Handling expenses for business vouchers	5,746,320.23	10,450,746.20
Handling expenses for collateral services	1,647,288.65	866,286.00
Handling expenses for short message services	3,910,840.58	5,283,703.31
Other handling expenses:	9,115,830.07	12,280,273.38
Subtotal	79,077,382.56	80,083,554.17
Net income from handling charges and commissions	152,698,351.93	416,669,898.82

10.12 Notes to the Statement of Cash Flows

10.12.1 Net Profit Adjusted to Cash Flows from Operating Activities

Item	Year 2016	Year 2015
Net profit ("0" for losses)	2,533,229,060.06	2,916,075,533.24
Plus: Provision for asset impairment	410,699,036.29	849,396,135.60
Depreciation of fixed assets	69,398,166.18	72,035,090.33
Amortization of intangible assets	43,205,911.48	51,346,341.44
Amortization of long-term deferred expenses	41,183,637.44	35,846,312.76
Losses on disposal of fixed assets, intangible assets and other long-term assets	46,154.43	(817,502.04)
Losses on changes in fair value	47,887,949.60	(1,653,852.60)
Investment losses	(3,764,373,989.88)	(4,519,203,724.49)
Decrease in deferred income tax assets	(43,536,586.88)	(93,342,510.78)
Increase in deferred income tax liabilities	(193,832.73)	193,832.73
Decrease in loans	(15,675,602,154.79)	(15,162,442,039.48)
Increase in deposits	7,283,494,751.27	27,944,540,922.41
Net increase in lending	31,909,737,391.04	(11,200,479,310.05)
Decrease in operating receivables	(28,716,588,933.19)	8,506,388,127.37
Increase in operating payables	(11,633,026,450.66)	(12,184,488,447.97)
Decrease in other operating assets	(851,972.68)	12,817,764.02
Increase in other operating liabilities	(3,870,620,061.13)	(2,541,507,127.40)
Net cash flows from operating activities	(21,365,911,924.15)	(5,315,294,454.91)

10.12.2 Cash and Cash Equivalents

Item	Year 2016	Year 2015
I. Cash	39,089,613,695.48	70,452,686,808.44
Including: Cash on hand	345,777,504.65	348,686,764.34
Deposit in the central bank available for payment	7,768,944,872.54	7,734,498,833.39
Deposits with banks and other financial institutions with the contract period within three months	29,414,891,318.29	62,369,501,210.71
Loans from banks and other financial institutions with the contract period within three months	1,560,000,000.00	
II. Cash equivalents	9,704,264,535.06	
Including: Financial assets purchased under resale agreements maturing within three months as of the date of purchase	5,841,332,180.88	
Held-to-maturity investments maturing within three months as of the date of purchase	2,484,932,354.18	
Financial assets held for sale maturing within three months as of the date of purchase	1,378,000,000.00	
III. Balance of cash and cash equivalents as at the end of the year	48,793,878,230.54	70,452,686,808.44

Bank of Kunlun Corporation Limited

February 22, 2017



After hectic writing, editing and design for more than four months, 2016 Annual Report of Bank of Kunlun was finalized, which serves as a carrier of the Bank to accurately present the image to investors, customers and the public. We would like to express our sincere gratitude and highest tributes to all the colleagues who have participated in preparing the 2016 Annual Report!

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