

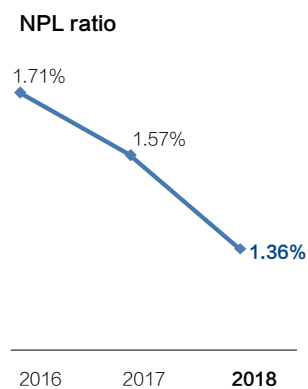
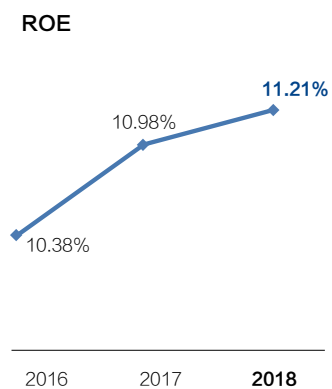
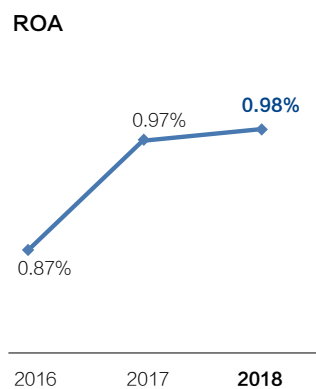
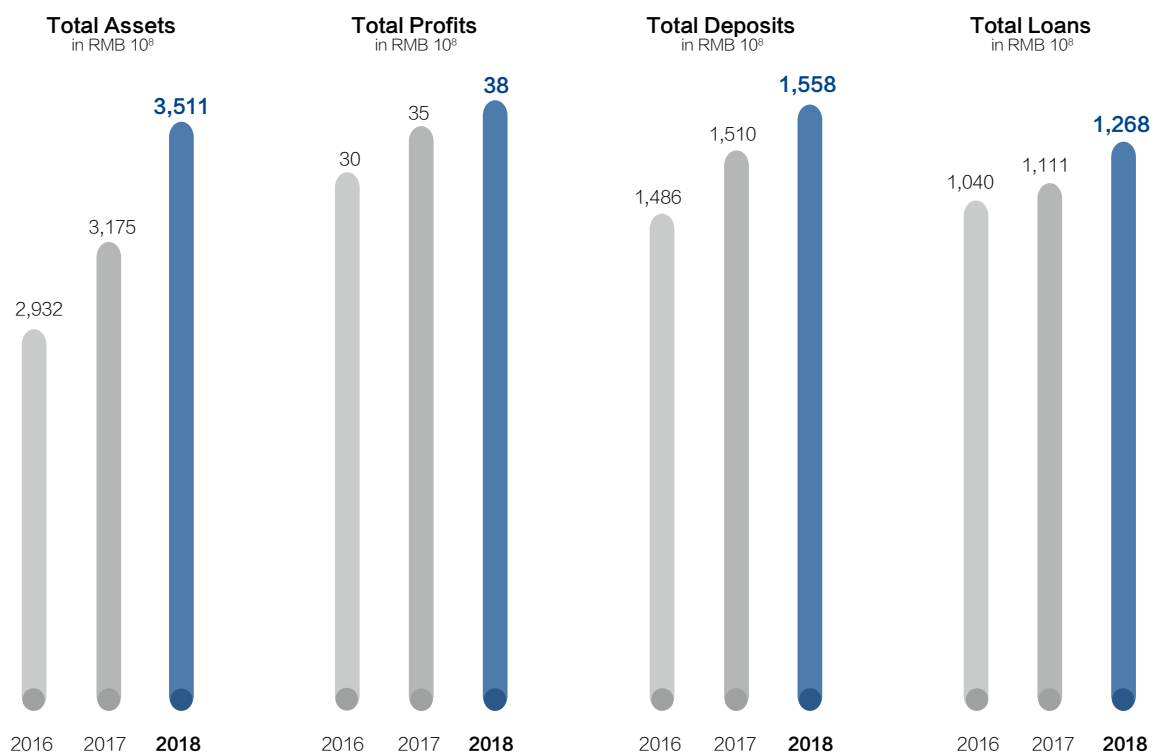


2018▶ Annual Report

Bank of Kunlun Corporation Limited



Key Performance Indicators



Business Site





Company Profile



Bank of Kunlun is a state-owned financial backbone enterprise held by China National Petroleum Corporation (CNPC) Capital Limited Company. As a specialized bank that integrates industry and finance, it shoulders important responsibilities in safeguarding national energy security, serving the real economy and promoting social economy and energy development.

Its predecessor, the Karamay City Commercial Bank, was restructured from the Karamay Urban Credit Cooperative in 2006. In April 2009, CNPC took control of the Bank through sizable capital increase. In April 2010, the Bank was officially renamed Bank of Kunlun (KLB). Upon the restructuring, Bank of Kunlun has pursued a business strategy featuring integration of industry and finance, differentiated operation and characteristic development.

With the support and care of regulatory authorities, local governments, shareholders, and all sectors of society, the Bank has focused on the development strategy of integrating industry with finance since restructuring and has upheld the operational guideline of quality-priority, profit-oriented, and characteristic services, as well as coordinated development. With a constantly renewed track record of strong performance and consolidated comprehensive strength, the Bank has rapidly grown from a regional commercial bank into a national commercial bank with distinctive characteristics and nationwide influence.

The assets grew from RMB 3.8 billion in 2008 to RMB 351.1 billion at the end of 2018, reflecting a compound annual growth rate (CAGR) of 57.24%. Total profits increased from RMB 45 million to RMB 3.822 billion, a CAGR of 55.92%. The Bank has established nine branch-level institutions in Xinjiang, Beijing, Shaanxi, Heilongjiang and other municipalities and provinces, and initiated and held shares of two rural banks in Leshan and Tacheng. The Bank has 83 branches and 3,034 employees. In 2018, the Bank's long-term corporate credit rating was upgraded to AAA by Lianhe Ratings, while the regulatory rating remained 2C. The honor of "2018 Gold Medal Award of Chinese Financial Institutions-Top Ten City Commercial Banks of the Year", as well as other honors and awards, were granted to the Bank, fully demonstrating the recognition by regulatory agencies, market intermediaries, and customers.

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I. Definitions

In this report, the following terms have the following meanings unless otherwise indicated:

The Company	means	Bank of Kunlun Co., Ltd. and its subsidiaries
The Bank/Bank of Kunlun	means	Bank of Kunlun Co., Ltd.
Ministry of Finance	means	Ministry of Finance of the People's Republic of China
Reorganization	means	Reorganization of Karamay City Commercial Bank through capital increased by CNPC in April 2009
<i>Company Law</i>	means	<i>Company Law of the People's Republic of China</i>
Articles of Association of the Bank	means	Articles of Association of Bank of Kunlun Co., Ltd.
Karamay City Commercial Bank	means	Karamay City Commercial Bank Co., Ltd.
PBOC	means	The People's Bank of China
CBRC ¹	means	China Banking Regulatory Commission
CBIRC	means	China Banking and Insurance Regulatory Commission
CSRC	means	China Securities Regulatory Commission
CNPC	means	China National Petroleum Corporation
CNPC Capital	means	CNPC Capital Limited Company

1. In March 2018, the duties of the China Banking Regulatory Commission and the China Insurance Regulatory Commission were integrated in order to establish the China Banking and Insurance Regulatory Commission in accordance with the State Council's institutional reform plan approved at the first meeting of the 13th National People's Congress.



II. Important Notice

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of Bank of Kunlun Co., Ltd. undertake that the information in this report contains no false records, misleading statements, or material omissions.

On 28 March 2019, the *2018 Annual Report of Bank of Kunlun Co, Ltd.* and its abstract were reviewed and approved at the second meeting of Bank of Kunlun's fifth Board of Directors.

The 2018 Annual Financial Statements prepared by the Bank in accordance with PRC GAAP have been audited by BDO China Shu Lun Pan CPAs, which has issued a standard and unqualified auditors' report.

The Board of Directors of Bank of Kunlun Co., Ltd.

Mr. Jiang Shangjun, Legal Representative and Board Chair of the Bank; Mr. Zuo Wei, President of the Bank; Mr. Tang Zongheng, General Manager of Planning and Financial Department of the Bank, represent and warrant that the financial statements in the 2018 Annual Report are authentic and complete.

Primary Risk Disclosure

During the reporting period, the Bank did not identify any material risks that could adversely affect its future development strategy or business objectives. The Bank has actively adopted measures to effectively manage various risks. For details, please refer to the "Management Discussion and Analysis-Risk Management" section of this report.

This report can only be used to help the public better their understanding of Bank of Kunlun. It does not constitute a suggestion for any investment or trading activities, or other business activities of any kind. Risks from its application for those purposes shall be borne by the user.

III. General Information

1. Legal Chinese Name: 昆仑银行股份有限公司
Legal English Name: BANK OF KUNLUN CORPORATION LIMITED
Abbreviation in Chinese: 昆仑银行
Abbreviation in English: Bank of Kunlun (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
For customer services and complaints, please call:
95379
Website: <http://www.klb.cn/>
4. Board Secretary: He Fang
Tel: 0990-6230689
Fax: 0990-6230689
Email: ir@klb.com.cn
5. Information Disclosed at: *The Financial News*
Designated Website for Publication of the Annual Report: <http://www.klb.cn/>
Copies of this Annual Report are kept at: The office of the Board of Directors of the Bank
6. Legal Adviser: Beijing Jingda Law Firm
Office Address: A1706, Wuhua Building, No. A4
Chegongzhuang Avenue, Xicheng District, Beijing
7. Other Relevant Information:
Date of Incorporation: 9 December 2002
Date of Registration Change: 12 October 2018
Registration Authority: Karamay Marketing
Surveillance & Administration
Bureau
Unified Social Credit Code: 91650200745209781T
Financial Institution License Code: B0226H265020001
8. Name of the Certified Public Accountant Engaged:
BDO China Shu Lun Pan CPAs (LLP)
Office Address: Floor 4, New Huangpu Finance
Building, No. 61, Nanjing East Road, Huangpu District,
Shanghai, China
9. Business Scope: Acquiring public deposits; granting short-term loans, medium-term loans and long-term loans; handling domestic and international settlements; handling bill acceptance and discounting; issuing financial debts and debt securities; issuing, redeeming and underwriting government debts as an agent; buying and selling government debts and financial debts; inter-bank borrowing; trading and agent trading of foreign exchange; bank card business; issuing letters of credit and offering guarantees; offering collection agency and insurance agency services; providing safe deposit services; other businesses approved by CBRC. (Service[s] subject to approval according to the law shall be carried out only after approval by the competent authority)

This report is prepared in both Chinese and English. In the event of any discrepancy in understanding, the Chinese version shall prevail.



IV. Financial Highlights

4.1 Important Notice

Financial data and indicators in this Annual Report are derived from the auditors' reports of the Bank in the previous years. The report is prepared in accordance with PRC GAAP, and unless otherwise specified, the data come from the consolidated reports of the Company and are presented in RMB.

Interpretation of Issues Related to the Financial Statement Format of Ordinary Enterprises, Notice of the Ministry of Finance on Revising the Format of Financial Statements for General Enterprises in 2018 (CK (2018) No.15), and *Interpretation of Issues Concerning the Format of Ordinary Business Financial Statements for 2018* issued by the Ministry of Finance on 12 January, 15 June and 7 September 2018 have mainly influenced the Bank in the following ways:

Changes in accounting policies and reasons	Item and amount affected
In the item "Gains from Disposal of Assets" newly added to its income statement, the Bank shall adjust comparative data according to the relevant provisions of <i>Accounting Standards for Business Enterprises No. 30 – Presentation of Financial Statements</i> .	The amounts of the "Gains from Disposal of Assets" and "Non-Operating Expenses" in the previous period shall both be reduced by RMB 91,385.08.
As the withholding agent of personal income tax, the Bank shall list the service charge received for withholding taxes as other items related to daily activities under "Other Gains" in its income statement, according to the <i>Individual Income Tax Law of the People's Republic of China</i> . If the presentation items of the financial statements are changed as a result, comparative data shall be adjusted in accordance with the relevant provisions of the <i>Accounting Standards for Business Enterprises No. 30-Presentation of Financial Statements</i> .	The "Other Operating Income" of the previous period shall be reduced by RMB 577,986.89, while the "Non-Operating income" shall be increased by RMB 577,986.89.

4.2 Main Financial Data

Annual operating results

in RMB 10⁴

Item	2018	2017	2016
Net interest income	593,402	512,281	469,182
Net fee and commission income	15,682	17,957	15,214
Operating income	670,983	540,134	520,804
Operating and administrative expenses	189,278	171,326	167,616
Impairment losses on assets	95,133	13,914	42,774

Continued

Item	2018	2017	2016
Operating profit	382,076	351,186	300,628
Profit before tax	382,223	350,924	302,771
Net profit	327,488	296,839	255,178
Net profit attributable to the shareholders of the parent company	327,410	295,815	254,178
Total comprehensive income attributable to the shareholders of the parent company	375,261	277,765	224,334
Net cash flow from operating activities	(79,221)	(2,055,565)	(2,138,534)

As at the end of the reporting period

in RMB 10⁴

Item	31 December 2018	31 December 2017	31 December 2016
Total assets	35,113,779	31,752,487	29,320,822
Total loans and advances to customers	12,679,353	11,110,498	10,404,796
Allowance for impairment losses on loans	479,403	427,785	457,318
Net investments	9,797,343	9,621,620	8,871,738
Total liabilities	32,065,284	28,958,651	26,709,452
Due to customers	15,580,460	15,098,814	14,860,874
Due to banks and other financial institutions	9,396,705	9,297,026	9,909,351
Placements from banks and other financial institutions	100,000	400,000	500,000
Equity attributable to the shareholders of the parent company	3,039,246	2,786,506	2,605,064
Share capital	1,028,788	1,028,788	1,028,788
Net common equity tier 1 capital ⁽¹⁾	3,033,433	2,780,986	2,600,240
Net tier 1 capital ⁽¹⁾	3,033,783	2,781,307	2,600,491
Net capital ⁽¹⁾	3,296,973	2,989,853	2,790,371
Risk-weighted assets ⁽¹⁾	22,623,158	18,146,303	16,783,955

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

Per share data

in RMB

Item	31 December 2018	31 December 2017	31 December 2016
Net assets per share ⁽¹⁾	2.95	2.71	2.53
Basic earnings per share ⁽²⁾	0.32	0.29	0.34
Diluted earnings per share ⁽²⁾	0.32	0.29	0.34
Net cash flow per share from operating activities	(0.08)	(2.00)	(2.90)

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 Compilation and Submission of Information Disclosure by Companies No.9-Calculation and Disclosure of Return on Net Assets and Earnings per Share* (Revision 2010) issued by CSRC.

4.3 Key Financial Indicators

Profitability

Item	2018	2017	2016
Return on average total assets ⁽¹⁾ (%)	0.98	0.97	0.87
Weighted average ROE ⁽²⁾ (%)	11.09	10.82	10.61
Weighted average ROE after deduction of non-recurring gains and losses ⁽²⁾ (%)	11.07	10.81	10.54
Net interest spread ⁽³⁾ (%)	1.65	1.57	1.51
Net interest margin ⁽⁴⁾ (%)	1.90	1.81	1.64
Ratio of net fee and commission income to operating income (%)	2.34	3.32	2.92
Cost-to-income ratio ⁽⁵⁾ (%)	28.21	31.72	32.18

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 Compilation and Submission of Information Disclosure by Companies No. 9-Calculation and Disclosure of Return on Net Assets and Earnings per Share* (Revision 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 operating and administrative expenses by operating income.

Asset Quality

Item	2018	2017	2016
Non-performing loan (NPL) ratio ⁽¹⁾ (%)	1.36	1.57	1.71
Allowance for loan impairment losses to NPL ⁽²⁾ (%)	278.24	245.95	256.62

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

(2) Calculated by dividing allowance for impairment on loans by balance of NPLs.

Capital Adequacy

Item	2018	2017	2016
Common equity tier 1 capital adequacy ratio ⁽¹⁾ (%)	13.41	15.33	15.49
Tier 1 capital adequacy ratio ⁽¹⁾ (%)	13.41	15.33	15.49
Capital adequacy ratio ⁽¹⁾ (%)	14.57	16.48	16.63
Total equity to total assets ratio (%)	8.68	8.80	8.91

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

V. Chair's Statement



The year 2018 was a vital one in terms of the great changes and adjustment seen in the global economy. Global economic recovery reached its apex and its momentum began to subside; Sino-US trade frictions intensified; the original global economic and trade governance pattern were challenged. Spillover effects in terms of monetary policy contraction across major developed economies gradually appeared, and the economic vulnerability of some emerging economies gradually increased. Those developments brought about changes in the face of what was generally stable economic performance, some of which caused concern. Meanwhile, downward pressure on the Chinese economy continued to increase. Transition from high-speed growth to high-quality development, accumulating local debt risk, over-leveraged financial system, and weak core technology and innovation capabilities became the main factors restricting the transformation of the development mode, the optimization of economic structure, and the shift in growth momentum. The normalization of strict financial regulation, prudent and loose monetary policy, gradually smoothed currency transmission mechanisms, and the accelerated financial returns serving the real economy will continue to gather in the form of positive forces for the steady transformation of the economy.

In 2018, the Bank embraced complex and severe international and domestic situations and concentrated on efforts to overcome difficulties, achieving this by adhering to the general tone of steady progress and the fundamental requirements for high-quality development. Our business scale grew, operating efficiency improved steadily, asset quality steadily improved, business structure gradually became optimized and assets, profits, and other indicators

exceeded preset targets. We concluded the year 2018 with assets and total profits of RMB 351.1 billion and RMB 3.822 billion, up by 10.59% and 8.92% from the previous year, respectively. The ROA and ROE rose to 0.98% and 11.21%, increases of 0.01 percentage point and 0.23 percentage point respectively. Our balance of NPLs and the NPL ratio were RMB 1.723 billion and 1.36%, respectively, both of which saw further decreases compared to the previous year, and our provision coverage ratio and capital adequacy ratio were better than the industry average.

In 2018, the Bank adhered to the positioning of industrial finance, strengthened its characteristic operations, and made new achievements across various businesses. First, business development has been significantly enhanced. We explored the establishment of a new service model for integration of industry and finance, which is characteristic, smart, comprehensive, and sharing, and actively built and utilized new mechanisms and new platforms for industrial and financial integration in order to continuously promote the in-depth development of industrial finance. Second, our business innovation in efforts to improve efficiency has been further highlighted, our structure of assets and liabilities continuously optimized, and the proportion of public loans in the medium to long term steadily increased. Third, the quality of service has been steadily improved. Online financial service platforms for electronic receipt and collection of Party dues have been implemented, and new products such as the Petro Financing Program, the Salary Loan Program, and Fuel Credit Cards have been launched. New businesses such as asset-backed securitization product underwriting, merger and acquisition loans, and CNPC bill pool rediscounts have been implemented. Fourth, the ability to support has been continually enhanced. We have properly responded to sensitive business risks and achieved the smooth transition of special businesses during this special period, effectively protecting the interests of shareholders and customers.

Over the course of the year, the Bank has consolidated its foundation for steady progress by stepping up efforts in development, enhancing internal strength, deepening reform and innovation, and strengthening risk compliance. First, we have further improved corporate governance, enhanced the performance of the Board of Directors and Supervisors, revised the articles of association and the decision-making mechanism for “Major Decisions, Major Personnel Appointment and Removal, Major Projects, as well as Operation of Large-sum Funds”, and established the leading role of the Party committee in governance. Second, promotion has been carried out in the reform of the three systems in an orderly manner, overall and supporting programs have been formulated, and assessment and distribution have been optimized. The effects of these incentives are gradually emerging. We have improved our institutional setup, establishing Industrial Financing Management Department, and initiated the optimization of information technology management work, as well as our market-oriented operation pilot of the Financial Market Department. Third, we have formulated a comprehensive plan for adjusting the risk management structure, established a special response mechanism for sensitive businesses, enhanced special risk management and control capabilities, and deepened employee investigation and business inspection, continuously optimizing the risk management system. Fourth, compliance management has been strengthened, and we have continuously raised compliance awareness, eliminating major risk events throughout the year and achieving zero penalty by regulatory departments.

Over the course of the year, the Bank adhered to the social responsibility concept of “creating value for shareholders, operating in compliance with the law, supporting employee development, and contributing to society”, dutifully shouldering responsibilities of becoming a qualified corporate citizen, resolutely implementing the requirements of the state for the financial sector to serve the real economy, supporting small and micro enterprises and serving issues concerning agriculture, rural areas and farmers, promoting the development of inclusive finance, and achieving

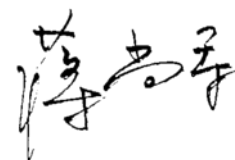
the goal of “two increases and two controls”. We have accelerated the release of green credit, which has more than doubled, and the second phase of RMB 400 million in green bonds has been successfully issued. Exclusively invested in green projects, the bonds constitute our commitment to environmental responsibility. We have adhered to a people-oriented approach to win support among members of staff, and enhanced staff morale and dedication by implementing the employee-care action plan, organizing charity donation activities, and holding a series of cultural and sports activities such as the youth speech contest. Meanwhile, we have improved the consumer protection system, and incorporated consumer protection into the duties of the special committee of the Board of Directors, in order to standardize emergency procedures and complaint management, as well as effectively protect the rights and interests of consumers. A high level of focus has been placed on the overall goal of maintaining social stability and long-term adherence to the law in Xinjiang by keeping up with the initiative of “Understanding the People’s Situation, Benefiting the People’s Livelihood and Uniting the People’s Hearts”, redoubling efforts to help designated poverty-stricken villages, and formulating guidance for resident officials on providing care to villagers. Our efforts have earned the title of “advanced unit” of Xinjiang Uygur Autonomous Region, as well as a wide range of other honors and awards, including the “2018 Gold Medal Award of Chinese Financial Institutions - Top Ten City Commercial Banks of the Year”, “China Innovation Award for Logistics Finance”, and “Outstanding Contribution Award for Product Innovation in the Financial Industry”, which have steadily improved our brand image.

We owe our achievements to the guidance of the government and regulatory authorities at all levels, to the generous support of all shareholders, customers, and all sectors of society, and to the hard work of all executives and staff of the Bank. On behalf of the Board of Directors, I would like to express my heartfelt gratitude to the leaders at all levels and all sectors of society for supporting our development and to all employees and the management of the Bank for their devotion!

Looking forward, commercial banks will be faced with new historical opportunities and realistic development challenges in the new era. The Bank will use as its guide Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, unswervingly uphold the general tone of striving for progress with stability, adhere to Party leadership over all the work, and adhere to the positioning of industrial and financial integration. We will uphold quality-priority, profit-oriented, and characteristic services, as well as coordinated development in our business policy, follow strict compliance and governance, focus on high-quality development, and enhance personnel training, characteristic development, risk prevention, and control, in addition to embracing reform and innovation. We will further promote the spirit of petroleum workers, and continue to promote intensive, comprehensive, innovative, and smart transition, so as to build a first-class characteristic commercial bank.

The year 2019 marks the 70th anniversary of the founding of the New China and a crucial year for building a well-off society in an all-round way, as well the 10th anniversary of the reorganization of the Bank. We will strengthen confidence and rally morality to forge ahead, and strive to open a new outlook of reform and development in the new era, so as to create greater value for our shareholders and customers, and make newer and larger contributions to the cause of the Party and the country.

Board Chair:



VI. President's Statement

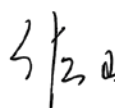


In 2018, the Bank used Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as its guide in conscientiously implementing the directions provided by the 19th CPC National Congress and the Central Economic Work Conference, unswervingly serving the real economy, preventing financial risks, rigorously implementing the requirements of regulatory authorities and conscientiously carrying out the decisions and arrangements finalized at the General Meeting and the Board of Directors. In line with requirements for high-quality development, we accelerated construction of a first-class characteristic commercial bank that is intensive, comprehensive, innovative, smart, and respected. Despite the increasing pressure of a potential macroeconomic downturn, stricter accountability, increasingly fierce competition from other banks, and heightening specific risk challenges, as well as our own weak foundation for development, we have managed to achieve stable and fast development, significantly improving operating benefits, enriching our products and services, steadily enhancing internal controls, improving development quality, gradually expanding our talent team, consolidating our development foundation, improving our brand image, increasing our employee income steadily, and continuously strengthening our competitiveness.

Throughout the year, the Bank steadily progressed in terms of quality development, deepened the integration of industry and finance, continually expanded its blue-ocean market and cemented its foundation for further development. First, we maintained a continuously improving development trend and achieved remarkable overall business performance. Our consolidated profits and combined assets totaled RMB 3.822 billion and RMB 351.1 billion respectively; balance of deposits and balance of loans reached RMB 155.8 billion and RMB 126.8 billion respectively; ROA, ROE and NPL ratio stood at 0.98%, 11.21% and 1.36%, respectively, with 32,500 corporate customers and 1.73 million personal customers. Second, we have highlighted the key points of development and improved the quality and efficiency of development. Our "one core and two wings" project has been fully and successfully implemented, institutional mechanisms increasingly vitalized, and potential for transformation and innovation have been stimulated, turning infrastructure construction into our cornerstone, and ensuring the effectiveness of countermeasures for specific risks. Third, full recognition by all parties across the market has brought further significant improvement to the image of The Bank, whose long-term corporate credit rating was upgraded to AAA by Lianhe Ratings in 2018, while its regulatory rating remained 2C (Ranking top 20 among around 140 city commercial banks). The Bank won the title of "2018 Gold Medal Award of Chinese Financial Institutions - Top Ten City Commercial Banks of the Year" and various other honors and awards, in full testimony of the recognition we have received from regulatory agencies, market intermediaries, and customers. Fourth, we have made overall plans and measures to promote the implementation of key tasks, adhered to servicing the real economy, strengthened top-level design, promoted the implementation of the twelve mechanisms, and promoted public-private linkage, channel coordination, product interaction, and business innovation. We have conscientiously implemented risk management and control measures, promoted the construction of a comprehensive risk management system, comprehensively conducted compliance year and credit asset quality improvement activities, constantly consolidated the foundation for internal control and compliance management, implemented the system of subject responsibility for case prevention and control, and "one post and double responsibilities", and strengthened supervision and discipline accountability. We have continued to deepen transformation and innovation-based development, promoted implementation of various mechanisms, systems, and models, continuously consolidated infrastructure construction, comprehensively launched activities such as "account contending", "customer promotion marketing", and "enhancing three bases (infrastructure construction, basic work, and basic skills training) and forging three irons (iron accounts, iron funds, and iron systems)", and conscientiously maintained safety and stability and consumer rights protection. We have continuously improved basic operation and management capabilities, and promoted the optimization of the information technology system and mechanism, the transformation of the application structure, the improvement of operational services, the mining of valuable data, the application of new technologies, and the construction of an information security system, providing robust business development support.

The aforementioned achievements could not have been possible without the generous support of all shareholders and customers, the guidance of the government and regulatory authorities at all levels. Additionally, such success could not have been achieved without the hard work of all executives and staff of the Bank. On behalf of the management, I would like to express my sincere gratitude to everyone for your guidance and support over the past year! I would also like to thank all employees for your devotion!

In 2019, the domestic and international situation will remain complex and volatile, and market competition will become even fiercer, which means that the tasks of reform and development will remain arduous. In the face of new situations, new tasks, and new requirements, The Bank will, under the guidance of regulatory authorities and the correct leadership of the Party Committee and the Board of Directors, work together with the staff to overcome difficulties and forge ahead. We will follow the year's general work requirements and center our efforts on the general philosophy of "upholding the main thread for development, coordinating the two aspects, launching the three battles, and addressing the four relationships", in order to promote steady high-quality development and turn the Bank into a first-class characteristic commercial bank.

President: 

VII. Rankings and Awards

1. Ranked 271st in list of “Top 1,000 World Banks 2018” published by British journal *The Banker* in 2018.

2. Ranked 12th in the comprehensive ranking of city commercial banks with assets exceeding RMB 300 billion released by *The Chinese Banker* in 2018.

3. Ranked 38th in the “Top 100 in the Chinese Banking Industry in 2018” issued by the China Banking Association.

4. The “Top Ten City Commercial Banks of the Year” award in the “2018 Gold Medal Award of Chinese Financial Institutions” jointly organized by *Financial News* and the Institute of Finance of the Chinese Academy of Social Sciences.

5. The honor of “Top 300 of Inter-Bank Local Currency Market Transactions in 2018” by the National Interbank Funding Center, ranking 56th among over 20,000 markets and 35th among city commercial banks.

6. Kunlun Direct Bank was awarded the “Best Direct Banking Function Prize” of the China E-Bank Golden Award from the China Financial Certification Center (CFCA) in 2018, “Most Promising Direct Bank” at the Direct Banking Festival of the Direct Bank Development Center, and the “China Logistics Finance Innovation Award” issued by the Logistics Investment Branch of the China Communications and Transportation Association.

7. The Bank was awarded the “Best Potential Award for the UnionPay Card Business” by China UnionPay for its credit card business, and the “2018 Excellence Prize for Product Innovation of Regional Commercial Banks” of the China E-Bank Gold Award by the China Financial Certification Center (CFCA) for its CNPC Kunlun Refueling Credit Card.

8. The Bank’s *Exploration of Internet-Plus Supply Chain Finance* won the “Outstanding Contribution Prize for Product Innovation in the Financial Industry” in the appraisal for “2018 Outstanding Innovation Award for Financial Technology and Services” organized by *Financial Computerizing* in 2018.

9. Two of the Bank's research topics - *Research and Practice of the Bank in Direct Banking for Industrial and Financial Integration* and *Research and Practice of Quantum Communication Encryption Technology in the Financial Industry* - were awarded research achievement prizes for research projects on IT Risk Management organized by the China Banking and Insurance Regulatory Commission in 2018. It marked the third consecutive year that the Bank won the prize.

10. The Bank's *Project of Quantum Secure Communication for Same-City Data Centers* won the "'Prize for Financial Security Construction Project' of the Achievement Appraisal of Financial Security Application for Commemorating the 40th Anniversary of Reform and Opening-up" organized by *Financial Computerizing*.

11. In the statistical work assessment for financial institutions within the jurisdiction of the People's Bank of China Karamay City Branch, the Bank won first place among the outstanding units of financial statistics.

12. The Bank won first prize in the "Contest of Compliance Management for Credit Reference" by the People's Bank of China Karamay City Branch.

13. The Bank has been granted a "First Class" award in an evaluation of its consumer rights protection in Xinjiang for three consecutive years.

14. The Bank has won the "Outstanding Contribution Prize for Bank Card Business Management in Xinjiang Uygur Autonomous Region" in 2017.

15. The Bank was awarded the "Outstanding Contribution Award for Bank Card Business Management in Xinjiang Region in 2017" by the China UnionPay Xinjiang Branch.

16. The Bank was awarded the title of "2017 Advanced Unit of Communication and Liaison in the Banking Industry in Xinjiang" by the Xinjiang Banking Association.

17. The Bank won the title of "Excellent Organization Unit and Advanced Work Team of Xinjiang Uygur Autonomous Region" in terms of its abilities in "Understanding the People's Situation, Benefiting the People's Livelihood and Uniting the People's Hearts".

18. The Bank Karamay Zhonglou Sub-Branch was awarded the honorary title of "Advanced Unit of Safety Management" by the China Banking Association.



VIII. Management Discussion & Analysis

8.1 Strategic Development Orientation

The Bank will fully implement the essence of the 19th CPC National Congress, earnestly carry out the requirements of the regulatory authorities and uphold the development philosophy of quality-priority, profit-oriented, and characteristic services, as well as coordinated development. We will draw on energy resources, base ourselves on the Silk Road, maintain a development direction in line with global trends, support the real economy, and serve China, sparing no effort in supporting China's reform on the supply front, while also unswervingly deepening the strategy of integration of industry and finance. We will pursue coordinated development of energy and social markets, focus on transformation and development, improvement in quality, efficiency, and risk prevention, as well as deepen reforms, accelerate the cultivation of corporate culture, comprehensively strengthen Party building, vigorously carry forward the spirit of petroleum workers, thoroughly implement mechanisms such as corporate governance, risk management, and business governance, and continue to promote intensive, comprehensive, innovative, and smart transition, so as to build a first-class characteristic commercial bank.

Being intensive means strengthening top-to-bottom overall planning, comprehensively optimizing business processes, promoting intensive business operations, intensive management of line operations, enhancing the ability to comprehensively allocate resources, and responding to external environmental changes quickly and with cost-effectiveness, so as to meet customer needs. Being comprehensive means focusing on the diversified needs of customers to implement the "big assets and big liabilities" plan, promoting financial cooperation, and building a comprehensive operation and coordinated linkage mechanism, as well as providing integrated financial services through various channels, including on-balance sheet and off-balance sheet activities, domestic and foreign means, and asset and liability services. Being innovative means cultivating a culture of innovation, innovating in institutional mechanisms under the premise of risk assessment, and innovating in terms of product development, process management, service models and operating and profit models, in order to enhance market responsiveness and competitiveness. Being smart means strengthening the use of big data, cloud computing, artificial intelligence and other leading technologies, improving the scientific content of management decisions, in addition to the degree of intelligence of online and offline channels, marketing accuracy, and product customization.

Guiding philosophy: Leading the team and the business with correct culture and ideas as well as viable systems and mechanisms, and using the harmonious culture and humane care of the Bank of Kunlun to rally support for entrepreneurship. The Bank will always maintain the correct work direction and action plan, coordinate long-term sustainable development, bring together development efforts, and stimulate the potential of all members of staff to ensure the vitality of development and a lively pattern of work in all areas, by embracing the work ethic of unity, diligence, pragmatism, innovation, compliance, and integrity. Leaders and officials at all levels, as the key minority in an important support system for transformation and development, must actively implement working standard and

strive to be loyal, clean, and worthy of their positions, as well as take on their responsibilities to unite and lead staff in development efforts.

Development philosophy: quality-priority, profit-oriented, and characteristic services, as well as coordinated development. Asset quality will always be placed at the forefront, while operations will be carried out in accordance with the principles of safety, liquidity, and efficiency. Safety is a particular priority in order to ensure steady improvement in efficiency and the stability and harmony of the overall situation.

Development orientation: draw on energy resources, stay based on the Silk Road, stay abreast of the world, support the real economy, and serve China. Drawing on energy resources means to firmly focus on strategic deployment of a national energy, deeply advance the integration of the industry and finance and financial internal coordination, vigorously expand the blue-ocean market, and make full utilization of the domestic and international markets and resources. As for basing ourselves on the Silk Road, we mean to strictly follow the national Belt and Road Initiative, give full play to geographical advantages, oil and gas resources in the registration place of the Bank of Kunlun, as well as the geographical advantages in regions along the border and railway. We shall comprehensively construct the main battlefield and main position of business development of the Bank of Kunlun. To stay abreast of the world, we should coordinate China's "Going Global" strategy, positively participate in international competition, and effectively serve the overseas market expansion while comprehensively completing the domestic financial service. In terms of supporting the real economy, we should stick to serving and supporting the real economy, and be the professional, dedicated "banker" that we are supposed to be. To serve China, we should always adhere to "the national interest is paramount", implement corporate citizenship social responsibility, positively fulfill "inclusive finance", and take "improving the ability to serve the economy modernization and social life of China" as the starting point and objective.

8.2 Economic, Financial and Regulatory Environment

There were changes in what was a generally stable performance in China's macro economy. In 2018, China further promoted supply-side reform, basically realizing its targets for addressing overcapacity and reducing inventory, as well as achieving great progress in deleveraging. The effects of reductions in taxes and fees and other cost-cutting measures gradually appeared, and the economic structure continued the process of optimization. China-US trade frictions escalated, while China's social credit expansion declined rapidly and domestic economic transformation continued, with downward pressure increasing over the course of the year. China's GDP grew by 6.6% YOY, achieving its slowest growth in nearly 30 years, indicating that the Chinese economy is still in a period of "great adjustment". The new impetus for growth needs further growth, and the high-quality development mode needs further cultivation. The economic policies of China since the second half of 2018 paid more attention to coordination of the comprehensive goals for stabilizing employment, stabilizing finance, stabilizing foreign trade, stabilizing foreign investment, stabilizing investment, and stabilizing public expectations.

Monetary policy remained prudent and neutral to slightly loose, with an apparent contraction in social credit. Under the overall tone of stable neutral monetary policy, marginal easing was implemented in the money supply. The People's Bank of China lowered the required reserve ratio four times and increased its refinancing and rediscounting quota three times during the year to maintain the overall easing of liquidity in the money market. Due to the combined effects of deleveraging and anti-risk policies, the trend of capital shifting from the real economy to the virtual economy

and circulating within the financial system has been curbed, and the growth of interbank transactions, wealth management, and off-balance sheet financing has slowed down or decreased, causing a significant contraction in social credit. Since the second half of the year, the Chinese government has stepped up efforts to support the private economy and small and micro enterprises, and focused on addressing financing difficulties, gradually restoring social confidence, but social financing growth remains slow. As at the end of 2018, the broad money supply (M2) reached RMB 182.7 trillion, up 8.1% YOY, reflecting its lowest growth, while increases in social financing totaled RMB 19.26 trillion, decreases by RMB 3.14 trillion or 14.02% from 2017.

Financial supervision was normalized and financial risks were generally under control. The reform of the financial supervision system has been implemented, giving rise to a financial regulatory framework featuring “one committee, one bank, two commissions”. The financial supervision and coordination mechanism has been strengthened and macro-prudential regulation and micro-behavioral regulation have been closely coordinated, strengthening financial regulation in an unprecedented way. In 2018, regulatory authorities incorporated interbank deposit receipts into the interbank debt management of commercial banks, and regulated their active liability business; introduced measures for managing large-scale risk exposure, equity, and entrustment, and supervisory and guiding opinions for systemically important financial institutions in order to control risks for commercial banks; promulgated new rules for asset management, wealth management, and wealth management subsidiaries, adopted tough measures against shadow banking, and introduced regulatory guidance investment of non-financial companies in financial institutions in order to curb the barbaric growth of financial holding groups. Meanwhile, it has continued to advance improvement of the financial regulatory system, making strict financial supervision and strict accountability the new normal. Although strict financial supervision brought about financing difficulties for private enterprises, frequent bond defaults, increased risks of equity pledges, and exposure to Internet financial risks were limited locally, without systemic detriment to finances, thanks to the government’s effective measures. The order of the financial market was standardized, and its environment became healthier and more orderly.

Following asset and liability structure adjustment, the banking industry resumed its original role of serving the real economy and witnessed generally stable operations, with risks controllable in 2018, under strict financial supervision. According to regulatory requirements, commercial banks shifted off-balance sheet financing to on-balance sheet financing, incurring capital adequacy ratio pressure and supplemented Tier 1 capital through various means, including IPO’s, private placements, preference shares, and convertible bonds. Against the backdrop of social credit contraction, commercial banks assumed the important task of social financing. In 2018, new RMB loans totaled RMB 15.7 trillion, up by 12.6%, and new loans accounted for 81.4% of all social financing. Meanwhile, commercial banks accelerated their pace of transformation, mainly toward retail finance, inclusive finance and technology finance. Under this trend, credit card issuance and consumer credit expanded, while “two increases and two controls” emerged in small and micro enterprise financing, and the application of financial technology was promoted. Consequently, the capacity of commercial banks to serve the real economy was further enhanced. In 2018, the asset quality of the banking industry was generally controllable and the balance of NPLs for the year stood at RMB 2.03 trillion, implying a ratio of 1.83%, and an increase of 0.09 percentage point over the previous year.

8.3 Analysis of Financial Statements

8.3.1 Analysis of the Income Statement

Changes of Key Items in the Income Statement

In 2018, the Company realized an operating income of RMB 6.71 billion, implying an increase of RMB 1.308 billion, or 24.23% compared to the same period last year. The operating expenses were RMB 2.889 billion, implying an increase of RMB 1 billion or 52.90% from the same period last year. Throughout the year, the Company realized a net profit of RMB 3.275 billion, implying an increase of RMB 306 million or 10.32% from the same period last year.

in RMB 10⁴

Item	2018	2017	Increase/ Decrease	Rate of change (%)
Net interest income	593,402	512,281	81,120	15.84
Non-interest income	77,582	27,853	49,729	178.54
Operating income	670,983	540,134	130,849	24.23
Less: Operating expenses	288,907	188,949	99,959	52.90
Including: Taxes and surcharges	4,441	3,658	783	21.40
Operating and administrative expenses	189,278	171,326	17,953	10.48
Impairment losses on assets	95,133	13,914	81,220	583.74
Other operating costs	55	52	3	6.38
Operating profit	382,076	351,186	30,890	8.80
Plus: Net non-operating income and expense in addition to the above	147	(262)	409	156.13
Profit before tax	382,223	350,924	31,299	8.92
Less: Income tax expenses	54,735	54,085	651	1.20
Net profit	327,488	296,839	30,648	10.32
Net profit attributable to the shareholders of the parent company	327,410	295,815	31,595	10.68

Net Interest Income

In 2018, the Company realized a net interest income of RMB 5.934 billion, implying an increase of RMB 811 million or 15.84% from the same period last year, accounting for 88.44% of the operating income. The increase of the net interest income mainly resulted from the size of assets and net interest spread. Among them, the net interest spread was 1.65%, implying an increase of 0.08 percentage point as compared with last year. The average rate of return on the interest-bearing assets was 3.78%, implying an increase of 0.32 percentage point as compared with last year, and the average rate of interest payment from the interest bearing liabilities was 2.14%, implying an increase of 0.25 percentage point as compared with last year.

Non-interest Income

In 2018, the Company realized a non-interest income of RMB 776 million, implying an increase of RMB 497 million or 178.54% as compared with last year, accounting for 11.56% of the total operating income.

in RMB 10⁴

Item	2018	2017	Increase/ Decrease	Rate of change (%)
Fee and commission income	22,398	26,443	(4,044)	(15.29)
Less: Fee and commission expenses	6,716	8,485	(1,769)	(20.84)
Net fee and commission income	15,682	17,957	(2,276)	(12.67)
Other non-interest related income	61,900	9,896	52,004	525.53
Total	77,582	27,853	49,729	178.54

Net fee and commission income

in RMB 10⁴

Item	2018		2017	
	Balance	Proportion (%)	Balance	Proportion (%)
Fee and commission income	22,398	100.00	26,443	100.00
Settlement income	7,552	33.72	8,574	32.42
Agency fee income	3,927	17.53	2,400	9.08
Bank card income	2,536	11.32	2,030	7.68
Foreign exchange settlement fees	1,823	8.14	4,219	15.96
Guarantee charges	13	0.06	26	0.10
Wealth management commissions	5,752	25.68	8,432	31.89
Syndicated loan commissions	395	1.77	494	1.87
Other fees and commissions	401	1.79	266	1.01
Fee and commission expenses	6,716	100.00	8,485	100.00
Settlement expenses	773	11.50	1,881	22.17
Bank card expenses	3,006	44.76	4,641	54.69
Agency fee expenses	101	1.50	111	1.30
Business voucher fees	545	8.11	344	4.05
Collateral handling fees	236	3.51	181	2.13
SMS service fees	464	6.90	219	2.58
Other expenses from agency commissions	1,593	23.71	1,109	13.07
Net fee and commission income	15,682		17,957	

Interest Expenses

Deposit interest expense

In 2018, the deposit interest expense of the Company amounted to RMB 2.571 billion, implying an increase of RMB 428 million or 19.97% as compared with RMB 2.143 billion last year.

Operating Expenses

Operating and administrative expenses

In 2018, the Bank implemented strict cost management and control. Operating and administration expenses reached

RMB 1.893 billion, up by RMB 180 million or 10.48% compared to the same period last year, mainly due to increased staff costs.

Impairment losses on assets

In 2018, the impairment losses on assets were RMB 951 million, implying an increase of RMB 812 million or 583.74% as compared with last year, primarily because the increased scale of loans and advances led to a provision of RMB 987 million for loans and discounted impairment. The scale of placements with banks and other financial institutions increased, which led to the provisioning of RMB 284 million, while the scale of receivables dropped, causing the impairment provision to release RMB 332 million.

Income Tax Expenses

in RMB 10 ⁴		
Item	2018	2017
Current income tax calculated according to the tax law and relevant provisions	54,503	51,056
Deferred tax adjustment	232	3,029
Others		
Total	54,735	54,085

8.3.2 Analysis of the Balance Sheet

Assets

As at the end of 2018, the balance of assets of the Company amounted to RMB 351.138 billion, implying an increase of RMB 33.613 billion or 10.59% as compared with the end of last year. Specifically, the interest-bearing assets amounted to RMB 347.247 billion, implying an increase of RMB 32.856 billion or 10.45% as compared with the end of last year. The non-interest-bearing assets amounted to RMB 3.891 billion, implying an increase of RMB 757 million or 24.16% as compared with last year.

in RMB 10 ⁴				
Item	31 December 2018		31 December 2017	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	12,199,950	34.74	10,682,713	33.64
Trading financial assets	4,534,300	12.91	1,388,405	4.37
Held-to-maturity investments	1,758,703	5.01	1,821,674	5.74
Available-for-sale financial assets	2,177,457	6.20	2,236,214	7.04
Investment classified as receivable	1,326,882	3.78	4,175,327	13.15
Placements with banks and other financial institutions	2,832,375	8.07	1,725,750	5.44
Deposits with banks and other financial institutions	4,548,156	12.95	5,258,408	16.56
Cash and balances with Central Bank	2,279,900	6.49	2,610,849	8.22
Financial assets held under resale agreements	3,066,947	8.73	1,539,764	4.85

Continued

Item	31 December 2018		31 December 2017	
	Balance	Proportion (%)	Balance	Proportion (%)
Total interest-bearing assets	34,724,671	98.89	31,439,105	99.01
Non-interest-bearing assets	389,108	1.11	313,383	0.99
Total assets	35,113,779	100.00	31,752,487	100.00

Loans

As at the end of 2018, the total loans of the Company amounted to RMB 126.794 billion, implying an increase of RMB 15.689 billion or 14.12% as compared with last year. Specifically, the corporate loans were RMB 110.689 billion, implying an increase of RMB 11.46 billion or 11.55% as compared with last year. Personal loans were RMB 16.105 billion, implying an increase of RMB 4.228 billion or 35.60% as compared with last year.

in RMB 10⁴

Item	31 December 2018		31 December 2017	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	12,679,353	100.00	11,110,498	100.00
Including: Corporate	11,068,903	87.30	9,922,866	89.31
Personal	1,610,450	12.70	1,187,632	10.69
Less: Allowance for impairment losses on loans	479,403	100.00	427,785	100.00
Including: Corporate	459,962	95.94	417,851	97.68
Personal	19,441	4.06	9,934	2.32
Net value of loans and advances to customers	12,199,950	100.00	10,682,713	100.00
Including: Corporate	10,608,941	86.96	9,505,015	88.98
Personal	1,591,009	13.04	1,177,698	11.02

Liabilities

As at the end of 2018, the balance of liabilities of the Company amounted to RMB 320.653 billion, implying an increase of RMB 31.066 billion or 10.73% as compared with the end of last year. Specifically, the balance of interest bearing liabilities amounted to RMB 313.376 billion, implying an increase of RMB 29.588 billion or 10.43% as compared with the end of last year; and the balance of non-interest-bearing liabilities amounted to RMB 7.277 billion, implying an increase of RMB 1.478 billion or 25.49% as compared with last year.

in RMB 10⁴

Item	31 December 2018		31 December 2017	
	Balance	Proportion (%)	Balance	Proportion (%)
Due to customers	15,580,460	48.59	15,098,814	52.14
Due to banks and other financial institutions	9,396,705	29.30	9,297,026	32.10
Placements from banks and other financial institutions and loans from Central Bank	221,474	0.69	441,845	1.53
Financial assets sold under repurchase agreements	2,762,952	8.62	2,155,998	7.45
Interbank negotiable certificates of deposit	3,326,012	10.37	1,375,109	4.75
Bonds payable	50,000	0.16	10,000	0.03
Total interest-bearing liabilities	31,337,602	97.73	28,378,792	98.00
Non-interest-bearing liabilities	727,682	2.27	579,859	2.00
Total liabilities	32,065,284	100.00	28,958,651	100.00

Due to customers

As at the end of 2018, the balance of due to customers of the Company was RMB 155.805 billion, implying an increase of RMB 4.816 billion or 3.19% as compared with the end of last year. In terms of customer structure, the balance of corporate deposits was RMB 103.281 billion, implying a decrease of RMB 2.552 billion or 2.41% as compared with last year. The balance of personal deposits amounted to RMB 48.336 billion, implying an increase of RMB 9.788 billion or 25.39% as compared with last year. The balance of structured deposits amounted to RMB 4.188 billion, implying a decrease of RMB 2.42 billion or 36.62% as compared with last year.

in RMB 10⁴

Item	31 December 2018		31 December 2017	
	Balance	Proportion (%)	Balance	Proportion (%)
I. Corporate deposits	10,328,131	66.29	10,583,311	70.09
Time deposits	3,803,003	24.41	3,532,540	23.40
Demand deposits	5,422,690	34.80	5,874,784	38.91
Fiscal deposits	3,422	0.02	30,654	0.20
Other deposits	113,478	0.73	231,183	1.53
Guarantee deposit received	985,538	6.33	914,151	6.05
II. Personal deposits	4,833,569	31.02	3,854,752	25.53
Time deposits	3,123,152	20.05	2,353,175	15.59
Demand deposits	1,710,417	10.98	1,501,577	9.94
III. Structured deposits	418,760	2.69	660,752	4.38
Total	15,580,460	100.00	15,098,814	100.00

8.3.3 Analysis of the Statement of Cash Flows

The ending cash and cash equivalents were RMB 92.294 billion, increasing by 46.268 billion or 100.53% compared with those at the beginning of the year, which was caused by that deposits with banks and other financial institutions due within three months increased RMB 20.414 billion, the deposits in PBOC available for payment decreased RMB 1.242 billion, and the cash equivalents increased RMB 26.101 billion compared with that of last year.

Net Cash Flow from Operating Activities

The net cash flow from financing activities for the year amounted to RMB-792 million, implying an increase of RMB 19.763 billion or 96.15% as compared with RMB-20.556 billion last year, mainly attributable to increase in cash inflows from due to customers, banks and other financial institutions, and marked decrease in net increase from deposits in PBOC and deposits with banks and other financial institutions.

Net Cash Flow from Investing Activities

The net cash flow from operating activities for the year amounted to RMB 29.171 billion, implying an increase of RMB 21.51 billion or 280.74% as compared with RMB 7.662 billion last year. This is mainly owing to the increase in cash for investment classified as receivable during the year, which resulted in increase in cash flows generated by investing activities.

Net Cash Flow from Financing Activities

The net cash flow from operating activities over the course of the year amounted to RMB 17.763 billion, indicating an increase of RMB 6.944 billion or 64.19% as compared with RMB 10.818 billion last year, mainly due to the receipt of RMB 60.656 billion in cash from bonds issued, repayment of RMB 40.765 billion in bonds and payment of RMB 2.146 billion in dividends and bond interest.

8.3.4 Segment Analysis

By business

in RMB 10⁴

Item	Corporate banking business	Personal banking business	Capital business	Other businesses	Total
I. Net interest income	314,470	87,905	191,027	0	593,402
Net fee and commission income	10,400	(470)	5,752	0	15,682
Return on investment	0	0	13,232	0	13,232
Gains from changes in fair value	0	0	23,078	0	23,078
Foreign exchange gains	25,045	0	0	0	25,045
Gains from disposal of assets	0	0	0	(161)	(161)
Other gains	0	0	0	652	652
Other operating income/cost	0	0	0	(2)	(2)
Taxes and surcharges	1,926	275	2,240	(0)	4,441
Operating and administrative expenses	79,616	25,281	84,287	94	189,278

Continued

Item	Corporate banking business	Personal banking business	Capital business	Other businesses	Total
Impairment losses on assets	52,359	47,037	(4,263)	0	95,133
II. Operating profit	216,015	14,842	150,824	396	382,076
Non-operating income	0	0	0	553	553
Non-operating expenses	0	0	0	406	406
III. Total profit	216,015	14,842	150,824	543	382,223
Income tax expenses	30,934	2,125	21,598	78	54,735
IV. Net profit	185,081	12,717	129,226	465	327,488

By geographical region

in RMB 10⁴

Item	Inside Xinjiang	Outside Xinjiang	Total
I. Operating income	516,017	154,966	670,983
Interest income	770,182	413,506	1,183,688
Interest expenses	327,233	263,053	590,286
Fee and commission income	16,624	5,774	22,398
Fee and commission expenses	4,166	2,551	6,716
Other operating income	51	3	53
Return on investment	13,232	0	13,232
Gains from changes in fair value	23,078	0	23,078
Foreign exchange gains	23,740	1,306	25,045
Gains from disposal of assets	83	(243)	(161)
Other gains	427	225	652
II. Operating expenses	205,168	83,739	288,907
Operating and administrative expenses	140,651	48,628	189,278
Taxes and surcharges	2,523	1,918	4,441
Impairment losses on assets	61,952	33,181	95,133
Other operating costs	42	13	55
III. Total profit	311,188	71,035	382,223
Income tax expenses	48,393	6,342	54,735
IV. Net profit	262,795	64,693	327,488

8.4 Business Overview

8.4.1 Corporate Banking

The Bank focused on high-quality development, highlighted services for high-quality large and medium-sized clients and drew on regional economic advantages to launch typical characteristic blue ocean businesses, support the real economy, and nurture dynamic and competitive corporate businesses, in a bid to create a first-class characteristic

commercial bank. During the reporting period, the Bank strengthened its customer marketing, vigorously developed assets services, steadily advanced liability services, and carried out various efforts to innovate in service and product to achieve sustainable development.

Corporate Banking Customers

The Bank's customer acquisition capabilities continued to improve, and its comprehensive marketing capabilities for customers were steadily enhanced. At the end of the period, corporate banking customers totaled 32,500, indicating a YOY increase of 9.65%. Among them, 9,638 or 29.67% were from the petroleum and petrochemical industry chain, mostly small or micro enterprises. Profound financial services for these customers include our implementation of the development strategy of "integration of industry and finance", and a unique development path involving micro and small financial services.

Corporate Banking Deposits

The Bank continued to strengthen its customer pool and optimize its deposit structure, promoting the settlement of customer accounts at all business sites, and significantly increasing daily deposits.

Corporate Banking Loans

The Bank's corporate loans grew steadily and asset quality continued to improve. The balance of loans (RMB, excluding discount) in RMB amounted to RMB 73.9 billion, implying an increase of RMB 8.7 billion, or 13.38% compared to the end of last year. The NPL ratio of the Corporate Banking was 2.22%, which decreased by 0.75 percentage point compared to the end of the previous year.

Micro and Small Finance Services

The Bank achieved balanced improvements in customer acquisition capabilities in small and micro enterprises, business processing efficiency, and risk management and control. The unified loans to small and micro enterprises totaled RMB 15.719 billion, up by RMB 1.459 billion or 10.23% from the beginning of the year. A total of 5,234 micro and small enterprises received loans, reflecting an increase of 516 compared to the same period the previous year.

Green Financial Services

The Bank took proactive measures to seize business opportunities created by "the uphill battle in contamination prevention and control" and other policies, and strengthened the guidance of its green financial service philosophy in business operations and management, enhancing the market share of green credit, and creating new growth centers for business development. As at the end of 2018, the balance of on-balance sheet green loans totaled RMB 7.088 billion, accounting for 9.6% of all the corporate loans, up by RMB 3.58 billion or 102% compared to the beginning of the year. The Karamay, Urumqi, and Tuha branches actively cooperated with local regulatory authorities, and set up green sub-branches and green financial service teams to promote the construction of the management mechanism for green financial services. The Bank completed the issuance of RMB 500 million of green bonds, and invested the raised funds in green industry projects within Xinjiang, creating a benign business cycle involving capital markets, commercial banks, and green credit customers.



8.4.2 Industrial Financing

The Bank's integration of industry and finance is in essence an implementation of the supply chain finance business for upstream and downstream enterprises along the industrial chain with CNPC at the core. In 2018, we ushered in a historic development opportunity, established the Industrial Financing Management Department, and formed a preliminary model for business development and the talent team. Over the course of the year, we continued to deepen the exploration of industrial financing, and enriched the business experience, increasingly highlighting our business characteristics, steadily consolidating our business foundation, and greatly enhancing our business scale contribution.

Industrial Financing Customers

In 2018, the Bank launched "account contending" and other marketing activities, focusing on expanding taxpayer accounts, special fund accounts, and treasurer 2.0 contract accounts. At the end of the period, industrial financing customers totaled 9,638, 895 of whom were loan-receiving corporations, accounting for 73.32% of the Bank's total. Treasurer 2.0 account holders increased by 283 to 448 within the year, involving 706,800 transactions totaling RMB 242.665 billion. The balance of deposits among industrial financing customers was RMB 50.748 billion, up by RMB 10.896 billion or 21% from the beginning of the year.

Exclusive Products

In 2018, the Bank positioned itself as an industrial financing service provider in the industrial chain. Upholding the service tenet of "drawing on the CNPC industrial chain and helping enterprises in the industrial chain to grow together", we launched "Program" series and "Loan" series products centered on core enterprises upstream and

downstream on the industry chain, respectively, gradually enriching the supply-chain financial product system characteristic of the oil and gas industry, and comprehensively enhancing the “Kunlun Express” brand value. At the end of the year, the balance of exclusive products for industrial financing reached RMB 27.9 billion, up by RMB 6.3 billion or 29.17% from the beginning of the year.

The “Commercial Credit Program”, as the hit product of the Bank, provides financing for holders by activating the commercial credit of China National Petroleum Corporation through commercial acceptance bills. The ending balance was RMB 11.733 billion, implying a net increase of RMB 3.523 billion from the beginning of the year.

The “Petro Enterprise Program”, as the Bank’s first exclusive industrial financing product, is aimed at addressing shortages in the “three commercial” funds upstream along the industry chain through pledge of accounts receivable. The ending balance was RMB 7.461 billion, implying a net increase of RMB 465 million from the beginning of the year.

The Bank’s “Gas Loan” aims to solve the shortage of construction funds or liquidity for users of urban pipe network construction and terminal users of natural gas. The ending financing balance was RMB 5.513 billion, implying a net increase of RMB 1.059 billion from the beginning of the year, while accumulated issuance reached RMB 13 billion.

The Bank’s “Promotion Loan” addresses financing difficulties for end users of natural gas, refined oil, and petrochemical products. Loans issued totaled about RMB 6 billion. The ending financing balance was RMB 2.288 billion, indicating a net increase of RMB 1.021 billion from the beginning of the year.

The “Lease Financing Program” and the “Investment Financing Program” support the construction of a sales terminal network, playing an active role in assisting sales companies and cooperative customers in bidding, building service stations and seizing market share. The Bank has assisted nearly 100 gas stations, and has invested RMB 2 billion with gas station partners or private owners, with an ending balance of RMB 596 million.

“Electronic Bidding” is aimed at online management of bidding and bidding fees. The Bank drew on financial technologies to build a financial service module for the CNPC E-Bidding Platform for Materials Purchasing, signed contracts with 22 CNPC bidding centers, and handled over 100,000 electronic bids, with total margin and bidding fees exceeding RMB 1.5 billion.

The “Petro Easy Loan” addresses difficult financing, expensive financing, and complicated financing procedures for downstream small and micro users in sales of refined oil. It marks the first online instant loan product for oil procurement developed by the Bank in cooperation with the CNPC Sichuan Marketing Company in the “Youke Smart Oil Butler-Oil Products Direct Marketing Platform”.

The “Equipment Financing Program” is aimed at securing financing for oilfields to increase their oil extracting scale, as well as core enterprises upstream along the industrial chain, in order to purchase large and medium-sized equipment to step up exploration and development efforts.

Integration of Industry and Finance

In 2018, the Bank implemented the strategic deployment of China National Petroleum Corporation in order to deepen industry and finance integration. We organized six regional meetings on coordination in industry and finance, studied and established an operation mechanism for the coordinating group, and formulated work plans and work targets, establishing a good communication platform for regional financial enterprises and regional companies, as well as laying a solid foundation for the Bank to further expand its market both upstream and downstream along the industry chain.

In 2018, the Bank organized the “Second Forum on Integration of Industry and Finance for the Natural Gas Industry” through cooperation with CNPC Natural Gas Sales Branch and CNPC Pipeline Co., Ltd. In the Forum with the theme of “Pooling the Efforts of Industry and Finance and Pursuing the Beauty of Blue Sky”, a wide range of events including keynote speeches, round table dialogues, and on-site visits were launched to construct an interactive communication platform for industrial chain customers, natural gas sales companies, and financial enterprises. Financial assistance for the development of the natural gas industry not only embodies the social responsibility of central enterprises in the campaign of defending our blue skies, but also boasts practical significance in coordinating the integration of industry and finance.

In the future, in order to further promote the development strategy of integrating industry and finance, tap the huge potential of industrial finance, and enhance service capabilities, the Bank will further enhance efforts in “building modes, improving mechanisms, building platforms, highlighting marketing, enriching product portfolio, strengthening risk control, heightening contributions, and upholding the Company flag”, so as to achieve new breakthroughs in industrial financing.

8.4.3 Personal Banking

In 2018, the Bank began from optimizing customer service, focused on the financial service needs of core customer groups, highlighted the characteristics of industrial financing, vigorously promoted product innovation, continuously improved product and service systems, and established online and offline sales channels, increasing the number of effective customers and enhancing customer loyalty, achieving steady progress in the retail business and maintaining a trend of quality improvement, as well as pushing market competitiveness and comprehensive service to a new level.

Personal Deposits Business

In 2018, the Bank actively responded to the market-based development of interest rates, continuously enriched its product varieties and functions, and launched its “interest pal” featuring periodical interest payments, personal certificates of deposit, and other new savings products. It continued to accelerate deployment of online product sales; launched the “Huixin No.1” and lump-sum deposit and withdrawal products in a timely manner, and in the face of market changes; and implemented the precision marketing strategy for key customers, in particular, payroll credit customers and medium-to-high-end customers, achieving steady growth in terms of savings scale. As at the end of 2018, the Bank had nearly 1.73 million personal customers, up by 9.59% YOY. The balance of personal deposits reached RMB 47.705 billion, implying an increase of 25.32% YOY.

Personal Loans Business

The Bank launched efforts designed to rectify financial chaos and special inspection of personal loan funds, further improved post-loan risk prevention and control of funds, optimized direct bank loan experience for industrial financing customers, and developed the “Salary Loan” series of personal loans. As at the end of 2018, the balance of personal loans of the Bank amounted to RMB 14.952 billion, representing an increase of 35.50% as compared with last year, with an NPL ratio of 0.22%. Over the course of the year, a total of RMB 773 million in credit loans and salary loans were issued to petroleum employees, with a total balance of RMB 2.391 billion.

Personal Wealth Management Business

We strove to be customer-centered, market-oriented, and product-based to focus on raising the comprehensive contributions to our customers. The Bank has deepened cooperation among financial enterprises, and continued to enrich a variety of wealth management and agency products. The Bank currently cooperates with a plethora of fund companies, insurance companies and gold companies, selling 132 fund products, 86 insurance products, and 170 precious metal products on a commission basis. Our annual sales of personal wealth management products reached RMB 65.799 billion, up by 27.72% YOY, while our sales of funds, insurance, precious metals and other products on a commission basis were RMB 9.139 billion, up 44.89% YOY. The income from the intermediary business of wealth management was RMB 81.1847 million.

Debit Card Business

The Bank strengthened the long-term mechanism for enhancing safety in card usage, and broadened publicity channels, promoting the widespread and effective implementation of safe card use. We continuously optimized the security performance of its bank card system to protect the legitimate rights and interests of customers, continued to enrich the industrial application of its financial IC cards, and fully constructed the financial and ecological environment of small business districts, including mining areas, factory areas, campuses, and communities. By the end of 2018, we issued 271,000 new debit cards, putting the accumulated debit card stock at 2.7154 million, including 1.68 million financial IC cards. In 2018, the number of debit card transactions in terms of deposits, withdrawals, and consumption payments reached 19.43 million, and total transaction volume reached RMB 83.5 billion, including RMB 10.6 billion in consumption transactions.

8.4.4 International Business

In 2018, the international political and economic situation underwent major changes, making the external environment for China’s foreign trade increasingly challenging and complicated. The Bank constantly adapted its international businesses to changed circumstances, actively adjusted its strategic deployment, and upheld its development path characterized by the integration of industry and finance. Shouldering the mission of serving and assisting domestic enterprises to pursue global development, we carried out various businesses in an orderly manner, strengthened business risk prevention and control, and continuously improved management. By strengthening communication and coordination with domestic and foreign customers, the Bank maintained and consolidated its business channels. By further optimizing business flows, we steadily strengthened compliance management, and enhanced the capacity for risk prevention and control.

8.4.5 Financial Market Business

In 2018, the Bank vigorously expanded new asset classes and channels for its financial market business in accordance with the guiding philosophy and work guidelines of “preventing risks, standardizing operations, reforming and innovating, and seeking progress in stability”, as well as deepening the adjustment of its assets and liabilities structure and making full efforts to explore new points for profit growth. As at the end of 2018, the on-balance sheet assets for the financial market business amounted to RMB 180.976 billion while the off-balance sheet assets registered at RMB 23.933 billion and the liabilities at RMB 81.978 billion.

Bond Business

The Bank took the market risk prevention as the main thrust for its bond business, and maintained a stable allocation structure of bank account bonds. The Bank effectively dealt with changes in market interest rates, and expanded the means of income increase and arbitrage by comprehensive utilization of bonds and loans. In 2018, the balance of bond investments was 27.3 billion, while the weighted average remaining maturity was 2.11 years, and the weighted average ROE was 3.65%. This year, we conducted 317 bond transactions, with a trading volume of RMB 41.4 billion, including purchases of RMB 22.85 billion and sales of RMB 18.55 billion. We realized interest income of RMB 1.016 billion and capital gains of RMB 23.43 million. In accordance with the annual investment plan, the Bank comprehensively used the abundant cash funds, actively grasped the occasion of a high return rate at the beginning of the year, and purchased interest rate bonds in batches and according to scale, completing the reinvestment of mature bonds of about RMB 7 billion in total, laying a solid foundation for the subsequent valuation of floating profit.

Capital Business

The Bank fully mobilized various financing tools, and comprehensively utilized such means as online repurchase, interbank lending, and interbank negotiable certificates of deposit to guarantee the bank-wide mobility security. The Bank kept following the market changes, actively improved the market presence and participation, and enhanced the profitability. In 2018, total transaction volume of funds reached RMB 3.4612 trillion, indicating an increase of RMB 2.018 trillion or 140% over 2017. A total of 121 interbank deposit receipts were issued, totaling RMB 59.37 billion, up by 73% compared to 2017. The ending balance was RMB 33.26 billion, up by 141.87% YOY.

Interbank Business

The year 2018 was the key in the Bank's efforts to implement transformation of interbank business in line with the financial market situation. Over the course of the year, the Bank overcame many internal and external pressures, actively explored non-standard business standardization, and adjusted its business structure, reducing the proportion of non-standard business. We promoted the development of standardized services such as interbank borrowing and public asset-backed securitization products, and enriched its product portfolio through multiple channels, achieving initial success in transformation, and actively geared ourselves toward capital markets, widened its liability channels through multiple channels, and achieved steady improvement in liability services. Through this transformation, profits rose steadily; as at the end of 2018, the scale of its interbank business assets and interbank deposits reached RMB 55.318 billion, and RMB 30.043 billion respectively.

Bill Business

In 2018, the Bank focused on the electronic transformation of PBOC bills. Drawing on the opportunity of paper and

electrical bill integration and the direct connection of the bill exchange, we successfully realized business restructuring and transformation; enhanced bill financing capabilities, risk control capabilities, market expansion capacity, and scale application efficiency; achieved steady and orderly development in its bill business. As at the end of 2018, the scale of our bill business had reached RMB 34.315 billion, up 54.23% YOY, while our FTP profit was RMB 478 million, up 81.75% YOY.

Wealth Management

In 2018, against the backdrop of stricter regulation in the wealth management business, the Bank maintained steady development and growth trends in wealth management service. As at the end of 2018, our wealth management balance had reached RMB 23.933 billion, an increase of RMB 3.852 billion compared to the beginning of the year, all without principal guarantee. In line with the requirements of the new regulations on asset management, we actively promoted the development and transformation of our wealth management service. In October 2018, we successfully launched Kunlun Wealth-Kunlun Pal Series of Cash Management Financial Products, our first wealth management product that fully met the requirements of the new regulations. Open to subscription and redemption on a daily basis, it won the favor of customers, and rapidly grew in scale, exceeding RMB 2 billion by the end of 2018. In wealth management and investment, the Bank continued to uphold the prudent investment style, rationally arranging super-category asset allocation under the premise of ensuring safety, liquidity, and profitability; continuously optimized the asset structure and steadily improved the asset portfolio yield. As at the end of 2018, the Bank's wealth management assets mainly included bonds, money market instruments, and other low-risk assets, and overall portfolio risks remained controllable.

8.4.6 Investment Banking

In 2018, the Bank strictly followed "The Guidance on Regulating the Asset Management Business of Financial Institutions" and other regulations put forward by the regulatory authority as they pertain to the launch of an investment banking business, expanded the product line, improved various investment banking business systems, promoted the structured financing business in a stable and compliant manner, promoted the first M&A loan business, actively expanded bonds underwriting, and made preparations for asset-backed securitization qualification.

Structured Finance Business

The Bank implemented "The Guidance on Regulating the Asset Management Business of Financial Institutions" and other regulatory policies, improved the rules and regulations as they pertain to our structured financing business, strengthened business learning and training, conducted marketing among high-quality corporate customers, and strictly controlled risks. By the end of 2018, the balance of the structured financing business was RMB 7.291 billion.

Mergers & Acquisitions Loan Business

The Bank introduced the M&A loan management measures, and completed the first M&A loan business, investing RMB 15 million to support infrastructure projects in Xinjiang.

Bond Underwriting Business

The Bank continued to promote the distribution of debt financing instruments of non-financial corporate debt financing instruments. For the first time, we participated in the distribution of RMB 1 billion of interbank asset-backed

securitization products, and the accumulated volume of bond sales over the course of the year reached RMB 2.958 billion.

Green Financial Bond Issuance Business

Implementing the requirements of pilot zone for green finance reform and innovation of China, the Bank successfully issued green finance bonds in the Chinese interbank bond market on 28 May 2018, with a term of three years and an amount of RMB 400 million, to support the green industry development in Xinjiang.

8.4.7 Online Financial Services

The year 2018 marked the very first year in which the Bank launched the online finance business, adhering to the characteristic development strategy of “integration of industry and finance”, focusing on building the ecosystem of “people, car, and oil”. With the goal of creating “the most oil-efficient banks”, we prioritized the development of customers from petro company employees, refueling customers, and online customers, and continuously expanded the scenes through cross-industry cooperation to provide differentiated products and services to customers, completing the online financial platforms of direct banking and WeChat banking.

Direct Banking

In 2018, the Bank achieved a breakthrough in developing direct banking, successively launching the Kunlun Wealth Plan, the Insurance Supermarket, the Petro Financing Program, Easy Enjoy Loans, the Electronic Prepaid Refueling Card, a Credit Card, and other products and services. We continued to strengthen platform risk prevention and control, implementing technology such as facial recognition, online verification via connection to the Ministry of Public Security, and other new functions. In integrating industry and finance, we deepened cooperation with the sales branch of CNPC, and carried out joint marketing activities in various provinces and municipalities in order to enhance the rights and interests of refueling card holders and enrich the financial attributes of the card. In terms of financing cooperation, we carried out product cooperation with the Generali China Life Insurance Company and the Generali China Insurance Company, launching life insurance, driving insurance, traffic accident insurance, and other products, as well as exploring the business model of offline resource integration. In terms of financial innovation, we cooperated with the Party Committee of China National Petroleum Corporation to jointly build the CNPC Party Construction Information Platform, offering financial services to over 400,000 Party members among its customers, with the total transaction volume exceeding RMB 100 million. By the end of 2018, the Bank’s direct banking had reached 1.5 million customers in total, and its liability sales and loans reached RMB 13.5 billion and 2.4 billion, respectively. Kunlun Direct Bank was given the “Best Direct Banking Function Prize” of the China E-bank Golden Award by the China Financial Certification Center (CFCA) in 2018, the “Most Promising Direct Bank” at the Direct Banking and Wealth Management Festival of Direct Bank Development Center, and the China Transportation “China Logistics Finance Innovation Award” issued by the Logistics Investment Branch of the China Communications and Transportation Association.

WeChat Banking

In 2018, the Bank prioritized strengthening Internet-based customer acquisition, brand building and marketing promotion for the WeChat Bank, completing the copyright registration for the cartoon image Xiaokun, and adhering to the principle of promoting and integrating brand and efficiency. Official social media account followers exceeded

1 million, and total posts reached 159 across 46 issues. Posts were read 2.39 million times, and the followers of the entire Bank exceeded 5 million. The platform became richer in features, implementing online reservations, QR code scanning to check statements, and its oil coin mall.

8.4.8 Credit Card Business

The year 2018 marked the first time that the Bank officially launched its credit card business, witnessing gradually improved product development and management, channel expansion, and marketing activities, steadily expanded asset scale, and effectively-managed risks. By the end of 2018, we had issued a total of 87,025 credit cards, with an activation rate of 72.32%. With our installment business and the balance of credit card loans reaching RMB 223 million and RMB 270 million respectively, we were awarded the “Most Promising Award for the UnionPay Card Business” by China UnionPay for its credit card business.

Product Development

In 2018, the Bank comprehensively promoted the research and development of new products, and completed construction of a three-dimensional product series, including the three product categories of standard card, co-branded card, and exclusive card. We also embraced the three functions of roll-over overdraft credit consumption, standard consumer credit installments and exclusive consumer credit installments. On 18 October 2018, the Bank officially issued the CNPC Kunlun Refueling Credit Card, a product integrating the functions of a credit card and a refueling card. Achieving linkage across the credit card system, the gas station management system and the insurance system for the first time, we realized the goal of separated management for the credit card account and refueling card account for centralized business operation. We were granted the “2018 Excellence Prize for Product Innovation of Regional Commercial Banks” of the China E-Bank Gold Award by the China Financial Certification Center (CFCA) for this type of credit card.

中国石化 昆仑加油 信用卡

“中国石化昆仑加油信用卡”是昆仑银行携手中国石化天然气股份有限公司销售分公司、中意人寿保险有限公司三方联合打造的一款兼具实用与收藏价值的信用卡产品。

一卡双账户，既是加油卡也是信用卡。

- “昆仑YOU享日”加油立减活动
 - 全球驾照免费翻译
 - 优惠洗车服务
 - 免费一年的“中意交通工具团体意外伤害保险”

Marketing

The Bank planned a series of activities for its credit card brand including the “Kunlun YOU Enjoy Day”, and successively launched the “Discount for Refueling”, “6 Yuan Film Ticket”, “Double Eleven Shopping Festival”, and other marketing activities, accelerating its efforts to create a consumer life circle, consolidating its credit card brand image and striving to expand its market share. Meanwhile, the Bank continued to optimize the business functions of its credit card smartphone application and official WeChat account, pushing the number of customers handling credit card business online beyond 10,000.

8.4.9 Distribution Channel

The Bank enhanced its efforts to build a three-dimensional distribution channel network of “online plus offline, smart plus manual”, striving to provide customers with an “efficient, professional, and warm” financial service experience. The physical service network of the whole bank has been gradually improved, with steadily heightened smart content, continuously improving customer experience and account security of thee-banking system and constantly enhancing the ability to serve the integration of industry and finance.

Physical Business Site Channel

In 2018, the Bank completed the relocation and transformation of six sub-branches in accordance with intelligent construction standards. As at the end of 2018, the Bank had 83 branches and sub-branches, including 9 branch institutionss, 64 traditional sub-branches and 10 community small and micro sub-branches. We actively responded to the requirements of the People’s Bank of China on optimizing the process of opening an account. Through technology empowerment and process reengineering, we launched a mobile account-opening service based on the new Pad terminal for corporate customers, greatly shortening the time required to conduct business, and improving the customer service experience and risk prevention and control to varying degrees. In addition, we successfully developed integrated smart service terminals, self-service receipt printers and other intelligent service channels, significantly improving its mobile and intelligent service capabilities.

Corporate Online Banking Channel

Aimed at strengthening industrial financing, corporate online banking (bank-corporate direct connection) has remained focused on enriching business functions and enhancing the customer experience. Electronic bills of exchange, electronic receipts and enterprise bill pool functions were added, enriching the bill-related financial services and providing a new solution for revitalizing corporate customers’ stock of bill assets. The commissioning of a new generation of electronic commercial bills greatly enhanced the business experience of financial services, with a comprehensive display of how processing is carried out for timely, accurate, and convenient understanding among customers. As at the end of 2018, the number of corporate customers registered for online banking was 26,700, with an annual transaction volume of 2.7335 million, accounting for 11.87% of all channels.

Personal Online Banking Channel

The new version of Personal Online Banking was officially launched in March 2018. The customer interaction interface received a facelift, with a clearer information display. At personal banking terminals, the functions of account opening, management, and transfer for Class II and III accounts were realized. In terms of account security, the account security lock function was implemented, allowing customers to set restrictions on region, time, and channels for use of bank cards, further increasing bank card security. By the end of 2018, there were 577,000 registered personal online banking customers, with annual transaction volume totaling 8.7358 million, accounting for 37.94% of that of all channels.

Mobile Banking Channel

In 2018, the Bank improved the secure payment system for mobile banking, adding the FIDO fingerprint certificate authentication system and realizing payment and settlement following identity confirmation through fingerprints or face recognition technology. At mobile banking terminals, account opening, account management, money transfers, and

other financial services were realized for Class II and III accounts. Account security locks were also achieved, further increasing the security of bank card use. By the end of 2018, there were 487,000 mobile banking users, with a total of 5.294 million transactions across the entire year, accounting for 22.99% of the combined volume of all channels.

SMS Platform Channel

In 2018, the SMS platform sent a total of 142 million text messages. Among them, three types exceeded 10 million each, including personal text messages, directory messages, and personal account change text messages, which amounted to 86.3796 million, 16.4579 million, and 15.76 million, respectively, accounting for 83.63% of all text messages sent in aggregate. In 2019, the Bank will upgrade its SMS platform by setting a limit on reminders for personal account changes. WeChat notifications, smartphone app push notifications and emails will be adopted to achieve diversity of message type, ensuring the receipt of notifications among customers and account safety, while also reducing the cost of sending messages.

8.4.10 Information Technology

In 2018, the Bank followed the general concept of “consolidating the foundation, improving capacities, and promoting transformation” in information technology work. Focusing on “four emphases and four promotions” in specific work, we achieved safe and stable operation of our production system, and maintained the availability of primary system services at 99.9% and above. All undertakings advanced steadily, furnishing strong support for the healthy development of various businesses.

Platform Construction

The Bank completed information system evaluation and IT planning, completed the construction and restructuring of platforms in biometrics, bill business, wealth management sales, big data, and other key areas. Those platforms were put into production as planned, promoting the smooth transition of system architecture to concentration and distribution, while also improving the quality and efficiency of system operations, as well as parameterization and modularization. We also developed and published 41 technical specifications for applications, data, security, infrastructure, and network, consolidating the foundation of the architecture.

Infrastructure Construction

The Bank unwaveringly adhered to the principle of “safety first” in its work, and organized staff at IT posts to sign letters of responsibility on IT security objectives. In addition, we revised and published 23 IT regulations, revised more than 700 IT compliance inspection standards, improved more than 150 standards for violation point accumulation, optimized 145 IT emergency plans, completed 240 emergency plans, conducted an application system inspection for its branches and issued specific instructions for computer room repairs and improvements. The Bank enhanced efforts in rotation management of IT expert panels and IT risk research for financial institutions in Xinjiang. The *Research and Practice of the Bank in Direct Banking for Industrial and Financial Integration*, as well as *Research and Practice in Quantum Communication Encryption Technology in the Financial Industry*, the Bank’s two research topics, were awarded Class IV research achievement prizes for research in IT risk study for the banking industry. Its *Exploration of Internet-Plus Supply Chain Finance* won the Outstanding Contribution Prize for Product Innovation in the Financial Industry, while its *Project of Quantum Secure Communication for Same-City Data Centers* won the Financial Security Construction Project Prize. Phase II construction of three centers across two sites was completed; all

17 sets of primary information systems deployed for application-level disaster recovery and all-data disaster recovery for same-city and off-site disaster recovery centers in the main production center in Changping, Beijing. Additionally, we also implemented the integrated management platform for information security, implemented terminal security unified control, quantum encryption communication, business system transaction monitoring, and other security projects. We continued code security inspection, specific network security inspection, level protection, vulnerability scanning, permeability testing, baseline inspection, security auditing, and phishing monitoring, comprehensively promoting the implementation of information security system planning from the aspects of security management and technical support, while also effectively preventing and controlling IT risks, and effectively guaranteeing the safe operation of the system.

Project Construction

The Bank strengthened its electronic and standardized project management covering the entire process, completed professional technical review of feasibility studies for 66 projects, launched workload evaluation of IT projects, optimized and upgraded the IT project management platform, and completed and commissioned the allocation management platform. We promoted construction of industrial chain finance, credit cards, Internet finance, three centers in two sites, and other key projects, completed 11 major-version commissions; implemented 12 new systems, including a biometrics platform, a network platform, an Internet financial access platform, a big data platform, an electronic bill-receiving platform, a mobile counter, a paperless platform, a self-service receipt system, a new cash equipment application system, a non-resident tax filing system, an operational risk early warning system, and a national centralized bank account management system, in order to support the development of its primary businesses.

8.4.11 Service Improvement

In 2018, the Bank carried forward the theme of “highlighting services and building brand and continued to consolidate service branding achievements. Adhering to the “customer-oriented” service concept, we deepened the construction of the service management system, promoted the interconnection and interoperability of multiple channels online and offline, and strengthened the encapsulation and dissemination of the typical service experience, striving to meet the comprehensive and multi-level needs of customers through constant upgrading of services.

The Bank strengthened service management through various forms and means, launching a series of service enhancement activities, creating a service atmosphere of “comparing, learning, emulating, assisting, and surpassing”, and achieving good results. First, we launched the large-scale discussion activity of “learning from paragons, finding the gap, and creating value”, explored typical cases of quality services in depth, and strengthened standardized services and self-discipline. Second, we carried out network service experience activities, and examined the service of its branches from the perspective of customers and banks, while also identifying key points for service improvement. Third, we held the “Contest of Golden Ideas for Service Innovation” to give full play to the subjective initiative of employees and creating an innovation-oriented atmosphere. Fourth, we launched “The Most Beautiful Smile” service review, establishing publicity models for quality service. Fifth, we launched anonymous outlet inspection, and formed a three-dimensional evaluation of service standards, specifications, and procedures, providing a scientific decision-making basis for improving service quality and customer satisfaction.

8.5 Risk Management

8.5.1 Organizational Structure of Risk Management

The comprehensive risk management organizational structure was established, covering various types of risks including credit risk, market risk, operational risk, liquidity risk, country risk, reputational risk, strategic risk and legal risk. As the supreme managing and decision-making authority in the Bank's risk management structure, the Board of Supervisors is responsible for supervising the performance and diligence of the Board of Directors and Senior Management in risk management, and urging them to make rectification. The Senior Management set up the Risk and Internal Control Management Committee (including credit, market and operating three special committees), which was designed to be responsible for implementing and supervising the risk management. The Risk and Compliance Department at the head office is responsible for the overall risk management and the comprehensive promotion of risk management. The leading administrative departments of various risks of the head office are the subject of the risk management. All departments of the head office and branches specifically implement the policies related to risk management.

8.5.2 Credit Risk

Business Activities that Generate Credit Risks

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

The sources of the credit risks of the Bank mainly include loans, capital businesses (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 receivable, letters of guarantee, discounts, and bank card overdrafts.

Organization Structure and Responsibility Division of Credit Risk Management

The Bank strictly followed supervision requirements, and continuously improved its credit risk management flow. The credit management department of the Bank is the leading department for credit risk management of the whole bank.

Credit Risk Management and Control Policies

The Bank actively promoted, gradually established and implemented a unified credit risk management concept, using big data to comprehensively monitor credit risks and continuously improve its credit risk management level. We continually improved the credit risk management system, deepened the adjustment of its credit structure, steadily promoted the "Uphill Battle for Strengthening the Quality and Efficiency of Credit Assets", and earnestly launched the "Year of Post-Loan Management" and other activities, all in an effort to standardize post-loan management initiatives. We also strengthened risk investigation and prevention, enriched forms of training, created a learning atmosphere, and continually disseminated a unified credit culture to promote the implementation of the credit risk management system.

Credit Risk Management of Corporate Loans

In 2018, the Bank launched the “Uphill Battle for Strengthening the Quality and Efficiency of Credit Assets” and the “Year of Post-Loan Management” projects, suppressed and refused problem loans, standardized post-loan management, strengthened inspection supervision, enhanced compliance awareness and management, as well as credit culture promotion and implementation, and unified risk preferences.

The Bank continually improved its credit risk management system, and optimized the credit management process. In 2018, the Bank continued to conduct the customer credit policy in a prudent, 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; focused on developing quality customers, tried to improve the proportion of quality customers, meanwhile strengthened centralized management of single customers, and dispersed credit risks; actively supported regional economic development in Xinjiang, giving priority to Xinjiang in terms of credit expansion and business innovation. Based on this region, all branches maintained focus on the market in this region, and emphatically served the real economy in this region. In addition, we clarified and revised the credit risk management system, continuously optimized the credit system and credit management workflow, strictly controlled the credit access threshold, and effectively improved the review and approval process.

Credit Risk Management of Retail Loans

In 2018, the Bank took into consideration national policies, monetary policies, and supervision stipulations, collated and revised management methods in a timely manner, and optimized the management method for operation flows as well as the asset quality classification management method. We closely monitored the development trends of non-performing loans, launched self-examination and analysis of the risk business in a timely manner, and put forward business management and control opinions. It took into consideration customer group evaluation in view of credit card product positioning, formulated marketing guidelines, implemented effective policy control and approval, and exercised supervision in a timely manner. Assessments and post-loan management were improved, while post-loan management training at branches was strengthened. Personal credit risk control was further enhanced.

Credit Risk Management of Investment Business

The Bank adhered to the principles of compliance and prudence, and continuously improved institutional and system construction in order to effectively prevent credit risks. We constantly strengthened counterparty access and credit management, and regularly evaluated and carried out the timely adjustment of the list of counterparties in order to prevent cross-financial risks. Additionally, we strengthened bond issuer risk identification and management capabilities, as well as the timely tracking and reporting of the downgrade of a bond issuer’s rating and primary risk events that might affect the solvency of the issuer. We strengthened the self-inspection of businesses, conducted targeted examination and supervision, and paid close attention to credit risk changes, all of which continually promoted the business system upgrade.

Credit Asset Quality Management

The Bank enhanced classification of credit asset quality in accordance with the core definitions of the regulatory authorities and the rigid on-balance sheet and off-balance sheet control rules. We strengthened process management and improved work efficiency, while also accurately calculating impairment provision, and improved risk prevention

capabilities, optimizing the performance evaluation indicators and improving the quality assessment of credit assets.

Loan Classification

As at the end of 2018, the total loans and advances of the Company amounted to RMB 126.794 billion, implying an increase of RMB 15.689 billion or 14.12% as compared with last year.

Five-category classification of loans and advances

in RMB 10⁴

Five-category classification	31 December 2018		31 December 2017	
	Amount of loans and advances	Proportion in total amount (%)	Amount of loans and advances	Proportion in total amount (%)
Subtotal of PLs:	12,507,056	98.64	10,936,564	98.43
Normal	12,469,418	98.34	10,879,372	97.92
Special-mention	37,638	0.30	57,192	0.51
Subtotal of NPLs:	172,297	1.36	173,934	1.57
Sub-standard	44,410	0.35	6,447	0.06
Doubtful	49,324	0.39	66,727	0.60
Loss	78,563	0.62	100,760	0.91
Total	12,679,353	100	11,110,498	100

As at the end of 2018, according to the results of five-category classification, the normal loans of the Company were RMB 124.694 billion, and accounted for 98.34% of loans and advances, increasing by RMB 15.9 billion and 0.42 percentage point respectively as compared with last year. The special-mention loans were RMB 376 million, decreasing by RMB 196 million as compared with last year, and accounted for 0.30% of loans and advances with a decrease of 0.21 percentage point. The balance of NPLs and NPL ratio were RMB 1.723 billion, and 1.36% respectively, with a decrease of RMB 16 million and 0.21 percentage point respectively as compared with the end of last year.

Loans and Advances by Guarantee

in RMB 10⁴

Guarantee method	31 December 2018	Proportion (%)	31 December 2017	Proportion (%)
Credit loans	3,434,908	27.09	3,070,519	27.64
Guaranteed loans	1,748,901	13.79	1,881,700	16.94
Loans secured by mortgage	1,570,028	12.38	1,137,846	10.24
Loans secured by collaterals	2,562,284	20.21	2,195,529	19.76
Discount of banker's acceptance bills	2,707,689	21.36	2,230,227	20.07
Discount of commercial acceptance bills	655,542	5.17	594,676	5.35
Total	12,679,353	100	11,110,498	100.00

As at the end of 2018, the balance of credit loans of the Company was RMB 34.349 billion, and accounted for 27.09% of loans and advances, increasing by RMB 3.644 billion and decreasing of 0.55 percentage point as

compared with the end of last year. The balance of guaranteed loans was RMB 17.489 billion, and accounted for 13.79% of loans and advances, decreasing by RMB 1.328 billion and decreasing of 3.15 percentage points as compared with the end of last year. The balance of Loans secured by mortgage was RMB 15.7 billion, and accounted for 12.38% of loans and advances, increasing by RMB 4.322 billion and decreasing of 2.14 percentage points as compared with the end of last year. The balance of loans secured by collaterals of the Company was RMB 25.623 billion, and accounted for 20.21% of loans and advances, increasing by RMB 3.668 billion and 0.45 percentage point respectively as compared with the end of last year. The balance of discount of banker's acceptance bills of the Company was RMB 27.077 billion, and accounted for 21.36% of loans and advances, increasing by RMB 4.775 billion and 1.29 percentage points respectively as compared with the end of last year. The balance of commercial acceptance bill of the Company was RMB 6.555 billion, and accounted for 5.17% of loans and advances, increasing by RMB 609 million and decreasing 0.18 percentage point as compared to the end of last year.

Loans granted to the top 10 single customers of the Company and the Bank as at the end of 2018

in RMB 10⁴

Customer	Industry	Balance	Proportion in total loans and advances (%)
Customer 1	Financial services	148,588	1.17
Customer 2	Manufacturing	140,700	1.11
Customer 3	Manufacturing and supply industry of electricity, heat, gas and water	130,000	1.03
Customer 4	Real estate	108,000	0.85
Customer 5	Leasing and commercial service	104,050	0.82
Customer 6	Manufacturing and supply industry of electricity, heat, gas and water	100,000	0.79
Customer 7	Manufacturing and supply industry of electricity, heat, gas and water	96,000	0.76
Customer 8	Wholesale and retail industry	96,000	0.76
Customer 9	Mining	95,000	0.75
Customer 10	Financial services	92,000	0.73
Total		1,110,338	8.76

The total amount of loans granted by the Company to the single largest customer accounted for 4.51% of the Bank's net capital. The total amount of loans granted to the top ten single customers accounted for 33.68% of the net capital and 8.76% of the total loans and advances of the Bank.

Overdue loans

in RMB 10⁴

Overdue period	31 December 2018	31 December 2017
1-90 days	8,918	18,261
91-360 days	29,762	81,914
1-3 years	86,175	61,366
Over 3 years	13,894	30,737
Total	138,748	192,278



As at the end of 2018, total amount of overdue loans of the Company amounted to RMB 1.387 billion, a decrease of RMB 535 million as compared to the end of last year.

8.5.3 Market Risk

Market risks refer to the risks that cause losses to on-balance sheet and off-balance sheet business of a bank due to adverse changes in market prices (interest rate, exchange rate, share price, commodity price, etc.). The Bank classified all on-balance sheet and off-balance sheet assets and liabilities into transaction accounts or bank accounts. Transaction accounts refer to financial instruments and commodity positions which are available for free transactions and held by the Bank for the purpose of transactions or evading the risks of other items of transaction accounts, and other kinds of positions are transferred into bank accounts. In view of various account categories, corresponding methods are utilized for control. The main market risks encountered by the Bank during the operation process include interest rate risk of transaction account, interest rate risk and exchange rate risk of bank account, without share price risk and commodity price risk.

8.5.3.1 Market Risks of Transaction Account

The Bank has established a market risk management system for transaction accounts covering risk identification, measurement, monitoring, reporting, and controls to continuously monitor and control market risk in transactions, as well as keep the market risk of transaction account within a tolerable and reasonable level of the Bank. In 2018, we further promoted the application of risk measurement results in its services and management, set restrictions on positions and stop-loss, and strengthened the monitoring, early warning system and reporting of trade book market risks based on market analysis.

8.5.3.2 Market Risks of Bank Account

Rate Risk

The interest rate risk in the banking book refers to the risk of impairment to the economic value of the banking book and overall income due to adverse changes in interest rate levels and term structure. Interest rate risks in the banking book were included in the Bank's comprehensive risk management framework, and a specific management system was adapted according to system importance, risk status, and business complexity, in order to strengthen the identification, measurement, monitoring, control, and mitigation of such risk. The Bank conducted business activities mainly by following the interest rate systems specified by the PBOC, and regularly measured the sensitivity gaps of bank account interest rates by adhering to the principle of prudence, and analyzed gaps to evaluate interest rate risks. At the end of 2018, our banking book showed asset sensitivity. Specifically, when the interest rate increased proportionally, the increase in asset interest income exceeded that of interest expense on liabilities, while net interest income increased. We developed and implemented an effective framework for stress testing bank book interest rate risk based on size, risk profiles, and business complexity, in order to carry out regular stress tests, and reduced potential adverse impacts of interest rate changes on profitability by rationally adjusting the maturity structure of interest-earning assets and interest-bearing liabilities.

Exchange Rate Risk

Exchange rate risks refer to the risks that cause losses to on-balance sheet and off-balance sheet business of a bank

due to adverse changes in exchange rates. The exchange rate risks of the Bank manifested as the risks of causing losses by adverse changes of exchange rate to the foreign currency exposure generated by currency structures mismatch between foreign currency assets and foreign exchange liabilities in bank account. In 2018, the Bank set the foreign exchange exposure limit, risk value limit, strengthened analysis of foreign exchange rate changes, conducted monitoring, early warning, and reporting of the exchange rate risk situation.

8.5.4 Operational Risk

Operational risks refer to the risks of losses resulting from inadequate or failed internal processes, employees, and IT systems, or from external events, excluding strategic risk and reputational risk.

In 2018, the Board of Directors and senior management of the Bank attached great importance to operational risk management, and implemented the corresponding principles and objectives, effectively enhancing operational risk management. By actively promoting business continuity management, system revision, business flow optimization, organization of on-site inspection, and emergency drills in various businesses, the Bank steadily improved its internal control system, institutional system, and various supervision and management systems, in an effort to improve emergency response capabilities, strengthen operational risk management and enhance its competitiveness in risk management and control. Under the concept of technological advancement, we steadily optimized and developed existing systems to ensure the stable operation and sustainable development of its businesses. Through concentrated business processing and ex-post supervision, operational risk warnings and other improvements in business processing models were implemented, increasing the automation in business development and internal control management.

In light of the development in domestic and international situations and regulatory requirements in 2018, the Bank unified thinking and focused on the two main threads of “ensuring safety and consolidating its foundation”. With key management and control, training assessment, inspection, and supervision as the starting point, we furthered “enhancing three bases and forging three irons”, and promoted in-depth extension of operational risk management and control. By standardizing employee operation and strengthening business error management, we reduced the post-supervisory error rate year by year, strengthened employee training management, organized employee business knowledge competitions and theoretical examinations, and convened multi-level analysis meetings and spot training in view of risk management and control requirements, steadily improving employees’ operational skills, business theory knowledge and risk prevention awareness; strengthened the key post control, especially ones in authorization, management, and the regulation and management of restrictive transaction behaviors of specific post personnel; and meanwhile strengthened the incompatible post control strictly and rigorously to keep the tough stance on operation risk prevention.

Information Technology Risk Management

Information technology risks refer to the risks of losses resulting from natural factors, and management deficiencies. This includes instances in which IT is applied by commercial banks, including reputational risk.

The Bank periodically reported the information technology risk management to the Risk and Internal Control Management Committee of Senior Management, the Risk Management Committee under the Board of Directors, and

the Board of Supervisors; In 2018, we optimized and continually monitored key IT risk indicators, launched specific risk assessments, including IT risk investigations, information system commissioning, and risk inspections on major outsourcing service providers, as well as the annual IT risk assessment. We initiated business continuity consulting projects, launched in-depth IT emergency drills, and constantly improved the construction of an IT risk management system.

Anti-Money Laundering

The Bank put great effort into anti-money laundering measures in strict accordance with related laws and regulations. In 2018, we steadily improved the anti-money laundering system and revised four regulations, including the *Implementation Rules of the Bank of Kunlun on Risk Level Classification*, in order to effectively implement the risk management requirements as they pertain to money laundering and terrorist financing; further optimized the anti-money laundering monitoring system, improved the monitoring rules and system monitoring functions for large and questionable transaction, and strengthened the anti-money laundering monitoring abilities of the Bank. Meanwhile, the Bank continuously completed the large and questionable transaction report work, and strengthened manual analysis and identification. In addition, the Bank practically and effectively carried out anti-money laundering campaigns and training according to supervision requirements. The Bank also organized self-investigation and risk prevention for institutions at all levels based on the actual situation of the Bank.

8.5.5 Liquidity Risk

Liquidity risks refer to the risks that the Bank fails to raise funds at a reasonable cost on time to settle mature liabilities, perform other payment obligations or satisfy other fund demands for normal business development. The sources and formation of liquidity risks include two categories, namely, external factors and internal factors. External factors include, but are not limited to, macroeconomic factors, the financial markets, and customer behavior. Internal factors include, but are not limited to, the structure of assets and liabilities, business management, and other factors.

Liquidity Risk Management

In 2018, the China Banking and Insurance Regulatory Commission promulgated *Administrative Measures for the Liquidity Risk of Commercial Banks*, which took effect on 1 July 2018. Three new regulatory indicators were added, requiring commercial banks to further improve their liquidity risk monitoring system and enhance risk management requirements for daytime liquidity. In line with changes in the macroeconomic situation and the requirements of new regulations, the Bank enhanced refined management of liquidity risks by further improving regulations and optimizing its mechanism for liquidity risk management, and continued to implement a prudent strategy for liquidity risk management, closely monitored various factors influencing the situation, and strengthened liquidity risk management, steadily improving liquidity risk prevention and management capabilities.

Liquidity Risk Management System and Governance Structure

The liquidity risk management system of the Bank was consistent with the overall development strategy and overall risk management system of the Bank, and adaptable to the business scale, business nature and complexity of the Bank. It was composed of the following basic elements: effective governance structure of liquidity risk management; sound liquidity risk management strategy, policy and procedure; effective liquidity risk identification, measurement, monitoring and control; and a developed management information system.

The management structure of liquidity risk management of the Bank includes: under the comprehensive risk management framework of the Bank, the organization structure of liquidity risk management of the Bank is composed of a decision system, an implementation system and a supervision feedback system. The decision system is composed of the Board of Directors, Senior Management and their committees; the implementation system is composed of Head Office Planning & Financing Department, Financial Market Department, International Business Department, Information Technology Department, and other relevant departments and all branches and sub-branches. The Head Office Planning & Financing Department is the leading executive department, and other relevant departments of the head office and all branches and sub-branches are auxiliary executive departments; the supervision feedback system is composed of the Board of Supervisor, Risk and Compliance Department, and Internal Audit Department. According to function division, the above systems respectively perform decision, implementation, and supervision of the management of liquidity risk.

Objectives, Strategies and Major Policies of Liquidity Risk Management

Objectives of liquidity risk management of the Bank: to establish a reasonable, sound liquidity risk management mechanism; effectively identify, measure, monitor and report the liquidity risk; timely satisfy the liquidity demands caused by the bank-wide liability payment, assets and off-balance sheet business development; reasonably adjust the scale and structure of assets and liabilities according to market changes and business demands; reasonably adjust and balance the bank-wide fund security and profitability.

The strategies and policies of liquidity risk of the Bank were established according to liquidity risk preferences. They cover all related businesses as well as all business departments, branches, sub-branches and holding enterprises that might cause a significant impact on liquidity risk, and include liquidity risk management under normal and pressure scenes. The strategies of liquidity risk management specified the overall objectives and management modes of liquidity risk management, and listed major policies and procedures related to liquidity risk management. Major policies of liquidity risk management were established specifically by taking into consideration of the external macro business environment and business development, and effectively balanced security, liquidity, and profitability.

Management Mode of Liquidity Risk

The mode of liquidity risk management is a consolidated management mechanism of liquidity risk based on the liquidity risk management of the legal person. Specifically, the head office conducted a unified, centralized management of liquidity risks of the Bank, and ensured the bank-wide liquidity security by dynamic adjustment of the total amount and structure of assets and liabilities. The holding institution(s) undertook the chief management responsibilities for the liquidity management of the Institution, and corresponding responsibilities of liquidity risk management according to the requirements of leading liquidity risk management departments of the head office.

Pressure Test of Liquidity Risk

The Bank conducted the liquidity risk pressure test by applying the scenario analysis method and sensitivity analysis method in the principle of prudence. Based on market conditions, business characteristics, and complexity, we gave full consideration to various risk factors that had the potential to affect the liquidity situation, and set liquidity risk stress scenarios for products and businesses with concentrated liquidity risks; regularly made pressure test on quarter basis, and if necessary, conducted temporary and special pressure tests, taking into consideration the external operation environment changes and supervision department requirements at special time points. The stress

test results showed that under the set pressure scenarios, we could achieve minimum life expectancy as required by regulatory authorities.

Liquidity Risk Analysis

In 2018, the Bank closely monitored changes in the international situation, the macroeconomic situation, the monetary policy, and market situation, and flexibly adjusted its strategy for domestic and international balance sheet businesses according to the new regulations on liquidity, the status of its assets and liabilities, and the characteristics of its phased fund management, ensuring overall liquidity security. We steadily monitored overall liquidity and the status of its assets and liabilities businesses, coordinated on-balance sheet and off-balance sheet liquidity risk management, strengthened intraday liquidity risk management, optimized the maturity of assets and liabilities, improved the quality of liquidity stress testing, and improved contingency management, ensuring smooth market financing channels and abundant high-quality liquid assets.

The Bank's various business operations remained generally stable, while its liquidity remained at a low risk level, and various liquidity indicators met regulatory requirements. Main supervision indicators were as follows:

Main regulatory indicators		Regulation standards	31 December 2018	31 December 2017
Liquidity ratio	RMB	≥25	81.22	47.37
	Foreign currency	≥25	531.15	167.92
	RMB and foreign currency	≥25	106.50	50.53
Liquidity coverage ratio (LCR)	RMB and foreign currency	≥100	535.54	286.76
Net stable fund ratio (NSFR)	RMB and foreign currency	≥100	110.14	110.72

Note: (1) Liquidity ratio = Liquid assets/ liquid liabilities.

(2) LCR = Qualified quality liquid assets/net cash outflows.

(3) NSFR = Available stable fund/stable fund required.

(4) The indicators in this table are the data of the Bank, 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 below:

in RMB 10⁴

Item	31 December 2018	31 December 2017
Liquidity coverage ratio (LCR)	535.54	286.76
Qualified quality liquid assets	2,166,577	2,189,088
Net cash outflows of the next 30 days	404,557	763,386

Liquidity Gap Analysis

The Bank also assessed the liquidity risk status by regularly calculating and monitoring the liquidity gap. As at the end of 2018, the accumulative positive liquidity gap increased as compared with the end of last year and the overall liquidity was secure. The liquidity gap analysis was shown as follows:

in RMB 10⁴

Item	Overdue / Repayable on demand	Within 1 month	1–3 months	3 months – 1 year	Over 1 years	Undated	Total
31 December 2018	5,485,954	976,694	(295,061)	(3,862,448)	(697,804)	1,535,765	3,143,100
31 December 2018	2,107,703	(1,541,759)	(77,876)	2,746,927	(2,110,517)	1,653,694	2,778,173

Note: (1) Liquidity gap = assets due within a certain period - liabilities due within the same period.

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

8.5.6 Country Risk

Country risks refer to risks that the debtor in the country or region was unable to or refused to compensate the liabilities of financial institutions, or the business presence of financial institutions in the country or region, or the banking financial institutions suffered from other losses due to the economic, political and social changes, or accidents in a certain country or region.

The Bank established a country-specific risk management system with relative completeness, implemented a country-specific quota management system, built and gradually improved its country-specific risk monitoring mechanism, and implemented country-specific risk reporting mechanisms. In 2018, we continued to deepen the construction of its country-specific risk management system, assessing potential risks in view of real-time changes in the international political and financial arena, and gave timely adjustment to risk control measures, ensuring effective implementation and compliance of policies and limits on country-specific risk management.

8.5.7 Reputational Risk

Reputational risks refer to the risks of negative assessments or comments on a commercial bank from stakeholders as a result of the Bank's operation, management, or other actions or external events. The Bank attaches great importance to reputation risk management, continuing around-the-clock public opinion monitoring with the help of third-party organizations. By improving the organizational system and enhancing public opinion monitoring and emergency response preparedness, while also launching training, strengthening of positive publicity, and team building, we incorporated reputation risk management into its corporate governance and comprehensive risk management system, formulated emergency plans and regularly organized drills to proactively and effectively prevent reputational risks and respond to reputational events, ensuring timely detection of public opinion and corresponding measures, supporting stable development and further improving reputation risk management.

8.5.8 Strategic Risk

Strategic risks refer to the risks resulting from the inappropriate business strategy of commercial banks or changes in the external business environment. From the perspective of internal management, in 2018, the Bank completed mid-term evaluation and adjustment for its "Thirteenth Five-Year" development plan, clarified the general tone of

improvement in stability, adherence to the orientation of industrial finance, and the operational guideline of quality-priority, profit-oriented, and characteristic services, as well as coordinated development, providing strategic guidance for its steady development. The efficient operation of the three-tier strategic risk management structure consisting of the Board of Directors, senior management, and the strategic investment and development departments, ensured that the business strategy was scientific and reasonable, and the procedures were legal and compliant. Seen from the external environment, the asset quality problems brought about by the domestic macroeconomic downturn and the narrowing of the spread caused by the ease of the funds could be expected to pose challenges to our operational performance. The financial development environment featuring ever-deepening structural reform of the financial supply side, as well as stricter regulation and complementation of shortcomings in the financial sector, had an impact on the Bank's business scale, product development, and information systems. In response to external uncertainties, we strengthened situational and policy analysis, and formulated corresponding strategies in a timely manner, keeping strategic risks within control.

8.5.9 Legal Risk

Legal risks refer to the possibilities of bank losses caused by imperfection and indefiniteness of existing laws, law modification, imperfect and improper legal opinions and documents, transaction behaviors' violation of laws and regulations, and other reasons. The Board of Directors and Senior Management of the Bank were able to fully understand various aspects of legal risks, predict and effectively deal with the changes in the market, laws or regulations, and take effective measures for the rectification of identified problems in a timely manner. The authorities and responsibilities of each relevant department were specified in the legal risk management, and smoothly implemented.

In 2018, the Bank steadily strengthened the construction of the legal control system, improved the working mechanisms, deepened legal reviews, and enhanced daily business development legal support, new product development, and handling of major issues, effectively preventing and resolving legal risks. Additionally, we highlighted contract management, formulated and improved the texts of format contracts, specifically launched post-contract governance, and strengthened supervision and accountability, while at the same time strengthening management of dispute cases, compiled typical case studies, and shared legal resources, drawing on dispute cases to improve management. By organizing lectures on legal knowledge, legal compliance knowledge contests, legal reviews, dispute cases, and contract management training, we enhanced legal dissemination and publicity, improving the professional competence of the staff, and creating a favorable law-abiding culture of compliance to laws and regulations. The Bank also strengthened legal environment analysis and interpretation of regulatory policies, and compiled the *Current Effective Regulatory Documents on the Banking Business* and *Guidelines on Prohibitive and Mandatory Regulations for the Banking Industry* for distribution to all members of staff, further standardizing business operations, and urging compliance with the laws and regulations as they apply to its operations.

8.6 Capital Management

The Bank used capital to conduct management activities such as planning, measurement, evaluation, allocation, application, monitoring and reporting in accordance with the capital supervision requirements of the *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)*. The overall objective of the Bank in capital

management is to achieve an organic balance across capital, risk, and income. Drawing on the capital management mechanism, we maintained a reasonable level of capital adequacy, and continued to meet the requirements of the regulatory authorities in terms of capital management, ensured safe and prudent operation, and steadily improved the capital management mechanism to meet development requirements at the proper scale, as well as risk management needs. Capital was allocated rationally, thereby achieving operational safety and maximizing risk-adjusted capital gains. We also expanded capital replenishment channels, improved capital quality, and optimized capital structure, with the capital management scope covering the entire Bank and its holding enterprises, and mainly including the management of capital adequacy ratio, capital planning management, and capital financing management.

In 2018, the Bank straightened out its capital management, further improved the capital management system, clarified the capital management mechanism, gradually improved the capital management system, further enhanced the standardization, scientific content, and operability of capital management, and implemented capital management tasks one by one, all of which ensured sufficient capital levels and strong risk resilience. We made a point of studying capital use efficiency and succeeded in raising the levels of capital returns, maintained stable internal capital supplements, continuously consolidated its capital strength, exercised rational capital allocation and use, and strengthened the linkage mechanism between capital planning and comprehensive budget management. Additionally, we promoted the sustainable and healthy development of various businesses. In 2018, 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 a stable, 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 ability to resist risk. 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 requirements, 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 2018, the capital adequacy ratio of the common equity tier 1 capital of the Company was 13.41%; that of tier 1 capital was 13.41%, and the capital adequacy ratio was 14.57%, all meeting regulatory requirements. The specific data are as shown below:

Capital adequacy ratio

Item	31 December 2018		31 December 2017	
	Consolidated	Unconsolidated	Consolidated	Unconsolidated
Common equity tier 1 capital adequacy ratio	13.41	13.39	15.33	15.32
Tier 1 capital adequacy ratio	13.41	13.39	15.33	15.32
Capital adequacy ratio	14.57	14.55	16.48	16.47

Table of Capital Structure and Capital Adequacy Ratios

in RMB 10⁴

Item	31 December 2018	31 December 2017	Rate of change (%)
Common equity tier 1 capital	3,041,871	2,788,761	9.08
Portion of paid-in capital that can be included	1,028,788	1,028,788	0.00
Portion of capital reserve that can be included	1,019,299	991,557	2.80
Surplus reserve	211,621	178,842	18.33
General risk preparation	429,800	383,469	12.08
Undistributed profits	329,724	203,696	61.87
Eligible portion of minority interests	2,625	2,409	8.97
Deduction item of common equity tier 1 capital regulation	8,438	7,775	8.53
Other intangible assets (excluding land use right)	8,438	7,775	8.53
Net common equity tier 1 capital	3,033,433	2,780,986	9.08
Other tier 1 capital	350	321	9.03
Eligible portion of minority interests	350	321	9.03
Deduction item of tier 1 capital regulation	0	0	0.00
Net tier 1 capital	3,033,783	2,781,307	9.08
Tier 2 capital	263,190	208,546	26.20
Allowance for excess loan losses	262,490	207,904	26.26
Eligible portion of minority interests	700	642	9.03
Deduction item of tier 2 capital regulation	0	0	0.00
Net capital	3,296,973	2,989,853	10.27
Total risk-weighted assets	22,623,158	18,146,303	24.67
Including: Credit risk-weighted assets	21,261,687	16,840,206	26.26
Market risk-weighted assets	276,907	250,842	10.39
Operational risk-weighted assets	1,084,564	1,055,255	2.78
Common equity tier 1 capital adequacy ratio (%)	13.41	15.33	Down 1.92 percentage points
Tier 1 capital adequacy ratio (%)	13.41	15.33	Down 1.92 percentage points
Capital adequacy ratio (%)	14.57	16.48	Down 1.91 percentage points

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

(2) The investee financial institutions consolidated by the Company include Leshan Kunlun Rural Bank Co., Ltd. and Tacheng Kunlun Rural Bank Co., Ltd.

(3) Net common equity tier 1 capital = Common equity tier 1 capital - Deduction item of common equity tier 1 capital regulation; Net tier 1 capital = Net common equity tier 1 capital + Other tier 1 capital - Other deduction items of tier 1 capital regulation; Total net capital = Net tier 1 capital + Tier 2 capital - Deduction item of tier 2 capital regulation.

(4) 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.

In accordance with relevant provisions of the *Administrative Measures for Leverage Ratio of Commercial Banks* 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

in RMB 10⁴

Item	31 December 2018	31 December 2017	Rate of change (%)
Tier 1 capital	3,042,221	2,789,082	9.08
Deduction of tier 1 capital	8,438	7,775	8.53
Net tier 1 capital	3,033,783	2,781,307	9.08
Balance of adjusted on-balance sheet assets	30,998,917	29,984,038	3.38
Balance of adjusted off-balance sheet items	7,055,608	6,367,917	10.80
Balance of adjusted on-balance sheet and off-balance sheet items	38,054,526	36,351,955	4.68
Balance of securities financing trading assets	3,041,624	1,490,352	104.09
Leverage ratio (%)	7.38	7.35	Up 0.03 percentage point

Note: (1) 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. The figures are not subject to retroactive adjustment.

Capital Planning Management

The capital planning management is designed to predict the capital demands and supplies in the future, determine the capital gap in the future and formulate capital replenishment measures inside and outside based on the regulations and the development strategies of the Bank. The principles for the Bank's objectives of capital planning are: to be based on the regulatory requirements on capital and the business development planning of the Bank, 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 2018, the Bank's objective in the capital adequacy ratio was: the capital adequacy ratio of the common equity tier 1 capital at 9% or higher, that of the tier 1 capital at 10% or higher, and that of the capital adequacy ratio at 12% or higher.

Capital Raising Management

For the capital raising management, the Bank mainly carried out reasonable selection of capital instruments in order to raise capital according to capital planning and the market environment, and positively expanded the exogenous capital supplement on the basis of profit retention and capital supplement to ensure external regulation and internal capital management objectives were satisfied and the optimization of total amount and structure of capital was facilitated.

8.7 Human Resource Management

In 2018, the Bank comprehensively implemented the general requirements for the Party building in the new era, deepened the reform of the three systems, and comprehensively stimulated the vitality of officials and employees, providing guarantees for development. First, we implemented the organizational line of the new era, optimized leadership teams at all levels, and adhered to the principle of proper matches between posts and personnel, focusing on quality training, close-range performance assessments, and improvement in daily management of



officials. Second, we adhered to problem orientation in promoting work and optimizing the organizational structure, setting up the Industrial Financing Department and the Party-Masses Work Department at the head office. Third, we strengthened the capacity for managing total wages, and took distribution system reform as the key breakthrough in order to maximize value creation. We exercised strict review of salary distribution, and ensured that the professional backbone of staff, frontline marketing staff, and personnel with greater profit contributions received favorable treatment in incremental wage increases. Fourth, we adapted to the situation of transitional development, innovated across various channels, kept up with the market trends, sped up the introduction of talents, innovated with the on-campus talent selection model, and launched the special recruitment of management trainees for the first time. Fifth, we increased training, and steadily improved the overall quality of its officials and employees.

8.8 Social Responsibility

Support of Local Economic and Social Development

In 2018, the Bank issued RMB 69.9 billion in corporate loans, and recovered RMB 60.8 billion in loans. Specifically, the cumulatively issued loans in Xinjiang were RMB 38.4 billion and accounting for 55%. As at the end of 2018, the balance of corporate loans of branches of the Bank in Xinjiang was RMB 43.9 billion, accounting for 60% of balance of corporate loans of the Bank. The loans were mainly issued in manufacturing, wholesale and retail industry and so on.

Support of Small and Micro Enterprises

In support of small and micro enterprises, the Bank organized outdoor publicity campaigns with the theme of “Universally supporting Small and Micro Enterprises and Benefiting Livelihood”, and actively promoted the characteristic small and micro finance products in various forms such as LED ads, brochures, and foldout posters, which fully reflected the operational philosophy of the Bank to serve the small and micro enterprises and care about the people’s well-being. At the end of 2018, the balance of unified small and micro enterprise loans reached RMB 15.719 billion, up by 1.459 billion or 10.23% compared to the beginning of the year; the number of small and micro enterprises receiving loans reached 5,234, up by 516 during the same period last year.

Support of Agriculture, Rural Areas and Farmers

In support of agriculture, rural areas and farmers, the Bank actively implemented various existing rural financial service policies and a differentiated credit policy of “Combing Support with Control”, continuously strengthened the credit issuance in fields related to agriculture, rural areas and farmers. The Bank continued to expand the issuance of special financial debts for these purposes to gradually raise the speed of agro-related loans above the average level of all loans. The Bank gave full play to the promotion effect of credit funds on agriculture production increase, peasants’ income increase and rural economic development. Also, we put forth efforts to conduct the credit services for agriculture, rural area and farmers, on the basis of the actual economic and social development in Xinjiang. As at the end of 2018, the total agro-related loans of the Bank reached RMB 9.19 billion. Specifically, the loans to farmer households were RMB 62 million; the loans to rural enterprises and different organizations were RMB 8.139 billion, and the agro-related loans to urban enterprises were RMB 989 million. Support was provided to a total of 259 agro-related business entity customers.

Developing Green Finance

In order to implement the requirements of the *Green Credit Guidelines* of the regulatory authorities, the Bank followed the principles of green credit, focused on the general policy of “improvement in stability and prudence in development”, clarified the green credit strategy for the “thirteenth Five-Year Plan” period, steadily improved system construction for credit management, fostered a prudent and compliant credit culture, gradually established a product system for green credit and a system of specific annual guidance in order to promote the further development of green credit.

Under the guidance of national policies and the promotion of regulatory rules, the Bank made considerable progress in its green credit work. A green sub-branch was set up in each of the three experimental areas for green financial reform and innovation in Xinjiang, and the organizational structure was successfully established for the Bank’s green franchise agencies. Meanwhile, a green project repository was established, together with a dynamically adjustable mechanism for key marketing. Following the issuance of the first phase of RMB 100 million in green bonds in December 2017, we successfully issued the first phase of RMB 400 million of green bonds on 24 May 2018. The raised funds were invested in green credit projects designed to explore the organic alignment that exists between the capital market and the green credit market. A green credit field was added to the business information system to achieve full-process identification and recording of green loan businesses. Green credit assessment indicators were formulated for the Bank to achieve quantitative assessment of branches in green credit performance. We launched green credit system optimization training, green credit statistics publication, and other related content for various business lines across the entire bank, further deepening the understanding of green credit business, and laying a solid



foundation for the comprehensive development of the green credit businesses. With the concerted efforts of officials and staff, we witnessed substantial growth in the scale of green credit, which totaled RMB 7.088 billion by the end of 2018, up by RMB 3.58 billion or 102% from the RMB 3.508 billion total of the beginning of the year.



Consumers Equity Protection

In 2018, the Bank upheld the goal of “guaranteeing the rights of financial consumers and improving the quality of banking services”, actively fulfilled its social responsibilities, adjusted the plan for consumer rights protection from 2018 to 2020 in a timely manner and incorporated it into the thirteenth Five-Year Development Plan, pointing out the direction of consumer rights protection work for the next two years. We incorporated consumer rights protection functionality into the Board of Directors’ Strategy and Consumer Rights Protection Committee, established a leading group for consumer rights protection work in senior management and charged it with reporting the Bank’s consumer rights protection work to the Board of Directors, thus providing the basis for supervision by directors and senior management. By improving the consumer rights protection system, standardizing emergency procedures and complaint management, strengthening internal auditing and supervision, and enhancing public awareness and education, we steadily created a new situation in protecting the rights and interests of financial consumers and comprehensively promoted the in-depth and effective development of consumer rights protection.

The effective consumer rights protection of the Bank earned us a “Class 1” rating in the 2017 evaluation of consumer rights protection of banking financial institutions launched by the Xinjiang Banking Regulatory

Bureau, meaning that we topped the banking industry in Xinjiang. It was the third consecutive year that we won first place in the assessment ranking for consumer rights protection work after we also won the award in 2015 and 2016.

In 2018, the Bank proactively fulfilled the *Law of the People's Republic of China on Protection of Consumer Rights and Interests* and other laws and regulations, conscientiously implemented the relevant provisions of the financial industry on consumer rights protection, and strictly fulfilled information disclosure obligations. We provided consumers with contact information, product and service quantity and quality, prices and expenses, time limits and methods of performance, and safety precautions and risk warnings. Such measures eliminated cases of the Bank restricting consumer rights, reducing or exempting its own responsibilities, or increasing consumer responsibilities in 2018, while ruling out major issues leading to litigation or arbitration resulting from encroaching on the legitimate rights and interests of consumers.

“Understanding the People’s Situation, Benefiting the People’s Livelihoods, and Uniting the People’s Hearts” and Participating in Poverty Alleviation

The Bank focused on making contributions to social stability and long-term adherence to the law in Xinjiang, and mobilized its staff and officials to support the initiative of “Understanding the People’s Situation, Benefiting the People’s Livelihoods, and Uniting the People’s Hearts”, as well as participating in poverty alleviation in the poverty-stricken areas of the four prefectures of southern Xinjiang. Redoubling our efforts, we established a leading group for poverty alleviation work, formulated the plan for grassroots assistance from 2018 to 2020 and further improved the mechanism for extending care and love to resident officials.

Over the past year, resident poverty-alleviation officials in villages earnestly implemented the requirements of the local government, actively performed their duties, and lived up to their expectations. They were highly recognized by the local government and the masses for their efforts to actively help villagers rise from poverty and become wealthy, as well as the Bank’s remarkable results across all types of work. In participating in “Understanding the People’s Situation, Benefiting the People’s Livelihoods, and Uniting the People’s Hearts”, one crucial aspect was to maintain social stability by clarifying subject responsibilities, actively implementing various measures, carrying out household visits, and establishing a reward system for information collection. The other aspect was the work of the masses, which was carried out by actively collecting and solving the problems facing the masses, promoting the construction of infrastructure projects such as roads, running water facilities, and street lamps, and doing work beneficial and practical to all villagers. The Bank organized the masses to participate in the flag-raising ceremony, listen to themed lectures, and accept patriotic education, aside from carrying out the idea that “all ethnic groups are united as one family”, and ethnic group networking activities. In terms of poverty alleviation work, the first aspect was interpretation of poverty alleviation policies by launching “Night School for Farmers and Herdsmen”, which offered training in Mandarin and lessons on fruit-tree cultivation techniques, effectively improving the villagers’ ideological understanding, labor skills, and comprehensive competence. The second aspect was formulating industrial development plans according to actual circumstances, which helps the local development of cherry, Jiashi melon and other characteristic planting and breeding, so as to achieve income increases and poverty alleviation. The third aspect was the launch of publicity campaigns and the mobilization of poor households to relocate in order to find employment, so that employment might be taken as the starting point in alleviating poverty and enterprise awakening, consequently helping poor households increase their income.

Social Benefit and Inclusive Finance

The Bank continued to deliver social benefit services, and further enhanced its responsible corporate image. All branches of the Bank drew on the opportunities of “5 March”, the Memorial Day for learning from Lei Feng, and actively carried out the youth volunteer service campaign of “Learning from Lei Feng to Establish a Healthy Trend -Learning from the Iron Man to Make New Achievements”. They demonstrated the favorable social image for the Youth of the Bank through environmental protection, financial knowledge popularization, and charity relief. The Bank actively contributed to the tough battle against poverty, and organized branches to launch charity donations for poor areas, creating a warm atmosphere of “one piece of clothing for one share of love, as charity donation is ever so heartwarming”. The employees of the Karamay Branch donated 253 coats, 60 sweaters, 306 pieces of spring and autumn clothing, 129 pairs of trousers, 274 pieces of children’s clothing, and 62 items of school supplies. Those at the Urumqi Branch donated 526 pieces of clothing, 304 children’s books, and 194 toys. All clothes were carefully washed to ensure they were delivered in a state of cleanliness and tidiness. The Daqing Branch visited the Ocean Star Special Education and Training School in Hulu District, and launched a charity event for children with autism, lending compassion and assistance to them. The Tuha Branch carried out financial knowledge publicity at the Hami Oil Base Cultural Square, while the Korla Branch won the honorary title of “Compassionate Enterprise of Korla City in Volunteer Service” for visits to the nursing home and the Bazhou Children’s Welfare Institute during the Spring Festival, as well as its participation in the launching of special activities for promoting “social morality and family virtues”. The Xi’an Branch held a walking festival with the theme of “One Mind, One Trade, and One Path”, integrating offline and online activities, sports and public welfare, and completing the donation of 2,050,691 steps on the “CNPC Hand In Hand” platform. The operation service center funded four poor students for three consecutive years, collecting scholarships totaling more than RMB 60,000 in order to help them continue their education.

8.9 Prospect

The year 2019 marks the 70th anniversary of the founding of the People’s Republic of China and the 10th anniversary of the reorganization of the Bank of Kunlun. The general work requirements of the year include the following: The Bank will take Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as its guide, unswervingly uphold the general tone of striving for progress with stability, adhere to comprehensive Party leadership, and adhere to the positioning of industrial and financial integration. We will uphold quality-priority, profit-oriented, and characteristic services, as well as coordinated development in business policy, adherence to strict compliance and governance, maintaining focus on high-quality development, and enhancing personnel training, characteristic development, risk prevention and control, change, and innovation; further promoting the spirit of petroleum workers, and continue to promote intensive, comprehensive, innovative, and smart transition, so as to build a first-class characteristic commercial bank.

IX. Changes in Share Capital and Shareholders

9.1 Changes in Share Capital

In 2018, the Bank did not increase its capital or enlarge its share, and the register capital remained at RMB 10.288 billion.

9.2 Number of Shareholders and Proportion of Shareholding

As at 31 December 2018, the total number of shareholders of the Bank was 77, and the total number of shares was 10.288 billion. The shareholding ratio of legal person shareholders was 99.9908% and that of natural person shareholders was 0.0092%.

9.3 Top 10 Shareholders of the Bank and Proportion of Shareholding

in number of shares			
No.	Shareholders	Number of shares held	Shareholding ratio (%)
1	CNPC Capital Limited Company	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 Uygur Autonomous Region State-owned Assets Investment Management Co., Ltd.	258,347,016.97	2.51
5	Xinjiang Financial Investment Co., Ltd.	223,225,446.36	2.17
6	Shandong State-owned Assets Investment Holdings Co., Ltd.	199,829,696.98	1.94
7	Karamay City Construction Investment and Development Co., Ltd.	130,789,200.82	1.27
8	Xinjiang Uygur Autonomous Region Financing and Guarantee Co., Ltd.	129,173,508.49	1.26
9	Xinjiang 3U Investment Group Co., Ltd.	68,686,275.09	0.67
10	Xinjiang Taisheng Xinrong Investment Co., Ltd.	56,879,807.02	0.55

9.4 Controlling Shareholders

CNPC Capital Company Limited (CNPCCCL) is the controlling shareholder of the Bank. During the reporting period, neither the controlling shareholder nor the actual controller of the Bank changed. As at the end of 2018, CNPCCCL held 7.931 billion shares of the Bank, with a shareholding ratio of 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 Company is composed of ten financial companies including Bank of Kunlun Corporation Limited, Kunlun Financial Leasing Co., Ltd., and Generali China Life Insurance Co., Ltd. CNPCCCL takes strategic control over its holding financial enterprises, transfers management autonomy 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 collaboration in integrating industry and finance, enhances the cooperation among financial enterprises and realizes the sharing of resources.

9.5 Actual Controller of the Bank

Name: China National Petroleum Corporation (CNPC)

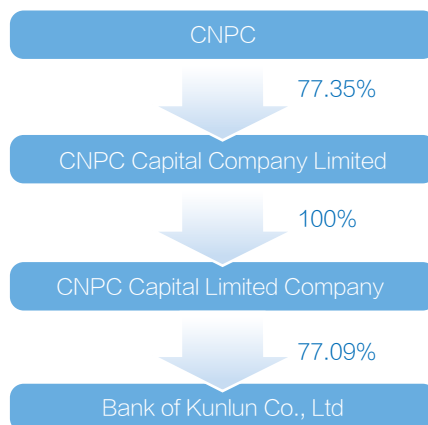
Nature: Central state-owned holding company

Type: Legal person

Legal representative: Wang Yilin

Major business: organizing the business of the exploration, development, production and construction, processing and comprehensive utilization of onshore oil, natural gas and oil-gas symbiosis or drilling minerals as well as the manufacturing of special oil machinery; organizing storage and transportation of the afore-mentioned products and by-products; self-sale of products of own company system according to Chinese regulations; organizing the supply and sale of materials, equipment and apparatus for oil/gas production and construction; development, research and technology promotion of new products, new technologies, new techniques and new equipment of petroleum exploration, development, production and construction; cooperation in exploration and development of oil and natural gas at home and abroad, economic and technical cooperation and foreign contracting oil construction projects, import of international technology and equipment, export of equipment and techniques of this system, and international negotiation and contract signing in the introduction and utilization of foreign investment projects. (The enterprise chooses and carries out its respective business projects legally and independently. For business activities subject to legal approval, the enterprise shall obtain all due approvals and carry out the approved contents. The enterprise shall not engage in business activities of projects banned or restricted by the industrial policies of the city.)

Shareholding relationship between the Bank and CNPC is as follows:



9.6 Other Legal Person Shareholders Holding No Less than 10% (including) of All Shares

As at 31 December 2018, the Bank had no other shareholders who held no less than 10% of its shares.

9.7 Share Pledge and Share-on-hold of the Shareholder Holding 5% (including) or More of All Shares of the Bank

CNPCCCL is the only shareholder holding 5% (including) or more of all shares of the Bank; and up to the reporting period, there is no pledge or on-hold shares of the Bank held by CNPCCCL.

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

10.1 Incumbent Directors, Supervisors, and Senior Management

Name	Position	Gender	Age	Date of Appointment
Jiang Shangjun	Chair	Male	54	2018.09
Yan Hong	Director	Male	52	2017.03
Zuo Wei	Director and President	Male	51	2017.06
Han Hua	Director	Female	52	2018.12
Xu Xinping	Director	Female	51	2018.12
Ming Dong	Director	Male	47	2017.02
Liu Bo	Independent Director	Male	59	2018.12
Zhang Shengping	Independent Director	Male	53	2018.10
Xi Bo	Independent Director	Male	46	2018.10
Wang Zhonglai	Chief Supervisor	Male	55	2017.01
Diao Hanyu	Equity Supervisor	Female	48	2017.12
Zhou Maoqing	External Supervisor	Male	64	2016.04
Zhang Lijun	External Supervisor	Female	60	2016.04
Ruan Kaikui	Employee Supervisor	Male	60	2015.09
Yan Jiu	Vice President	Male	49	2018.09
He Fang	Vice President and Board Secretary	Male	46	2016.07 (Vice President) 2018.07 (Board Secretary)

10.2 Resigned Directors, Supervisors, and Senior Management

Name	Position	Gender	Age	Administration Period
Yan Hong	Chair	Male	52	2017.03-2018.09
Liu Qiang	Director	Male	52	2014.07-2018.04
Qu Haichao	Director	Male	47	2016.11-2018.04
Tao Jianyu	Director	Male	47	2015.04-2018.10
Pang Yueying	Director	Female	72	2011.08-2018.10
Shi Junzhi	Director	Male	65	2012.05-2018.10
Jing Lin	Vice President and Board Secretary	Male	54	2013.04-2018.04

10.3 Major Work Experience and Previous Positions or Concurrent Positions with Other Employer of Directors, Supervisors, Senior Management



Jiang Shangjun, Chair

As a professorate senior economist, Mr. Jiang Shangjun graduated from Lanzhou Business School with a major in Financial Accounting, as well as from Lanzhou University with a master's degree in Business Administration, and from Houston University with a master's degree in Business Administration. Mr. Jiang has three decades of expertise in finance. Prior to beginning his work at the Bank, he served as General Manager and Deputy Secretary of the CPC Committee of the CNPC Northwest Sales Branch. Since September 2012, he has served as Secretary of the CPC Committee and Chair of the Bank of Kunlun; since October 2016, as General Manager of CNPC Capital Co., Ltd.; since April 2017, as Secretary of the CPC Committee, Deputy Chair, and General Manager of CNPC Capital Co., Ltd.; since April 2018, as Secretary of the CPC Committee of the Bank, and concurrently as the Chair since June 2018; since October 2018, as Secretary of the CPC Committee, Vice Chair and General Manager of CNPC Capital Co., Ltd., as well as Secretary of the CPC Committee and Chair of the Bank.



Yan Hong, Director

As a professorate senior accountant, Mr. Yan graduated from China Europe International Business School with a master's degree. He used to be chief accountant of Daqing Petroleum Administration Bureau and Daqing Oilfield Limited Company. Since October 2016, he served as Secretary of the CPC Committee of the Bank; since December 2016, as a Director of the Bank; since March 2017, as Secretary of the CPC Committee and Chair of the Bank; since April 2018, as Deputy Secretary of the CPC Committee and Chair of the Labor Union of CNPC Capital Co., Ltd.; since September 2018, as Deputy Secretary of the CPC Committee, Chair of the Board of Supervisors, Chair of the Labor Union of CNPC Capital Co., Ltd., and Director of the Bank.



Zuo Wei, Director

As a senior economist, Mr. Zuo graduated with a degree in finance from Wuhan University, and a master's degree in economics. Before he joined the Bank, Mr. Zuo served as the former Vice President, a member of the CPC committee, Party Secretary of Business Department and General Manager of the Xinjiang Branch of China Construction Bank. Since June 2017, he served as Deputy Secretary of the CPC Committee, Director and President of the Bank.



Xu Xinping, Director

Ms. Xu Xinping, graduated from Hebei University of Economics and Business with a bachelor's degree in Finance, is currently Secretary of the CPC Committee and Chair of Karamay Urban Construction Investment Development Co., Ltd. in Xinjiang. She has been serving as a Director of the Bank since December 2018.



Han Hua, Director

Ms. Han Hua, senior auditor and a certified public accountant, graduated from Xinjiang Radio and Television University with a major in auditing and is the holder of an in-service college diploma. She is currently a member of the CPC Committee, Director, and Chief Accountant of Xinjiang State-Owned Assets Investment and Management Co., Ltd. She has been serving as a Director of the Bank since December 2018.



Ming Dong, Director

Mr. Ming is a senior economist and a graduate of the Central University of Finance and Economics, majoring in international finance and investment economics. He holds a master's degree in economics and serves as the Vice General Manager and CPC committee member of COSCO Shipping Development Co., Ltd. and the Chair of China Shipping Investment Co., Ltd. He has been serving as a Director of the Bank since February 2017.



Liu Bo, Independent Director

Mr. Liu Bo, holder of a Ph.D. in Economics, graduated from both Central University of Finance and Economics and Xi'an Jiaotong University. He served as Vice Director of the Foreign Exchange Management Department of the People's Bank of China Beijing Branch, Vice President of China Everbright Bank, Chief Representative of the Beijing Representative Office of UOB in Singapore, President of Zhongguancun Securities Co., Ltd., Chair of Cred Holding Co., Ltd., and Chair of Si Chuan Jinyu Automobile City (Group) Co., Ltd. He has been serving as an Independent Director of the Bank since December 2018.



Zhang Shengping, Independent Director

Mr. Zhang Shengping, holder of a Ph.D. in Economics, graduated from both Shandong University and Nankai University. He is currently the Deputy Dean of the Guanghua School of Management, Peking University. His research interests include financial economics, financial supervision, currency banking, creditor's rights and debts, and asset-backed securitization. He has been serving as an Independent Director of the Bank since October 2018.



Xi Bo, Independent Director

Mr. Xi Bo, a senior financial industry expert, a Master of Philosophy, and a Master of Business Administration, graduated from Peking University, Yale University, and the University of Rochester, successively. He is currently Chair of Beijing Keystone Risk Technologies, committed to the in-depth study of delicacy management in the financial industry of China, with more than 10 years of expertise relating to commercial banking, including asset and liability management, fund transfer pricing, customer relationship pricing, and performance appraisal. He has been serving as an Independent Director of the Bank since October 2018.



Wang Zhonglai, Chief Supervisor

As a senior economist, Mr. Wang graduated from Hangzhou Financial Cadres Management Institute (majoring 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 the General Manager of Operation Management Department of Shenzhen Development Bank. He has served as vice president, director and president. He has served as a Chief Supervisor of the Bank since January 2017.



Diao Hanyu, Equity Supervisor

Ms. Diao is a senior Accountant with a master's degree from Tianjin University in software engineering. She serves as the Vice President of Shandong State-owned Assets Investment Holdings Co., Ltd. She has served as an Equity Supervisor of the Bank since December 2017.



Zhou Maoqing, External Supervisor

Mr. Zhou is a researcher, holder of a post-doctorate degree, and doctoral tutor of Financial Research Institute of Chinese Academy of Social Sciences. He graduated from Economics Department of Anhui University, Nanjing University and Financial Research Center of Chinese Academy of Social Sciences. His main research fields are financial markets, international finance and industrial economy. He has gained provincial second and third prizes of excellent achievement of philosophy and social sciences for his scientific achievements. Since April 2016, he has been an External Supervisor of the Bank.



Zhang Lijun, External Supervisor

Senior accountant with a bachelor's degree, Ms. Zhang has been engaged in accounting for more than 30 years. She served as Vice 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

Mr. Ruan started working in 1975, and served as Vice Director of Fund Settlement Center of Changqing Oil Exploration Bureau, Vice General Manager of Construction and Engineering Corporation, Vice General Manager, General Accountant and CPC committee member of the Construction and Engineering Corporation of Changqing Oilfield Branch. He used to be the Secretary of CPC committee and Vice President of Xi'an Branch of the Bank of Kunlun. He has been serving as the Employee Supervisor of the Bank since September 2015.



Zuo Wei, President

As a senior economist, Mr. Zuo graduated with a degree in finance from Wuhan University, and a master's degree in economics. Before he joined the Bank, Mr. Zuo served as the former vice President, a member of the CPC committee, Party Secretary of Business Department and General Manager of the Xinjiang Branch of China Construction Bank. Since June 2017, he served as Deputy Secretary of the CPC Committee, Director and President of the Bank.



Yan Jiu, Vice President

Mr. Yan is a senior accountant and a holder of a master's degree. He graduated from the Central University of Finance and Economics, majoring in accounting, and Tsinghua University, majoring in industrial and commercial management. He has been engaged in the economic and financial work for 28 years. He worked as the Chief Accountant and a member of the Party committee of PetroChina. From December 2015 to April 2018, he served as member of the CPC Committee and Secretary of the Disciplinary Committee of the Bank. Since September 2018, he has served as member of the CPC Committee and Vice President of the Bank.



He Fang, Vice President

Mr. He is a senior economist. He graduated from Shenyang University of Technology with a master's degree in computer application, before proceeding to graduate with another master's degree in finance from University of Illinois Urbana-Champaign. He engaged in economics and finance for 25 years. He used to serve as the manager of International Business Department of China Petroleum Finance Co., Ltd., Assistant President of Bank of Kunlun and general manager of International Business Department. He became the Vice President of the Bank in July 2016, and he became the Secretary of the Board of Directors of the Bank in July 2018.

10.4 Changes in Directors, Supervisors and Senior Management

Director Changes

In April 2018, the Bank held the General Meeting of 2017, at which Mr. Jiang Shangjun was elected as a director of the Bank. The qualifications of Mr. Ming were approved by Xinjiang Banking Regulatory Commission on 29 June 2018.

In July 2018, in the fifteenth meeting of the fourth session of the Board of Directors of the Bank, Mr. Jiang Shangjun was elected as the Chair of the Bank, whose qualification was approved by Xinjiang Banking Regulatory Commission on 26 September 2018.

In October 2018, at the Bank's first Extraordinary General Meeting of 2018, Mr. Jiang Shangjun, Mr. Yan Hong, Mr. Zuo Wei, Ms. Han Hua, Ms. Xu Xiping, Mr. Ming Dong, Mr. Liu Bo, Mr. Zhang Shengping, and Mr. Xi Bo were elected directors of the fifth session Board of Directors of the Bank. Among them, Mr. Liu Bo, Mr. Zhang Shengping and Mr. Xi Bo were elected independent directors. The eligibility of Ms. Han Hua, Ms. Xu Xiping, and Mr. Liu Bo for director was approved by the Xinjiang Banking Regulatory Bureau in December 2018, while the remaining newly elected directors had obtained the required qualifications.

Mr. Liu Qiang and Mr. Qu Haichao ceased to serve as directors of the Bank in April 2018.

Mr. Yan Hong ceased to serve as a Chair of the Bank in September 2018.

Mr. Tao Jianyu, Ms. Pang Yueying and Mr. Shi Junzhi ceased to serve as a director of the Bank in October 2018.

Supervisor Changes

In October 2018, at the Bank's first Extraordinary General Meeting of 2018, Mr. Wang Zhonglai, Mr. Ruan Kaikui, Ms. Diao Hanyu, Mr. Zhou Maoqing and Ms. Zhang Lijun were elected as supervisors of the fifth session Board of Supervisors of the Bank. The members of the fifth Board of Supervisors are re-elected.

Changes in Senior Management

In July 2018, at the 15th meeting of the fourth session Board of Directors of the Bank, Mr. Yan Jiu, and Mr. He Fang were appointed Vice President and Secretary of the Board of Directors of the Bank respectively.

Mr. Yan Jiu's eligibility for senior management was approved by the Xinjiang Banking Regulatory Bureau on 4 September 2018.

Mr. He Fang's eligibility for Board Secretary was filed with the Xinjiang Banking Regulatory Bureau.

Mr. Jing Lin ceased to serve as a vice president of the Bank in April 2018.

10.5 Employees

As at the end of 2018, there were 3,034 employees in total, including 414 at the head office, 233 at the Operation Service Center, 2,290 at branches, International Business Settlement Center and Business Department of Head Office, and 97 at rural banks. The average age of employees was 34.2. The employee structure of the Bank is continuously optimized, with a good quality overall-2,768 employees (91.2%) have a bachelor's degree or above and 355 employees (11.7%) have a doctor or master degree.

10.6 Payroll

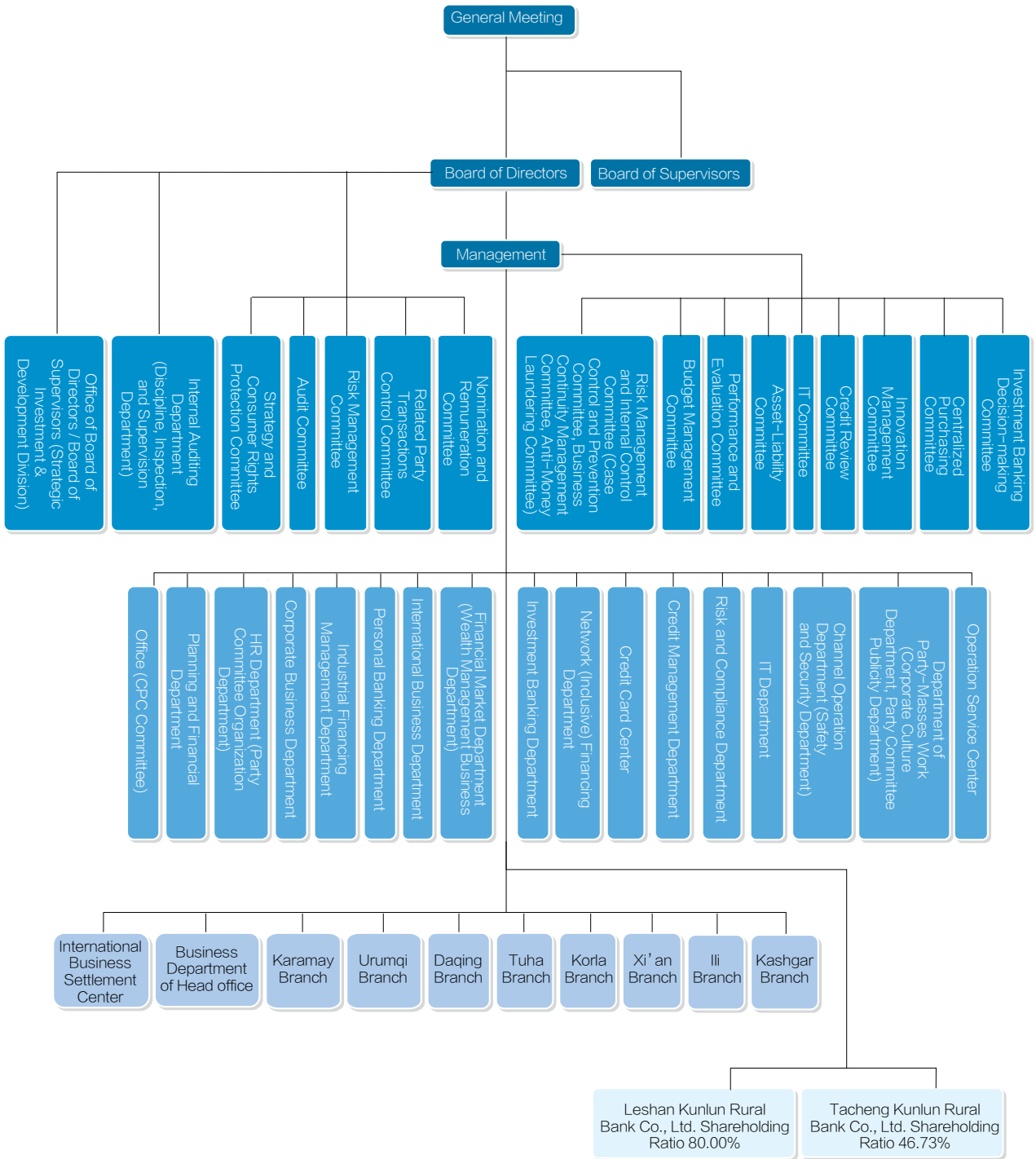
The Bank has established the Nomination and Remuneration Committee of the Board of Directors in accordance with the *Articles of Association*. The committee reviews the payroll management system and policy of the whole bank. In 2018, total bank remuneration reached RMB 575.4895 million, an increase of 16.07% which mainly included wages, allowances and subsidies, and performance pay. The beneficiaries were the employees, reflecting the simultaneous improvement of business development and employee income. The 2018 salary distribution plan enhanced incentives for staff members with great positive influence, as well as those who made significant contributions to the Bank's business performance and strengthened its risk control mechanisms, ensuring full completion of the economic, risk, and social responsibility indicators. In 2018, there were no deviations from the original salary plan, or deductions or deferred payments of performance pay.

In 2018, the payroll criterion of Independent Directors and External Supervisors of the Bank was executed in accordance with the resolution of the Shareholders' General Meeting of the Bank. During the reporting period, members of the Board of Directors, Senior Management, and holders of other important risk-control posts on the payroll of the Bank were paid RMB 7.7962 million in remuneration in aggregate.

10.7 Institutions

In 2018, the Bank followed the structure of "Head office - Branch - Sub-Branch" to steadily promote the construction of institutions at all levels. The head office established 18 functional departments, 1 subordinate Operation Service Center, 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 2018, the Bank had 83 branches and sub-branches, two less as compared with 2017.

Please refer to this Organizational Structure for details:



List of Institutions of Bank of Kunlun

As at 31 December 2018

Head Office/Branches			Business site		
Institution	Address	Tel.	Name of Sub-Branch	Address	Tel.
Head Office	No.7, Century Avenue, Karamay City, Xinjiang	--	--	--	--
International Business Settlement Center	Floor 1, Tower B, No.1 Financial Street, Xicheng District, Beijing	010-89026956	--	--	--
Karamay Branch	No.7, Century Avenue, Karamay City, Xinjiang	0990-6969907	Karamay Branch	No.7, Century Avenue, Karamay City, Xinjiang	0990-6229957
			Youyi Road Sub-Branch	No.98, Youyi Road, Karamay, Xinjiang	0990-6232984
			Xingfu Road Sub-Branch	Sub No.3 store, Xingfu Road, Karamay, Xinjiang	0990-6969912
			Junggar West Road Sub-Branch	Xintiandi Business Street, No. 224, Junggar Road, Karamay, Xinjiang	0990-6977797
			Shengli Road Sub-Branch	No.118-36, Shengli Road, Karamay, Xinjiang	0990-6244416
			Zhonglou Sub-Branch	(No.1 -4 Stores, Tiancheng Square) Qianjin New Village, Karamay, Xinjiang	0990-6231373
			Nanxin Road Sub-Branch	No.A16-105, Zefu, Karamay, Xinjiang	0990-6253415
			Xincheng Sub-Branch	No.33, Shengli Road, Karamay, Xinjiang	0990-6609019
			Daqing Road Sub-Branch	No.14, Daqing East Road, Dushanzi District, Karamay, Xinjiang	0992-3684040
			Huainan Road Sub-Branch	No.46, Daqing Road, Dushanzi District, Karamay, Xinjiang	0992-3683836
			Nanjing Road Sub-Branch	No.21, Nanjing Road, Dushanzi District, Karamay, Xinjiang	0992-3687719
			Zhongxing Road Sub-Branch	No.36, Huayuan Road, Baijiantan District, Karamay, Xinjiang	0990-6923341
			Kunlun Road Sub-Branch	No.115, Youyi Road, Karamay, Xinjiang	0990-6221879
			Yuezhong Road Sub-Branch	No.1, Yuezhong Road, Baijiantan District, Karamay, Xinjiang	0990-6981937
			Jinlong Town Sub-Branch	No.6, Yongsheng Road, Jinlong Town, Karamay, Xinjiang	0990-6929722
			Youjian Sub-Branch	No.8, Youjian Road, Karamay, Xinjiang	0990-6926557
			Lüse Kangcheng Community Sub-Branch	No.63-116, Jixiang Road, Karamay, Xinjiang	0990-6988901
Urumqi Branch	No. 8, Minzhu Road, Urumqi, Xinjiang	0991-2360468	Business Department	No.8, Minzhu Road, Urumqi, Xinjiang	0991-2328114
			Shihua Sub-Branch	Zhongyi Street, Shihua Block 2, Midong District, Urumqi, Xinjiang	0991-6911321
			Shiyouxincun Sub-Branch	No.2219, Xihuan North Road, Urumqi, Xinjiang	0991-3717861

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Head Office/Branches			Business site		
Institution	Address	Tel.	Name of Sub-Branch	Address	Tel.
Urumqi Branch	No.8, Minzhu Road, Urumqi, Xinjiang	0991-2360468	Xizuan Sub-Branch	Xibulügu Building, No.752, Kashi West Road, Urumqi Economic and Technological Development Zone, Xinjiang	0991-3717941
			Youhao Sub-Branch	Yinzuo, New Times Hotel, No.739, Youhao North Road, Urumqi, Xinjiang	0991-4840932
			Gaoxin District Sub-Branch	No.99, West Five Lane, Tianjin North Road, Gaoxin District, Urumqi, Xinjiang	0991-6692754
			Zhundong Sub-Branch	Block 4, Zhundong Oil Base, Fukang, Xinjiang	0994-3830861
			Software Park Sub-Branch	Floor 1, Tower B, Podium Building, Entrepreneurship and Intelligence Building, Xinjiang Software Park, No.455 Kanas Lake North Road, Urumqi Economic and Technological Development, Xinjiang	0991-7586277
			Changji Sub-Branch	No.69, Changning South Road, Changji, Xinjiang	0994-2586817
			Yingbin Road Community Sub-Branch	Rhine House, No.1466, Yingbin Road, Urumqi, Xinjiang	0991-3790045
			Wuyi Road Sub-Branch	Floor 1, Hongfu Hotel, No.160, Wuyi Road, Urumqi, Xinjiang	0991-5822050
			Qianjin Road Sub-Branch	Huijia Group Building, No.58 Qianjin Road, Urumqi, Xinjiang	0991-2670057
			Changchun Road Small and Micro Sub-Branch	No.119, North Floor 1, East Lane 1, Changchun South Road, Urumqi, Xinjiang	0991-6657224
			Fukang Yaochi Road Community Sub-Branch	Ground Floor, Yuansen International Garden, Fukang, Xinjiang	0994-3512110
			Henan West Road Sub-Branch	No.192, Henan West Road, Urumqi High-tech Industrial Development Zone, Xinjiang	0991-3692320
			Business Department	Floor 1, South Side of Office Building, Property Company, Block 7, Fossil Oil Base, Hami, Xinjiang	0902-2769069
			Guangdong Road Sub-Branch	Floor 1, Lingxian Building, Guangdong Road, Hami, Xinjiang	0902-2209398
Tuha Branch	Fossil Oil Base, Hami, Xinjiang	0902-2772543	Shanshan Fossil Oil Sub-Branch	Ground floor, North of Information Industry Development Office, Shanshan Oil Base, Tuha Oilfield, Shanshan County, Turpan Area, Xinjiang	0995-8378918
			Yingbin Road Sub-Branch	Ground floor, Building 4, Qiulinkeyuan Community, Hongxing West Road, Hami, Xinjiang	0902-6980997
			Jianshe East Road Sub-Branch	No.2, Jianshe East Road, Hami, Xinjiang	0902-2231539

Continued

Head Office/Branches			Business site		
Institution	Address	Tel.	Name of Sub-Branch	Address	Tel.
Tuha Branch	Fossil Oil Base, Hami, Xinjiang	0902-2772543	Nanhu Industrial Park Sub-Branch	Floor 1, Nanhu Industrial Park Management Committee Office Building, Hami, Xinjiang	0902-2209398
			Oil Base South District Sub-Branch	Ground Floor, Information Industry Development Office, Tuha Oil Base, Hami, Xinjiang	0902-2769069
Daqing Branch	No.172 and 136, Xibin Road, Ranghulu District, Daqing, Heilongjiang	0459-5958355	Business Department	No.172 and 136, Xibin Road, Ranghulu District, Daqing, Heilongjiang	0459-6069500
			Lianhua Sub-Branch	No.21, Chengfeng West Road, Ma'an Shan Street, Ranghulu District, Daqing, Heilongjiang	0459-2616666
			Shihua Sub-Branch	No.427, Xinghua Street, Longfeng District, Daqing, Heilongjiang	0459-6411733
			Longfeng Sub-Branch	No.142, Longfeng Street, Longfeng District, Daqing, Heilongjiang	0459-6400880
			Yuanwang Sub-Branch	No.18, Xihu Street, Ranghulu District, Daqing, Heilongjiang	0459-5956012
			Aolin Sub-Branch	Shop 10, Building D-04 and 05, Aolin International Apartment, Private Scientific & Technological Park, Ranghulu District, Daqing, Heilongjiang	0459-5960177
			Dongfeng Sub-Branch	No.35, Dongfengxincun Wei'er Road, Ranghulu District, Daqing, Heilongjiang	0459-4600195
			Donghu Sub-Branch	Commercial Service No.03, 04, 05 and 06, Building D, Shiyou Jiayuan, Ranghulu District, Daqing, Heilongjiang	0459-5732688
			Xinchao Sub-Branch	S3 Shop 2 and Shop 3, Xinchao jiayuan, Ranghulu District, Daqing, Heilongjiang	0459-5912355
			Dongcheng Yinzuo Sub-Branch	F-05-08, Beichen Lüse Jiayuan, Saertu District, Daqing, Heilongjiang	0459-4319096
			Chengfeng Sub-Branch	No.210, Chengfeng Street, Ranghulu District, Daqing, Heilongjiang	0459-5681716
			Ranghulu Sub-Branch	(4901) No. 84, Central Avenue, Ranghulu District, Daqing, Heilongjiang	0459-5593272
			Dongcheng Lingxiu Sub-Branch	No.202, No. 204 and No. 206 Longfeng North Street and No. 10 and No. 12 Longteng Road, Longfeng District, Daqing, Heilongjiang	0459-6405950
			Honggang Sub-Branch	Shop 4, Shop 5 and Shop 6, Building A1, Hongcheng International Subdistrict, Honggang District, Daqing, Heilongjiang	0459-6781100
			Babaishang Sub-Branch	No.8, Babaishang South Road, Honggang District, Daqing, Heilongjiang	0459-4989006
			Chuangyecheng 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	0459-4547071

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Head Office/Branches			Business site		
Institution	Address	Tel.	Name of Sub-Branch	Address	Tel.
Daqing Branch	No.172 and 136, Xibin Road, Ranghulu District, Daqing, Heilongjiang	0459-5958355	Beifang Branch	Floor 1, Kunlun Subsidiary Food Building, No.120 Shengli Road, Ranghulu District, Daqing, Heilongjiang	0459-5995029
Xi'an Branch	Changqing Sulige Building B, No. 73 Fengchengsi Road, Xi'an, Shaanxi	029-86978855	Business Department	Tower B, Changqing Sulige Building, No. 73, Fengchengsi Road, Xi'an	029-86978675
			Xinglongyuan Sub-Branch	Street-front Shop 1-19-2, Northern Section of Guandao Xiaoqu, at the southwest corner of the intersection between Fengchengsi Road and Kaiyuan Road in Xi'an	029-86565276
			High-Tech Development Area Sub-Branch	South part of Floor 1-2, Podium Building, High-Tech Electronic Communication Square, No. 56, Gaoxin Road, Xi'an	029-88993312
			Jinghe Industrial Park Sub-Branch	Floor 1-2, north part of Office Building of infrastructure service, Changqingjinghe Yuan, East Gate of Longfengyuan Subdistrict, Changqing Oilfield, Gaoling County, Xi'an	029-86022266
			Jingwei Science and Technology Industrial Park Sub-Branch	South of West Gate, Block 2, Jingxin Yuan, Jinghe Industrial Park, Gaoling County, Xi'an	029-86977333
			Xiguanzheng Road Sub-Branch	Floor 1, Lianhu Culture Building, No.92, Xiguanzheng Road, Lianhu District, Xi'an	029-88777700
			Hanguang Road Sub-Branch	No.232, Hanguang South Road, Xi'an	029-87306388
			Xingqing Road Sub-Branch	No.97, Middle Section, Xingqing Road, Beilin District, Xi'an	029-83211002
			Weiyanghu Park Sub-Branch	Floor 1, Weiyang North Building, Weiyanghu Park Community, Dongfeng Road, Weiyang District, Xi'an	029-86573012
			Xixian New Area Qinhan Xincheng Sub-Branch	East of the gate of Changqing Petrochemical Living Area, Jinxu Road, Qinhanxincheng, Xixian New Area, Shaanxi	029-38002222
			Jingweiyuan Community Sub-Branch	Shops No.1 and 2, Block 2, Changqing Jingweiyuan Community, South Jinghuan Road, New Jingwei City, Gaoling County, Xi'an	029-68602411
			Jingwei Community No.1 Sub-Branch	No.1 Shop, Area A Square, Jingwei Community, Hancun 1 Road, Jingwei Industrial Zone, Gaoling County, Xi'an	029-68603662
			Longfeng Garden Community Sub-Branch	B-106, Feng Square, Changqing Longfeng Garden Community, Majiawan, Gaoling County, Xi'an	029-86024995
			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	029-86686718

Continued

Head Office/Branches			Business site		
Institution	Address	Tel.	Name of Sub-Branch	Address	Tel.
Xi'an Branch	Changqing Sulige Building B, No. 73 Fengchengsi Road, Xi'an, Shaanxi	029-86978855	Yinghuayuan Community Sub-Branch	No.10109, Floor 1, Unit 1, Building 3, Zhixin Yinghuayuan Community, Guodu Township, Chang'an District, Xi'an	029-86978855
			Hubinhuayuan Sub-Branch	South side of Gongjian Shop, No. 1, Changqing Hubinhuayuan Huanhu North Road, Weiyang District, Xi'an	029-86568513
Korla Branch	Floor 1 -3, Huayu Business Building, Renmin East Road, Korla, Xinjiang	0996-2926906	Business Department	Floor 1, Huayu Business Building, Renmin East Road, Korla, Bazhou, Xinjiang	0996-2926969
			Tarim Fossil Oil Sub-Branch	Multifunctional Hall, Block 3, Tazhi Community, Korla, Bazhou, Xinjiang	0996-2176964
			Tarim Fossil Oil Community Small and Micro Sub-Branch	Block 5, Tazhi Community, Korla, Bazhou, Xinjiang	0996-2174938
			Xincheng Sub-Branch	Floor 1, Comprehensive Building, Geophysical Exploration Third Office, Airport Road, Korla, Bazhou, Xinjiang	0996-2192303
			Xiangli Road Sub-Branch	1-1-16, 17, No.30, Xiangli Avenue, Korla, Bazhou, Xinjiang	0996-2692001
			East Renmin Road Sub-Branch	Floor 1, New Complex Building, Bazhou People's Hospital, No. 56, Renmin East Road, Korla, Xinjiang	0996-2953888
			Shihua Avenue Sub-Branch	Shops 14-19, Building 15, Milan Chuntian, No. 44, Shihua Avenue, Jianshe Prefecture, Korla, Bazhou, Xinjiang	0996-2699906
			Taxinan Oil Sub-Branch	No.8-2, Yingbin Road, Kuiyibage Town, Zepu County, Kashgar, Xinjiang	0998-7522372
Ili Branch	No.23, Stalin Street, Yining City, Xinjiang	0999-8062917	Business Department	No.23, Stalin Street, Yining City, Xinjiang	0999-8062920
Kashgar Branch	Building 1, South Lake Xiushui Manor, No. 34, Banchao Road, Kashgar City, Kashgar, Xinjiang	0998-6850082	Business Department	Building 1, South Lake Xiushui Manor, No. 34, Banchao Road, Kashgar City, Kashgar, Xinjiang	0998-6850100



XI. Corporate Governance Report

11.1 Corporate Governance Structure

The Bank established a corporate governance structure in accordance with *Company Law*, *Guidelines on Corporate Governance of Commercial Banks*, and other regulations and laws, as well as the requirements of *Articles of Association* of the Bank, featuring the General Meeting, the Board of Directors, the Board of Supervisors and Senior Management, serving as the top authority organ, the decision-making authority, the supervisory authority, and the executive authority, respectively. By revising the *Articles of Association*, the Bank clarified the legal status of Party leadership in corporate governance, and CPC committee discussion as the prerequisite procedure for major decisions of the Board of Directors and the Board of Supervisors. We carried out 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”.

11.2 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 effective protection of interests of investors. In 2018, 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 the scientific-nature of decision-making and the effectiveness of checks and balances. The Bank adjusted and supplemented members of the Board of Directors, and 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. 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 corporate governance proved to be fruitful.

Construction of the Organizational Framework of Corporate Governance

The Bank smoothly completed the re-election of directors and supervisors, and ensured the legal and compliant operation of the Board of Directors and the Board of Supervisors. When the fourth session Board of Directors and Board of Supervisors of the Bank finished their three year terms in 2018, the Bank, in strict accordance with the procedures for election and appointment, smoothly completed Board re-election, after determining the candidates following the review and decisions by the Board of Directors, the Board of Supervisors, and the shareholders at the General Meeting. In view of corporate governance requirements and the shareholding structure, the Bank adjusted three equity director posts, replacing two independent directors whose terms had expired. With their eligibility approved by or filed with the regulatory authorities, the new directors and supervisors began to perform their duties normally, thus ensuring the smooth and orderly operation of the Board of Directors and the Board of Supervisors.

The professional backgrounds of the members of the new Board of Directors and the Board of Supervisors became more reasonable. The equity directors and supervisors were financial and auditing professionals, who possess the professional capability to safeguard the rights and interests of the shareholders. Independent directors and external supervisors included senior scholars in economics and finance, professionals familiar with bank risk management and capital management, and experienced executives from the financial industry, all with high degrees of competence to provide useful assistance for the Bank's development. After re-election, the decision-making abilities of the Board of Directors and the supervisory abilities of the Board of Supervisors were effectively improved.

In accordance with the requirements of the regulatory system and considering its actual circumstances, the Bank improved the responsibilities and institutional setup of its Board of Directors for consumer rights protection, by adding a consumer protection function to the Board's Strategy Committee, renaming it to the Strategy and Consumer Rights Protection Committee and revising the rules for discussion. Specifically, the following functions were added to the committee's responsibilities: formulating the Bank's strategic plan, basic policies and management objectives as they relate to consumer rights protection, reviewing the management report on consumer rights protection submitted by the senior management, and assessing the comprehensiveness, timeliness, and effectiveness of the senior management in managing consumer rights protection, as well as its performance.

Construction of the Corporate Governance Mechanism

The Bank brought into full play the strategic decision-making role of the Board of Directors. During the reporting period, the Board of Directors and the special committees of the Bank earnestly implemented the development strategy of integrating industry and finance, strictly realized national policies and external regulatory requirements, actively responded to the challenges brought about by the complex current macroeconomic and financial situation, and focused on enhancing the Bank's core competitiveness. The mid-term evaluation and adjustment of the Bank's "Thirteenth Five-Year" development plan was also conducted, continuously enhancing the operating and management capabilities and proficiency of the Bank. The Bank carried out the design and planning on the investment planning of the Bank, branch development planning, capital management planning and other aspects in 2018, comprehensively planned important matters of future development of the Bank of Kunlun, effectively played the role of the scientific decision-maker and development leader, having guaranteed the healthy, steadily development and safe operation of the Bank, and effectively safeguarded interests of shareholders, creditors and the Bank.

The Bank strengthened the supervisory function of the Board of Supervisors. In 2018, the Board of Supervisors of the Bank performed its function and supervisory responsibility according to relevant laws and regulations by actively participating in major decision-making and supervising financial activities with lots of precious comments and suggestions. The board gained hands-on experience at the grass-roots level in terms of investigations and study on the deposits and team building, supervised and evaluated the performance of directors, supervisors and Senior Management members of executing, and continuously carried out the inspection and supervision of risk management, internally controlling compliance, internal and external auditing and related party transactions, having played an important role to enhancing the governance of the Company and promoting compliance management and steady development of the Bank.

The Bank strengthened shareholder equity management. The Bank conducted penetrating management of shareholders in strict accordance with regulatory requirements, and made a thorough investigation and evaluation

of the operational status, shareholding qualifications, and equity holdings at other financial institutions of the major shareholders, as well as management of actual controllers and intra-bank related party transactions. The major shareholders of the Bank exercised the rights of investors in strict accordance with laws, regulations and the Company's "Articles". They were able to explain their equity to the actual controllers layer by layer, and submit truthful, complete and effective information related to shareholders and others in a timely manner. They hadn't been found to seek improper interests or violate laws and regulations. The Bank standardized equity transfer, conducting strictly qualification review for the shareholders of the intended transferee and timely communicated with the regulatory authorities. It standardized the management of equity pledge, clarified the materials, processes, information disclosure, and voting rights restriction required for equity pledge, and strictly enforced them in practice.

The Bank effectively enhanced the performance of the directors and the supervisors. The Directors and Supervisors attached great importance to, strictly implemented the requirements of, regulatory meetings, and dutifully attended relevant meetings and events organized by regulatory authorities at various levels, launching various targeted investigations and studies according to actual work needs. The Bank provided timely and comprehensive dynamic information to its directors and supervisors, actively promoted exchanges and learning, and subscribed to professional journals and regularly published *News of the Bank of Kunlun*, in order to enable directors and supervisors to obtain a timely understanding of supervision developments, industrial development, and the operations of the Bank, so as to continuously enhance their decision-making competence and performance.

The Bank improved the construction of the incentive and disciplinary mechanism. In 2018, the Board of Directors 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)* in order to strengthen the supervision system of the Senior Management and urge them to work diligently. The Board annually authorized the Management, which organized operation and management activities within the scope authorized, and regularly reported to the Board of Directors on its performance and operating management, including implementation of authorized matters, completion of annual target and risk management.

The Bank strengthened information disclosure and investor-relationship management in 2018, mainly through consistent improvement of the investor relation webpages. Such efforts were aimed at effectively providing investors with more accurate and timely information, enriching disclosure content, and combing communication channels, as well as publishing the characteristics of the Bank for investors and society. The communication mechanism with shareholders was established not only to accept advice and provide updates on current situations, but also to show respect to both the will of the majority of shareholders and the interests of the minority shareholders.

The Bank made efforts to advance compliance management and risk control. In 2018, we carried out the "Compliance Culture Year" campaign to actively disseminate the concept of compliance culture, revising and perfecting the system process, treating supervision and accountability with great seriousness and strengthening compliance implementation. We further improved the comprehensive risk management system and mechanism, revised comprehensive risk management regulations, and strengthened the institutional basis; studied and improved the risk management framework, promoted and applied risk management tools, and strengthened the assessment of risk management, conscientiously playing a key role in supervision and evaluation. We carried out a solid "Uphill Battle for Strengthening the Quality and Efficiency of Credit Assets", effectively reducing the amount and NPL ratio, and maintaining the quality of assets.

The Bank gave full play to the role of auditing and supervision. In 2018, the Bank carefully performed its audit supervision and related services by implementing an independent, vertical internal audit management system, which is accountable to the Board of Directors. It effectively improved the management of the whole bank by carrying out audit projects, supervising the implementation of the rectification and accountability.

Construction of Corporate Governance Regulations

In 2018, in accordance with relevant regulatory requirements and the requirements of the Bank in terms of management upgrading, the Bank drew on national laws and regulatory rules, and further strengthened its corporate governance system in the bid to build a bank of good corporate governance. The Bank revised the *Articles of Association*, adding Party construction and at the same time clarifying the responsibilities of the “two boards and one top” (Board of Directors, Board of Supervisors, and Senior Management) in green credit, consumer protection and other duties, further clarifying management requirements and thus improving the overall management flow. At the same time, in accordance with the revision to the *Articles of Association*, the Bank revised *Rules for Discussion of the Board of Directors* and *Rules for Discussion of the Board of Supervisors*.

11.3 General Meeting

11.3.1 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 recover 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.

11.3.2 Meeting

During the reporting period, the Bank organized 1 annual meeting and 1 Extraordinary General Meeting in total, debriefed 2 reports and adopted 8 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 worked with lawyers who served as witnesses at such meetings and issued legal opinions. Details of the meetings are as follows:

Annual General Meeting

On 20 April 2018, the Bank held the 2017 Annual General Meeting simultaneously in Beijing, Karamay, Urumqi and Shanghai through video. At the meeting, two reports were heard and five proposals were passed. The reports on related party transactions and the performance assessment of directors and supervisors were heard. A series of proposals were deliberated and adopted including the 2017 Financial Report, the second half of year 2017 Profit

Distribution Plan, 2017 Annual Work Report of the Board of Directors, 2017 Annual Work Report of the Board of Supervisors and selection of directors. Decisions and deployment were made on major matters at the General Meeting, implying the functional role of the General Meeting.

Extraordinary General Meeting

On 12 October 2018, the Bank held its first Extraordinary General Meeting simultaneously in Beijing, Karamay, Urumqi, and Shanghai through video. At the meeting, three proposals of selection of the fifth session Board of Directors and Supervisors, and profit distribution plan of the first half of 2018 were deliberated and adopted.

11.4 Special Committees of the Board of Directors

11.4.1 Responsibilities and Composition of the Board of Directors

As the decision-making authority 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 work of the President.

In 2018, when the term of the fourth session Board of Directors expired, the Bank carried out a re-election. By the end of the reporting period, the fifth session Board of Directors had officially begun performing their duties. The fifth session Board of Directors of the Bank had nine directors including six equity directors and three independent directors, and Mr. Jiang Shangjun served as Chair. 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, economy and accounting, who are familiar with corporate finance and financial management.

11.4.2 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 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 that constitute an accurate and solid basis for decision-making of the Board of Directors.

11.4.3 Board Meeting

In 2018, the Bank held four board meetings in total, at which 21 reports were heard and 42 proposals were deliberated upon. The main reports and proposals were as follows:

On 28 March 2018, the Bank held the fourteenth meeting of the fourth session of the Board of Directors, at which 7 reports were heard and 13 proposals were adopted. The meeting heard reports of the thirteenth meetings of the fourth session of the Board of Directors in resolution matter progress, 2017 financial consumer protection, green credit, external audit, management of related party transactions, capital adequacy ratio, disposals of non-performing loans and so on. Reports were heard and motions reviewed and approved, including the 2017 President's Work Report, the Board Work Report, the Directors' Performance Evaluation, the the financial report, the profit distribution for the second half of the year, the Annual Report, the Information Technology Work Report, the 2018 Guidance of the Board of Directors on Authorized Management, the nomination of directors, the appointment of Jing Lin as interim Secretary of the Board of Directors, the revision of the capital management regulations of the Bank, the selection of the external audit agency for 2018, and the convening of the Annual General Meeting of shareholders.

On 4 July 2018, the Bank held the fifteenth meeting of the fourth session of the Board of Directors, at which 4 reports were heard and 6 proposals were adopted. The Board heard the progress of the resolution matters of the fourteenth meeting of the fourth session Board of Directors, the performance report of the January-May 2017 period, the regulatory report of Karamay Banking Regulatory Bureau on the Bank for 2017, and the performance report of the Karamay Banking Regulatory Bureau for the Chair and President of the Bank in 2017. The proposals for electing the Chair of the Board of Directors, appointing the Vice President of the Bank, the Secretary of the Board of Directors, adding two functional departments at the head office, formulating the management measures for employees, and planning capital management for 2018-2020 were reviewed and approved.

On 26 September 2018, the Bank held the sixteenth meeting of the fourth session of the Board of Directors, at which 4 reports were heard and 6 proposals were adopted. The meeting heard reports on the progress of resolution matters



of the resolution of the fifteenth meeting of the fourth session of the Board of Directors, on the performance evaluation of Senior Management in 2017 and on operating report in the first half of 2018 and Work Report for the fourth session of the Board of Directors. The proposals for the mid-term evaluation and adjustment of the “Thirteenth Five-Year” development plan, the profit distribution in the first half of the year, the revision of the “Rules for Discussion of the Board of Directors”, the addition of consumer rights protection functionality to the Strategy Committee under the Board of Directors, the nomination of directors for the fifth session of the Bank Board of Directors, and the convening of an Extraordinary General Meeting were reviewed and approved.

On 20 December 2018, the Bank held the first meeting of the fifth session Board of Directors, during which 6 reports were heard and 17 proposals were adopted. The meeting heard the report on the progress of the resolution matters from the sixth meeting of the fourth session of the Board of Directors, operating report in the three quarters of 2018, internal audit, risk management, management of internally controlling compliance and management of related party transactions. The proposals for election of the Chair of the Board of Directors, the adjustment of special committee members, the formulation of 2019 authority guidelines of the Board of Directors for authorized management, increases in the total amount of 2018 investment plans, implementation of the 2018 budget and arrangement of the 2019 operating budget, the suggested plan for 2019 investment framework, the branch development plan for 2019, accounting policy changes, information system evaluation and IT planning, the launch of the credit asset-backed securitization business, the development of management measures for data governance, the development of the impairment management system for non-credit financial assets, the development of management measures for bank-book interest rate risks, the revision of management measures for liquidity risks, the development of the valuation management system for the fair value of financial instruments, the updating of related party lists, and the convening of an Extraordinary General Meeting were reviewed and adopted.

During the reporting period, the Board of Directors practically fulfilled their duties as specified in the Articles of Association and accomplished all pertinent 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 national 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.

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

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

11.4.5 Independence and Performance of Independent Directors

During the reporting period, Ms. Pang Yueying, Mr. Shi Junzhi, Mr. Liu Bo, Mr. Zhang Shengping, and Mr. Xi Bo, as independent directors of the Bank, carefully and responsibly devoted plenty of time and effort 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, and so forth. They actively attended the meetings of special committees, participated in routine



work, and conscientiously fulfilled their duties. They accepted the legal supervision and reasonable suggestions of the Board of Supervisors and external supervision authorities as it related to the performance of their duties, and provided authentic relevant information and data to the Board of Supervisors and external supervision authorities.

11.4.6 Special Committees of the Board of Directors

The Board of Directors has five special committees, namely the Strategy and Consumer Rights Protection 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 and Consumer Rights Protection Committee

The Strategy Committee focused on carrying out consumer rights protection in September 2018 and changed its name to the Strategy and Consumer Rights Protection Committee. Its main responsibilities include conducting research on the Bank's medium and long-term development strategy, business philosophy, development planning, and major investment plans, as well as efforts to formulate strategic planning, basic policies, and management objectives for consumer rights protection, review reports submitted by senior management on consumer rights protection, and to evaluate the comprehensiveness, timeliness, and effectiveness of consumer rights protection management, in addition to the relevant performance of senior management, and making recommendations to the Board of Directors. During the reporting period, the Strategy and Consumer Rights Protection Committee of the Board of Directors consisted of five Directors, namely Mr. Jiang Shangjun, Mr. Zuo Wei, Ms. Xu Xinping, Mr. Ming Dong, and Mr. Zhang Shengping. Chair Mr. Jiang Shangjun served as Chair of the Committee.

During the reporting period, the Strategy and Consumer Rights Protection Committee held one meeting, in which it reviewed and approved two proposals on the mid-term evaluation and adjustment of the "Thirteenth Five-Year Plan" as it relates to the Bank, and on adding the function of consumer rights protection to the Strategy Committee, respectively. The committee actively promoted the formulation and implementation of the strategic planning of the Bank and the development of financial consumer rights protection, strongly supporting the strategic decision-making of Board of Directors.

Audit Committee

The Audit Committee is mainly responsible for supervising, inspecting and evaluating the internal control, financial information, and internal auditing of the Bank. The Audit Committee of the Board of Directors of the Bank consisted of five directors during the reporting period, including Mr. Xi Bo, Mr. Yan Hong, Ms. Han Hua, Mr. Liu Bo, and Mr. Zhang Shengping. Independent director Mr. Xi Bo served as Chair of the Committee.

During the reporting period, the Audit Committee held three meetings in total, at which 11 reports were heard and 6 proposals were deliberated. The meeting heard reports on internal control evaluation, compliance management,

internal audit, external audit and disposals of non-performing loans in 2017; business work and internal audit from January to May in 2018; business work, compliance management, internal audit and management of authorization in the first half of 2018. The meeting deliberated and adopted the financial report, profit distribution of the second half of year, annual report of 2017, the 2018 item program for internal audit, the appointment of an external audit agency and profit distribution plan in the first half of 2018. The Audit Committee deepened the supervision on the Bank's operations and management, continually assessed the internal control systems, supervised and evaluated the independence of the internal and external auditors, and promoted communication and cooperation between internal and external auditors, all in an effort to support the Board of Directors.

Nomination and Remuneration Committee

The major responsibility of the Nomination and Remuneration Committee is to propose suggestions on candidates of Directors and Senior Management, selection procedure and standard, making policy and plan of the remuneration, performance evaluation and assessment system of directors, supervisors and Senior Management of the Bank, and propose suggestions on the evaluation and assessment of the performance of directors and management. The Nomination and Remuneration Committee of the Board of Directors of the Bank consisted of five directors, namely Mr. Liu Bo, Mr. Jiang Shangjun, Mr. Yan Hong, Ms. Han Hua and Ms. Xu Xiping. Independent Director Mr. Liu Bo served as the chair of the Committee.

During the reporting period, the Nomination and Remuneration Committee held three meetings in total, at which 1 report was heard and 8 proposals were deliberated upon. The meeting heard the report on payroll management of Bank of Kunlun. Proposals on performance evaluation for directors in 2017, performance evaluation for the Senior Management, nomination of directors, selection of chair, appointment of the vice president, appointment of board secretary and nomination of directors of the fifth session Board of Directors. The committee played an important role in the appointment and performance assessment of directors and 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 five directors, namely Mr. Yan Hong, Ms. Han Hua, Ms. Xu Xiping, Mr. Ming Dong and Mr. Xi Bo. Mr. Yan Hong served as director of the Committee.

During the reporting period, the Risk Management Committee held two meetings in total, at which three reports were heard and three proposals were deliberated. It listened to the comprehensive risk management report for 2017 and the first half of 2018, and the capital adequacy ratio report for 2017. Through deliberation, the committee adopted proposals on the 2017 IT work report, 2018 trading business strategy and market risk management strategies, and the revision to the Capital Management Stipulations of Bank of Kunlun. 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 five Directors, namely Mr. Zhang Shengping, Mr. Zuo Wei, Mr. Ming Dong, Mr. Liu Bo and Mr. Xi Bo. Independent director Mr. Zhang Shengping served as Chair of the Committee.

During the reporting period, the Related Party Transactions Control Committee held three meetings in total, at which 3 reports were heard and 3 proposals were deliberated upon. The committee heard reports on the work of related party transactions of January to May 2017 and the first half of 2018, and adopted proposals on quarterly updating the list of related party of the Bank. 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.

11.5 Board of Supervisors

11.5.1 Responsibilities and Composition of the Board of Supervisors

As the supervisory authority 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 as they are submitted by the Board of Directors. They also supervise 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 Meeting of the Board of Directors, among other things.

In 2018, when the term of the fourth session Board of Supervisors expired, the Bank carried out a re-election. By the end of the reporting period, the fifth session Board of Supervisors had officially begun performing its duties. The fifth Board of Supervisors of the Bank consisted of five members, including one equity supervisor, two external supervisors and two employee supervisors. The chief supervisor of the Bank was Mr. Wang Zhonglai. All supervisors of the Bank are experienced in management with professional knowledge on finance and accounting.

11.5.2 Operation of the Board of Supervisors

The Board of Supervisors 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 Supervisors shall hold at least one regular meeting every 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.

11.5.3 Board Meetings

In 2018, the Bank held four meetings of the Board of Supervisors in total, during which 40 reports were heard and 5 proposals were deliberated. The main reports and proposals were as follows:

On 28 March 2018, the Bank held the twelfth meeting of the fourth session Board of Supervisors, at which 16 reports were heard and 2 proposals was adopted. The Board heard the progress of resolution matters of the eleventh meeting of the fourth session Board of Supervisors, the Work Report of the president, the internal audit, external audit, related party transactions, comprehensive risk management, internal control evaluation, compliance management, disposals of non-performing loans, consumer protection, green credit, financial report, profit distribution of the second half of year, capital adequacy ratio, annual report, information technology and other reports of 2017. The Board deliberated and adopted proposals on the 2017 Annual Work Report of the Board of Supervisors, in addition to carrying out a performance evaluation of directors and supervisors.

On 4 July 2018, the Bank held the thirteenth meeting of the fourth session Board of Supervisors, where the attendees heard the progress of the resolutions of the twelfth meeting of the fourth session Board of Supervisors, operations



from January to May 2018, internal auditing work, the related party transaction management, the report of the Karamay Banking Supervision Bureau on the supervision of the Bank in 2017, and the evaluation report of the Karamay Banking Supervision Bureau on the performance of the chair and president of the Bank in 2017.

On 26 September 2018, the Bank held the fourteenth meeting of the fourth session of the Board of Supervisors, at which 12 reports were heard and 2 proposals were adopted. The Board heard the progress of the resolution matters of the thirteenth meeting of the fourth session Board of Supervisors, the performance evaluation of Senior Management of 2017, the business, internal audit, comprehensive risk management, compliance management, related party transactions, management of authorization, profit distribution in the first half of 2018, as well as the mid-term evaluation and adjustment for its “Thirteenth Five-Year” development plan, report of payroll management of Bank of Kunlun and the work report of fourth session Board of Supervisors of Bank of Kunlun. The Board deliberated



and adopted proposals on revisions to Rules for Discussion of the Board of Supervisors and the nomination of the supervisors of the fifth session of the Board of Supervisors of Bank of Kunlun were heard.

On 20 December 2018, the Bank held the first meeting of the fifth session Board of Supervisors, at which 6 reports were heard and 1 proposal was adopted. The Board heard the comment implementation of the fourteenth meeting of the fourth session Board of Supervisors, operating report in three quarters of 2018, internal audit, risk management, management of internally controlling compliance and management of related party transactions. The Board deliberated and adopted the proposals on electing the chief supervisors of the fifth session Board of Supervisors of Bank of Kunlun.

11.5.4 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 regularly sat in on meetings of the Board of Directors, presenting independent opinions on proposals and playing an effective role in independent supervision. They actively participated in the investigation work of the Board of Supervisors, mainly through listening to reports, discussion and seminar, visit to customers, and the grassroots, and reading of important materials. They visited the Urumqi Branch, Ili Branch, Daqing Branch, and Xi'an Branch to collect, analyze and summarize information on deposit business development at grassroots branches, existing problems and inadequacies, and internal and external customer opinions and suggestions from multiple perspectives and fronts.

11.6 Senior Management

11.6.1 Composition and Responsibilities of the Senior Management

As the executive authority of the Bank, the Senior Management is accountable to the Board of Directors. It was composed of three members, namely Mr. Zuo Wei, the President; Mr. Yan Jiu, Vice President; and Mr. He Fang, Vice President, and Secretary of the Board of Directors. 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, and the rules for authorization of the Board of Directors.

Based on laws, regulations, the Articles of Association and the authorization of the Board, the President, led by the Board, is responsible for daily operations and management, implementing the resolutions of the Board, drafting plans for the establishment, removal and merging of 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, Business Continuity Management Committee, Anti-Money Laundering Committee), the Budget Management Committee, the Performance and Evaluation Committee, the Asset-Liability Committee, the Information Technology Committee, the Credit Review Committee, the Innovation Management Committee, the Centralized Purchasing Committee, and the Investment Banking Decision-making Committee.

During the reporting period, the Senior Management of the Bank successfully achieved its business objectives determined by Board of Directors.

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

In 2018, the Board of Directors carried out a 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)* in order to strengthen the constraint and supervision system of the Senior Management, while also urging them to fulfill their responsibilities diligently.

11.7 Internal Control

During the reporting period, the Bank further improved its internal control system, steadily strengthened internal control measures and guarantees in accordance with *Guidelines for the Internal Control of Commercial Banks* and steadily optimized the institutional flow, evaluating and improving its systems, which now consists of 835 prevailing items. We conducted internal control assessments, launched test evaluations at the Company level, the business flow level, and the information technology level. The evaluation found no significant or major defects, providing proof of the effectiveness of internal control. General problems found were rectified or standardized via violation point accumulation, system improvement, and training enhancement and implementation.

11.8 Internal Audit

The Bank implemented 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, seeking truth and being practical”, the Bank made constant improvements to 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, management benefit, wealth management, classification of personal customer credit assets, market risk, liquidity risk, and security of bankcard payment-involved sensitive information. Through revealing problems, making summary, analyzing reasons, making proposals, supervising correction, the internal audit prompted the Bank’s stable operation and sustainable development.

11.9 Accounting Firm

In 2018, the Bank engaged BDO China Shu Lun Pan Certified Public Accountants LLP to continue to provide annual audit service for the Bank and rural banks it controlled. The total audit fee aggregated RMB 1.064 million.

XII. 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 31 December 2018.

Principal Business

The principal business of the Bank and its holding enterprises 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 31 December 2018 were presented in the Appendix section headed “Auditors’ Reports and Financial Statements” in this Annual Report.

As approved at the 2017 Annual General Meeting, the Bank distributed cash dividends for the second half of 2017 to all shareholders registered as at 31 December 2017, which amounted to a total of RMB 504.1061 million (pre-tax) at the rate of RMB 0.49/10 shares, pre-tax.

As approved at the first Extraordinary General Meeting in 2018, the Bank distributed cash dividends for the first half of 2018 to all registered shareholders as at 30 June 2018, which amounted to a total of RMB 720.1515 million (pre-tax) at the rate of RMB 0.70/10 shares, pre-tax.

As approved at the 2018 Annual General Meeting, the Bank distributed cash dividends for the second half of 2018 to all shareholders registered as at 31 December 2018, which amounted to a total of RMB 586.4091 million (pre-tax) at the rate of RMB 0.57/10 shares, pre-tax.

Reserve

Changes in the reserves of the Bank until 31 December 2018 are presented in the section headed “Consolidated Statement of Changes in Shareholder’s Equity” in the Auditors’ Report in this Annual Report.

Summary of Financial Information

The three-year summary of the operating results, assets and liabilities up until 31 December 2018 are presented in the section headed “Financial Highlights” in this Annual Report.

Fixed Assets

Changes in fixed assets till 31 December 2018 are presented in “Notes to the Financial Statements-Note V (12) Fixed Assets” in the Auditors’ Report in this Annual Report.

Subsidiary

As at 31 December 2018, the details about subsidiaries of the Bank are presented in “Notes to the Financial Statements- Note IV Business Combinations and Consolidated Financial Statements” in the Auditors’ 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 director or supervisor of the Bank had any material interests, direct or indirect, in any contract of significance regarding the Bank’s business. No director or supervisor of the Bank entered into any kind of 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 Businesses Competing with the Bank

None of the directors or 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 2018, in order to further improve the management of related party transactions and effectively prevent the risk arising from related party transactions, the Bank regularly revised the *Related Parties Checklist of Bank of Kunlun Corporation Limited* for implementation. All the related party transactions occurred in 2018 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 VI Related-Party Relationship and Transactions” in the Auditors’ Report in this Annual Report for particulars on the related party transactions defined under relevant laws, regulations and accounting standards.

Liability Insurance of Directors, Supervisors and Senior Management

During the reporting period, the Bank has purchased the liability insurance of directors, supervisors and Senior Management.

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 2018 Annual Financial Report prepared by the Bank in accordance with the Chinese Auditing Standards, and issued standard auditors’ reports with unqualified opinions.

By order of the Board of Directors
Jiang Shangjun
Chair



XIII. Report of the Board of Supervisors

13.1 Work of the Board of Supervisors

In 2018, the Board of Supervisors of the Bank strictly followed the provisions of *Company Law*, regulatory requirements, and the supervisory duties assigned in the Bank's *Articles of Association*, and based its work on the interests of depositors and all shareholders. Focusing on internal control of finances and risk and performance supervision in performing supervisory duties according to the law, we continuously improved supervision work methods and effectiveness, playing an important role in further improving corporate governance, strengthening management, and achieving sustained and prudent development.

In 2018, the Board of Supervisors inspected and supervised the legal operational status, information disclosure, the financial situation, risk management, and internal control of the Company, as well as the legitimacy and compliance of board members and senior management in the performance of their duties, by convening meetings, attending General Meetings, sitting in on board meetings, listening to work reports, conducting on-site investigations and inspections, and reviewing periodic reports and internal and external inspection reports. It then put forward opinions and suggestions on several urgent issues in the Company's operation and management, comprehensively promoting supervisory undertakings of various types.

It unified thinking and understanding in order to support the steady development of the Bank. The Board of Supervisors is an important supervisory authority of a bank and an important part of its corporate governance structure. In 2018, the Board of Supervisors continued to strengthen Party leadership, integrating it into the entire process of corporate governance and management. It gave full play to the role of the party organization as the leadership and political core, as well as resolutely unified thoughts and understandings and aligned them with the important instructions of General Secretary Xi Jinping as they pertain to financial work, resolutely implemented the central government's decision-making in terms of financial work, deepened understanding of the central government's analysis and judgment on the current economic and financial situation, and effectively improved the political stance, further enhanced the "Four Awareness" and "Four Self-Confidence", and earnestly implemented the spirit of the 19th CPC National Congress, as well as redoubling efforts to prevent and resolve financial risks. Prior to deliberating on important issues and organizing important work, the Board of Supervisors made a point of seeking the advice of the Party committee in advance as required, and reporting development to it in a timely manner.

Regular meetings of the Board of Supervisors were held to perform supervisory duties. In 2018, a total of four meetings of the Board of Supervisors were held, and 45 proposals were reviewed and heard. The proposals for nomination of the fifth Board of Supervisors, the election of its chair, the revision of the Rules of Discussion for the Board of Supervisors, the 2017 Work Report of the Board of Supervisors, and the performance assessment of directors and supervisors were reviewed and adopted. Various reports were heard, including those on the

Bank's operation in 2017 and 2018 (Q1-Q3), internal auditing work, comprehensive risk management, compliance management, related party transaction management, the 2017 financial report of the Bank, profit distribution, internal control evaluation, senior management performance assessment, consumer rights protection work, green credit work, capital adequacy ratio information, IT work, and remuneration. The meetings of the Board of Supervisors were held in strict accordance with the procedures stipulated in the *Articles of Association* and the *Rules of Discussion for the Board of Supervisors*. The frequency of meetings, participants and the issues discussed were in line with relevant regulations and were reported in a timely manner to regulatory authorities.

The transition of the Board of Supervisors was completed on schedule to ensure legitimacy and compliance of operations. The fourth Board of Supervisors was elected in September 2015, and its term of office expired in September 2018. Strictly following the requirements of the State, the regulatory authorities and the *Articles of Association*, the Bank completed the re-election following review by its fourteenth meeting and approval by the first Extraordinary General Meeting in 2018, implementing strict supervision on the procedure of supervisor election and appointment, and checking compliance records, as well as professional experience and qualifications. The re-election results were reported to the regulatory authorities as required. The new Board of Supervisors was composed of shareholder supervisors, employee supervisors and external supervisors, and the member structure remained stable. Shareholders who posted equity directors were not permitted to post equity supervisors, and the number of employee supervisors plus external supervisors exceeded one-third of the total number of supervisors, in line with the requirements of the regulatory requirements for the structure of the Board of Supervisors, guaranteeing the orderly operation of the Board of Supervisors.

Special investigations were conducted. In view of the business characteristics of the Bank, the Board of Supervisors selected the deposit business as the theme, formulated its plans, determined the direction, organized a team with members from related business departments and visited the Urumqi Branch, the Ili Branch, the Daqing Branch, and the Xi'an Branch for investigation and study work. Investigations and study were mainly conducted by listening to reports, carrying out interviews, visiting customers, visiting grassroots outlets, and reading related materials, in order to develop an all-round understanding and analysis of the development of the deposit business, existing problems and deficiencies, and internal and external customer opinions and suggestions from multiple perspectives and at multiple levels, so as to reveal key factors through induction, form a special research report, provide rational suggestions for better development of the Bank's deposit business, and deepen understanding of the actual situation of the Bank for its Supervisors, thus laying down a solid foundation for the supervision work of the Board of Supervisors.

Directors and senior management were supervised in the performance of their duties. In 2018, the supervisors comprehensively supervised the Board of Directors and senior leadership in performing their duties by sitting in on its meetings, attending the General Meeting of shareholders, and listening to the work reports of senior management on a regular basis, according to the law. Performance assessments of directors and senior management personnel were conducted, which further strengthened supervision of the performance of the Board of Directors and the senior management and its members in performing their duties. The Board of Supervisors focused on the compliance of the Board of Directors and its members in decision-making, the legality of their proceedings for discussion, and their implementation of the resolutions of the General Meeting, as well as the compliance of the Board members in terms of the rules of discussion, in addition to their independent comments. It also supervised the senior management



and its members in implementing the resolutions of the General Meeting and the Board of Directors, ensuring operations in line with laws and regulations and in tune with the performance of other duties. Supervision of the Board of Directors and members of the senior management was carried out as they fulfilled their loyalty obligations and diligence obligations.

Supervision was conducted on re-election of the Board of Directors, as well as the selection and appointment of directors. The Board of Supervisors supervised procedures for the election and appointment of members of the Board of Directors and the re-election of members of the Board of Directors in accordance with the requirements of the state and regulatory authorities, as well as the *Articles of Association* of the Bank. The members of the fifth the Board of Directors were elected by shareholders by virtue of shareholder recommendation. Independent directors were selected in strict accordance with rules and regulations on part-time jobs for Party members and leading officials. Candidates were examined in terms of professional experience and qualifications to ensure that the best possible candidates were selected. The re-election of the Board of Directors was conducted following nomination by the Board of Directors and preliminary examination by the Remuneration Committee and reviewed and approved by the sixteenth meeting of the Board of Directors, the first Extraordinary General Meeting in 2018 and the regulatory authorities. The procedures were in compliance with laws and regulations, and the eligibility of the directors was ascertained.

Supervision and inspection of the Bank's financial status and operating conditions were carried out. In accordance with relevant rules and regulations, the Board of Supervisors reviewed the Bank's annual business plan, investment plan, annual financial budget plan, final settlement plan, and profit distribution plan, and gave great attention to the report of the management on the operation and management of the Bank on at least a quarterly basis, before offering management suggestions related to operational status. The Board of Supervisors probed changes of major financial data and pertinent reasons for such changes, and strengthened supervision on the quality of external auditing in order to ensure truthful, accurate, and integral financial information disclosure.

Supervision of risk management and internal control was carried out. The Board of Supervisors grasped the risk management and internal control management work of the Bank and put forward relevant management opinions by regularly listening to reports on management of risks and internal control.

The work system of the Board of Supervisors was improved and supervision was strengthened. According to the revised *Articles of Association*, the *Rules of Discussion for the Board of Supervisors* were revised, clarifying the legal status of Party leadership in corporate governance, and research and discussion of the Party committee as the prerequisite for decision-making on major issues by the Board of Supervisors, thus further standardizing the work flow of the Board of Supervisors. Strengthened supervision on progress and improved supervisor quality and efficiency. According to reports submitted and information gathered through thorough investigation, the Board of Supervisors formed opinions and sent them to the Board of Directors and management in the form of official documents, requesting on a regular basis that the implementation of such opinions be formally reported to it, in order to effectively improve the efficiency of supervision work.

13.2 Independent Opinions of the Board of Supervisors on Related Matters

Operation in Accordance with the Law

The Bank operated in accordance with the *Company Law*, the *Commercial Bank Law* and the *Articles of Association* of the Bank. 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 that could 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 Related Party 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.

Auditors' Report

BDO China Shu Lun Pan Certified Public Accountants LLP issued standard auditors' report with unqualified opinions the financial position and operation performances in 2018. The Board of Supervisors had no objection to that report.

Implementation of Resolutions Adopted at the General Meeting of Shareholders

During the reporting period, the Board of Supervisors supervised the implementation of resolutions passed at the General Meeting and 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 its information disclosure process. Its Annual Report was true, accurate, and complete, and did not contain any false records, misleading statements, or 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. The liquidity risk management governance structure was completed, while the responsibilities of the Board of Directors, the Board of Supervisors, and the senior management's role in liquidity risk management was specified, further clarifying reporting route and improving the system was gradually.

Fulfillment of social responsibilities

During the reporting period, the Bank actively fulfilled its social responsibilities to implement national policy of economic structure readjustment and transformation of economic development mode, made positive efforts in three aspects as economy, society and environment, constantly optimized credit structure, strengthened the credit support to agriculture, rural areas and farmers as well as the “small and micro” enterprises, improved service quality and actively engaged in public welfare campaigns, which helped promote the coordinated development of regional economy.

By order of the Board of Supervisors

Wang Zhonglai

Chief Supervisor



XIV. Significant Events

14.1 Top 10 Shareholders and Changes during the Reporting Period

The changes in the top 10 shareholders as at 31 December 2018 are presented in the section headed “Changes in Share Capital and Shareholders-Top 10 Shareholders of the Bank and Shareholding Ratios”.

14.2 Increase or Decrease of Registered Capital

The registered capital of the Bank in 2018 didn’t change.

14.3 Division or Merger

None.

14.4 Material Investment

None.

14.5 Major Asset Acquisition and Disposal

None.

14.6 Material Contracts and Performance

During the reporting period, the Bank had not held on trust to a material event or entered into any material sub-contract or lease arrangement in respect of assets of other corporations, and no other corporation had held on trust to a material event or entered into any material sub-contract or lease arrangement in respect of the Bank’s assets. Other than the financial guarantee businesses within approved business scope, the Bank has no other important guarantee matter required to be disclosed. The Bank had no material contracts required to be disclosed.

14.7 Significant Lawsuits and Arbitrations

In 2018, there were no lawsuits or arbitrations that have significant effects on operation.

14.8 Material Related Party Transactions

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-loan management, thus ensuring proper 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 2018, the Bank has deliberated and adopted proposals on providing the highest credit line of RMB 4.15 billion to CNPC, valid until 10 October 2020.

As at the end of 2018, the credit balance of related party transactions between the Bank and CNPC was RMB 2.252 billion, which had not exceeded 15% of net capital of the Bank at the end of 2018.

14.9 Penalties

In 2018, the Bank and its directors, supervisors and Senior Management were not subject to any punishment of supervision authorities.

XV. Auditors' Report and Financial Statements

BDO China Shu Lun Pan Certified Public Accountants LLP has audited the 2018 Annual Financial Report prepared by the Bank, and issued standard auditors' reports with unqualified opinions.

1. Auditors' Report
 2. Audited Financial Statements
 3. Notes to Financial Statements
- (See Appendix for details)

XVI. Documents Available for Inspection

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

XVII. Acknowledging Opinions of Directors and Senior Management on the 2018 Annual Report

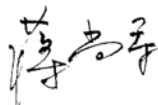
According to the *Guidelines on Corporate Governance of Commercial Banks*, we, as the directors and Senior Management of Bank of Kunlun Corporation Limited, after fully understanding and reviewing the 2018 Annual Report and its abstract, give the following opinions:

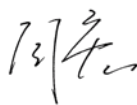
I. The Bank strictly implemented the Chinese Accounting Standards, and the 2018 Annual Report and its abstract fairly reflect the financial position and the operating results of the Bank for the year ending 31 December 2018.

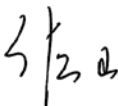
II. The 2018 financial report of the Bank has been audited by BDO CHINA Shu Lun Pan Certified Public Accountants (LLP) which has issued a standard and unqualified Auditors' Report.

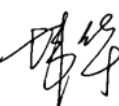
III. We hereby guarantee that the information disclosed herein is free from any false record, misleading representation or material omissions.

Signatures of Directors and Senior Management:

Jiang Shangjun 

Yan Hong 

Zuo Wei 

Han Hua 

Xu Xinping 

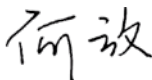
Ming Dong 

Liu Bo 

Zhang Shengping 

Xi Bo 

Yan Jiu 

He Fang 

Bank of Kunlun Corporation Limited

BANK OF KUNLUN CORPORATION LIMITED

**Auditors' Report and Financial
Statements for 2018**



Auditors' Report

PCPAR [2019] No. ZK20320

To the shareholders of Bank of Kunlun Corporation Limited:

I. Opinion

We have audited the accompanying financial statements of Bank of Kunlun Co., Ltd. (hereinafter referred to as the "Bank of Kunlun" or "the Bank" or "the Company"), which comprise the consolidated and the Bank's balance sheets as at 31 December 2018, and the consolidated and the Bank's income statements, the consolidated and the Bank's statements of cash flows, and the consolidated and the Bank's statements of changes in shareholders' equity for the year then ended, and the notes to the financial statements.

In our opinion, the accompanying financial statements of Bank of Kunlun present fairly, in all material respects, the consolidated and the Bank's financial position as at 31 December 2018, and the consolidated and the Bank's results of operations and cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

II. Basis for Opinion

We conducted our audit in accordance with the China Standards on Auditing. Our responsibilities under those standards are further described in the section "Auditor's Responsibilities for Audit of Financial Statements" of our report. We are independent of the Bank of Kunlun in accordance with the Code of Ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We determine that the followings are the key audit matters to be communicated in the Auditors' Report.

(1) Allowance for Impairment on Loans and Advances to Customers

1. The Bank of Kunlun conducts the impairment test for the loans and advances to customers quarterly. The credit assets are examined on the basis of the functional assignments, for analyzing and judging whether any impairment evidences exist. The impairment tests are conducted by adopting the individual or collective impairment assessment approach, and the impairment allowances are determined upon the results of such test for the loans and advances to customers. The management will adopt the individual assessment approach for the evidenced significant loans

and advances to customers, in which case, the management will consider many factors, including the recoverable amounts of the loans and advances to customers, the financial situations of the borrowers, the realizable amounts of collaterals, the priority of compensation, other creditors' and their will to compensate on behalf of the customers. The possibilities, time and modes of realizing the collaterals will affect the final recoverable amounts and the impairment allowance amounts. Under the collective approach, the Bank of Kunlun determines the impairment allowances for the portfolios of the loans and advances to customers based on the evaluation by the management, including the historical loss experience, change in the macroeconomic environment, and quality of loans.

Since the loan impairment assessment involves uncertainty, judgment and assumptions, and in view of the significance of the amount (as at 31 December 2018, the gross loans and advances to customers amounted to RMB 126,794 million, representing 36.11% of total assets, and the allowance for impairment on loans and advances to customers amounted to RMB 4,794 million), allowance for impairment of loans and advances was considered as a key audit matter.

Relevant disclosures are included in Note V (7) and Note IX (1).

2. How Our Audit Addressed the Key Audit Matter

We evaluated and tested the effectiveness of design and implementation of key controls related to the loan approval process, post-loan management, credit grading system, collateral (pledge) monitoring and loan impairment assessment, including testing of relevant data quality and information systems. We obtained an understanding of and evaluated the design, implementation and operation efficiency of the major internal monitoring on the financial statements executed by the management in relation to the credit monitoring, debt recovery and loan receivable impairment assessment.

We adopted samples based on the risk-oriented approach to implement the credit review process. We assessed the debtors' repayment capacity and evaluated the Bank's loan classification, taking post-loan investigation reports, debtors' financial information, collateral valuation reports and other available information into consideration.

We assessed the collective assessment model and considered management's assumptions on the loan portfolios classification, loss identification period, migration rate, loss ratio and impact of macroeconomic changes for loan portfolios. We evaluated the Bank's modification of parameters and assumptions used in the collective impairment model, and compared them with historical loss data for loan portfolios, observable economic data, market information and industry trends. We tested the discounted cash flow models and the related assumptions used in individual impairment assessment by assessing the amount, timing and probability of estimated future cash flows, especially recoverable amount of collateral. We compared the assumptions with available external information. Furthermore, we evaluated and tested design and operating effectiveness of the Bank's internal controls related to the disclosures of credit risk and impairment allowance.

(2) Consolidation of Structured Entities and Recognition of Its Interests

1. The Bank, in the process of conducting financial investment, asset management and credit transfer business, may through sponsoring and shareholding methods such as bank finance products, investment funds, wealth management plans and trust plans enjoys interests in structured entities. The Bank needs to consider its rights, the variable returns and the relationship between the two to determine whether it has control over each structured entity so that it can determine whether or not the entity should be consolidated in the financial statements. The bank, when separately analyzing whether it has control over structured entities, needs to consider lots of factors, including the design purpose of each structured entity, the bank's ability to direct relevant activities, the interests and returns from direct and indirect ownership, the ability to obtain management performance compensation, and the remuneration or loss from providing credit enhancement or liquidity support. Comprehensively assessing these factors and concluding whether the Bank has control involve significant management judgment and estimation. Taking the importance of the matter and complexity of judgment of the management into account, we consider it as a key audit matter.

Relevant disclosures are included in Note VIII.

2. How Our Audit Addressed the Key audit Matter

We evaluated and tested the design and operating effectiveness of the key controls related to the Bank's assessment of whether it controls a structured entity.

We assessed the Bank's analysis and conclusions on whether or not it controls structured entities based on the Bank's analysis of its rights over structured entities, and the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Bank has legal or constructive obligation to bear any risk loss of structured entities by reviewing relevant contracts, and whether the Bank has provided liquidity support or credit enhancement to structured entities. We have also evaluated the fairness of transactions between the Bank and structured entities.

IV. Other Information

The management of the Bank ("the management" hereinafter) is responsible for other information, which refers to the information included in this annual report exclusive the financial statements and our auditors' report thereon.

Our opinions on the financial statements do not cover such other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

V. Responsibilities of the Management and the Governance for Financial Statements

The management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Accounting Standards for Business Enterprises, and responsible for designing, executing and maintaining such internal control as determined as necessary for ensuring that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the abilities of Bank of Kunlun to continue as a going concern and use the going concern basis.

The Governance is responsible for overseeing the Bank's financial reporting process.

VI. Audit Responsibilities for Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the China Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the China Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- (1) Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or,

if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank's audit. We take full responsibility of audit opinion.

We communicate with the Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them on all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Among the matters communicated with the Governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter shall not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Chinese Certified Public Accountant:

Chinese Certified Public Accountant:

Shanghai, China
28 March 2019

Bank of Kunlun Corporation Limited

Consolidated Balance Sheet

31 December 2018

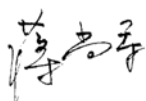
(Unless otherwise specified herein, the following amounts are all expressed in RMB)

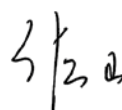
Item	Note V	31 December 2018	31 December 2017
Assets:			
Cash and balances with Central Bank	(1)	22,798,998,161.91	26,108,492,548.19
Deposits with banks and other financial institutions	(2)	45,481,562,446.15	52,584,084,315.42
Placements with banks and other financial institutions	(3)	28,323,750,000.00	17,257,500,000.00
Financial assets at fair value through profit or loss	(4)	45,343,004,946.98	13,884,052,952.65
Financial assets held under resale agreements	(5)	30,669,469,189.12	15,397,644,111.29
Interest receivable	(6)	2,129,081,290.41	1,650,302,490.33
Loans and advances to customers	(7)	121,999,498,113.56	106,827,126,420.35
Available-for-sale financial assets	(8)	21,774,565,940.50	22,362,138,308.68
Held-to-maturity investments	(9)	17,587,034,484.94	18,216,735,623.56
Investment classified as receivable	(10)	13,268,824,086.39	41,753,273,555.60
Long-term equity investments			
Fixed assets	(12)	336,309,627.78	311,490,477.21
Construction in progress	(13)	59,652,194.53	28,357,804.79
Intangible assets	(14)	84,195,525.57	77,832,253.05
Deferred tax assets	(15)	645,503,905.12	732,266,591.60
Other assets	(16)	636,342,356.49	333,577,286.32
Total assets		351,137,792,269.45	317,524,874,739.04
Liabilities:			
Due to Central Bank	(18)	1,214,737,092.38	418,452,236.09
Due to banks and other financial institutions	(19)	93,967,052,189.47	92,970,260,595.64
Placements from banks and other financial institutions	(20)	1,000,000,000.00	4,000,000,000.00
Financial assets sold under repurchase agreements	(21)	27,629,515,273.62	21,559,981,989.44
Due to customers	(22)	155,804,596,128.12	150,988,139,523.99
Employee compensation payable	(23)	27,502,362.04	19,557,829.44
Tax payable	(24)	323,100,881.73	200,889,902.43
Interest payable	(25)	2,739,332,816.01	2,404,917,611.85
Accrued liabilities			
Bonds payable	(26)	33,760,119,540.12	13,851,088,281.98
Deferred tax liabilities			
Other liabilities	(27)	4,186,881,855.19	3,173,222,666.69
Total liabilities		320,652,838,138.68	289,586,510,637.55


Continued

Item	Note V	31 December 2018	31 December 2017
Shareholders' equity (or equity):			
Paid-in capital (or share capital)	(28)	10,287,879,258.43	10,287,879,258.43
Capital reserve	(29)	10,192,990,714.50	10,193,943,406.89
Other comprehensive income	(30)	200,142,307.93	(278,369,278.91)
Surplus reserve	(31)	2,116,209,057.06	1,788,418,680.95
General risk preparation	(32)	4,298,001,046.13	3,834,694,545.20
Undistributed profits	(33)	3,297,238,734.44	2,038,494,653.71
Total equity attributable to the shareholders of the parent company		30,392,461,118.49	27,865,061,266.27
Minority interests	(34)	92,493,012.28	73,302,835.22
Total equity of shareholders		30,484,954,130.77	27,938,364,101.49
Total liabilities and equity of shareholders		351,137,792,269.45	317,524,874,739.04

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

Legal Representative: 

Person in Charge of Accounting: 

Director of Accounting Department: 

Bank of Kunlun Corporation Limited

Balance Sheet

31 December 2018

(Unless otherwise specified herein, the following amounts are all expressed in RMB)

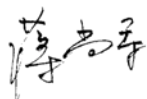
Item	Note V	31 December 2018	31 December 2017
Assets:			
Cash and balances with Central Bank	(1)	22,660,423,299.14	25,977,256,591.72
Deposits with banks and other financial institutions	(2)	45,372,250,961.11	52,379,941,882.69
Placements with banks and other financial institutions	(3)	28,323,750,000.00	17,257,500,000.00
Financial assets at fair value through profit or loss	(4)	45,343,004,946.98	13,884,052,952.65
Financial assets held under resale agreements	(5)	30,669,469,189.12	15,397,644,111.29
Interest receivable	(6)	2,114,024,488.61	1,636,466,014.12
Loans and advances to customers	(7)	121,069,211,365.77	105,879,673,768.32
Available-for-sale financial assets	(8)	21,774,565,940.50	22,362,138,308.68
Held-to-maturity investments	(9)	17,587,034,484.94	18,216,735,623.56
Investment classified as receivable	(10)	13,268,824,086.39	41,753,273,555.60
Long-term equity investments	(11)	57,500,000.00	57,500,000.00
Fixed assets	(12)	320,292,459.53	294,807,149.32
Construction in progress	(13)	59,652,194.53	28,357,804.79
Intangible assets	(14)	84,195,525.57	77,702,392.05
Deferred tax assets	(15)	630,248,223.67	722,437,114.90
Other assets	(16)	632,003,734.82	330,370,331.82
Total assets		349,966,450,900.68	316,255,857,601.51
Liabilities:			
Due to Central Bank	(18)	1,164,737,092.38	358,452,236.09
Due to banks and other financial institutions	(19)	94,220,876,436.15	93,140,031,429.25
Placements from banks and other financial institutions	(20)	1,000,000,000.00	4,000,000,000.00
Financial assets sold under repurchase agreements	(21)	27,629,515,273.62	21,559,981,989.44
Due to customers	(22)	154,623,432,933.31	149,791,782,814.80
Employee compensation payable	(23)	26,825,403.59	19,028,878.39
Tax payable	(24)	319,541,473.10	195,556,518.62
Interest payable	(25)	2,722,377,763.85	2,393,196,918.41
Accrued liabilities			
Bonds payable	(26)	33,760,119,540.12	13,851,088,281.98
Deferred tax liabilities			
Other liabilities	(27)	4,185,140,268.92	3,163,472,209.48
Total liabilities		319,652,566,185.04	288,472,591,276.46

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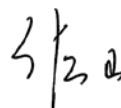
Item	Note V	31 December 2018	31 December 2017
Shareholders' equity (or equity):			
Paid-in capital (or share capital)	(28)	10,287,879,258.43	10,287,879,258.43
Capital reserve	(29)	10,192,889,490.69	10,192,889,490.69
Other comprehensive income	(30)	200,142,481.29	(278,369,105.55)
Surplus reserve	(31)	2,116,209,057.06	1,788,418,680.95
General risk preparation	(32)	4,287,161,229.97	3,823,854,729.04
Undistributed profits	(33)	3,229,603,198.20	1,968,593,271.49
Total shareholders' equity (or equity)		30,313,884,715.64	27,783,266,325.05
Total liabilities and shareholders' equity (or equity)		349,966,450,900.68	316,255,857,601.51

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

Legal Representative:



Person in Charge of Accounting:



Director of Accounting Department:



Bank of Kunlun Corporation Limited
Consolidated Income Statement
2018

(Unless otherwise specified herein, the following amounts are all expressed in RMB)

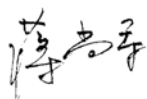
Item	Note V	2018	2017
I. Operating income		6,709,834,348.24	5,401,343,823.10
Net interest income		5,934,016,212.88	5,122,813,530.34
Interest income	(35)	11,836,878,051.40	9,863,378,623.74
Interest expenses	(35)	5,902,861,838.52	4,740,565,093.40
Net fee and commission income		156,818,892.28	179,574,550.42
Fee and commission income	(36)	223,983,477.35	264,425,097.24
Fee and commission expenses	(36)	67,164,585.07	84,850,546.82
Other gains	(37)	6,521,431.68	6,688,664.41
Return on investment (Loss is indicated by "()")	(38)	132,317,954.49	(59,482,566.36)
Including: Return on investment in associated enterprises and joint ventures			
Gains from changes in fair value (Loss is indicated by "()")	(39)	230,783,662.42	17,168,715.39
Gains from disposal of assets (Loss is indicated by "()")	(40)	(1,607,978.98)	(91,385.08)
Foreign exchange gains (Loss is indicated by "()")	(41)	250,453,476.64	134,138,264.13
Other operating income	(42)	530,696.83	534,049.85
II. Operating expenses		2,889,072,644.65	1,889,486,417.63
Taxes and surcharges	(43)	44,407,599.00	36,579,389.17
Operating and administrative expenses	(44)	1,892,783,538.93	1,713,255,654.59
Impairment losses on assets	(45)	951,333,185.97	139,135,924.16
Other operating costs		548,320.75	515,449.71
III. Operating profit (Loss is indicated by "()")		3,820,761,703.59	3,511,857,405.47
Plus: Non-operating income	(46)	5,527,813.44	611,136.77
Including: Gains from disposal of non-current assets			
Less: Non-operating expenses	(47)	4,058,500.31	3,228,863.80
IV. Total profit (Total loss is indicated by "()")		3,822,231,016.72	3,509,239,678.44
Including: Losses from disposal of non-current assets		642,275.36	
Less: Income tax expenses	(48)	547,351,772.47	540,845,056.59
V. Net profit (Net loss is indicated by "()")		3,274,879,244.25	2,968,394,621.85
(1) Net profit from:			
1. Net profit from continuing operation (Net loss is indicated by "()")		3,274,879,244.25	2,968,394,621.85
2. Net profit from discontinued operation (Net loss is indicated by "()")			
(2) Net profit attributable to:			
1. Net profit attributable to the shareholders of the parent company (Net loss is indicated by "()")		3,274,098,589.58	2,958,146,242.16

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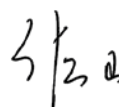
Item	Note V	2018	2017
2. Minority gains or losses (Net loss is indicated by “()”)		780,654.67	10,248,379.69
VI. Other comprehensive income	(49)	478,511,586.84	(180,498,819.40)
Other comprehensive income attributable to the shareholders of the parent company, net of tax		478,511,586.84	(180,498,819.40)
(1) Items that may not be reclassified subsequently to profit or loss			
(2) Items that may be reclassified subsequently to profit or loss		478,511,586.84	(180,498,819.40)
1. Other comprehensive income of convertible profit or loss under equity method			
2. Gains or losses from changes in fair value of available-for-sale financial assets		478,511,586.84	(180,498,819.40)
Other comprehensive income attributable to minority, net of tax			
VII. Total comprehensive income		3,753,390,831.09	2,787,895,802.45
Total comprehensive income attributable to the shareholders of the parent company		3,752,610,176.42	2,777,647,422.76
Total comprehensive income attributable to minority		780,654.67	10,248,379.69
VIII. Earnings per share	(50)		
(1) Basic earnings per share (RMB/share)		0.32	0.29
(2) Diluted earnings per share (RMB/share)		0.32	0.29

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

Legal Representative:



Person in Charge of Accounting:



Director of Accounting Department:



Bank of Kunlun Corporation Limited
Income Statement
2018

(Unless otherwise specified herein, the following amounts are all expressed in RMB)

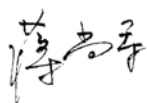
Item	Note V	2018	2017
I. Operating income		6,643,329,596.74	5,317,312,860.33
Net interest income		5,866,101,113.73	5,045,029,823.07
Interest income	(35)	11,748,995,594.01	9,770,701,654.28
Interest expenses	(35)	5,882,894,480.28	4,725,671,831.21
Net fee and commission income		156,491,506.72	179,161,606.99
Fee and commission income	(36)	222,860,615.36	262,880,832.46
Fee and commission expenses	(36)	66,369,108.64	83,719,225.47
Other gains	(37)	1,825,208.36	852,370.46
Return on investment (Loss is indicated by “()”)	(38)	136,317,954.49	(59,482,566.36)
Including: Return on investment in associated enterprises and joint ventures			
Gains from changes in fair value (Loss is indicated by “()”)	(39)	230,783,662.42	17,168,715.39
Gains from disposal of assets (Loss is indicated by “()”)	(40)	826,024.86	(73,089.34)
Foreign exchange gains (Loss is indicated by “()”)	(41)	250,453,476.64	134,138,264.13
Other operating income	(42)	530,649.52	517,735.99
II. Operating expenses		2,821,879,675.10	1,841,260,133.13
Taxes and surcharges	(43)	44,052,374.94	36,055,445.61
Operating and administrative expenses	(44)	1,857,679,290.41	1,677,591,491.60
Impairment losses on assets	(45)	919,599,689.00	127,112,331.11
Other operating costs		548,320.75	500,864.81
III. Operating profit (Loss is indicated by “()”)		3,821,449,921.64	3,476,052,727.20
Plus: Non-operating income	(46)	5,419,737.20	598,098.80
Including: Gains from disposal of non-current assets			
Less: Non-operating expenses	(47)	4,010,936.92	2,928,849.11
Including: Losses from disposal of non-current assets		625,907.86	
IV. Total profit (Total loss is indicated by “()”)		3,822,858,721.92	3,473,721,976.89
Less: Income tax expenses	(48)	546,494,286.36	532,122,676.93
V. Net profit (Net loss is indicated by “()”)		3,276,364,435.56	2,941,599,299.96
(1) Net profit from continuing operation (Net loss is indicated by “()”)		3,276,364,435.56	2,941,599,299.96
(2) Net profit from discontinued operation (Net loss is indicated by “()”)			
VI. Other comprehensive income	(49)	478,511,586.84	(180,498,819.40)
(1) Items that may not be reclassified subsequently to profit or loss			
(2) Items that may be reclassified subsequently to profit or loss		478,511,586.84	(180,498,819.40)

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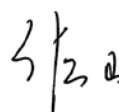
Item	Note V	2018	2017
1. Other comprehensive income of convertible profit or loss under equity method			
2. Gains or losses from changes in fair value of available-for-sale financial assets		478,511,586.84	(180,498,819.40)
VII. Total comprehensive income		3,754,876,022.40	2,761,100,480.56
VIII. Earnings per share:	(50)		
(1) Basic earnings per share (RMB/share)		0.32	0.29
(2) Diluted earnings per share (RMB/share)		0.32	0.29

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

Legal Representative:



Person in Charge of Accounting:



Director of Accounting Department:



Bank of Kunlun Corporation Limited
Consolidated Statement of Cash Flows
2018

(Unless otherwise specified herein, the following amounts are all expressed in RMB)

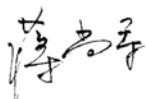
Item	Note V	2018	2017
I. Cash flows from operating activities:			
Net increase in due to customers, banks and other financial institutions		5,813,248,197.96	
Net increase in due to Central Bank		796,284,856.29	
Net decrease in deposits with Central Bank and due from banks and other financial institutions		29,530,144,404.85	
Net increase in financial assets sold under repurchase arrangements		6,301,707,706.85	13,885,324,878.15
Cash receipts from interest, charges and commissions		8,665,748,320.28	6,052,471,572.40
Other cash receipts relating to operating activities	(51)	791,686,228.57	1,411,902,395.61
Sub-total of cash inflows from operating activities		51,898,819,714.80	21,349,698,846.16
Net increase in loans and advances to customers		15,688,547,739.24	7,148,360,661.15
Net increase in deposits with Central Bank and due from banks and other financial institutions			1,382,475,801.48
Net decrease in due to customers, banks and other financial institutions			3,743,847,335.81
Net decrease in due to Central Bank			242,972,033.69
Net decrease in placements from banks and other financial institutions		13,300,000,000.00	14,982,500,000.00
Net increase in financial assets at fair value through profit or loss		16,010,199,789.79	7,663,614,320.76
Cash payments for interest, charges and commissions		4,724,976,237.81	4,540,054,942.11
Cash payments to and on behalf of employees		906,373,529.32	786,933,167.85
Payments of various types of taxes		859,535,427.68	536,289,913.42
Other cash payments relating to operating activities	(51)	1,201,398,557.31	878,298,720.23
Sub-total of cash outflows from operating activities		52,691,031,281.15	41,905,346,896.50
Net cash flow from operating activities		(792,211,566.35)	(20,555,648,050.34)
II. Cash flows from investing activities:			
Cash receipts from withdrawal of investment		131,933,301,054.35	105,914,579,745.81
Cash receipts from return on investment		3,048,652,362.88	3,643,481,463.79
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		887,557.03	
Sub-total of cash inflows from investing activities		134,982,840,974.26	109,558,061,209.60
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		199,347,453.12	208,373,241.34
Cash payments to acquire investments		105,612,265,596.01	101,688,049,642.89
Other cash payments relating to investing activities			
Sub-total of cash outflows from investing activities		105,811,613,049.13	101,896,422,884.23
Net cash flow from investing activities		29,171,227,925.13	7,661,638,325.37

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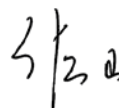
Item	Note V	2018	2017
III. Cash flows from financing activities:			
Cash receipts from investors		18,456,830.00	
Including: Cash receipts by subsidiaries from minority investments		18,456,830.00	
Cash receipts from borrowing			
Cash receipts from issuance of bonds		60,656,024,198.14	34,744,286,310.35
Sub-total of cash inflows from financing activities		60,674,481,028.14	34,744,286,310.35
Cash repayments of borrowings		40,765,449,770.00	22,476,926,516.72
Cash payments for distribution of dividend or profit or settlement of interest expenses		2,146,158,954.14	1,448,958,710.74
Sub-total of cash outflows from financing activities		42,911,608,724.14	23,925,885,227.46
Net cash flow from financing activities		17,762,872,304.00	10,818,401,082.89
IV. Effect of foreign exchange rate changes on cash and cash equivalents		126,477,299.93	(735,157,958.65)
V. Net increase in cash and cash equivalents	(52)	46,268,365,962.71	(2,810,766,600.73)
Plus: Balance of cash and cash equivalents at the beginning of the period		46,026,110,260.18	48,836,876,860.91
VI. Balance of cash and cash equivalents at the end of the period		92,294,476,222.89	46,026,110,260.18

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

Legal Representative:



Person in Charge of Accounting:



Director of Accounting Department:



Bank of Kunlun Corporation Limited
Statement of Cash Flows
2018

(Unless otherwise specified herein, the following amounts are all expressed in RMB)

Item	Note V	2018	2017
I. Cash flows from operating activities:			
Net increase in due to customers, banks and other financial institutions		5,912,495,125.41	
Net increase in due to Central Bank		806,284,856.29	
Net decrease in deposits with Central Bank and due from banks and other financial institutions		29,188,625,230.61	
Net increase in financial assets sold under repurchase arrangements		6,301,707,706.85	14,379,446,989.44
Cash receipts from interest, charges and commissions		8,577,963,326.49	5,825,903,910.60
Other cash receipts relating to operating activities	(51)	761,206,086.46	1,635,065,862.67
Sub-total of cash inflows from operating activities		51,548,282,332.11	21,840,416,762.71
Net increase in loans and advances to customers		15,678,652,657.07	7,225,403,154.60
Net increase in deposits with Central Bank and due from banks and other financial institutions			712,553,441.93
Net decrease in due to customers, banks and other financial institutions			4,036,447,649.17
Net decrease in due to Central Bank			264,972,033.69
Net decrease in placements from banks and other financial institutions		13,300,000,000.00	14,985,000,000.00
Net increase in financial assets at fair value through profit or loss		16,010,199,789.79	7,717,192,465.09
Net decrease in financial assets sold under repurchase arrangements			494,122,111.29
Cash payments for charges and commissions		4,698,295,478.80	4,527,607,202.18
Cash payments to and on behalf of employees		885,242,067.28	764,804,885.86
Payments of various types of taxes		848,477,953.47	570,924,332.73
Other cash payments relating to operating activities	(51)	1,160,062,980.28	856,433,091.40
Sub-total of cash outflows from operating activities		52,580,930,926.69	42,155,460,367.94
Net cash flow from operating activities		(1,032,648,594.58)	(20,315,043,605.23)
II. Cash flows from investing activities:			
Cash receipts from withdrawal of investment		131,933,301,054.35	105,914,579,745.81
Cash receipts from return on investment		3,052,652,362.88	3,643,481,463.79
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		887,557.03	
Sub-total of cash inflows from investing activities		134,986,840,974.26	109,558,061,209.60
Cash payments to acquire investments		105,612,265,596.01	101,688,049,642.89
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		198,433,288.55	203,348,825.10
Sub-total of cash outflows from investing activities		105,810,698,884.56	101,891,398,467.99

Continued

Item	Note V	2018	2017
Net cash flow from investing activities		29,176,142,089.70	7,666,662,741.61
III. Cash flows from financing activities:			
Cash receipts from investors			
Cash receipts from issuance of bonds		60,656,024,198.14	34,744,286,310.35
Sub-total of cash inflows from financing activities		60,656,024,198.14	34,744,286,310.35
Cash repayments of borrowings		40,765,449,770.00	22,476,926,516.72
Cash payments for distribution of dividend or profit or settlement of interest expenses		2,146,158,954.14	1,448,958,710.74
Sub-total of cash outflows from financing activities		42,911,608,724.14	23,925,885,227.46
Net cash flow from financing activities		17,744,415,474.00	10,818,401,082.89
IV. Effect of foreign exchange rate changes on cash and cash equivalents		126,477,299.93	(735,157,958.65)
V. Net increase in cash and cash equivalents	(52)	46,014,386,269.05	(2,565,137,739.38)
Plus: Balance of cash and cash equivalents at the beginning of the period		46,228,740,491.16	48,793,878,230.54
VI. Balance of cash and cash equivalents at the end of the period		92,243,126,760.21	46,228,740,491.16

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

Legal Representative:

Person in Charge of Accounting:

Director of Accounting Department:

Bank of Kunlun Corporation Limited
Consolidated Statement of Changes in Shareholders' Equity
2018
(Unless otherwise specified herein, the following amounts are all expressed in RMB)

Item	2018							
	Equity attributable to the shareholders of the parent company						Total Shareholders' Equity	
	Share capital	Capital reserve	comprehensive income	Other income	Surplus reserve	General risk preparation		Undistributed profits
I. Balance as at the end of last year	10,287,879,258.43	10,193,943,406.89	(278,369,278.91)	1,788,418,680.95	3,834,694,545.20	2,038,494,653.71	73,302,835.22	27,938,364,101.49
Plus: Adjustments for changes in accounting policies								
Corrections of accounting errors in the prior year								
II. Balance as at the beginning of the current year	10,287,879,258.43	10,193,943,406.89	(278,369,278.91)	1,788,418,680.95	3,834,694,545.20	2,038,494,653.71	73,302,835.22	27,938,364,101.49
III. Changes for the current year (Decrease is indicated by "()")		(952,692.39)	478,511,586.84	327,790,376.11	463,306,500.93	1,258,744,080.73	19,190,177.06	2,546,590,029.28
(1) Total comprehensive income			478,511,586.84			3,274,098,589.58	780,654.67	3,753,390,831.09
(2) Shareholders' contributions and reduction in capital		(952,692.39)					19,409,522.39	18,456,830.00
1. Ordinary share contributions from shareholders		(952,692.39)					19,409,522.39	18,456,830.00
2. Sharebased payment recognized in shareholders' equity								
3. Others								
(3) Profit distribution				327,790,376.11	463,306,500.93	(2,015,354,508.85)	(1,000,000.00)	(1,225,257,631.81)
1. Withdrawal of surplus reserve				327,790,376.11		(327,790,376.11)		

Continued

Item	2018					
	Equity attributable to the shareholders of the parent company					
	Share capital	Capital reserve	comprehensive income	Surplus reserve	General risk preparation	Undistributed profits
			Other income			Minority interests
						Total Shareholders' Equity
2. Withdrawal of general risk preparation					463,306,500.93	(463,306,500.93)
3. Profit distributed to stockholders					(1,224,257,631.81)	(1,225,257,631.81)
4. Others						
(4) Transfers within shareholders' equity						
1. Capitalization of capital reserve (or share capital)						
2. Capitalization of surplus reserve (or share capital)						
3. Loss offset by surplus reserve						
4. Amount of change set in the benefit plan in order to carry forward related earnings						
5. Others						
IV. Balance as at the end of the current year	10,287,879,258.43	10,192,990,714.50	200,142,307.93	2,116,209,057.06	4,298,001,046.13	3,297,238,734.44
						92,493,012.28
						30,484,954,130.77

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.



Legal Representative:



Person in Charge of Accounting:



Director of Accounting Department:

Bank of Kunlun Corporation Limited
Consolidated Statement of Changes in Shareholders' Equity (Continued)
2018

(Unless otherwise specified herein, the following amounts are all expressed in RMB)

Item	2017							
	Equity attributable to the shareholders of the parent company						Total Shareholders' Equity	
	Share capital	Capital reserve	comprehensive income	Other income	Surplus reserve	General risk preparation		Undistributed profits
I. Balance as at the end of last 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
Plus: Adjustments for changes in accounting policies								
Corrections of accounting errors in the prior year								
II. Balance as at the beginning of the current 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
III. Changes for the current year (Decrease is indicated by "()")								
(1) Total comprehensive income			(180,498,819.40)	294,005,997.42	1,051,998,131.96	648,912,735.30	10,248,379.69	1,824,666,424.97
(2) Shareholders' contributions and reduction in capital			(180,498,819.40)		2,958,146,242.16		10,248,379.69	2,787,895,802.45
1. Ordinary share contributions from shareholders								
2. Sharebased payment recognized in shareholders' equity								
3. Others								
(3) Profit distribution				294,005,997.42	1,051,998,131.96	(2,309,233,506.86)		(963,229,377.48)
1. Withdrawal of surplus reserve				294,005,997.42		(294,005,997.42)		

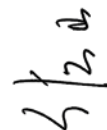
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Item	2017					
	Equity attributable to the shareholders of the parent company					
	Share capital	Capital reserve	comprehensive income	Other income	Surplus reserve	General risk preparation
						Undistributed profits
						Minority interests
						Shareholders' Equity
2. Withdrawal of general risk preparation					1,051,998,131.96	(1,051,998,131.96)
3. Profit distributed to stockholders						(963,229,377.48)
4. Others						
(4) Transfers within shareholders' equity						
1. Capitalization of capital reserve (or share capital)						
2. Capitalization of surplus reserve (or share capital)						
3. Loss offset by surplus reserve						
4. Amount of change set in the benefit plan in order to carry forward related earnings						
5. Others						
IV. Balance as at the end of the current year	10,287,879,258.43	10,193,943,406.89	(278,369,278.91)	1,788,418,680.95	3,834,694,545.20	2,038,494,653.71
						73,302,835.22
						27,938,364,101.49

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.



Legal Representative:



Person in Charge of Accounting:



Director of Accounting Department:

Bank of Kunlun Corporation Limited
Statement of Changes in Shareholders' Equity
2018

(Unless otherwise specified herein, the following amounts are all expressed in RMB)

Item	2018					
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	General risk preparation	Undistributed profits
I. Balance as at the end of last year	10,287,879,258.43	10,192,889,490.69	(278,369,105.55)	1,788,418,680.95	3,823,854,729.04	1,968,593,271.49
Plus: Adjustments for changes in accounting policies						
Corrections of accounting errors in the prior year						
II. Balance as at the beginning of the current year	10,287,879,258.43	10,192,889,490.69	(278,369,105.55)	1,788,418,680.95	3,823,854,729.04	1,968,593,271.49
III. Changes for the current year (Decrease is indicated by "()")						
(1) Total comprehensive income			478,511,586.84	327,790,376.11	463,306,500.93	1,261,009,926.71
(2) Shareholders' contributions and reduction in capital			478,511,586.84			3,276,364,435.56
1. Ordinary share contributions from shareholders						
2. Sharebased payment recognized in shareholders' equity						
3. Others						
(3) Profit distribution				327,790,376.11	463,306,500.93	(2,015,354,508.85)
1. Withdrawal of surplus reserve				327,790,376.11		(327,790,376.11)
2. Withdrawal of general risk preparation					463,306,500.93	(463,306,500.93)
3. Profit distributed to stockholders					(1,224,257,631.81)	(1,224,257,631.81)
(4) Transfers within shareholders' equity						
1. Capitalization of capital reserve (or share capital)						

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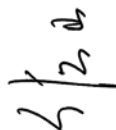
Item	2018					Total Shareholders' Equity
	Share capital	Capital reserve	comprehensive income	Other reserve	General risk preparation	Undistributed profits
2. Capitalization of surplus reserve (or share capital)						
3. Loss offset by surplus reserve						
4. Amount of change set in the benefit plan in order to carry forward related earnings						
5. Others						
IV. Balance as at the end of the current year	10,287,879,258.43	10,192,889,490.69	200,142,481.29	2,116,209,057.06	4,287,161,229.97	3,229,603,198.20
						30,313,884,715.64

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

Legal Representative:



Person in Charge of Accounting:



Director of Accounting Department:



Bank of Kunlun Corporation Limited
Statement of Changes in Shareholders' Equity (Continued)
2018

(Unless otherwise specified herein, the following amounts are all expressed in RMB)

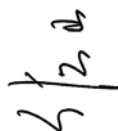
Item	2017						
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	General risk preparation	Undistributed profits	Total Shareholders' Equity
I. Balance as at the end of last year	10,287,879,258.43	10,192,889,490.69	(97,870,286.15)	1,494,412,683.53	2,772,520,643.27	1,335,563,432.20	25,985,395,221.97
Plus: Adjustments for changes in accounting policies							
Corrections of accounting errors in the prior year							
II. Balance as at the beginning of the current year	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
III. Changes for the current year (Decrease is indicated by "()")							
(1) Total comprehensive income			(180,498,819.40)	294,005,997.42	1,051,334,085.77	633,029,839.29	1,797,871,103.08
(2) Shareholders' contributions and reduction in capital			(180,498,819.40)			2,941,599,299.96	2,761,100,480.56
1. Ordinary share contributions from shareholders							
2. Sharebased payment recognized in shareholders' equity							
3. Others							
(3) Profit distribution				294,005,997.42	1,051,334,085.77	(2,308,569,460.67)	(963,229,377.48)
1. Withdrawal of surplus reserve				294,005,997.42		(294,005,997.42)	
2. Withdrawal of general risk preparation					1,051,334,085.77	(1,051,334,085.77)	
3. Profit distributed to stockholders						(963,229,377.48)	(963,229,377.48)
(4) Transfers within shareholders' equity							
1. Capitalization of capital reserve (or share capital)							

Item	2017					Total Shareholders' Equity
	Share capital	Capital reserve	comprehensive income	Other surplus reserve	General risk preparation	Undistributed profits
2. Capitalization of surplus reserve (or share capital)						
3. Loss offset by surplus reserve						
4. Amount of change set in the benefit plan in order to carry forward related earnings						
5. Others						
IV. Balance as at the end of the current year	10,287,879,258.43	10,192,889,490.69	(278,369,105.55)	1,788,418,680.95	3,823,854,729.04	1,968,593,271.49
						27,783,266,325.05

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.



Legal Representative:



Person in Charge of Accounting:



Director of Accounting Department:

Bank of Kunlun Corporation Limited
Notes to the Financial Statements of 2018

(Unless otherwise specified herein, the following amounts are all expressed in RMB)

I. Company Profile

(1) Company Profile and History

Bank of Kunlun Co., Ltd. (hereinafter referred to as the “Bank of Kunlun” or “the Bank” or “the Company”), is the former Karamay City Commercial Bank Co., Ltd. which was the successor of Karamay Urban Credit Cooperative. The Karamay Urban Credit Cooperative was founded in December 2002 by merging the former Maoyuan Urban Credit Cooperative and Rongxing Urban Credit Cooperative of the Karamay City, and was approved by the Karamay Central Sub-branch of People’s Bank of China in its official document (KYJ [2002] No.173) titled *Official Reply to Agreeing Karamay Urban Credit Cooperative to Start Business*, to start its business with original registered capital of RMB 55,217,000.

In December 2005, upon the approval by the Karamay Office of China Banking Regulatory Commission in its official document (KYJF [2005] No.33) titled *Official Reply to Agreeing on the Establishment of Karamay Commercial Bank*, the Karamay City Commercial Bank was established by restructuring the Karamay Urban Credit Cooperative, with registered capital of RMB 100,666,200. On 17 May 2006, upon the approval by the Xinjiang Regulatory Office of China Banking Regulatory Commission in its official document (XYJF [2006] No.128) titled *Official Reply to the Starting of Business of Karamay Commercial Bank*, the Company registered with the Karamay Administration for Industry and Commerce, Xinjiang on 30 May 2006 as the Karamay City Commercial Bank to start its business.

In December 2008, upon the approval by the China Banking Regulatory Commission in its official document YJF [2008] No.552 and the approval by the Xinjiang Regulatory Office of China Banking Regulatory Commission in its official document XYJF [2008] No.216, the Company again increased its registered capital by increasing its investment and shares, to RMB 180,666,200.

Upon the *Official Reply to the Scheme of Karamay Commercial Bank for Increase in Capital and Shares* dated 22 January 2009 (XYJF [2009] No.13) issued by the Xinjiang Regulatory Office of China Banking Regulatory Commission, the *Official Reply to Issues concerning Contributions of China National Petroleum Corporation to Karamay Commercial Bank Co, Ltd.* dated 23 March 2009 (GZCQ [2009] No.188) by the State-owned Assets Supervision and Administration Commission of the State Council, and the *Official Reply of the China Banking Regulatory Commission to Contributions of China National Petroleum Corporation in Karamay Commercial Bank Co, Ltd.* dated 15 April 2009 (YJF [2009] No.108) by the China Banking Regulatory Commission, the China National Petroleum Corporation invested RMB 2,810,000,000 in the Company, with the registered capital increased by RMB 2,081,481,500 up to RMB 2,262,147,700.

On 2 April 2010, upon the approval by the Xinjiang Regulatory Office of China Banking Regulatory Commission in its official document (XYJF [2010] No.71) titled *Official Reply to the Scheme of Karamay Commercial Bank for Increase in Capital and Shares*, the Company again increased its registered capital to RMB 4,203,872,600, including the

contribution of RMB 3,657,369,100 by the China National Petroleum Corporation.

On 20 April 2010, upon the approval by the China Banking Regulatory Commission in its official document YJF [2010] No.165, the Karamay City Commercial Bank Co., Ltd. changed its name into "Bank of Kunlun Co., Ltd." ("Bank of Kunlun"), then registered with the Karamay Administration for Industry and Commerce, Xinjiang on 7 May 2010 as the Bank of Kunlun Co., Ltd., and acquired its business license numbered: 650200040000052.

On 2 April 2011, upon the approval by the Xinjiang Regulatory Office of China Banking Regulatory Commission in its official document (XYJF [2011] No.67) titled *Official Reply to the Scheme of Bank of Kunlun Corporation Limited for increase in Capital and Share in 2011*, the Bank of Kunlun again increased its registered capital to RMB 6,716,187,800, including the contribution of RMB 5,507,274,000 by the China National Petroleum Corporation.

On 7 May 2013, upon the approval by the Xinjiang Regulatory Office of China Banking Regulatory Commission in its official document (XYJF [2013] No.55) titled *Official Reply to the Scheme of Bank of Kunlun Corporation Limited for increase in Capital and Shares in 2013*, the Bank of Kunlun issued new shares in RMB 664,335,700 and then increased its registered capital to RMB 7,380,523,500, including the contribution of RMB 5,690,141,600 by the China National Petroleum Corporation.

On 7 December 2016, upon the approval by the Xinjiang Regulatory Office of China Banking Regulatory Commission in its official document (XYJF [2016] No.104) titled *Official Reply to the Scheme of Bank of Kunlun Corporation Limited for increase in Capital and Shares in 2016*, the Bank of Kunlun issued new shares in RMB 2,907,355,800 and then increased its registered capital to RMB 10,287,879,300, including the contribution of RMB 7,930,712,500 by the CNPC Capital Company Limited.

The Company has its registered office at the No.7 Century Avenue, Karamay City, Xinjiang. Its legal representative is Jiang Shangjun. Its unified social credit code is 91650200745209781T, and the institution code of Financial License is B0226H265020001.

(2) Setting of Operational Institutions

As at 31 December 2018, the Company owned eight branches, namely Karamay Branch, Urumqi Branch, Tuha Branch, Korla Branch, Daqing Branch, Xi'an Branch, Ili Branch, and Kashgar Branch, in addition to the International Business Settlement Center in Beijing, Head Office and other agencies.

As at 31 December 2018, the Company has two holding subsidiaries, namely, Tacheng Kunlun Rural Bank Co., Ltd. and Leshan Kunlun Rural Bank Co., Ltd.

(3) Major Businesses and Relevant Services

Business Scope: Acquiring public deposits; granting short-term loans, medium-term loans and long-term loans; handling domestic and international settlements; handling bill acceptance and discounting; issuing financial debts and debt securities; issuing, redeeming and underwriting government debts as an agent; buying and selling government

debts and financial debts; inter-bank borrowing; trading and agent trading of foreign exchange; bank card business; issuing letters of credit and offering guarantees; offering collection agency and insurance agency services; providing safe deposit services; other businesses approved by CBRC.

(4) Scope of the Consolidated Financial Statements

As at 31 December 2018, subsidiaries within the scope of the consolidated financial statements of the Company are listed as follows:

Subsidiaries

Leshan Kunlun Rural Bank Co., Ltd.

Tacheng Kunlun Rural Bank Co., Ltd.

The Scope of the Consolidated Financial Statements has not changed in the current period as compared with the previous period. See Note IV “Business Combination and Consolidated Financial Statements” for more information about the subsidiaries within this scope.

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

(1) Statement of Compliance with Accounting Standards for Business Enterprises

The financial statements of the Company have been prepared in accordance with Section II (2) "Basis for Preparation of Financial Statements," and present truly and completely the Company's financial position, results of operations and cash flows for the year then ended.

(2) Basis for Preparation of 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," or ASBE) promulgated by the Ministry of Finance and the *Administrative Measures for the Provision of Reserves by Financial Enterprises* (CJ [2012] No.20) on the basis of actual transactions and events.

(3) Accounting Period

The Company has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December. The reporting period of the financial statements is the accounting year from 1 January 2018 to 31 December 2018.

(4) Functional Currency

The Company adopts renminbi (RMB) as its functional currency.

(5) Measurement Attributes Applied for 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.

(6) Preparation 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 are consistent with those of the Company.

The consolidated financial statements are 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.

The effects arising from the internal transactions between and among the Company and its subsidiaries on the consolidated balance sheet, consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity are offset during the preparation thereof.

(7) Accounting Method of 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: firstly, 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 converted at the exchange rate at the date of initial transactions; non-monetary items in foreign currency measured at fair value are translated into RMB at the exchange rate at the date of recognition of fair value. The differences between the 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.

(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 with PBOC which are available for payment, demand deposits with banks and other financial institutions and deposits with 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.

(9) Financial Assets and Liabilities

1. Classification, Recognition and Measurement of Financial Assets

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

(1) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss include financial assets held for trading or financial assets designated to be measured at fair value through 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 return on investment 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 allowance 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 two previous 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 are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables of the Company include loans and advances to customers, deposits in PBOC, deposits in banks and other financial institutions, financial assets held 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 LC 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 LC 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 allowance for impairment. The gains or losses arising from amortization, impairment or de-recognition 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 investment classified as receivable, held-to-maturity investments or financial assets at fair value through 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 shall 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. Classification, Recognition and Measurement of Financial Liabilities

The Company classifies its financial liabilities, upon its purposes of acquiring the same, into financial liabilities at fair value through profit or loss and other financial liabilities.

(1) Financial liabilities at fair value through profit or loss

The financial liabilities at fair value through profit or loss of the Company include those designated as held for trading, and those designated as at fair value through profit or loss upon initial recognition by its management. For such financial liabilities, the fair values are taken as the initially-recognized amounts, with the relevant expenses recognized in the current profit or loss. Any costs paid during a holding period, as well as any changes in and measured at the fair values, are recognized in the current profit or loss. Differences between the fair value and the initial book value are recognized as return on investment upon disposal and profits or losses from changes in fair values shall be adjusted at the same time.

(2) Other financial liabilities

Except for the financial liabilities designated as held for trading or at fair value through profit or loss, the due to banks or other financing institutions, due to customers, financial assets sold for repurchase, bonds payable and other payables are regarded as other financial liabilities, which are initially recognized upon the sum of their respective fair values and relevant expenses and are subsequently measured at the amortized cost.

3. Recognition of Fair Value for Financial Assets and Financial Liabilities

For a financial instrument which has an active market, its fair value is recognized upon its price quoted on such active market. For a financial instrument which has no active market, its fair value is recognized by using a valuation technique.

4. Transfer and Derecognition 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 shall be derecognized in part or in whole.

(10) Long-term Equity Investments

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. 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 profit or loss

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

3. Definition of Joint Control or Significant Influence over the Investee(s)

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 investor(s) exert common joint control over the investee(s) and the Company is entitled to the net assets of the investee(s), the investee(s) shall be 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(s), the investee(s) shall be its associate(s).

(11) Accounting Method of Fixed Assets**1. Recognition Criteria of Fixed Assets**

Fixed assets are tangible assets that are held for use in the supply of goods or services, for rental to others, or for administrative purposes, and have service lives of more than one accounting year. Fixed assets are recognized when all the following criterias are satisfied:

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

2. Classification of Fixed Assets

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

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 shall be initially stated on the basis of 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 shall be the book values of the assets traded out and relevant taxes and surcharges payable, and no profit or loss shall be recognized.

4. Depreciation and Allowance 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 service lives and estimated net residual rates of the fixed assets.

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

Categories	Depreciation periods	Annual depreciation rate
Buildings and constructions	20 years, 30 years, 40 years	4.75%, 3.17%, 2.38%
Transportation facilities	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%

(12) Accounting Methods of Construction in Progress

1. Category of Construction in Progress

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

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 shall be included in the costs of relevant fixed assets, and the allowance 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.

(13) Accounting Method of Intangible Assets

1. Valuation Method of Intangible Assets

The intangible assets shall be measured at initial 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 shall be initially stated on the basis of 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 shall 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 shall be recognized as the cost of the intangible assets, and no profit or loss shall be recognized.

The costs of intangible assets that are 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. Service Life and Amortization of Intangible Assets

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

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

Item	Estimated service lives
Land use right	30 years
Software	1-10 year(s)

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

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

3. Specific 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.

4. Specific 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.

(14) Accounting Method of Long-term Unamortized Expenses

Long-term unamortized 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.

(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 risk is not reflected in the balance sheet.

(16) Financial Assets Held under Resale Agreements and Financial Assets Sold under Repurchase Agreements (Including Securities Borrowing and Lending)

The transactions of financial assets held 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 held under resale agreements are stated at the actual cost on the date of purchase, and are presented in "Financial assets held 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

“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 held 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.

The securities borrowing and lending are typically supported by pledges with securities or cash as collateral. The transfer of securities to or from a counterparty is reflected in the balance sheet only when the risks and gains relate to such securities are transferred at the same time. The cash payments or cash receipts as collateral are respectively recognized as assets or liabilities.

The securities borrowed are not recognized in the balance sheet. When such securities are sold to a third party, the repaying obligations are recognized as the financial liabilities held for trading and measured at fair value, with the resulted gains or losses recorded in the current profit or loss.

(17) Impairment of Main Assets

1. Financial Assets

The Company checks the book value of financial assets other than those measured at fair value through 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, allowance 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 assets and included in the current profit or loss. The present value of estimated future cash flows shall 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 the 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 with objective evidence of impairment, while individually or collectively assesses other financial assets. If the Company determines that no impairment exists for an individually assessed credit assets, whether material or not, it shall still be included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment

and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. For the financial assets assessed individually for impairment, impairment losses shall be recognized at the difference between the present value of the estimated future cash flows and their book value and allowance 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 allowance 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 allowance 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. 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 on assets and charged to the current profit or loss. Allowances for impairment of the assets are made accordingly.

After the impairment losses on 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 service lives on a systematic basis.

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

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

(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 compensation 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 allowance stipulated.

The employee compensation that is not monetary shall be measured at its 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

Defined contribution plan

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; and the part assumed by the individual will be paid at 1% of the payment base of the basic endowment insurance in that year from the salaries of the employees by the Company.

(19) Recognition of Income and Expenses

Revenues shall be recognized as per the following criteria when economic benefits related to transactions probably flow into the Company and the amount of relevant revenues can be measured reliably:

1. 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. Fee and Commission Income

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

3. Dividend Revenue

Dividend revenues shall be recognized when the right obtained by the Company to collect dividends is established.

(20) Government Grants

1. Judgment Basis and Accounting Methods for Government Grants Related to Assets

The Company defines the government grants obtained for purchase and construction or formation of long-term assets by other methods as government grants related to assets; defines the rest government grants as government grants related to income. If the government documents don't clearly specify the subsidy objects, the following methods shall be utilized to divide the subsidies into government grants related to income and government grants related to assets.

(1) If the government documents specify the specific projects for the subsidies, the subsidies shall be divided as per the relative ratio of expenditure amount to form assets to that included in the cost, and the division ratio shall be reviewed on each balance sheet date, and modified if necessary;

(2) In the government documents, the purposes are generally stated only, and the subsidies without clear specific projects shall be government grants related to income.

Government grants related to assets are utilized to offset the book value of relevant assets or determined as the deferred income. If being determined as the deferred income, government grants related to assets are included in the current profits and losses by a reasonable and systematic method within the service lives of relevant assets.

2. Judgment Accordance and Accounting Methods for Government Grants Related to Income

If government grants related to income are utilized to compensate the related costs and losses of the Company in the future period, such government grants are determined as deferred income, and included in the current profits and losses or utilized to offset related costs during the period of confirming related cost and losses; if government grants related to income are utilized to compensate the related costs and losses incurred, such subsidies are directly included in the current profits and losses or utilized to offset related costs.

Meanwhile, the government grants including the assets related part and revenues related part shall be subject to accounting treatment by distinguishing different parts; if it is difficult to distinguish the parts, such government grants shall be wholly classified into government grants related to income.

The government grants related to the normal activities of the Company are included in other gains or utilized to offset related costs; the government grants unrelated to the normal activities of the Company are included in non-operating income and expenses.

(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(s), it shall deduct the part of expenses from the total rents and amortize the remaining part over the lease period.

(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 expenses 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 tax payable and current income tax expenses after corresponding estimates on and tax adjustments to the 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 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 is also a temporary difference.

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

(23) Segment Reports

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 in the four following aspects: corporate banking business, personal banking business, fund business and other business.

(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 on the basis of 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:

1. Impairment Losses on Loans and Advances to Customers; and Impairment Losses on Deposits with and Loans to Banks and Other Financial Institutions

The Company regularly conducts evaluation on the losses on impairment of the portfolio loans and advances to customers, and the losses on impairment of deposits with and loans to banks and other financial institutions. 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. 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.

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 their fair value instead of amortized cost.

4. Recognition of Fair Value for Financial Assets and Financial Liabilities

For a financial instrument which has an active market, its fair value is recognized upon its price quoted on such active market. For a financial instrument which has no active market, its fair value is recognized by using a valuation technique. The fair value of a financial instrument with an active market is recognized at its price quoted 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.

5. Judgment in Assessing Control over Structured Entities

The Company is involved with structured entities in its normal business course, and the Company determines whether or not to consolidate those structured entities depending on whether the Company has control over them. When assessing control over structured entities, the Company takes consideration of power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and link between such power and returns.

The variable returns the Company is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as return on investment, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Company not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Company may have obligation to absorb any loss of the structured entity. The Company reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

(25) Changes in Significant Accounting Policies and Accounting Estimates

1. Changes in Accounting Policies

The Ministry of Finance released the *Interpretation of Issues Related to the Formats of Financial Statements for General Enterprises*, the *MOF Notification about Revising and Issuing Formats of Financial Statements for General Enterprises* in 2018 (C.K. (2018) No.15), the *Interpretation of Issues Related to the Formats of Financial Statements for General Enterprises in 2018* respectively on 12 January 2018, 15 June 2018, and 7 September 2018, which had the following main effects on implementation of the above specifications by the Company:

Changes in accounting policies and reasons	Item and amount affected
In the item "Gains from Disposal of Assets" newly added to its income statement, the Bank shall adjust the comparative data according to the relevant provisions of <i>Accounting Standards for Business Enterprises No. 30-Presentation of Financial Statements</i> .	The amounts of "Gains from Disposal of Assets" and "Non-operating expenses" in the previous period shall be reduced by RMB 91,385.08 and RMB 91,385.08 respectively.
As the withholding agent of personal income tax, the Bank shall list the withholding taxes received as other items related to daily activities under "Other Gains" in its income statement, according to the <i>Individual Income Tax Law of the People's Republic of China</i> . If the presentation items of the financial statements of the enterprise are changed as a result, the comparative data shall be adjusted accordingly in accordance with the relevant provisions of the <i>Accounting Standards for Business Enterprises No. 30-Presentation of Financial Statements</i> .	The "Other Operating Income" of the previous period shall be reduced by RMB 577,986.89, while the "Non-operating Income" shall be increased by RMB 577,986.89.

2. Changes in Accounting Estimates

There were no significant Changes in Accounting Estimates during the reporting period.

III. Taxes

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

Category of tax	Basis of tax computation	Tax rate
Added-value tax	Added-value tax payable shall be the difference obtained by the output taxes calculated on the basis of 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%
Corporate income tax	Calculated and paid upon taxable income	15% / 25%

(1) Added-value Tax

When it comes to the output tax, loan interest, fee and commission income, return on investment and other taxable incomes from primary business shall be levied at the rate of 6%, while parts of other business shall be levied at the VAT rate dropping from 17% to 16% and from 11% to 10% respectively, and other corresponding rates according to the policy since 1 May 2018. In terms of input tax, appropriate rates depend on specific type including purchase of goods, services and real estate.

Subsidiaries shall be subject to Added-value tax at the collection rate of 3% in accordance with the simple taxation method.

(2) City Construction and Maintenance Tax

This tax is to be computed and paid at 3% to 7% of VAT. This tax is to be computed and paid by each branch of the Company to the tax bureau with the jurisdiction.

(3) Education Surcharges

The education surcharges are computed and paid at 3% of business tax, and the local education surcharges are paid at 2% of business tax by each branch of the Company to the tax bureau with the jurisdiction. This tax is to be computed and paid by each branch of the Company to the tax bureau with the jurisdiction.

(4) Corporate Income Tax

According to the *Notification about Taxation Policies Related to Further Implementation of the West Region Development Strategy* (CS [2011] No. 58) and the *Announcement about CIT Issues related to Further Implementation of the West Region Development Strategy* (Notice of the State Administration of Taxation [2012] No.12) issued by the State Administration of Taxation, the Company paid its corporate income tax at 15% for its businesses within the west region, and 25% for its business out of the west region. The Company is expected to enjoy this preferential policy in the year of 2018, so that the corporate income taxes presented in the current period are still calculated and paid on the basis of the tax rates applicable in the year of 2017.

The subsidiary Leshan Kunlun Rural Bank Co., Ltd. is subject to corporate income tax at the rate of 25%.

The subsidiary Tacheng Kunlun Rural Bank Co., Ltd. is subject to corporate income tax at 15% for it is located within the west region.

IV. Business Combinations and Consolidated Financial Statements

(1) Information of Subsidiaries Acquired through Establishment

Subsidiaries	Enterprise type	Registered capital	Actual investment amount of the Company by the year-end	Total shareholding ratio of the Company	Total voting ratio enjoyed by the Company	Consolidated financial statements?
Leshan Kunlun Rural Bank Co., Ltd.	Domestic financial	RMB 50 million	RMB 40 million	80.00%	80.00%	Yes
Tacheng Kunlun Rural Bank Co., Ltd.	Domestic financial	RMB 37.45 million	RMB 17.5 million	46.73%	46.73%	Yes

In this year, the subsidiary Tacheng Kunlun Rural Bank Co., Ltd. has increased in capital and share, with the paid-in capital increasing from RMB 32.07 million to RMB 37.45 million, and the shareholding ratio dropping from 54.57% to 46.73%.

(2) Scope and Change of Consolidated Statements

Scope of consolidation for the year of 2018 includes Bank of Kunlun Co., Ltd. and its subsidiaries Leshan Kunlun Rural Bank Co., Ltd. and Tacheng Kunlun Rural Bank Co., Ltd.

There are no changes in the scope of consolidation compared to that of 2017.

V. Notes to the Consolidated Financial Statements (Negative Figures are Shown in “()”)

(1) Cash and Balances with Central Bank

Category	The Company	
	31 December 2018	31 December 2017
Cash on hand	315,090,291.60	370,166,524.70
Statutory reserve with Central Bank	20,308,411,024.02	22,279,056,828.46
Excess reserve with Central Bank	2,170,425,846.29	3,412,183,195.03
Fiscal deposits with Central Bank	5,071,000.00	47,086,000.00
Total	22,798,998,161.91	26,108,492,548.19

Category	The Bank	
	31 December 2018	31 December 2017
Cash on hand	303,525,226.50	355,657,212.59
Statutory reserve with Central Bank	20,213,824,455.80	22,189,965,474.62
Excess reserve with Central Bank	2,140,007,616.84	3,384,551,904.51
Fiscal deposits with Central Bank	3,066,000.00	47,082,000.00
Total	22,660,423,299.14	25,977,256,591.72

1. The Company deposited the statutory reserve as the deposit scope specified by the PBOC.

On 31 December 2018 and 31 December 2017, the ratio of general RMB deposit reserve was 12.50% and 15.00% respectively; both the ratios of general foreign currency deposit reserve were 5.00%;

The ratios of statutory RMB deposit reserve by Leshan Kunlun Rural Bank with PBOC were 9.00% and 8.00% respectively; the ratios of statutory RMB deposit reserve by Tacheng Kunlun Rural Bank with PBOC were both 8.00%.

2. The excess reserves deposited in Central Bank are the funds deposited in PBOC for the purpose of capital settlement.

(2) Deposits with Banks and Other Financial Institutions

Category	The Company	
	31 December 2018	31 December 2017
Deposits with domestic banks and other financial institutions	45,500,326,746.32	52,603,669,688.92
Deposits with overseas banks and other financial institutions	6,489,891.81	6,468,998.04
Total	45,506,816,638.13	52,610,138,686.96
Less: Allowance for impairment	25,254,191.98	26,054,371.54
Net amount	45,481,562,446.15	52,584,084,315.42

Category	The Bank	
	31 December 2018	31 December 2017
Deposits with domestic banks and other financial institutions	45,390,960,578.19	52,399,425,133.91
Deposits with overseas banks and other financial institutions	6,489,891.81	6,468,998.04
Total	45,397,450,470.00	52,405,894,131.95
Less: Allowance for impairment	25,199,508.89	25,952,249.26
Net amount	45,372,250,961.11	52,379,941,882.69

(3) Placements with Banks and Other Financial Institutions

Category	The Company and the Bank	
	31 December 2018	31 December 2017
Domestic interbank	1,900,000,000.00	1,000,000,000.00
Domestic non-bank financial institutions	27,150,000,000.00	16,700,000,000.00
Overseas interbank		
Total	29,050,000,000.00	17,700,000,000.00
Less: Allowance for impairment	726,250,000.00	442,500,000.00
Net amount	28,323,750,000.00	17,257,500,000.00

(4) Financial Assets at Fair Value through Profit or Loss

Category	The Company and the Bank			
	Fair value as at the end of the year	Fair value as at the beginning of the year	Book value as at the end of the year	Accumulated changes in fair value
Trading financial assets	45,343,004,946.98	13,884,052,952.65	45,141,648,300.52	201,356,646.46
Debt investments	45,343,004,946.98	13,884,052,952.65	45,141,648,300.52	201,356,646.46
Including: Financial debts	1,146,574,640.00	3,707,121,987.77	1,144,843,210.23	1,731,429.77
Corporate debts	24,625,611,215.27	6,959,429,433.05	24,622,674,065.27	2,937,150.00
Asset-backed securities	910,499,645.25	464,570,989.02	910,499,645.25	
Fund investment	18,660,319,446.46	2,752,930,542.81	18,463,631,379.77	196,688,066.69
Equity instruments				
Designated as Financial assets at fair value through profit or loss				
Total	45,343,004,946.98	13,884,052,952.65	45,141,648,300.52	201,356,646.46

See Note VII. / (2) / 3 for financial assets measured at fair value through profit or loss as at 31 December 2018.

(5) Financial Assets Held under Resale Agreements

1. Classification by Counterparty

Counterparty	The Company and the Bank	
	31 December 2018	31 December 2017
Interbank	24,790,045,782.48	10,730,230,000.00
Non-bank financial institutions	5,894,631,524.64	4,673,907,729.79
Total	30,684,677,307.12	15,404,137,729.79
Less: Allowance for impairment	15,208,118.00	6,493,618.50
Net amount	30,669,469,189.12	15,397,644,111.29

2. Classification by Underlying Assets

Category	The Company and the Bank	
	31 December 2018	31 December 2017
Bonds	30,367,246,099.51	15,404,137,729.79
-National debts	5,498,432,000.00	1,541,785,000.00
-Policy-based bank bonds	15,813,606,000.00	7,251,759,000.00
-Corporate debts	5,086,010,099.51	2,851,605,729.79
-Others	3,969,198,000.00	3,758,988,000.00
Notes	317,431,207.61	
Total	30,684,677,307.12	15,404,137,729.79
Less: Allowance for impairment	15,208,118.00	6,493,618.50
Net amount	30,669,469,189.12	15,397,644,111.29

(6) Interest Receivable**1. Changes in Balances**

Category	The Company	
	31 December 2018	31 December 2017
Interest receivable on balances with Central Bank	8,907,170.32	9,914,893.50
Interest receivable on deposits with banks and other financial institutions	76,102,595.03	57,911,292.66
Interest receivable on displacements with banks and other financial institutions	94,517,930.57	98,064,402.74
Interest receivable on purchase under resale agreements	68,463,585.44	14,417,621.96
Interest receivable on loans to customers	348,701,848.60	288,512,837.34
Interest receivable on trading bonds	508,957,975.83	245,476,845.51
Interest receivable on bonds available for sale	659,313,794.11	504,043,727.04
Interest on investment classified as receivable	104,392,039.83	169,888,961.21
Interest receivable on held-to-maturity investments	285,951,220.59	288,299,634.15
Total	2,155,308,160.32	1,676,530,216.11
Less: Allowance for impairment	26,226,869.91	26,227,725.78
Net amount	2,129,081,290.41	1,650,302,490.33

Category	The Bank	
	31 December 2018	31 December 2017
Interest receivable on balances with Central Bank	8,853,073.39	9,864,868.80
Interest receivable on deposits with banks and other financial institutions	75,987,062.01	57,160,353.34
Interest receivable on displacements with banks and other financial institutions	94,517,930.57	98,064,402.74

Continued

Category	The Bank	
	31 December 2018	31 December 2017
Interest receivable on purchase under resale agreements	68,463,585.44	14,417,621.96
Interest receivable on loans to customers	333,807,806.84	275,469,599.37
Interest receivable on trading bonds	508,957,975.83	245,476,845.51
Interest receivable on bonds available for sale	659,313,794.11	504,043,727.04
Interest on investment classified as receivable	104,392,039.83	169,888,961.21
Interest receivable on held-to-maturity investments	285,951,220.59	288,299,634.15
Total	2,140,244,488.61	1,662,686,014.12
Less: Allowance for impairment	26,220,000.00	26,220,000.00
Net amount	2,114,024,488.61	1,636,466,014.12

2. Overdue Interests

Category	Maturity date	The Company	
		31 December 2018	31 December 2017
Corporate loans	Within 3 month(s)	11,515,081.48	11,594,923.60
Personal loans	Within 3 month(s)	2,824,900.66	286,710.44
Interest on available-for-sale financial assets receivable	Over 3 months	26,220,000.00	26,220,000.00
Total		40,559,982.14	38,101,634.04

Category	Maturity date	The Bank	
		31 December 2018	31 December 2017
Corporate loans	Within 3 month(s)	11,468,453.78	11,585,343.25
Personal loans	Within 3 month(s)	435,591.30	225,060.73
Interest on available-for-sale financial assets receivable	Over 3 months	26,220,000.00	26,220,000.00
Total		38,124,045.08	38,030,403.98

3. As at 31 December 2018, there was no overdue interest due to shareholders with 5% or above shares of the Company.

(7) Loans and Advances to Customers

1. Composition of Loans and Advances to Customers

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

Category	The Company			
	31 December 2018		31 December 2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Loans and advances to individuals	16,104,495,875.09	12.70	11,876,322,133.34	10.69
-Credit card	269,705,185.33	0.21	181,237.23	
-Residential mortgage loan	9,950,874,018.12	7.85	6,184,963,100.54	5.57
-Others	5,883,916,671.64	4.64	5,691,177,795.57	5.12
Loans and advances to companies	110,689,029,429.83	87.30	99,228,655,432.34	89.31
-Loans	57,591,992,887.94	45.42	51,124,078,525.47	46.01
-Discount	33,632,305,312.10	26.53	28,250,587,583.56	25.43
-Trade financing	19,464,731,229.79	15.35	19,853,989,323.31	17.87
Total loans and advances	126,793,525,304.92	100.00	111,104,977,565.68	100.00
Less: Allowance for impairment losses on loans	4,794,027,191.36		4,277,851,145.33	
Including: Individually assessed	942,726,258.92		1,429,623,429.93	
Collectively assessed	3,851,300,932.44		2,848,227,715.40	
Book value of loans and advances	121,999,498,113.56		106,827,126,420.35	

Category	The Bank			
	31 December 2018		31 December 2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Loans and advances to individuals	15,222,060,349.88	12.10	11,035,108,497.32	10.02
-Credit card	269,705,185.33	0.21	181,237.23	
-Residential mortgage loan	9,922,003,318.12	7.89	6,137,938,633.18	5.57
-Others	5,030,351,846.43	4.00	4,896,988,626.91	4.45
Loans and advances to companies	110,553,675,561.83	87.90	99,061,974,757.32	89.98
-Loans	57,456,639,019.94	45.68	50,957,397,850.45	46.28
-Discount	33,632,305,312.10	26.74	28,250,587,583.56	25.66
-Trade financing	19,464,731,229.79	15.48	19,853,989,323.31	18.04
Total loans and advances	125,775,735,911.71	100.00	110,097,083,254.64	100.00
Less: Allowance for impairment losses on loans	4,706,524,545.94		4,217,409,486.32	
Including: Individually assessed	942,726,258.92		1,429,623,429.93	
Collectively assessed	3,763,798,287.02		2,787,786,056.39	
Book value of loans and advances	121,069,211,365.77		105,879,673,768.32	

(2) Loans and Advances Classified by Guarantee Method

Guarantee method	The Company			
	31 December 2018	Proportion (%)	31 December 2017	Proportion (%)
Credit loans	34,349,078,481.67	27.09	30,705,193,389.07	27.64
Guaranteed loans	17,489,014,874.28	13.79	18,817,001,160.15	16.94
Loans secured by mortgage	15,700,283,874.12	12.38	11,378,460,400.08	10.24
Loans secured by collaterals	25,622,842,762.75	20.21	21,955,293,027.98	19.76
Discount of banker's acceptance bills	27,076,887,618.92	21.36	22,302,267,859.22	20.07
Discount of commercial acceptance bills	6,555,417,693.18	5.17	5,946,761,729.18	5.35
Total loans and advances	126,793,525,304.92	100.00	111,104,977,565.68	100.00

Guarantee method	The Bank			
	31 December 2018	Proportion (%)	31 December 2017	Proportion (%)
Credit loans	34,286,615,968.01	27.26	30,656,520,508.56	27.84
Guaranteed loans	16,774,299,913.60	13.34	18,213,593,344.03	16.54
Loans secured by mortgage	15,461,950,955.25	12.29	11,040,735,785.67	10.03
Loans secured by collaterals	25,620,563,762.75	20.37	21,937,204,027.98	19.93
Discount of banker's acceptance bills	27,076,887,618.92	21.53	22,302,267,859.22	20.26
Discount of commercial acceptance bills	6,555,417,693.18	5.21	5,946,761,729.18	5.40
Total loans and advances	125,775,735,911.71	100.00	110,097,083,254.64	100.00

(3) Analysis of Changes in Overdue Loans

Item	The Company				
	31 December 2018				
	Overdue for 1–90 days (including 90 days)	Overdue for 90–360 days (including 360 days)	Overdue for 360 days–3 years (including 3 years)	Overdue for over 3 years	Total
Credit loans	223,750.95	52,576,513.26	706,832.02		53,507,096.23
Guaranteed loans	52,274,731.10	73,797,424.07	218,401,000.00	50,887,285.04	395,360,440.21
Loans secured by mortgage	32,294,769.80	64,181,171.49	178,855,346.57	15,240,574.90	290,571,862.76
Loans secured by collaterals	4,389,028.22	107,061,031.89	463,785,847.17	72,808,061.73	648,043,969.01
Total	89,182,280.07	297,616,140.71	861,749,025.76	138,935,921.67	1,387,483,368.21

Item	The Company				
	31 December 2017				
	Overdue for 1–90 days (including 90 days)	Overdue for 90–360 days (including 360 days)	Overdue for 360 days–3 years (including 3 years)	Overdue for over 3 years	Total
Credit loans	69,264,982.86	1,030,943.84			70,295,926.70
Guaranteed loans	10,962,600.00	68,108,222.29	564,020,850.14	207,387,912.95	850,479,585.38
Loans secured by mortgage	47,265,409.14	199,594,071.81	13,723,621.96	18,720,009.81	279,303,112.72
Loans secured by collaterals	55,119,641.01	550,401,355.11	35,915,157.39	81,263,773.97	722,699,927.48
Total	182,612,633.01	819,134,593.05	613,659,629.49	307,371,696.73	1,922,778,552.28

(4) Corporate Loans and Advances Classified by Industry

Industry	The Company			
	31 December 2018		31 December 2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Agriculture, forestry, animal husbandry and fishery	18,840,000.00	0.02	209,990,000.00	0.21
Mining	8,145,887,878.54	7.36	8,799,586,035.58	8.87
Manufacturing	16,398,915,876.57	14.81	15,422,291,293.64	15.55
Manufacturing and Supply industry of electricity, heat, gas and water	12,306,724,558.86	11.12	11,949,812,275.25	12.04
Construction	4,866,617,803.93	4.40	4,280,367,441.18	4.31
Transport, warehousing and postal service industry	8,315,296,541.96	7.51	6,299,061,057.26	6.35
Information transmission, computer service and software industry	515,283,905.00	0.47	462,232,451.96	0.47
Wholesale and retail industry	12,513,441,025.72	11.31	14,338,569,569.40	14.45
Accommodation and catering	35,010,000.00	0.03	33,180,000.00	0.03
Financial services	4,675,823,333.00	4.22	15,000,000.00	0.02
Real estate	1,411,600,000.00	1.28	1,029,200,000.00	1.04
Leasing and commercial service	4,304,802,025.31	3.89	5,526,786,117.49	5.57
Scientific research, technical services and geological survey industry	935,166,190.81	0.84	411,731,677.05	0.41
Water conservancy, environment, public facilities management and investment industry	1,707,842,978.03	1.54	1,154,282,741.17	1.16
Residents services and other services	31,292,000.00	0.03	72,120,000.00	0.07
Education	0.00	0.00	43,577,188.80	0.04
Health, social security and social welfare industry	95,000,000.00	0.09	76,000,000.00	0.08
Culture, sports and entertainment industry	32,000,000.00	0.03	107,000,000.00	0.11
Public management and social organization	747,180,000.00	0.68	747,280,000.00	0.75
Discounted assets	33,632,305,312.10	30.37	28,250,587,583.56	28.47
Total loans and advances	110,689,029,429.83	100.00	99,228,655,432.34	100.00

Industry	The Bank			
	31 December 2018		31 December 2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Agriculture, forestry, animal husbandry and fishery	14,390,000.00	0.01	200,490,000.00	0.20
Mining	8,140,887,878.54	7.36	8,789,911,035.58	8.87
Manufacturing	16,328,639,521.44	14.77	15,339,695,618.62	15.49
Manufacturing and Supply industry of electricity, heat, gas and water	12,306,724,558.86	11.13	11,949,812,275.25	12.06
Construction	4,862,622,803.93	4.40	4,265,367,441.18	4.31
Transport, warehousing and postal service industry	8,315,296,541.96	7.52	6,299,061,057.26	6.36
Information transmission, computer service and software industry	510,033,905.00	0.46	450,482,451.96	0.45
Wholesale and retail industry	12,513,441,025.72	11.32	14,338,569,569.40	14.47
Accommodation and catering	0.00	0.00	2,000,000.00	0.00
Financial services	4,675,823,333.00	4.23	15,000,000.00	0.02
Real estate	1,411,600,000.00	1.28	1,029,200,000.00	1.04
Leasing and commercial service	4,298,429,512.44	3.89	5,519,806,117.49	5.57
Scientific research, technical services and geological survey industry	935,166,190.81	0.85	411,731,677.05	0.42
Water conservancy, environment, public facilities management and investment industry	1,702,842,978.03	1.54	1,154,282,741.17	1.17
Residents services and other services	31,292,000.00	0.03	72,120,000.00	0.07
Education	0.00	0.00	43,577,188.80	0.04
Health, social security and social welfare industry	95,000,000.00	0.09	76,000,000.00	0.08
Culture, sports and entertainment industry	32,000,000.00	0.03	107,000,000.00	0.11
Public management and social organization	747,180,000.00	0.68	747,280,000.00	0.75
Discounted assets	33,632,305,312.10	30.41	28,250,587,583.56	28.52
Total loans and advances	110,553,675,561.83	100.00	99,061,974,757.32	100.00

2. Allowance for Impairment Losses on Loans

Item	The Company					
	31 December 2018			31 December 2017		
	Individual	Portfolio	Total	Individual	Portfolio	Total
Balance as at the beginning of the year	1,429,623,429.93	2,848,227,715.40	4,277,851,145.33	1,532,158,235.29	3,041,020,870.70	4,573,179,105.99
Allowance in this period	(19,530,681.53)	1,006,072,892.06	986,542,210.53	(11,104,840.49)	(192,882,780.92)	(203,987,621.41)
Other decrease in this period	467,366,489.48		467,366,489.48	91,429,964.87		91,429,964.87

Continued

Item	The Company					
	31 December 2018			31 December 2017		
	Individual	Portfolio	Total	Individual	Portfolio	Total
Write-off in this period		2,999,675.02	2,999,675.02			
Reversal in this period					(89,625.62)	(89,625.62)
Balance as at the end of the year	942,726,258.92	3,851,300,932.44	4,794,027,191.36	1,429,623,429.93	2,848,227,715.40	4,277,851,145.33

Item	The Bank					
	31 December 2018			31 December 2017		
	Individual	Portfolio	Total	Individual	Portfolio	Total
Balance as at the beginning of the year	1,429,623,429.93	2,787,786,056.39	4,217,409,486.32	1,527,251,903.66	2,997,218,735.65	4,524,470,639.31
Allowance in this period	(19,530,681.53)	976,012,230.63	956,481,549.10	(6,198,508.86)	(209,522,304.88)	(215,720,813.74)
Other decrease in this period	467,366,489.48		467,366,489.48	91,429,964.87		91,429,964.87
Write-off in this period						
Reversal in this period					(89,625.62)	(89,625.62)
Balance as at the end of the year	942,726,258.92	3,763,798,287.02	4,706,524,545.94	1,429,623,429.93	2,787,786,056.39	4,217,409,486.32

3. Analysis of Client Concentration

(1) Top 10 borrowers as at 31 December 2018:

Customer	The Company and the Bank		
	Industry	Balance	Proportion in total loans and advances (%)
Customer 1	Financial services	1,485,883,333.00	1.17%
Customer 2	Manufacturing	1,407,000,000.00	1.11%
Customer 3	Manufacturing and Supply industry of electricity, heat, gas and water	1,300,000,000.00	1.03%
Customer 4	Real estate	1,080,000,000.00	0.85%
Customer 5	Leasing and commercial service	1,040,500,000.00	0.82%
Customer 6	Manufacturing and Supply industry of electricity, heat, gas and water	1,000,000,000.00	0.79%
Customer 7	Manufacturing and Supply industry of electricity, heat, gas and water	960,000,000.00	0.76%
Customer 8	Wholesale and retail industry	960,000,000.00	0.76%
Customer 9	Mining	950,000,000.00	0.75%
Customer 10	Financial services	920,000,000.00	0.73%
Total		11,103,383,333.00	8.76%

4. As at 31 December 2018, there was no loans from shareholders with 5% or above shares of the Company.

(8) Available-for-sale Financial Assets

Item	The Company and the Bank	
	31 December 2018	31 December 2017
National debts	695,592,080.00	664,333,150.00
Government debts	2,535,076,514.00	1,277,527,155.00
Financial debts	14,096,712,270.00	14,001,656,880.00
Corporate debts	4,686,201,325.00	1,828,726,860.00
Fund investment		4,830,428,211.57
Total	22,013,582,189.00	22,602,672,256.57
Less: Allowance for impairment on available-for-sale financial assets	239,016,248.50	240,533,947.89
Net amount	21,774,565,940.50	22,362,138,308.68

Category	The Company and the Bank		
	31 December 2018		
	Bond cost	Changes in fair value	Fair value
National debts	699,260,047.18	(3,667,967.18)	695,592,080.00
Government debts	2,360,784,695.70	174,291,818.30	2,535,076,514.00
Financial debts	14,061,635,756.00	35,076,514.00	14,096,712,270.00
Corporate debts	4,656,439,947.43	29,761,377.57	4,686,201,325.00
Total	21,778,120,446.31	235,461,742.69	22,013,582,189.00

Category	The Company and the Bank		
	31 December 2017		
	Bond cost	Changes in fair value	Fair value
National debts	697,898,069.10	(33,564,919.10)	664,333,150.00
Government debts	1,290,000,000.00	(12,472,845.00)	1,277,527,155.00
Financial debts	14,301,435,018.54	(299,778,138.54)	14,001,656,880.00
Corporate debts	1,840,832,234.28	(12,105,374.28)	1,828,726,860.00
Fund investment	4,800,000,000.00	30,428,211.57	4,830,428,211.57
Total	22,930,165,321.92	(327,493,065.35)	22,602,672,256.57

See Note VII / (2) / 3 for the collaterals of available-for-sale financial assets as at 31 December 2018.

(9) Held-to-maturity Investments

Category	The Company and the Bank	
	31 December 2018	31 December 2017
National debts	101,569,178.94	101,802,280.00
Government debts	3,408,632,981.52	3,756,038,919.29
Financial debts	4,397,945,479.94	11,101,637,294.15
Corporate debts	3,387,115,605.94	1,265,166,830.51
Asset-backed securities	6,298,799,000.00	2,000,000,000.00
Total	17,594,062,246.34	18,224,645,323.95
Less: Allowance for impairment on held-to-maturity investments	7,027,761.40	7,909,700.39
Net amount	17,587,034,484.94	18,216,735,623.56

See Note VII / (2) / 3 for the collaterals of held-to-maturity investments as at 31 December 2018.

(10) Investment Classified as Receivable

Category	The Company and the Bank	
	31 December 2018	31 December 2017
Wealth investment products	2,000,000,000.00	300,000,000.00
Trust products	10,973,561,093.60	21,519,896,927.61
Asset management products	700,000,000.00	20,670,003,724.82
Others	30,000,000.00	30,000,000.00
Total	13,703,561,093.60	42,519,900,652.43
Less: Allowance for impairment on investment classified as receivable	434,737,007.21	766,627,096.83
Net amount	13,268,824,086.39	41,753,273,555.60

(11) Long-term Equity Investments

1. Category of Long-term Equity Investments

The Company has no investment in joint ventures and associated enterprises;

Investee(s)	The Bank	
	31 December 2018	31 December 2017
Investments in subsidiaries	57,500,000.00	57,500,000.00
Investments in joint ventures		
Investments in associated enterprises		
Total	57,500,000.00	57,500,000.00
Less: Allowance for impairment		
Net amount of long-term equity investments	57,500,000.00	57,500,000.00

2. Investments in Subsidiaries

Subsidiaries	The Bank	
	31 December 2018	31 December 2017
Leshan Kunlun Rural Bank Co., Ltd.	40,000,000.00	40,000,000.00
Tacheng Kunlun Rural Bank Co., Ltd.	17,500,000.00	17,500,000.00
Total	57,500,000.00	57,500,000.00
Less: Allowance for impairment		
Net amount of long-term equity investments	57,500,000.00	57,500,000.00

(12) Fixed Assets**1. Details of Balance of Fixed Assets**

Category	The Company	
	31 December 2018	31 December 2017
Original cost of fixed assets	867,868,018.93	786,238,068.49
Accumulated depreciation	531,486,803.62	474,676,003.75
Allowance for impairment on fixed assets	71,587.53	71,587.53
Net fixed assets	336,309,627.78	311,490,477.21

Category	The Bank	
	31 December 2018	31 December 2017
Original cost of fixed assets	843,893,196.31	762,797,627.44
Accumulated depreciation	523,529,149.25	467,918,890.59
Allowance for impairment on fixed assets	71,587.53	71,587.53
Net fixed assets	320,292,459.53	294,807,149.32

2. Statement of Changes in Fixed Assets

Category	The Company				
	Buildings and constructions	Transportation facilities	Electronic equipment	Machinery and office equipment	Total
1. Original book value:					
(1) Balance as at the beginning of the year	147,132,159.34	17,337,082.15	611,434,454.48	10,334,372.52	786,238,068.49
(2) Increase in this period	1,869,583.54	1,613,362.00	90,530,997.20		94,013,942.74
-Purchase					
-Construction in progress transferred in	1,869,583.54		90,530,997.20		92,400,580.74
-Others		1,613,362.00			1,613,362.00

Continued

Category	The Company				
	Buildings and constructions	Transportation facilities	Electronic equipment	Machinery and office equipment	Total
(3) Decrease in this period			12,200,168.30	183,824.00	12,383,992.30
-Disposal or retirement			12,200,168.30	183,824.00	12,383,992.30
(4) Balance as at the end of the year	149,001,742.88	18,950,444.15	689,765,283.38	10,150,548.52	867,868,018.93
2. Accumulated depreciation					
(1) Balance as at the beginning of the year	26,450,713.35	13,090,250.65	430,866,411.75	4,268,628.00	474,676,003.75
(2) Increase in this period	5,094,284.30	1,523,286.06	60,988,150.21	960,246.68	68,565,967.25
-Allowance	5,094,284.30	1,523,286.06	60,988,150.21	960,246.68	68,565,967.25
(3) Decrease in this period			11,620,047.47	135,119.91	11,755,167.38
-Disposal or retirement			11,620,047.47	135,119.91	11,755,167.38
(4) Balance as at the end of the year	31,544,997.65	14,613,536.71	480,234,514.49	5,093,754.77	531,486,803.62
3. Allowance for impairment					
(1) Balance as at the beginning of the year	71,587.53				71,587.53
(2) Increase in this period					
-Allowance					
(3) Decrease in this period					
-Disposal or retirement					
(4) Balance as at the end of the year	71,587.53				71,587.53
4. Book value					
(1) Book value as at the end of the year	117,385,157.70	4,336,907.44	209,530,768.89	5,056,793.75	336,309,627.78
(2) Book value as at the beginning of the year	120,609,858.46	4,246,831.50	180,568,042.73	6,065,744.52	311,490,477.21

Category	The Bank				
	Buildings and constructions	Transportation facilities	Electronic equipment	Machinery and office equipment	Total
1. Original book value:					
(1) Balance as at the beginning of the year	134,964,577.51	16,956,697.15	601,166,076.77	9,710,276.01	762,797,627.44

Continued

Category	The Bank				Total
	Buildings and constructions	Transportation facilities	Electronic equipment	Machinery and office equipment	
(2) Increase in this period	1,331,598.97	1,519,675.00	90,154,817.20		93,006,091.17
-Purchase					
-Construction in progress transferred in	1,331,598.97		90,154,817.20		91,486,416.17
-Others		1,519,675.00			1,519,675.00
(3) Decrease in this period			11,726,698.30	183,824.00	11,910,522.30
-Disposal or retirement			11,726,698.30	183,824.00	11,910,522.30
(4) Balance as at the end of the year	136,296,176.48	18,476,372.15	679,594,195.67	9,526,452.01	843,893,196.31
2. Accumulated depreciation					
(1) Balance as at the beginning of the year	26,065,406.55	12,838,391.09	425,042,474.38	3,972,618.57	467,918,890.59
(2) Increase in this period	4,699,039.74	1,469,771.31	59,838,555.05	900,957.44	66,908,323.54
-Allowance	4,699,039.74	1,469,771.31	59,838,555.05	900,957.44	66,908,323.54
(3) Decrease in this period			11,162,944.97	135,119.91	11,298,064.88
-Disposal or retirement			11,162,944.97	135,119.91	11,298,064.88
(4) Balance as at the end of the year	30,764,446.29	14,308,162.40	473,718,084.46	4,738,456.10	523,529,149.25
3. Allowance for impairment					
(1) Balance as at the beginning of the year	71,587.53				71,587.53
(2) Increase in this period					
-Allowance					
(3) Decrease in this period					
-Disposal or retirement					
(4) Balance as at the end of the year	71,587.53				71,587.53
4. Book value					
(1) Book value as at the end of the year	105,460,142.66	4,168,209.75	205,876,111.21	4,787,995.91	320,292,459.53
(2) Book value as at the beginning of the year	108,827,583.43	4,118,306.06	176,123,602.39	5,737,657.44	294,807,149.32

3. Fixed Assets with Pending Certificates of Title

As at 31 December 2018, the Company owned 3 buildings and constructions (original value: RMB 29,781,166.95, book value: RMB 23,093,005.30) with pending certificates of title mainly due to that the certificates of title for newly-built business occupancies are being handled.

(13) Construction in Progress

Name of item	The Company					
	31 December 2017	Increase in this period	Amount transferred to fixed assets	Amount transferred to intangible assets	Other decreases	31 December 2018
Branches and network construction	7,294,460.66	24,104,886.71	9,367,034.51		15,484,052.85	6,548,260.01
Information technology construction	20,506,344.12	157,454,789.42	65,597,672.73	48,157,938.30	11,169,777.81	53,035,744.70
Office operation and security construction	557,000.01	17,787,776.99	17,435,873.50		840,713.68	68,189.82
Total	28,357,804.79	199,347,453.12	92,400,580.74	48,157,938.30	27,494,544.34	59,652,194.53

Name of item	The Bank					
	31 December 2017	Increase in this period	Amount transferred to fixed assets	Amount transferred to intangible assets	Other decreases	31 December 2018
Branches and network construction	7,294,460.66	24,104,886.71	9,367,034.51		15,484,052.85	6,548,260.01
Information technology construction	20,506,344.12	157,454,789.42	65,597,672.73	48,157,938.30	11,169,777.81	53,035,744.70
Office operation and security construction	557,000.01	16,873,612.42	16,521,708.93		840,713.68	68,189.82
Total	28,357,804.79	198,433,288.55	91,486,416.17	48,157,938.30	27,494,544.34	59,652,194.53

(14) Intangible Assets

Category	The Company		
	Land use right	Software	Total
1. Original book value			
(1) Balance as at the beginning of the year	69,510.41	345,818,370.46	345,887,880.87
(2) Increase in this period		48,157,938.30	48,157,938.30
-Purchase		47,939,428.87	47,939,428.87

Continued

Category	The Company		
	Land use right	Software	Total
-Internal R&D		218,509.43	218,509.43
(3) Decrease in this period			
-Disposal			
(4) Balance as at the end of the year	69,510.41	393,976,308.76	394,045,819.17
2. Accumulated amortization			
(1) Balance as at the beginning of the year	40,807.29	266,657,767.20	266,698,574.49
(2) Increase in this period	2,341.02	41,792,324.76	41,794,665.78
-Allowance	2,341.02	41,792,324.76	41,794,665.78
(3) Decrease in this period			
-Disposal			
(4) Balance as at the end of the year	43,148.31	308,450,091.96	308,493,240.27
3. Allowance for impairment			
(1) Balance as at the beginning of the year		1,357,053.33	1,357,053.33
(2) Increase in this period			
-Allowance			
(3) Decrease in this period			
-Disposal			
(4) Balance as at the end of the year		1,357,053.33	1,357,053.33
4. Book value			
(1) Book value as at the end of the year	26,362.10	84,169,163.47	84,195,525.57
(2) Book value as at the beginning of the year	28,703.12	77,803,549.93	77,832,253.05

Category	The Bank		
	Land use right	Software	Total
1. Original book value			
(1) Balance as at the beginning of the year	69,510.41	345,393,370.46	345,462,880.87
(2) Increase in this period		48,157,938.30	48,157,938.30
-Purchase		47,939,428.87	47,939,428.87
-Internal R&D		218,509.43	218,509.43
(3) Decrease in this period			
-Disposal			
(4) Balance as at the end of the year	69,510.41	393,551,308.76	393,620,819.17
2. Accumulated amortization			
(1) Balance as at the beginning of the year	40,807.29	266,362,628.20	266,403,435.49
(2) Increase in this period	2,341.02	41,662,463.76	41,664,804.78

Continued

Category	The Bank		
	Land use right	Software	Total
-Allowance	2,341.02	41,662,463.76	41,664,804.78
(3) Decrease in this period			
-Disposal			
(4) Balance as at the end of the year	43,148.31	308,025,091.96	308,068,240.27
3. Allowance for impairment			
(1) Balance as at the beginning of the year		1,357,053.33	1,357,053.33
(2) Increase in this period			
-Allowance			
(3) Decrease in this period			
-Disposal			
(4) Balance as at the end of the year		1,357,053.33	1,357,053.33
4. Book value			
(1) Book value as at the end of the year	26,362.10	84,169,163.47	84,195,525.57
(2) Book value as at the beginning of the year	28,703.12	77,673,688.93	77,702,392.05

(15) Deferred Tax Assets and Deferred Tax Liabilities

1. Prior to offsetting between the Company and the Bank, the deferred tax assets and liabilities, and corresponding temporary differences are listed as below:

Category	The Company	
	31 December 2018	31 December 2017
I. Deferred tax assets		
Allowance for assets impairment	711,026,663.49	678,728,579.41
Changes in fair value of financial assets measured at fair value through profit or loss		4,414,052.39
Changes in fair value of available-for-sale financial assets		49,123,959.80
Subtotal	711,026,663.49	732,266,591.60
II. Deferred tax liabilities		
Changes in fair value of financial assets measured at fair value through profit or loss	30,203,496.97	
Changes in fair value of available-for-sale financial assets	35,319,261.40	
Subtotal	65,522,758.37	
Net amount	645,503,905.12	732,266,591.60

Continued

Category	The Bank	
	31 December 2018	31 December 2017
I. Deferred tax assets		
Allowance for assets impairment	695,770,982.04	668,899,102.71
Changes in fair value of financial assets measured at fair value through profit or loss		4,414,052.39
Changes in fair value of available-for-sale financial assets		49,123,959.80
Subtotal	695,770,982.04	722,437,114.90
II. Deferred tax liabilities		
Changes in fair value of financial assets measured at fair value through profit or loss	30,203,496.97	
Changes in fair value of available-for-sale financial assets	35,319,261.40	
Subtotal	65,522,758.37	
Net amount	630,248,223.67	722,437,114.90

2. Listed by Nature

Category	The Company			
	31 December 2018		31 December 2017	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
I. Deferred tax assets				
Allowance for assets impairment	4,720,560,930.63	711,026,663.49	4,524,857,196.05	678,728,579.41
Changes in fair value of financial assets measured at fair value through profit or loss			29,427,015.96	4,414,052.39
Changes in fair value of available-for-sale financial assets			327,493,065.35	49,123,959.80
Subtotal	4,720,560,930.63	711,026,663.49	4,881,777,277.36	732,266,591.60
II. Deferred tax liabilities				
Changes in fair value of financial assets measured at fair value through profit or loss	201,356,646.46	30,203,496.97		
Changes in fair value of available-for-sale financial assets	235,461,742.67	35,319,261.40		
Subtotal	436,818,389.13	65,522,758.37		
Net amount	4,283,742,541.50	645,503,905.12	4,881,777,277.36	732,266,591.60

Continued

Category	The Bank			
	31 December 2018		31 December 2017	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
I. Deferred tax assets				
Allowance for assets impairment	4,638,473,213.60	695,770,982.04	4,459,327,351.36	668,899,102.71
Changes in fair value of financial assets measured at fair value through profit or loss			29,427,015.96	4,414,052.39
Changes in fair value of available-for-sale financial assets			327,493,065.35	49,123,959.80
Subtotal	4,638,473,213.60	695,770,982.04	4,816,247,432.67	722,437,114.90
II. Deferred tax liabilities				
Changes in fair value of financial assets measured at fair value through profit or loss	201,356,646.46	30,203,496.97		
Changes in fair value of available-for-sale financial assets	235,461,742.67	35,319,261.40		
Subtotal	436,818,389.13	65,522,758.37		
Net amount	4,201,654,824.47	630,248,223.67	4,816,247,432.67	722,437,114.90

3. Changes in Deferred Tax Assets and Liabilities

Category	The Company			
	31 December 2017	Recognized in profit or loss in this period	Recognized in other comprehensive income in this period	31 December 2018
I. Deferred tax assets				
Allowance for assets impairment	678,728,579.41	32,298,084.08		711,026,663.49
Changes in fair value of financial assets measured at fair value through profit or loss	4,414,052.39	(4,414,052.39)		
Changes in fair value of available-for-sale financial assets	49,123,959.80		(49,123,959.80)	
Subtotal	732,266,591.60	27,884,031.69	(49,123,959.80)	711,026,663.49
II. Deferred tax liabilities				
Changes in fair value of financial assets measured at fair value through profit or loss		30,203,496.97		30,203,496.97
Changes in fair value of available-for-sale financial assets			35,319,261.40	35,319,261.40
Subtotal		30,203,496.97	35,319,261.40	65,522,758.37
Net amount	732,266,591.60	(2,319,465.28)	(84,443,221.20)	645,503,905.12

Continued

Category	The Bank			
	31 December 2017	Recognized in profit or loss in this period	Recognized in other comprehensive income in this period	31 December 2018
I. Deferred tax assets				
Allowance for assets impairment	668,899,102.71	26,871,879.33		695,770,982.04
Changes in fair value of financial assets measured at fair value through profit or loss	4,414,052.39	(4,414,052.39)		
Changes in fair value of available-for-sale financial assets	49,123,959.80		(49,123,959.80)	
Subtotal	722,437,114.90	22,457,826.94	(49,123,959.80)	695,770,982.04
II. Deferred tax liabilities				
Changes in fair value of financial assets measured at fair value through profit or loss		30,203,496.97		30,203,496.97
Changes in fair value of available-for-sale financial assets			35,319,261.40	35,319,261.40
Subtotal		30,203,496.97	35,319,261.40	65,522,758.37
Net amount	722,437,114.90	(7,745,670.03)	(84,443,221.20)	630,248,223.67

(16) Other Assets

(1) Details of Balance

Category	The Company	
	31 December 2018	31 December 2017
Unamortized expenses	18,979,093.07	32,087,429.73
Other receivables	44,126,814.07	45,053,526.39
Long-term unamortized expenses	72,524,863.97	95,266,828.32
Other monetary funds	499,216,638.97	161,054,225.98
Liquidation of fixed assets		113,397.61
Taxes to be deducted		1,878.29
Debt-offsetting assets	1,494,946.41	
Total	636,342,356.49	333,577,286.32

Category	The Bank	
	31 December 2018	31 December 2017
Unamortized expenses	17,977,619.17	31,160,922.67
Other receivables	43,040,415.07	44,328,141.49
Long-term unamortized expenses	71,349,894.00	93,711,765.78

Continued

Category	The Bank	
	31 December 2018	31 December 2017
Other monetary funds	499,216,638.97	161,054,225.98
Liquidation of fixed assets		113,397.61
Taxes to be deducted		1,878.29
Debt-offsetting assets	419,167.61	
Total	632,003,734.82	330,370,331.82

2. Other Receivables

(1) Details of Balance

Category	The Company	
	31 December 2018	31 December 2017
Advance payments	1,164,971.53	
Advances for legal costs	11,899,730.40	16,301,154.87
Cash pledge	2,828,515.82	2,848,170.00
Others	33,522,511.72	28,190,339.48
Total	49,415,729.47	47,339,664.35
Less: Allowance for bad debts of other receivables	5,288,915.40	2,286,137.96
Net amount	44,126,814.07	45,053,526.39

Category	The Bank	
	31 December 2018	31 December 2017
Advance payments	1,140,469.53	
Advances for legal costs	10,667,676.90	15,513,075.87
Cash pledge	2,828,515.82	2,848,170.00
Others	33,522,511.72	28,190,339.48
Total	48,159,173.97	46,551,585.35
Less: Allowance for bad debts of other receivables	5,118,758.90	2,223,443.86
Net amount	43,040,415.07	44,328,141.49

(2) Aging Analysis

Aging	The Company			
	31 December 2018			
	Amount	Proportion (%)	Allowance for bad debts	Net amount
Within 1 year	36,434,187.55	73.73		36,434,187.55
1-2 year(s)	3,005,589.66	6.08	276,654.98	2,728,934.68

Continued

Aging	The Company			
	31 December 2018			
	Amount	Proportion (%)	Allowance for bad debts	Net amount
2-3 years	6,848,600.89	13.86	3,090,317.06	3,758,283.83
Over 3 years	3,127,351.37	6.33	1,921,943.36	1,205,408.01
Total	49,415,729.47	100.00	5,288,915.40	44,126,814.07

Aging	The Company			
	31 December 2017			
	Amount	Proportion (%)	Allowance for bad debts	Net amount
Within 1 year	31,537,065.47	66.62	89,728.00	31,447,337.47
1-2 year(s)	7,641,184.51	16.14	597,154.55	7,044,029.96
2-3 years	7,182,884.37	15.17	1,216,025.41	5,966,858.96
Over 3 years	978,530.00	2.07	383,230.00	595,300.00
Total	47,339,664.35	100.00	2,286,137.96	45,053,526.39

Aging	The Bank			
	31 December 2018			
	Amount	Proportion (%)	Allowance for bad debts	Net amount
Within 1 year	35,838,220.05	74.42		35,838,220.05
1-2 year(s)	2,860,897.66	5.94	262,185.78	2,598,711.88
2-3 years	6,332,704.89	13.15	2,934,629.76	3,398,075.13
Over 3 years	3,127,351.37	6.49	1,921,943.36	1,205,408.01
Total	48,159,173.97	100.00	5,118,758.90	43,040,415.07

Aging	The Bank			
	31 December 2017			
	Amount	Proportion (%)	Allowance for bad debts	Net amount
Within 1 year	31,375,927.47	67.40	89,728.00	31,286,199.47
1-2 years	7,014,243.51	15.07	534,460.45	6,479,783.06
2-3 years	7,182,884.37	15.43	1,216,025.41	5,966,858.96
Over 3 years	978,530.00	2.10	383,230.00	595,300.00
Total	46,551,585.35	100.00	2,223,443.86	44,328,141.49

(3) As at 31 December 2018, there were no dues from shareholders with 5% or above shares of the Company.

3. Long-term Unamortized Expenses

Category	The Company			
	Operating lease rent	Improvement expenses for fixed assets under operating leases	Others	Total
Amount as at the beginning of the year	5,798,042.37	71,232,267.69	18,236,518.26	95,266,828.32
Increase in this period	3,443,666.88	11,946,966.38	2,551,192.86	17,941,826.12
Amortization in this period	4,388,172.31	28,000,797.18	8,294,820.98	40,683,790.47
Transfer out in this period				
Amount as at the end of the year	4,853,536.94	55,178,436.89	12,492,890.14	72,524,863.97

Category	The Bank			
	Operating lease rent	Improvement expenses for fixed assets under operating leases	Others	Total
Amount as at the beginning of the year	5,207,642.37	70,323,358.60	18,180,764.81	93,711,765.78
Increase in this period	3,203,666.88	11,946,966.38	2,551,192.86	17,701,826.12
Amortization in this period	4,152,012.31	27,619,278.06	8,292,407.53	40,063,697.90
Transfer out in this period				
Amount as at the end of the year	4,259,296.94	54,651,046.92	12,439,550.14	71,349,894.00

(17) Details of Allowance for Impairment on Assets

The Company							
2018							
Item	Balance as at the beginning of the year	Increase in this period			Decrease in this period		Balance as at the end of the year
		Allowance in this period	Other increases	Reversal due to value recovery of assets	Foreign currency translation differences	Write-off in this period	
Allowance for impairment on interest receivable	26,227,725.78	(855.87)					26,226,869.91
Allowance for impairment on other receivables	2,286,137.96	5,061,880.90	741,690.27	(741,690.27)		3,542,484.00	5,288,915.40
Allowance for impairment on deposits with banks and other financial institutions	26,054,371.54	(800,179.56)					25,254,191.98
Allowance for impairment on displacements with banks and other financial institutions	442,500,000.00	283,750,000.00					726,250,000.00
Allowance for impairment on financial assets held under resale agreements	6,493,618.50	8,714,499.50					15,208,118.00
Allowance for impairment on loans and advances to customers	4,277,851,145.33	986,542,210.53			2,999,675.02	467,366,489.48	4,794,027,191.36
Allowance for impairment on available-for-sale financial assets	240,533,947.89	(1,517,699.39)					239,016,248.50
Allowance for impairment on held-to-maturity investments	7,909,700.39	(881,938.99)					7,027,761.40
Allowance for impairment on investment classified as receivable	766,627,096.83	(331,890,089.62)					434,737,007.21
Allowance for impairment on intangible assets	1,357,053.33						1,357,053.33
Allowance for impairment on fixed assets	71,587.53						71,587.53
Allowance for impairment on debt-offsetting assets		1,613,668.20					1,613,668.20
Total	5,797,912,385.08	950,591,495.70	741,690.27	(741,690.27)	6,542,159.02	467,366,489.48	6,276,078,612.82

The Company						
2017						
Item	Balance as at the beginning of the year	Increase in this period		Decrease in this period		Balance as at the end of the year
		Allowance in this period	Other increases	Reversal due to value recovery of assets	Foreign currency translation differences	
Allowance for impairment on interest receivable	26,220,000.00	7,725.78				26,227,725.78
Allowance for impairment on other receivables	2,032,549.80	253,588.16				2,286,137.96
Allowance for impairment on deposits with banks and other financial institutions	31,987,925.80	(5,933,554.26)				26,054,371.54
Allowance for impairment on displacements with banks and other financial institutions	65,000,000.00	377,500,000.00				442,500,000.00
Allowance for impairment on financial assets held under resale agreements	2,923,877.50	3,569,741.00				6,493,618.50
Allowance for impairment on loans and advances to customers	4,573,179,105.99	(203,987,621.41)		(89,625.62)	91,429,964.87	4,277,851,145.33
Allowance for impairment on available-for-sale financial assets	259,516,835.01	(18,982,887.12)				240,533,947.89
Allowance for impairment on held-to-maturity investments	10,643,787.61	(2,734,087.22)				7,909,700.39
Allowance for impairment on investment classified as receivable	777,184,077.60	(10,556,980.77)				766,627,096.83
Allowance for impairment on intangible assets	1,357,053.33					1,357,053.33
Allowance for impairment on fixed assets	71,587.53					71,587.53
Total	5,750,116,800.17	139,135,924.16		(89,625.62)	91,429,964.87	5,797,912,385.08

The Bank								
2018								
Item	Balance as at the beginning of the year	Increase in this period			Decrease in this period		Balance as at the end of the year	
		Allowance in this period	Other increases	Reversal due to value recovery of assets	Foreign currency translation differences	Write-off in this period		Other decreases
Allowance for impairment on interest receivable	26,220,000.00							26,220,000.00
Allowance for impairment on other receivables	2,223,443.86	4,954,418.50	741,690.27	(741,690.27)		3,542,484.00		5,118,758.90
Allowance for impairment on deposits with banks and other financial institutions	25,952,249.26	(752,740.37)						25,199,508.89
Allowance for impairment on displacements with banks and other financial institutions	442,500,000.00	283,750,000.00						726,250,000.00
Allowance for impairment on financial assets held under resale agreements	6,493,618.50	8,714,499.50						15,208,118.00
Allowance for impairment losses on loans	4,217,409,486.32	956,481,549.10				467,366,489.48		4,706,524,545.94
Allowance for impairment on available-for-sale financial assets	240,533,947.89	(1,517,699.39)						239,016,248.50
Allowance for impairment on held-to-maturity investments	7,909,700.39	(881,938.99)						7,027,761.40
Allowance for impairment on investment classified as receivable	766,627,096.83	(331,890,089.62)						434,737,007.21
Allowance for impairment on intangible assets	1,357,053.33							1,357,053.33
Allowance for impairment on fixed assets	71,587.53							71,587.53
Allowance for Losses on depreciation of debt-offsetting assets								
Total	5,737,298,183.91	918,857,998.73	741,690.27	(741,690.27)		3,542,484.00	467,366,489.48	6,186,730,589.70

The Bank						
2017						
Item	Balance as at the beginning of the year	Increase in this period		Decrease in this period		Balance as at the end of the year
		Allowance in this period	Other increases	Reversal due to value recovery of assets	Foreign currency translation differences	
Allowance for impairment on interest receivable	26,220,000.00					26,220,000.00
Allowance for impairment on other receivables	2,032,549.80	190,894.06				2,223,443.86
Allowance for impairment on deposits with banks and other financial institutions	32,105,784.36	(6,153,535.10)				25,952,249.26
Allowance for impairment on displacements with banks and other financial institutions	65,000,000.00	377,500,000.00				442,500,000.00
Allowance for impairment on financial assets held under resale agreements	2,923,877.50	3,569,741.00				6,493,618.50
Allowance for impairment losses on loans	4,524,470,639.31	(215,720,813.74)		(89,625.62)	9,1429,964.87	4,217,409,486.32
Allowance for impairment on available-for-sale financial assets	259,516,835.01	(18,982,887.12)				240,533,947.89
Allowance for impairment on held-to-maturity investments	10,643,787.61	(2,734,087.22)				7,909,700.39
Allowance for impairment on investment classified as receivable	777,184,077.60	(10,556,980.77)				766,627,096.83
Allowance for impairment on intangible assets	1,357,053.33					1,357,053.33
Allowance for impairment on fixed assets	71,587.53					71,587.53
Total	5,701,526,192.05	127,112,331.11		(89,625.62)	91,429,964.87	5,737,298,183.91

(18) Due to Central Bank

Category	The Company	
	31 December 2018	31 December 2017
Due to Central Bank	1,214,737,092.38	418,452,236.09

Category	The Bank	
	31 December 2018	31 December 2017
Due to Central Bank	1,164,737,092.38	358,452,236.09

(19) Due to Banks and Other Financial Institutions

Category	The Company	
	31 December 2018	31 December 2017
Due to banks and other financial institutions	66,330,750,972.44	74,839,911,454.31
Due to other financial institutions	27,636,301,217.03	18,130,349,141.33
Total	93,967,052,189.47	92,970,260,595.64

Category	The Bank	
	31 December 2018	31 December 2017
Due to banks and other financial institutions	66,584,575,219.12	75,009,682,287.92
Due to other financial institutions	27,636,301,217.03	18,130,349,141.33
Total	94,220,876,436.15	93,140,031,429.25

(20) Placements from Banks and Other Financial Institutions

Category	The Company and the Bank	
	31 December 2018	31 December 2017
Placements from banks	1,000,000,000.00	2,500,000,000.00
Placements from non-bank financial institutions		1,500,000,000.00
Total	1,000,000,000.00	4,000,000,000.00

(21) Financial Assets Sold under Repurchase Agreements

1. Classification by Collateral

Category	The Company and the Bank	
	31 December 2018	31 December 2017
Bonds	18,845,072,688.44	15,703,559,008.45
Notes	8,784,442,585.18	5,856,422,980.99
Total	27,629,515,273.62	21,559,981,989.44

2. Classification by Counterparty

Category	The Company and the Bank	
	31 December 2018	31 December 2017
Interbank	16,483,942,585.18	17,132,032,980.99
Other financial institutions	11,145,572,688.44	4,427,949,008.45
Total	27,629,515,273.62	21,559,981,989.44

(22) Due to Customers**(1) Details of Balance**

Category	The Company	
	31 December 2018	31 December 2017
I. Corporate deposits	103,281,309,107.12	105,833,109,378.82
Time deposits	38,030,031,361.28	35,325,396,464.91
Demand deposits	54,226,901,865.70	58,747,840,739.70
Fiscal deposits	34,224,585.54	306,537,652.81
Other deposits	1,134,775,659.60	2,311,827,779.11
Margin received	9,855,375,635.00	9,141,506,742.29
II. Personal deposits	48,335,687,021.00	38,547,515,145.17
Time savings deposits	31,231,519,789.29	23,531,749,305.13
Demand savings deposits	17,104,167,231.71	15,015,765,840.04
III. Structured deposits	4,187,600,000.00	6,607,515,000.00
Total	155,804,596,128.12	150,988,139,523.99

Category	The Bank	
	31 December 2018	31 December 2017
I. Corporate deposits	102,727,374,057.17	105,116,530,189.21
Time deposits	37,601,177,784.23	34,868,559,276.43
Demand deposits	54,138,855,595.80	58,540,061,858.18
Fiscal deposits	26,196,056.32	300,533,032.54
Other deposits	1,134,775,659.60	2,311,827,779.11
Margin received	9,826,368,961.22	9,095,548,242.95
II. Personal deposits	47,708,458,876.14	38,067,737,625.59
Time savings deposits	30,832,679,306.23	23,275,649,941.47
Demand savings deposits	16,875,779,569.91	14,792,087,684.12
III. Structured deposits	4,187,600,000.00	6,607,515,000.00
Total	154,623,432,933.31	149,791,782,814.80

2. See Note VI / (7) for the deposits of shareholders with 5% or above shares of the Company as at 31 December 2018.

(23) Employee Compensation Payable

1. Presentation of Employee Compensation Payable

Category	The Company			
	Balance as at the beginning of the year	Increase in this period	Decrease in this period	Balance as at the end of the year
Short-term compensation	19,557,829.44	782,114,622.07	774,170,089.47	27,502,362.04
Post-employment benefits-Defined contribution plans		132,110,268.85	132,110,268.85	
Dismissal benefits		93,171.00	93,171.00	
Other benefits due within one year				
Total	19,557,829.44	914,318,061.92	906,373,529.32	27,502,362.04

Category	The Bank			
	Balance as at the beginning of the year	Increase in this period	Decrease in this period	Balance as at the end of the year
Short-term compensation	19,028,878.39	764,120,533.98	756,324,008.78	26,825,403.59
Post-employment benefits-Defined contribution plans		128,824,887.50	128,824,887.50	
Dismissal benefits		93,171.00	93,171.00	
Other benefits due within one year				
Total	19,028,878.39	893,038,592.48	885,242,067.28	26,825,403.59

2. Presentation of Short-term Compensation

Category	The Company			
	Balance as at the beginning of the year	Increase in this period	Decrease in this period	Balance as at the end of the year
(1) Salary, bonus, allowance and subsidy		603,866,216.58	603,866,216.58	
(2) Employee welfare		47,997,332.89	47,997,332.89	
(3) Social insurance		48,682,986.44	48,682,986.44	
Including: Medical insurance premiums		42,298,891.62	42,298,891.62	
Work-related injury insurance premiums		1,099,327.00	1,099,327.00	
Maternity insurance premiums		2,965,469.47	2,965,469.47	
Others		2,319,298.35	2,319,298.35	
(4) Housing provident funds		50,476,209.80	50,476,209.80	
(5) Labor union expenditures and employee education expenses	19,557,829.44	23,598,813.08	15,654,280.48	27,502,362.04

Continued

Category	The Company			
	Balance as at the beginning of the year	Increase in this period	Decrease in this period	Balance as at the end of the year
(6) Short-term compensated absences				
(7) Short-term profit sharing plans				
(8) Others		7,493,063.28	7,493,063.28	
Total	19,557,829.44	782,114,622.07	774,170,089.47	27,502,362.04

Category	The Bank			
	Balance as at the beginning of the year	Increase in this period	Decrease in this period	Balance as at the end of the year
(1) Salary, bonus, allowance and subsidy		590,513,736.70	590,513,736.70	
(2) Employee welfare		46,789,032.29	46,789,032.29	
(3) Social insurance		47,398,617.45	47,398,617.45	
Including: Medical insurance premiums		41,226,111.42	41,226,111.42	
Work-related injury insurance premiums		1,047,163.81	1,047,163.81	
Maternity insurance premiums		2,901,505.03	2,901,505.03	
Others		2,223,837.19	2,223,837.19	
(4) Housing provident funds		48,998,500.80	48,998,500.80	
(5) Labor union expenditures and employee education expenses	19,028,878.39	23,128,909.46	15,332,384.26	26,825,403.59
(6) Short-term compensated absences				
(7) Short-term profit sharing plans				
(8) Others		7,291,737.28	7,291,737.28	
Total	19,028,878.39	764,120,533.98	756,324,008.78	26,825,403.59

3. Details of Defined Contribution Plans

Item	Balance as at the beginning of the year	Increase in this period	Decrease in this period	Balance as at the end of the year
(1) Basic endowment insurance premiums		89,630,656.12	89,630,656.12	
(2) Unemployment insurance premiums		2,812,917.97	2,812,917.97	
(3) Enterprise annuity payments		39,666,694.76	39,666,694.76	
Total		132,110,268.85	132,110,268.85	

Continued

Item	Balance as at the beginning of the year	Increase in this period	Decrease in this period	Balance as at the end of the year
(1) Basic endowment insurance premiums		87,266,142.39	87,266,142.39	
(2) Unemployment insurance premiums		2,745,557.60	2,745,557.60	
(3) Enterprise annuity payments		38,813,187.51	38,813,187.51	
Total		128,824,887.50	128,824,887.50	

(24) Tax Payable

Category	The Company	
	31 December 2018	31 December 2017
Corporate income tax	247,496,706.46	136,439,317.84
Added-value tax	44,136,590.24	32,097,211.58
City construction and maintenance tax	2,048,096.28	2,185,652.15
Education surcharges	1,475,591.08	1,588,665.29
Property tax	18,864.06	
Land use tax	531.92	
Individual income tax	22,189,103.29	25,856,263.80
Stamp tax	407,348.85	249,361.09
Others/Embankment fee/Land use	5,328,049.55	2,473,430.68
Total	323,100,881.73	200,889,902.43

Category	The Bank	
	31 December 2018	31 December 2017
Corporate income tax	244,400,854.20	132,546,340.50
Added-value tax	43,875,445.08	31,603,165.01
City construction and maintenance tax	2,036,019.56	2,159,589.64
Education surcharges	1,462,382.15	1,556,858.93
Property tax	18,864.06	
Individual income tax	22,022,870.43	24,967,772.77
Stamp tax	396,456.15	249,361.09
Others/Embankment fee/Land use	5,328,581.47	2,473,430.68
Total	319,541,473.10	195,556,518.62

(25) Interest Payable

1. Details of Balance

Category	The Company	
	31 December 2018	31 December 2017
Interest payable on the due to Central Bank	92,430.56	50,416.67
Interest payable on placements from banks and other financial institutions	312,222.22	1,979,444.46
Interest payable on due to banks and other financial institutions	315,327,838.37	492,908,600.76
Interest payable on financial assets sold under repurchase agreements	191,606,241.13	21,341,887.24
Interest payable on deposits	2,220,677,417.11	1,888,472,879.16
Interest payable on bonds	11,316,666.62	164,383.56
Total	2,739,332,816.01	2,404,917,611.85

Category	The Bank	
	31 December 2018	31 December 2017
Interest payable on placements from banks and other financial institutions	312,222.22	1,979,444.46
Interest payable on due to banks and other financial institutions	315,114,849.71	491,900,413.17
Interest payable on financial assets sold under repurchase agreements	191,606,241.13	21,341,887.24
Interest payable on deposits	2,204,027,784.17	1,877,810,789.98
Interest payable on bonds	11,316,666.62	164,383.56
Total	2,722,377,763.85	2,393,196,918.41

2. See Note VI / (7) for interest payable of shareholders with 5% or above shares of the Company as at 31 December 2018.

(26) Bonds Payable

1. Classification of Bonds Payable

Category	The Company and the Bank	
	31 December 2018	31 December 2017
Green Financial Bonds, the first issue in 2017	100,000,000.00	100,000,000.00
Green Financial Bonds, the first issue in 2018	400,000,000.00	
Interbank negotiable certificates of deposit	33,260,119,540.12	13,751,088,281.98
Total	33,760,119,540.12	13,851,088,281.98

2. Green Financial Bonds

The first issue of Green Financial Bonds was released on 20 December 2017, at an annually paid nominal rate of 6.00% for a period of three years.

The first issue of Green Financial Bonds was released on 24 May 2018, at an annually paid nominal rate of 4.85% for a period of three years.

All Green Financial Bonds issued by the Company are all used for granting loans for the projects of green industry.

3. Interbank Negotiable Certificates of Deposit

As at 31 December 2018, the Company (the Bank) had issued 66 interbank negotiable certificates of deposit in a total nominal value of RMB 33,910,000,000.00, which are all measured by amortized costs (34 interbank negotiable certificates of deposit as at 31 December 2017 in a total nominal value of RMB 13,880,000,000.00).

(27) Other Liabilities

(1) Details of Balance

Category	The Company	
	31 December 2018	31 December 2017
Dividends payable	41,436.23	40,519.99
Other payables	3,786,505,825.39	2,775,997,943.06
Deferred income	7,920,945.54	7,789,159.21
Liquidation funds	246,426,171.25	146,866,525.23
Liabilities from vicarious business	145,987,476.78	242,528,519.20
Total	4,186,881,855.19	3,173,222,666.69

Category	The Bank	
	31 December 2018	31 December 2017
Dividends payable	41,436.23	40,519.99
Other payables	3,785,153,975.84	2,766,637,217.07
Deferred income	7,920,945.54	7,789,159.21
Liquidation funds	246,036,434.53	146,476,794.01
Liabilities from vicarious business	145,987,476.78	242,528,519.20
Total	4,185,140,268.92	3,163,472,209.48

2. Other Payables

(1) Details of Balance

Category	The Company	
	31 December 2018	31 December 2017
Payment suspended for a long time	18,876,467.92	18,876,467.92
Temporary payables	232,158,117.99	115,902,099.32

Continued

Category	The Company	
	31 December 2018	31 December 2017
Wages paying payables	3,535,471,239.48	2,641,219,375.82
Total	3,786,505,825.39	2,775,997,943.06

Category	The Bank	
	31 December 2018	31 December 2017
Payment suspended for a long time	18,034,246.68	18,861,237.90
Temporary payables	231,923,978.60	113,480,312.52
Wages paying payables	3,535,195,750.56	2,634,295,666.65
Total	3,785,153,975.84	2,766,637,217.07

(2) As at 31 December 2018, there were no other dues to shareholders with 5% or above shares of the Company.

3. Deferred Income

Category	The Company and the Bank	
	31 December 2018	31 December 2017
Government grants related to income:		
Urumqi Economic and Technological Development Zone received operational support funds	7,535,989.74	7,535,989.74
Steady post subsidy	384,955.80	253,169.47
Total	7,920,945.54	7,789,159.21

(28) Share Capital

Name of investor	31 December 2017		31 December 2018	
	Investment amount	Proportion (%)	Investment amount	Proportion (%)
CNPC Capital Limited Company	7,930,712,499.85	77.09	7,930,712,499.85	77.09
Other state-owned shareholders	2,045,489,011.83	19.88	2,078,343,152.52	20.2
Collective capital	310,729,223.81	3.02	277,875,083.12	2.7
Private capital	948,522.94	0.01	948,522.94	0.01
Total	10,287,879,258.43	100.00	10,287,879,258.43	100.00

(29) Capital Reserve

Item	The Company			
	1 January 2018	Increase in this period	Decrease in this period	31 December 2018
1. Capital premium (Stock premium)				
(1) Capital invested by investors	10,192,889,490.69			10,192,889,490.69
(2) Impact of business combination under the same control				
(3) Others (e.g. Capital reserve formed by minority's capital increase)	1,053,916.20		952,692.39	101,223.81
Subtotal	10,193,943,406.89		952,692.39	10,192,990,714.50
2. Other capital reserve				
(1) Original institutional capital reserve transfer in				
(2) Balance of relocation compensation by the government due to public interests				
Subtotal				
Total	10,193,943,406.89		952,692.39	10,192,990,714.50

Item	The Bank			
	1 January 2018	Increase in this period	Decrease in this period	31 December 2018
1. Capital premium (Stock premium)				
(1) Capital invested by investors	10,192,889,490.69			10,192,889,490.69
(2) Impact of business combination under the same control				
(3) Others				
Subtotal	10,192,889,490.69			10,192,889,490.69
2. Other capital reserve				
(1) Original institutional capital reserve transfer in				
(2) Balance of relocation compensation paid by the government due to relocation for public interests				
Subtotal				
Total	10,192,889,490.69			10,192,889,490.69

(30) Other Comprehensive Income

Item	The Company					
	Amount incurred in this period					
	31 December 2017	Amount incurred in this period before income tax	Less: Amount previously recognized in other comprehensive income and then transferred into current profit or loss	Less: Income tax	Amount attributable to the shareholders of the parent company after tax	Amount attributable to minority after tax 31 December 2018
I. Items that may not be reclassified subsequently to profit or loss						
II. Items that may be reclassified subsequently to profit or loss	(278,369,105.55)	1,125,909,616.10	562,954,808.05	84,443,221.21	478,511,586.84	200,142,307.93
Including: Net after-tax value of changes in fair value of available-for-sale financial assets	(278,369,105.55)	1,125,909,616.10	562,954,808.05	84,443,221.21	478,511,586.84	200,142,481.29
Share in other comprehensive income of investee that will be reclassified into profit or loss under equity method	(173.36)					(173.36)
Total other comprehensive incomes	(278,369,278.91)	1,125,909,616.10	562,954,808.05	84,443,221.21	478,511,586.84	200,142,307.93
Item	The Bank					
	Amount incurred in this period					
	31 December 2017	Amount incurred in this period before income tax	Less: Amount previously recognized in other comprehensive income and then transferred into current profit or loss	Less: Income tax	Amount attributable to the shareholders of the parent company after tax	Amount attributable to minority after tax 31 December 2018
I. Items that may not be reclassified subsequently to profit or loss						
II. Items that may be reclassified subsequently to profit or loss	(278,369,105.55)	1,125,909,616.10	562,954,808.05	84,443,221.21	478,511,586.84	200,142,481.29
Including: Net after-tax value of changes in fair value of available-for-sale financial assets	(278,369,105.55)	1,125,909,616.10	562,954,808.05	84,443,221.21	478,511,586.84	200,142,481.29
Share in other comprehensive income of investee that will be reclassified into profit or loss under equity method						
Total other comprehensive incomes	(278,369,105.55)	1,125,909,616.10	562,954,808.05	84,443,221.21	478,511,586.84	200,142,481.29

(31) Surplus Reserve

Surplus reserve of the company and the Bank

Item	31 December 2017	Withdrawal in this period	31 December 2018
Statutory surplus reserve	1,788,418,680.95	327,790,376.11	2,116,209,057.06

Item	31 December 2016	Withdrawal in this period	31 December 2017
Statutory surplus reserve	1,494,412,683.53	294,005,997.42	1,788,418,680.95

(32) General Risk Preparation

Item	The Company		
	31 December 2017	Withdrawal in this period	31 December 2018
General risk preparation	3,834,694,545.20	463,306,500.93	4,298,001,046.13

Item	The Company		
	31 December 2016	Withdrawal in this period	31 December 2017
General risk preparation	2,782,696,413.24	1,051,998,131.96	3,834,694,545.20

Item	The Bank		
	31 December 2017	Withdrawal in this period	31 December 2018
General risk preparation	3,823,854,729.04	463,306,500.93	4,287,161,229.97

Item	The Bank		
	31 December 2016	Withdrawal in this period	31 December 2017
General risk preparation	2,772,520,643.27	1,051,334,085.77	3,823,854,729.04

According to the stipulations in the *Administrative Measures for the Provision of Reserves by Financial Enterprises* (C.J. [2012] No.20), the Company established general risk preparation on the basis of withdrawal of allowance for assets impairment to cover the potential possible losses which are unidentified by the Bank and related with the risk assets. The assets of financial enterprises for deducting risk costs and losses include loans and advances, available-for-sale financial assets, held-to-maturity investments, long-term equity investments, deposits with banks and other financial institutions, placements with banks and other financial institutions, debt-offsetting assets, other receivables, etc. As at 31 December 2018, the general risk preparation after withdrawal by the Company according to the above Administrative Measures is not less than 1.5% of the balance of year-end risk assets.

(33) Undistributed Profits

Item	The Company	
	2018	2017
Balance as at the beginning of the year	2,038,494,653.71	1,389,581,918.41
Plus: Net profit attributable to the shareholders of the parent company in this period	3,274,098,589.58	2,958,146,242.16
Less: Withdrawal of statutory surplus reserve	327,790,376.11	294,005,997.42
Withdrawal of general risk preparation	463,306,500.93	1,051,998,131.96
Distributions to shareholders	1,224,257,631.81	963,229,377.48
Undistributed profits at the end of the period	3,297,238,734.44	2,038,494,653.71

Item	The Bank	
	2018	2017
Balance as at the beginning of the year	1,968,593,271.49	1,335,563,432.20
Plus: Net profit in this period	3,276,364,435.56	2,941,599,299.96
Less: Withdrawal of statutory surplus reserve	327,790,376.11	294,005,997.42
Withdrawal of general risk preparation	463,306,500.93	1,051,334,085.77
Distributions to shareholders	1,224,257,631.81	963,229,377.48
Balance as at the end of the year	3,229,603,198.20	1,968,593,271.49

According to the 2017 General Meeting of shareholders of the Bank, to distribute the dividends for the second half of year 2017 in total RMB 504,106,100, which is equal to the dividends payable for the whole year 2017 in total RMB 1,183,106,100 minus the dividends distributed for the first half of year 2017 in total RMB 679,000,000. The cash dividends in total RMB 504,106,100 (tax included) are to be distributed at RMB 0.49 / 10 shares (tax included) based on the total 10,287,879,300 capital shares as at 31 December 2017.

Upon the resolution of the first Extraordinary General Meeting in 2018, the cash dividends distributed at RMB 0.70 / 10 shares (tax included) from the profit available for distribution of the first half of year 2018 are RMB 720,151,500 (tax included).

(34) Minority Interests

Subsidiaries	Proportion of minority interests (%)	Balance as at the end of the year	Balance as at the beginning of the year
Leshan Kunlun Rural Bank	20.00%	17,591,419.27	18,305,960.48
Tacheng Kunlun Rural Bank	53.27%	74,901,593.01	54,996,874.74
Total		92,493,012.28	73,302,835.22

(35) Net Interest Income

Item	The Company	
	2018	2017
Interest income	11,836,878,051.40	9,863,378,623.74
Deposits with banks and other financial institutions	570,632,642.54	248,568,840.95
Deposits with Central Bank	353,304,622.34	378,556,696.39
Placements with banks and other financial institutions	1,215,262,773.35	346,638,805.55
Financial assets held under resale agreements	299,032,212.14	201,891,284.64
Loans and advances to customers	5,723,588,961.94	4,903,378,557.18
Including: Loans and advances	4,358,121,973.52	3,607,531,038.58
Notes discounted	1,365,466,988.42	1,295,847,518.60
Bond investment	402,513,593.84	1,064,638,130.72
Investment classified as receivable	2,391,295,955.80	2,558,195,919.27
Interest income from trading bonds	881,247,289.45	161,510,389.04
Interest expenses	5,902,861,838.52	4,740,565,093.40
Due to banks and other financial institutions	1,829,965,247.64	1,909,733,573.15
Due to central bank	19,931,567.94	10,613,433.39
Placements from banks and other financial institutions	64,458,574.70	58,960,694.45
Due to customers	2,570,536,625.51	2,142,737,740.01
Financial assets sold under repurchase agreements	496,067,584.16	292,789,598.24
Interest expenses for issuing bonds	921,902,238.57	325,730,054.16
Net interest income	5,934,016,212.88	5,122,813,530.34

Item	The Bank	
	2018	2017
Interest income	11,748,995,594.01	9,770,701,654.28
Deposits with banks and other financial institutions	568,803,216.83	251,911,131.15
Deposits with Central Bank	351,619,541.81	376,963,041.28
Placements with banks and other financial institutions	1,215,262,773.35	346,638,805.55
Financial assets held under resale agreements	299,032,212.14	201,891,284.64
Loans and advances to customers	5,639,221,010.79	4,808,952,952.63
Including: Loans and advances	4,273,754,022.37	3,513,105,434.03
Notes discounted	1,365,466,988.42	1,295,847,518.60
Bond investment	402,513,593.84	1,064,638,130.72
Investment classified as receivable	2,391,295,955.80	2,558,195,919.27
Interest income from trading bonds	881,247,289.45	161,510,389.04
Interest expenses	5,882,894,480.28	4,725,671,831.21
Due to banks and other financial institutions	1,836,568,204.40	1,912,590,255.69
Due to central bank	18,491,026.27	9,208,167.40

Continued

Item	The Bank	
	2018	2017
Placements from banks and other financial institutions	59,704,472.16	58,960,694.45
Due to customers	2,550,160,954.72	2,126,393,061.27
Financial assets sold under repurchase agreements	496,067,584.16	292,789,598.24
Bonds issued	921,902,238.57	325,730,054.16
Net interest income	5,866,101,113.73	5,045,029,823.07

(36) Net Fee and Commission Income

Item	The Company	
	2018	2017
Fee and commission income	223,983,477.35	264,425,097.24
Settlement income	75,519,791.91	85,735,425.63
Agency fee income	39,273,332.19	24,004,369.35
Bank card income	25,356,920.61	20,302,948.67
Foreign exchange settlement fees	18,225,441.46	42,192,611.69
Guarantee charges	127,979.15	261,457.55
Wealth management commissions	57,518,790.29	84,321,637.90
Syndicated loan commissions	3,954,716.98	4,943,396.23
Other fees and commissions	4,006,504.76	2,663,250.22
Fee and commission expenses	67,164,585.07	84,850,546.82
Settlement expenses	7,725,547.67	18,808,704.63
Bank card expenses	30,061,184.09	46,405,025.60
Agency fee expenses	1,006,173.02	1,105,912.87
Business voucher fees	5,448,930.81	3,438,815.63
Collateral handling fees	2,360,059.84	1,809,349.03
SMS service fees	4,636,344.97	2,191,993.62
Other expenses from agency commissions	15,926,344.67	11,090,745.44
Net fee and commission income	156,818,892.28	179,574,550.42

Item	The Bank	
	2018	2017
Fee and commission income	222,860,615.36	262,880,832.46
Settlement income	75,453,426.38	85,662,091.16
Agency fee income	38,557,763.01	23,009,271.76
Bank card income	25,356,920.61	20,003,389.76
Foreign exchange settlement fees	18,225,441.46	42,192,611.69
Guarantee charges	127,979.15	261,457.55
Wealth management commissions	57,518,790.29	84,166,756.09
Syndicated loan commissions	3,954,716.98	4,943,396.23

Continued

Item	The Bank	
	2018	2017
Other fees and commissions	3,665,577.48	2,641,858.22
Fee and commission expenses	66,369,108.64	83,719,225.47
Settlement expenses	6,930,071.24	18,741,327.05
Bank card expenses	30,061,184.09	45,563,606.40
Agency fee expenses	1,006,173.02	1,105,912.87
Business voucher fees	5,448,930.81	3,438,815.63
Collateral handling fees	2,360,059.84	1,809,349.03
SMS service fees	4,636,344.97	2,191,993.62
Other expenses from agency commissions	15,926,344.67	10,868,220.87
Net fee and commission income	156,491,506.72	179,161,606.99

(37) Other Gains

Item	The Company	
	2018	2017
Government grants	5,889,600.00	6,110,677.52
Withholding fees chargeable to individual income tax refund	631,831.68	577,986.89
Total	6,521,431.68	6,688,664.41

Item	The Bank	
	2018	2017
Government grants	1,214,200.00	296,600.00
Withholding fees chargeable to individual income tax refund	611,008.36	555,770.46
Total	1,825,208.36	852,370.46

Details about government grants of the Company and the Bank

Details about government grants	Amount	Remarks
Urumchi Branch incentives for agro-related businesses	944,200.00	Relevant to income
Xi'an Branch received rewarded risk compensation funds from Financial Department of Shaanxi Province	250,000.00	Relevant to income
Xi'an Branch received subsidy funds from the Finance Bureau	20,000.00	Relevant to income
Leshan Kunlun Rural Bank received economic construction subsidies from financial payment of Jiajiang County	1,800,000.00	Relevant to income
Leshan Kunlun Rural Bank received financial incentives for targeted poverty alleviation	38,300.00	Relevant to income
Tacheng Kunlun Rural Bank received financial agro-related loan subsidies from Emin County	2,837,100.00	Relevant to income
Total	5,889,600.00	

(38) Return on Investment

Item	The Company	
	2018	2017
Return on investment from disposal of financial assets at fair value through profit or loss	2,551,957.29	(68,076,066.19)
Return from disposal of held-to-maturity investments		790,050.42
Return on investment from disposal of available-for-sale financial assets	129,765,997.20	7,803,449.41
Total	132,317,954.49	(59,482,566.36)

Item	The Bank	
	2018	2017
Return on investment from disposal of financial assets at fair value through profit or loss	2,551,957.29	(68,076,066.19)
Return from disposal of held-to-maturity investments		790,050.42
Return on investment from disposal of available-for-sale financial assets	129,765,997.20	7,803,449.41
Return on long-term equity investments are calculated under cost method	4,000,000.00	
Total	136,317,954.49	(59,482,566.36)

(39) Gains from Changes in Fair Value

Item	The Company and the Bank	
	2018	2017
Financial assets at fair value through profit or loss	230,783,662.42	17,168,715.39

(40) Gains from Disposal of Assets

Item	The Company	
	2018	2017
Other gains from disposal of non-current assets	887,557.03	
Other losses from disposal of non-current assets	(2,495,536.01)	(91,385.08)
Total	(1,607,978.98)	(91,385.08)

Item	The Bank	
	2018	2017
Other gains from disposal of non-current assets	887,557.03	
Other losses from disposal of non-current assets	(61,532.17)	(73,089.34)
Total	826,024.86	(73,089.34)

(41) Foreign Exchange Gains

Item	The Company and the Bank	
	2018	2017
Income from foreign exchange services	77,505,753.56	(78,682,256.35)
Expenses from foreign exchange services	172,947,723.08	212,820,520.48
Total	250,453,476.64	134,138,264.13

(42) Other Operating Income

Item	The Company	
	2018	2017
Other assets rental income	362,700.00	379,000.00
Others	167,996.83	155,049.85
Total	530,696.83	534,049.85

Item	The Bank	
	2018	2017
Other assets rental income	362,700.00	360,000.00
Others	167,949.52	157,735.99
Total	530,649.52	517,735.99

(43) Taxes and Surcharges

Item	The Company	
	2018	2017
Business tax		1,527,647.90
Urban construction tax	21,482,198.89	16,675,216.26
Education surcharges	9,214,206.44	7,176,731.91
Local education surcharges	6,142,649.85	4,726,691.93
Others	7,568,543.82	6,473,101.17
Total	44,407,599.00	36,579,389.17

Item	The Bank	
	2018	2017
Business tax		1,527,647.90
Urban construction tax	21,391,835.61	16,530,725.84
Education surcharges	9,166,819.26	7,090,037.66
Local education surcharges	6,111,212.83	4,726,691.93
Others	7,382,507.24	6,180,342.28
Total	44,052,374.94	36,055,445.61

(44) Operating and Administrative Expenses

Item	The Company	
	2018	2017
Employee expenses	914,318,061.92	788,276,360.37
Daily business expenses	345,873,995.08	288,488,998.25
Depreciation of fixed assets	68,565,967.25	72,313,258.04
Amortization of long-term unamortized expenses	40,683,790.47	44,517,582.75
Amortization of intangible assets	41,794,665.78	45,172,833.37
Operating expenses for electronic equipment	135,947,064.09	124,899,687.83
Security protection expenses	37,420,341.89	35,381,608.00
Property management fees	32,830,377.40	33,890,314.01
Rental fees	275,349,275.05	280,315,011.97
Total	1,892,783,538.93	1,713,255,654.59

Item	The Bank	
	2018	2017
Employee expenses	893,038,592.48	766,034,665.66
Daily business expenses	342,056,381.87	282,631,087.69
Depreciation of fixed assets	66,908,323.54	70,631,920.95
Amortization of long-term unamortized expenses	40,063,697.90	43,875,771.98
Amortization of intangible assets	41,664,804.78	45,031,166.65
Operating expenses for electronic equipment	134,726,653.48	123,163,308.30
Security protection expenses	32,799,730.40	33,718,723.99
Property management fees	32,799,730.40	33,854,737.99
Rental fees	273,621,375.56	278,650,108.39
Total	1,857,679,290.41	1,677,591,491.60

(45) Impairment Losses on Assets

Item	The Company	
	2018	2017
Losses on bad debts of interest receivable	(855.87)	7,725.78
Losses on bad debts of other receivables	5,803,571.17	253,588.16
Losses on bad debts of deposits with banks and other financial institutions	(800,179.56)	(5,933,554.26)
Losses on bad debts of displacements with banks and other financial institutions	283,750,000.00	377,500,000.00
Losses on bad debts of financial assets held under resale agreements	8,714,499.50	3,569,741.00
Losses on impairment of loans	986,542,210.53	(203,987,621.41)
Losses on impairment of available-for-sale financial assets	(1,517,699.39)	(18,982,887.12)

Continued

Item	The Company	
	2018	2017
Losses on impairment of held-to-maturity investments	(881,938.99)	(2,734,087.22)
Losses on impairment of investment classified as receivable	(331,890,089.62)	(10,556,980.77)
Losses on depreciation of debt-offsetting assets	1,613,668.20	
Total	951,333,185.97	139,135,924.16

Item	The Bank	
	2018	2017
Losses on bad debts of other receivables	5,696,108.77	190,894.06
Losses on bad debts of deposits with banks and other financial institutions	(752,740.37)	(6,153,535.10)
Losses on bad debts of displacements with banks and other financial institutions	283,750,000.00	377,500,000.00
Losses on bad debts of financial assets held under resale agreements	8,714,499.50	3,569,741.00
Losses on impairment of loans	956,481,549.10	(215,720,813.74)
Losses on impairment of available-for-sale financial assets	(1,517,699.39)	(18,982,887.12)
Losses on impairment of held-to-maturity investments	(881,938.99)	(2,734,087.22)
Losses on impairment of investment classified as receivable	(331,890,089.62)	(10,556,980.77)
Total	919,599,689.00	127,112,331.11

(46) Non-operating Income

Item	The Company	
	2018	2017
Total gains from disposal of non-current assets		
Including: Gains from disposal of fixed assets		
Income from penalty settlement	29,150.00	22,802.28
Other gains	5,498,663.44	588,334.49
Total	5,527,813.44	611,136.77

Item	The Bank	
	2018	2017
Total gains from disposal of non-current assets		
Including: Gains from disposal of fixed assets		
Income from penalty settlement	15,000.00	12,900.00
Other gains	5,404,737.20	585,198.80
Total	5,419,737.20	598,098.80

(47) Non-operating Expenses

Item	The Company	
	2018	2017
Total losses from disposal of non-current assets	642,275.36	
Including: Losses on disposal of fixed assets	642,275.36	
Donation expenditures	1,406,805.28	723,035.04
Penalties and overdue fines	871,792.36	1,855,310.48
Others	1,137,627.31	650,518.28
Total	4,058,500.31	3,228,863.80

Item	The Bank	
	2018	2017
Total losses from disposal of non-current assets	625,907.86	
Including: Losses on disposal of fixed assets	625,907.86	
Donation expenditures	1,391,805.28	723,035.04
Penalties and overdue fines	855,611.86	1,555,306.53
Others	1,137,611.92	650,507.54
Total	4,010,936.92	2,928,849.11

(48) Income Tax Expenses

Item	The Company	
	2018	2017
Current income tax expenses	545,032,307.19	510,556,632.49
Deferred income tax expenses	2,319,465.28	30,288,424.10
Total	547,351,772.47	540,845,056.59

Item	The Bank	
	2018	2017
Current income tax expenses	538,748,616.33	501,495,241.46
Deferred income tax expenses	7,745,670.03	30,627,435.47
Total	546,494,286.36	532,122,676.93

Relationship between Income Tax and Profit of This Year

Item	The Company	
	2018	2017
Total profit	3,822,231,016.72	3,509,239,678.44
Income tax expenses calculated upon statutory / applicable tax rate	573,334,652.51	526,385,951.77

Continued

Item	The Company	
	2018	2017
Affects from different tax rates applicable to subsidiaries	921,576.44	1,065,302.22
Affects from adjustments to income taxes of previous period	10,653,781.85	29,235,602.95
Affects from non-taxable income	(43,892,819.31)	(28,615,628.66)
Affects from non-deductable costs, fees and losses	6,334,580.98	12,773,828.31
Total	547,351,772.47	540,845,056.59

Item	The Bank	
	2018	2017
Total profit	3,822,858,721.92	3,473,721,976.89
Income tax expenses calculated upon statutory / applicable tax rate	573,428,808.29	521,058,296.53
Affects from different tax rates applicable to subsidiaries		
Affects from adjustments to income taxes of previous period	10,653,781.85	27,897,322.92
Affects from non-taxable income	(43,865,909.75)	(28,615,628.66)
Affects from non-deductable costs, fees and losses	6,277,605.97	11,782,686.14
Total	546,494,286.36	532,122,676.93

(49) Other Comprehensive Income, Net of Tax

Item	The Company and the Bank	
	2018	2017
1. Gains / losses from available-for-sale financial assets	1,125,909,616.10	(424,703,104.46)
Less: Affects from income tax for available-for-sale financial assets of this year	84,443,221.21	(31,852,732.83)
Net amount previously recognized in other comprehensive income and then transferred into current profit or loss	562,954,808.05	(212,351,552.23)
Subtotal	478,511,586.84	(180,498,819.40)
2. Others		
Total	478,511,586.84	(180,498,819.40)

(50) Earnings per Share

1. Earnings per Share

The Company

Item	2018		2017	
	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	0.32	0.32	0.29	0.29

Item	2018	2017
Net profit attributable to the shareholders of the parent company	3,274,098,589.58	2,958,146,242.16
Net profit after deduction of non-recurring gains and losses	3,269,246,708.86	2,956,516,954.04
Total shares at the beginning of the period (share)	10,287,879,258.43	10,287,879,258.43
New shares issued during the period (share)		
Number of months within the period	12	12
Number of months from the end of share issuing month to the end of the period		
Weighted average of outstanding ordinary shares (share)	10,287,879,258.43	10,287,879,258.43
Weighted average of earnings per share (RMB)	0.32	0.29
Basic earnings per share after deduction of non-recurring gains and losses (RMB)	0.32	0.29

There was no diluted potential ordinary share from year 2017 to year 2018, so that the diluted earnings per share was equal to the basic earnings per share.

2. Return on Equity

The Company

Item	Weighted average ROE (%)	
	2018	2017
Net profit attributable to ordinary shareholders of the Company	11.01	10.82

Item	2018	2017
Net profit attributable to the shareholders of the parent company	3,274,098,589.58	2,958,146,242.16
Net profit after deduction of non-recurring gains and losses	3,269,246,708.86	2,956,516,954.04
Net assets as at the end of the year	30,392,461,118.49	27,865,061,266.27
Weighted average of net assets	29,741,366,354.48	27,439,466,932.37
Weighted average ROE	11.09%	10.82%
Weighted average ROE after deduction of non-recurring gains and losses	11.07%	10.81%

(51) Notes to the Statement of Cash Flows

1. Other Cash Receipts Relating to Operating Activities

Item	The Company	
	2018	2017
Temporary receipts to be transferred	113,328,498.18	704,203,641.55
Government grants	6,521,431.68	6,110,677.52
Rental income	530,696.83	379,000.00
Others	671,305,601.88	701,209,076.54
Total	791,686,228.57	1,411,902,395.61

Item	The Bank	
	2018	2017
Temporary receipts to be transferred	105,204,653.35	930,913,108.94
Government grants	1,825,208.36	360,000.00
Rental income	530,649.52	1,073,506.45
Others	653,645,575.23	702,719,247.28
Total	761,206,086.46	1,635,065,862.67

2. Other Cash Payments Relating to Operating Activities

Item	The Company	
	2018	2017
Payments to be cleared or settled	302,851,810.69	28,167,773.99
Non-operating expenses (exclusive of losses from disposal of assets)	3,416,224.95	3,320,248.88
Payments for business expenses	827,421,053.51	762,975,620.06
Others	67,709,468.16	83,835,077.30
Total	1,201,398,557.31	878,298,720.23

Item	The Bank	
	2018	2017
Payments to be cleared or settled	302,851,810.69	17,651,198.63
Non-operating expenses (exclusive of losses from disposal of assets)	3,385,029.06	2,928,849.11
Payments for business expenses	816,003,871.71	752,017,966.36
Others	37,822,268.82	83,835,077.30
Total	1,160,062,980.28	856,433,091.40

(52) Supplementary Information to the Statement of Cash Flows

1. Net Profit Adjusted to Cash Flows from Operating Activities

Item	The Company	
	2018	2017
1. Net profit of the parent company in this period	3,274,098,589.58	2,958,146,242.16
Minority gains or losses	780,654.67	10,248,379.69
Net profit (loss is indicated in "()")	3,274,879,244.25	2,968,394,621.85
Plus: Allowance for assets impairment	951,333,185.97	139,135,924.16
Depreciation of fixed assets	68,565,967.25	72,313,258.04
Amortization of intangible assets	41,794,665.78	45,172,833.37
Amortization of long-term unamortized expenses	40,683,790.47	44,517,582.75
Losses on disposal of fixed assets, intangible assets and other long-term assets	(887,557.03)	91,385.08

Continued

Item	The Company	
	2018	2017
Losses on retirement of fixed assets (Gain is indicated by "()")	642,275.36	
Losses on changes in fair value	(230,783,662.42)	(17,168,715.39)
Investment losses	(2,923,575,546.84)	(3,563,351,483.63)
Decrease in deferred tax assets	2,319,465.28	33,417,041.58
Increase in deferred tax liabilities		
Decrease in loans	(15,688,547,739.24)	(7,057,020,321.90)
Increase in deposits	4,816,456,604.13	2,379,397,537.49
Net decrease in interbank lending	(13,300,000,000.00)	(14,982,500,000.00)
Decrease in operating receivables	15,931,434,140.63	(9,307,467,925.76)
Increase in operating payables	5,512,463,591.60	7,307,487,080.28
Decrease in other operating assets	(302,765,070.17)	112,002,851.29
Increase in other operating liabilities	1,013,775,078.63	1,269,930,280.45
Net cash flow from operating activities	(792,211,566.35)	(20,555,648,050.34)
2. Changes in net cash and cash equivalents:		
Cash balance as at the end of the year	43,217,920,776.43	23,050,592,806.69
Less: Cash balance as at the beginning of the year	23,050,592,806.69	39,132,612,325.85
Plus: Cash equivalents balance as at the end of the year	49,076,555,446.46	22,975,517,453.49
Less: Cash equivalents balance as at the beginning of the year	22,975,517,453.49	9,704,264,535.06
Net increase in cash and cash equivalents	46,268,365,962.71	(2,810,766,600.73)

Item	The Bank	
	2018	2017
1. Net profit (loss is indicated in "()")	3,276,364,435.56	2,941,599,299.96
Plus: Allowance for assets impairment	919,599,689.00	127,112,331.11
Depreciation of fixed assets	66,908,323.54	70,631,920.95
Amortization of intangible assets	41,664,804.78	45,031,166.65
Amortization of long-term unamortized expenses	40,063,697.90	43,875,771.98
Losses on disposal of fixed assets, intangible assets and other long-term assets	(887,557.03)	73,089.34
Losses on retirement of fixed assets (Gain is indicated by "()")	625,907.86	
Losses on changes in fair value	687,440.03	(17,168,715.39)
Investment losses	(3,160,911,166.55)	(3,563,351,483.63)
Decrease in deferred tax assets	7,745,670.03	30,627,435.49
Increase in deferred tax liabilities		
Decrease in loans	(15,678,652,657.07)	(7,225,403,154.60)
Increase in deposits	4,831,650,118.51	2,377,344,888.24
Net decrease in interbank lending	(13,300,000,000.00)	(14,982,500,000.00)
Decrease in operating receivables	14,780,113,312.39	(9,274,158,477.82)
Increase in operating payables	6,729,074,653.85	7,972,719,999.78

Continued

Item	The Bank	
	2018	2017
Decrease in other operating assets	(340,187,290.93)	10,364,582.98
Increase in other operating liabilities	753,492,023.55	1,128,157,739.73
Net cash flow from operating activities	(1,032,648,594.58)	(20,315,043,605.23)
2. Changes in net cash and cash equivalents:		
Cash balance as at the end of the year	43,166,571,313.75	23,253,223,037.67
Less: Cash balance as at the beginning of the year	23,253,223,037.67	39,089,613,695.48
Plus: Cash equivalents balance as at the end of the year	49,076,555,446.46	22,975,517,453.49
Less: Cash equivalents balance as at the beginning of the year	22,975,517,453.49	9,704,264,535.06
Net increase in cash and cash equivalents	46,014,386,269.05	(2,565,137,739.38)

2. Cash and Cash Equivalents

Item	The Company	
	2018	2017
I. Cash	43,217,920,776.43	23,050,592,806.69
Including: Cash on hand	315,090,291.60	370,166,524.70
Deposits with Central Bank for payment	2,170,425,846.29	3,412,183,195.03
Deposits with banks and other financial institutions with the contract period within three months	37,382,404,638.54	16,968,243,086.96
Loans to banks and other financial institutions with the contract period within three months	3,350,000,000.00	2,300,000,000.00
II. Cash equivalents	49,076,555,446.46	22,975,517,453.49
Including: Financial assets held under resale agreements due within three months upon acquisition	30,416,236,000.00	14,903,522,000.00
Available-for-sale financial assets due within three months upon acquisition		4,860,428,211.57
Held-to-maturity investments due within three months upon acquisition		
Financial assets held for trading due within three months upon acquisition	18,660,319,446.46	3,211,567,241.92
III. Closing Balance of Cash and Cash Equivalents	92,294,476,222.89	46,026,110,260.18

Item	The Bank	
	2018	2017
I. Cash	43,166,571,313.75	23,253,223,037.67
Including: Cash on hand	303,525,226.50	355,657,212.59
Deposits with Central Bank for payment	2,140,007,616.84	3,384,551,904.51
Deposits with banks and other financial institutions with the contract period within three months	37,373,038,470.41	17,213,013,920.57
Loans to banks and other financial institutions with the contract period within three months	3,350,000,000.00	2,300,000,000.00
II. Cash equivalents	49,076,555,446.46	22,975,517,453.49
Including: Financial assets held under resale agreements due within three months upon acquisition	30,416,236,000.00	14,903,522,000.00

Continued

Item	The Bank	
	2018	2017
Available-for-sale financial assets due within three months upon acquisition		4,860,428,211.57
Held-to-maturity investments due within three months upon acquisition		
Financial assets held for trading due within three months upon acquisition	18,660,319,446.46	3,211,567,241.92
III. Closing Balance of Cash and Cash Equivalents	92,243,126,760.21	46,228,740,491.16

(53) Segment Report

The businesses of the Company cover the following four segments:

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

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

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

Other business refers to other branches which can't form individual reports apart from corporate business, personal business and capital business, or assets, liabilities, revenues and expenditures failing to be allocated reasonably.

The 2018 Corporate business

Item	Corporate banking business	Personal banking business	Capital business	Other businesses	Total
I. Net interest income	3,144,702,502.12	879,048,172.86	1,910,265,537.90		5,934,016,212.88
Net fee and commission income	104,004,365.47	(4,704,263.48)	57,518,790.29		156,818,892.28
Return on investment			132,317,954.49		132,317,954.49
Gains from changes in fair value			230,783,662.42		230,783,662.42
Foreign exchange gains	250,453,476.64				250,453,476.64
Gains from disposal of assets				(1,607,978.98)	(1,607,978.98)
Other gains				6,521,431.68	6,521,431.68
Other operating income/costs				(17,623.92)	(17,623.92)
Taxes and surcharges	19,258,373.13	2,750,838.28	22,398,524.33	(136.74)	44,407,599.00
Operating and administrative expenses	796,164,298.75	252,806,143.46	842,873,083.21	940,013.51	1,892,783,538.93

Continued

Item	Corporate banking business	Personal banking business	Capital business	Other businesses	Total
Impairment losses on assets	523,592,429.53	470,366,164.50	(42,625,408.06)		951,333,185.97
II. Operating profit	2,160,145,242.82	148,420,763.14	1,508,239,745.62	3,955,952.01	3,820,761,703.59
Non-operating income				5,527,813.44	5,527,813.44
Non-operating expenses				4,058,500.31	4,058,500.31
III. Total profit	2,160,145,242.82	148,420,763.14	1,508,239,745.62	5,425,265.14	3,822,231,016.72
Income tax	309,337,484.38	21,254,175.22	215,983,203.13	776,909.74	547,351,772.47
IV. Net profit	1,850,807,758.44	127,166,587.92	1,292,256,542.49	4,648,355.40	3,274,879,244.25
Total assets	122,993,628,750.90	21,821,471,999.13	206,185,006,764.50	137,684,754.92	351,137,792,269.45
Total liabilities	108,750,602,000.47	49,453,847,287.00	158,233,844,172.32	4,214,544,678.89	320,652,838,138.68
V. Supplementary information					
Depreciation and amortization expenses	28,841,002.74	9,157,886.99	30,533,025.59	34,051.93	68,565,967.25
Capital expenditure	25,521,595,389.20	8,103,875,187.15	27,018,877,670.82	30,132,780.97	60,674,481,028.14

VI. Related-Party Relationship and Transactions

(1) Related Parties and Related-Party Relationship

1. Parent of the Company:

Name of the parent company	Registered address	Nature of business	Economic nature	Registered capital (RMB 100 million)	Shareholding ratio in the parent company (%)
CNPC Capital Limited Company	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

in RMB 10⁸

Name of related party	31 December 2017	Increase in this period	Decrease in this period	31 December 2018
CNPC Capital Limited Company	141.99			141.99

Shareholding ratio of the parent company and its changes

in RMB 10⁴

Name of related party	Amount of shares held		Shareholding ratio	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
CNPC Capital Limited Company	793,071.25	793,071.25	77.09%	77.09%

2. Ultimate Controller of the Company

The ultimate controller of the Company is China National Petroleum Corporation (CNPC).

3. Shareholders with 5% or above Shares of the Company

Except the parent company of the Company, as at 31 December 2018, there were no other shareholders with 5% or above shares of the Company.

(2) Subsidiaries of the Company

See Note IV / (1).

(3) Relationships with Other Related Parties

Other related parties under control by the same ultimate controller as the Company in 2018 are listed as follows:

Name of parties	Relationship
CNPC Urumqi General Petrochemical Company Limited	Controlled by the same ultimate controller
CNPC Research Institute of Engineering Co., Ltd.	Controlled by the same ultimate controller
Xinjiang Tarim Petroleum Exploration and Development Headquarters Co., Ltd.	Controlled by the same ultimate controller
Guangzhou Petroleum Training Center	Controlled by the same ultimate controller
Chinese Petroleum Society	Controlled by the same ultimate controller
China Petroleum Offshore Engineering Ltd.	Controlled by the same ultimate controller
CNPC Southwest Pipeline Co., Ltd.	Controlled by the same ultimate controller
CNPC Auditing Service Center	Controlled by the same ultimate controller
Dalian West Pacific Petrochemical Company Limited	Controlled by the same ultimate controller
Strait Energy Investment Company Limited	Controlled by the same ultimate controller
Beijing Petroleum Machinery Company Limited	Controlled by the same ultimate controller
China Petroleum Materials Corporation	Controlled by the same ultimate controller
Jidong Petroleum Development Co., Ltd.	Controlled by the same ultimate controller
CNPC Research Institute of Tubular Goods	Controlled by the same ultimate controller
CNPC Bohai Petroleum Equipment Manufacturing Company Limited	Controlled by the same ultimate controller
Beijing Petroleum Managers Training Institute	Controlled by the same ultimate controller
CNPC Xibu Pipeline Company Limited	Controlled by the same ultimate controller
CNPC Jichai Power Company Limited	Controlled by the same ultimate controller
Sichuan Petroleum Administration Bureau Co., Ltd.	Controlled by the same ultimate controller
CNPC (Beijing) Technology Development Company Limited	Controlled by the same ultimate controller
CNPC Dalian Petrochemical Company Limited	Controlled by the same ultimate controller
CNPC Pension Assets Management Co., Ltd.	Controlled by the same ultimate controller
CNPC Oilfield Technology Service Co., Ltd.	Controlled by the same ultimate controller
International Business Department of CNPC	Controlled by the same ultimate controller
CNPC Jinxi Petrochemical Co., Ltd.	Controlled by the same ultimate controller

Continued

Name of parties	Relationship
Petrochina Daqing Petrochemical Co., Ltd.	Controlled by the same ultimate controller
CNPC Engineering Consulting Co., Ltd.	Controlled by the same ultimate controller
CNPC Liaoyang Petrochemical Fiber Company	Controlled by the same ultimate controller
PetroChina Guangxi Oil Storage Ltd.	Controlled by the same ultimate controller
Jilin Petroleum (Group) Co., Ltd.	Controlled by the same ultimate controller
CNPC Economics & Technology Research Institute	Controlled by the same ultimate controller
Baoji Oilfield Machinery Co., Ltd.	Controlled by the same ultimate controller
China Petroleum Hong Kong (Holding) Limited	Controlled by the same ultimate controller
PetroChina (Ningxia) Chemical Co., Ltd.	Controlled by the same ultimate controller
Beijing Huachang Real Estate Co., Ltd.	Controlled by the same ultimate controller
Changqing Petroleum Exploration Bureau Co., Ltd.	Controlled by the same ultimate controller
CNPC HSE Research Institute Co., Ltd.	Controlled by the same ultimate controller
Xinjiang Tuha Petroleum Exploration & Development Corporation	Controlled by the same ultimate controller
Xinjiang Dushanzi Petrochemical Co., Ltd.	Controlled by the same ultimate controller
Beijing Huamei Shiji International Technology Co., Ltd.	Controlled by the same ultimate controller
China Huaming International Investment Corporation	Controlled by the same ultimate controller
China Petroleum News	Controlled by the same ultimate controller
Baoji Petroleum Steel Pipe Co., Ltd.	Controlled by the same ultimate controller
Qinghai Petroleum Administration Bureau	Controlled by the same ultimate controller
Yumen Petroleum Administration Co., Ltd.	Controlled by the same ultimate controller
Petroleum Industry Press Co., Ltd.	Controlled by the same ultimate controller
China National United Oil Corporation	Controlled by the same ultimate controller
CNPC Jinzhou Petrochemical Company Limited	Controlled by the same ultimate controller
Jilin Chemical Group Corp.	Controlled by the same ultimate controller
CNPC Lanzhou Petrochemical Company Limited	Controlled by the same ultimate controller
CNPC Bohai Drilling Engineering Company Limited	Controlled by the same ultimate controller
BGP INC., China National Petroleum Corporation	Controlled by the same ultimate controller
China Petroleum Logging (CPL) Co., Ltd.	Controlled by the same ultimate controller
CNPC Chuangqing Drilling Engineering Company Limited	Controlled by the same ultimate controller
PetroChina Linyuan Refinery Co., Ltd.	Controlled by the same ultimate controller
CNPC Offices Service Center	Controlled by the same ultimate controller
North China Petroleum Administration Bureau Co., Ltd.	Controlled by the same ultimate controller
China Petroleum Technology & Development Corporation	Controlled by the same ultimate controller
CNPC Fushun Petrochemical Corporation	Controlled by the same ultimate controller
CNPC Research Institute of Science and Technology, Co., Ltd.	Controlled by the same ultimate controller

Continued

Name of parties	Relationship
CNPC Transportation Company Limited	Controlled by the same ultimate controller
CNPC Greatwall Drilling Company	Controlled by the same ultimate controller
CNPC Capital Company Limited	Controlled by the same ultimate controller
Xinjiang Petroleum Administration Bureau Co., Ltd.	Controlled by the same ultimate controller
China Petroleum Group Engineering Service Co., Ltd.	Controlled by the same ultimate controller
Dagang Oilfield Group Co., Ltd.	Controlled by the same ultimate controller
China Petroleum Engineering Co., Ltd.	Controlled by the same ultimate controller
Daqing Petroleum Administration Bureau	Controlled by the same ultimate controller
China Petroleum International Exploration and Development Co., Ltd.	Controlled by the same ultimate controller
Liaohe Petroleum Exploration Bureau Co., Ltd.	Controlled by the same ultimate controller
CNPC Xibu Drilling Engineering Company Limited	Controlled by the same ultimate controller
China Huayou Group Co., Ltd.	Controlled by the same ultimate controller
CNPC Harbin Refinery Co., Ltd.	Controlled by the same ultimate controller
PetroChina Company Limited	Controlled by the same ultimate controller
China National Petroleum Corporation Middle East FZE	Controlled by the same ultimate controller

(4) Related Party Transactions

The Company calculates and recognizes the related party transactions at prices not lower than those of non-related-party transactions based on the commercial principles and according to the general accounting policies of China, as well as the applicable banking regulatory and management rules.

1. Interest Paid to Related Parties

Name of parties	Interest expenses in current year (RMB 10 ⁴)	Interest expenses in the previous year (RMB 10 ⁴)
China National Petroleum Corporation and the companies controlled by it	101,607.34	83,009.27
Other related parties subordinate to China National Petroleum Corporation	0.69	4,467.63
Total	101,608.03	87,476.90
Range of interest rates	0.315%~4.125%	0.315%~5.225%

2. Interest Charged on Related Parties

Name of parties	Interest income in current year (RMB 10 ⁴)	Interest income in the previous year (RMB 10 ⁴)
China National Petroleum Corporation and the companies controlled by it	2,433.45	198.01
Other related parties subordinate to China National Petroleum Corporation		
Total	2,433.45	198.01
Range of interest rates	4.75%	4.75%~6.40%

(5) Rent Paid to Related Parties

Name of party	Rent expense in current year (RMB 10 ⁴)	Rent expense in the previous year (RMB 10 ⁴)
China National Petroleum Corporation and the companies controlled by it	22,793.81	17,269.08

(6) Property Management Fees Paid to Related Parties

Name of party	Property expense in current year (RMB 10 ⁴)	Property expense in the previous year (RMB 10 ⁴)
China National Petroleum Corporation and the companies controlled by it	4,588.44	2,677.35

(7) Balance of Related Parties

Name of related party	Name of item	Amount as at the end of the year		Amount as at the beginning of the year	
		Balance (RMB 10 ⁴)	Proportion of similar transactions (%)	Balance (RMB 10 ⁴)	Proportion of similar transactions (%)
China National Petroleum Corporation and the companies controlled by it	Loans and advances to customers	7,000.00	0.06		
	Due to customers	4,987,906.25	32.01	4,863,277.48	32.17
	Due to banks and other financial institutions	326,251.29	3.47	743,225.13	7.99
	Interest payable	15,762.57	5.75	25,113.55	10.44
	Deposits with banks and other financial institutions	52,892.50	1.16	53,080.94	1.01
	Other payables	417.33	0.11	753.14	0.27
	Interest receivable	48.35	0.02	(6.28)	(0.00)
Other related parties subordinate to China National Petroleum Corporation	Due to customers			1,223,773.39	8.11
	Interest payable			3,402.52	1.41
	Other receivables			1.00	0.02

(8) Entrusted Loans

Name of entrusting party	Balance as at the end of the year (RMB 10 ⁴)	Balance as at the beginning of the year (RMB 10 ⁴)
China National Petroleum Corporation and the companies controlled by it	1,104,000.00	2,108,000.00

(9) Handling Charges for Entrusted Loans

Name of party	Amount in current year (RMB 10 ⁴)	Amount in the previous year (RMB 10 ⁴)
China National Petroleum Corporation and the companies controlled by it	600.00	566.04

(10) Guarantee Business - Guarantees Issued

Guaranteed party	Balance as at the end of the year (RMB 10 ⁴)	Balance as at the beginning of the year (RMB 10 ⁴)
China National Petroleum Corporation and the companies controlled by it	188,658.97	242,441.95

VII. Contingencies, Commitments and Main Off-balance Sheet Events

(1) Contingencies Arising from Litigation

As at 31 December 2018, the Company as the plaintiff had 45 pending lawsuits with the amount totaling RMB 113,975,287.93; while the Company as the defendant had five pending lawsuits with the amount totaling RMB 171,262,228.14. In the opinion of the management of the Company, the final judgment or execution results of these lawsuits will not constitute significant impacts on the financial situation or operating results of the Company.

(2) Commitments

1. Commitments on Operational Lease

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

Item	31 December 2018	31 December 2017
Within 1 year	285,823,450.00	218,595,050.55
1 to 2 years	210,773,026.98	201,675,855.42
2 to 3 years	62,718,751.57	66,443,884.66
3 to 4 years	59,499,423.77	65,908,305.50
4 to 5 years	24,955,625.14	37,261,567.68
Over 5 years	40,064,318.19	50,045,357.61
Total	683,834,595.65	639,930,021.42

2. Capital Expenditure Commitments

Item	31 December 2018	31 December 2017
Decoration work-contract signed	13,681,320.96	15,613,822.37
Electronic system purchase-contract signed	78,007,378.30	21,638,664.00
Total	91,688,699.26	37,252,486.37

3. Commitments to Pledge of External Assets

(1) Part of the Company's assets are pledged as collaterals with other banks and financial institutions under the repurchase agreements, treasury deposit agreements, and borrowing agreements with PBOC. At the end of each period, the party accepting the discounted notes as collaterals under a repurchase agreement is entitled to sell or repledge such notes. The party accepting the government debts or financial debts as collaterals under a repurchase agreement does not have such rights. The balances on the date of balance sheet are listed below:

Item	31 December 2018	31 December 2017
Bonds	20,080,905,700.00	16,378,871,200.00
Notes	9,976,049,620.22	6,216,651,731.76

(2) Part of the Company's bonds were lent to other banks and financial institutions. The balances on the date of balance sheet are listed below:

Item	31 December 2018	31 December 2017
Held-to-maturity investments	680,000,000.00	2,690,000,000.00
Including: Financial debts	680,000,000.00	1,240,000,000.00
National debts		100,000,000.00
Corporate debts		1,350,000,000.00
Available-for-sale	1,480,000,000.00	3,220,000,000.00
Including: Financial debts	420,000,000.00	2,060,000,000.00
National debts	710,000,000.00	450,000,000.00
Government debts	350,000,000.00	
Corporate debts		710,000,000.00
Total	2,160,000,000.00	5,910,000,000.00

(3) Main Off-balance Sheet Items about Contingent Risk

1. Banker's Acceptance Bills and Letters of Guarantee

Item	31 December 2018		
	Amount	Margin	Margin Proportion (%)
Banker's acceptance bills	5,288,403,144.87	1,863,217,463.47	35.23%
Letters of guarantee issued	4,058,940,693.19	1,432,021,363.73	35.28%

Item	31 December 2017		
	Amount	Margin	Margin Proportion (%)
Banker's acceptance bills	4,125,172,312.58	1,220,629,059.81	29.59%
Letters of guarantee issued	4,772,152,220.88	1,500,462,868.94	31.44%

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.

2. Loans and Other Commitments

Item	31 December 2018	31 December 2017
Loan commitments	9,417,824,399.83	10,242,629,574.53
Credit card's credit limit not used	2,749,994,314.67	67,883,762.77
Total	12,167,818,714.50	10,310,513,337.30

VIII. Interests in Other Entities

(1) Interests in Unconsolidated Structured Entities

1. Unconsolidated Structured Entities Sponsored by the Company (the Bank)

The Company acquires interest income from the structured entities invested in by but not consolidated by the Company, which mainly include the wealth management products, trust beneficiary rights (fund trust plans) and asset management plans issued and managed by independent third parties.

The book values and the maximum loss risk exposures of the assets from the interests held by the Company (the Bank) in the unconsolidated structured entities are listed as follows:

Period	Name	Book value	Maximum loss exposure (Note)
31 December 2018	Wealth management products	2,000,000,000.00	2,000,000,000.00
	Asset management plans	700,000,000.00	700,000,000.00
	Trust products	10,973,561,093.60	10,973,561,093.60
	Others	30,000,000.00	30,000,000.00
	Total	13,703,561,093.60	13,703,561,093.60
31 December 2017	Wealth management products	300,000,000.00	300,000,000.00
	Asset management plans	20,670,003,724.82	20,670,003,724.82
	Trust products	21,519,896,927.61	21,519,896,927.61
	Others	30,000,000.00	30,000,000.00
	Total	42,519,900,652.43	42,519,900,652.43

Note: The maximum loss exposures of the wealth management products, asset management plans and trust products are those recognized in the balance sheet at their amortized costs or fair values.

The Company (the Bank) had not provided any financial support for such structured entities.

2. Unconsolidated Structured Entities Managed by the Company (the Bank)

(1) Wealth management products

The unconsolidated structured entities managed by the Company (the Bank) are mainly the wealth management products released and managed by the Company (the Bank) as agency. The Company (the Bank), based on the analysis and study of target potential customers, designed for and provided certain fund investment and management plans to the defined target customers, and then invested the raised wealth management funds in the relevant financial markets or financial products, with the investment income allocated to the investors according to the agreements with them. The Company (the Bank) obtained the income from the sales fees and management fees. There were not significant amounts recognized in the book values of such management fees reflected in the consolidated balance sheets for the period ended 31 December 2018 and ended 31 December 2017. The Company (the Bank) had not recognized these structured entities in its consolidated financial statements according to the definition of "Control" in ASBE No. 33 (2014) and based on the principles specified in Note II / (24) / 5.

Period	Unconsolidated structured entities	Total scale (RMB)	Income from handling charges (RMB)
2018	Wealth management products	23,932,579,066.00	57,518,790.29
2017	Wealth management products	17,556,683,000.00	84,166,756.09

The Company (the Bank) had not provided any financial support for such structured entities classified as wealth management products.

(2) Consolidated Structured Entities

1. The consolidated structured entities are mainly the break-even wealth management products released and managed by the Company (the Bank) in RMB 0.00 (RMB 2,523,645,000.00 in 2017).

2. Since the Company, as the manager or investment consultant of the following structured entities, makes investment decisions and invests in all the shares of the following structured entities with its own funds, bears most of the risk of the products and enjoys most of the variable benefits of the products, the structured entities are included in the consolidated scope of the Bank's financial statements..

The book values of the recognizable assets and liabilities of these structured entities are listed as follows:

Item	Fair value as at 31 December 2018 (not audited)	Fair value as at 31 December 2017 (not audited)
Total assets	33,498,086,292.11	12,973,138,469.91
Total liabilities	11,498,086,292.11	3,471,599,144.20
Net assets	22,000,000,000.00	9,501,539,325.71

The consolidated structured entities of the Company are listed as follows:

Structured entities as at 31 December 2018	Structured entities as at 31 December 2017
Bosera Funds-Bank of Kunlun Bond No.1 Asset Management Plan	Bosera Funds-Bank of Kunlun Bond No.1 Asset Management Plan
Truvalue Asset Management-Bank of Kunlun No.1 Asset Management Plan	Truvalue Asset Management-Bank of Kunlun No.1 Asset Management Plan
Harvest Fund-Bank of Kunlun Bond No.1 Asset Management Plan	Harvest Fund-Bank of Kunlun Bond No.1 Asset Management Plan
China Southern Asset Management-Bank of Kunlun Bond No.1 Asset Management Plan	China Southern Asset Management-Bank of Kunlun Bond No. 1 Asset Management Plan
Penghua Fund-Bank of Kunlun Bond No.1 Asset Management Plan	Penghua Fund-Bank of Kunlun Bond No.1 Asset Management Plan
General China-Bond Selection No. 3	
General China-Bond Selection No. 5	
China Securities-Bank of Kunlun Bond No. 1 Directional Assets Management Plan	
EverBright Securities Asset Management-Bank of Kunlun Bond No.1 Directional Assets Management Plan	
Dacheng Fund-Bank of Kunlun Bond No.1 Assets Management Plan	

(3) Interests in Subsidiaries and Consolidated Structured Entities

See Note IV/(1) for the subsidiaries of the Bank.

The Company has no joint ventures.

IX. Risk 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 interest rate spreads. The Company uses short-term funds to make medium-term and long-term loans and bond investments with high interest rates to increase interest rate spreads and maintains 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 profit or loss, loans and advances to customers, available-for-sale financial assets, held-to-maturity investments, financial assets held under resale agreements, displacements with banks and other financial institutions, deposits with banks and other financial institutions, investment classified as receivable, and other receivables.

The Board of Directors is the supreme managing and decision-making authority in the Company's risk management structure. The Board of Supervisors is responsible for supervising the performance and diligence of the Board of Directors and Senior Management in risk management, and urging them to make rectification. The Senior Management set up the Risk and Internal Control Management Committee (including credit, market and operating special committees) to be responsible for implementing and supervising the risk management of the Company. The Risk and Compliance Department at the head office is responsible for the overall risk management and the comprehensive promotion of risk management. The leading administrative departments of various risks of the head office are the subject of the risk management of the Company. All departments of the head office and branches specifically implement the policies related to risk management. In this process, the Company will face various risks. Description and analysis of major risks are as follows:

(1) Credit Risk

Credit risk represents the risk of a bank caused by borrowers or counterparties that 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 prudence principles on managing credit risk exposure.

The main sources of credit risk facing the Company include loans, treasury operations (including placements with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements and bonds investment), investment classified as receivable, letters of guarantee, discount and banker's acceptance bills, etc.

The Company strictly observes the guidance of China Banking Regulatory Commission 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 effectiveness of credit risk management. The Senior Management and its Risk Management and Internal Control Committee, the decision-making and coordinating authorities of the Company to manage credit risk, 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-loan 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, monitored and reported 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 the Risk Adjusted Return on Capital (RAROC) in supporting project-financing loans approval process.

The Company keeps promoting the development of the credit risk management system and promotes the implementation of these achievements. Through “home teaching,” tour guidance, field investigation, and so forth, the Company vigorously publicizes and implements the results of constructing the Credit Risk Management System and ensures that every risk management tool has been put into use correctly and effectively.

Credit Risk Management of Corporate Loans:

In 2018, the Company continued to promote credit culture construction, reinforced inspection and supervision, and raised the awareness and management of compliance. The Company also reinforced the collection and disposals of non-performing loans and took many measures to reduce non-performing loans including cash collection, recovering loans according to laws, and restructuring and conversion.

The Company constantly improved the credit risk management policies, rules and optimized the credit management process. In 2018, the Bank continued to conduct the customer of the Company credit policy in a prudent, 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 development strategy and strictly controlled loan issuance to sensitive industries; actively developed key clients as well as clients in the field of integrating of finance with industry and properly downsized the credit of small and medium-sized clients. Under the unified guidance of credit policies of the Company, each branch researched and formulated its implementing rules for credit policies based on the situation of the Company and the characteristics of regional economy. The company led the branches to establish their own advantages and encourage business innovation while paying close attention to potential risk. In addition, the Bank clarified and revised several policies and procedures involving the credit risk management; optimized the credit system and the credit management work flow; continuously improved credit approval, post-loan management and other fundamental matters.

Credit Risk Management of Investment Business:

The Company constantly strengthened the management of the duration of banking book 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 which results of the credit risk investigation show significantly deteriorated solvency and significantly increased credit risk, the Company actively carried out market inquiries and sold bonds at the right time to effectively reduce credit risk.

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

Credit Risk Management of Retail Loans:

In 2018, for regulatory policy adjustments, the Company promptly adjusted and improved the implementing rules and applied differentiated management in the region where each branch was located; improved approval process for personal loan business beyond authorization and established and enhanced the personal loan business authorization mechanism; standardized the management of collateral of commercial housing mortgage loans to further control operational risk; strengthened the pre-loan investigation and post-loan management, in order to prevent from non-performing loans; strengthened troubleshoot of overall risk, reasonably decentralized the structure of products and strictly controlled the launch of high risk products.

Measurement of Credit Risk

(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 the Loan Risk Classification*), on the one hand, the Company divided loans into five categories: normal, special-mention, substandard, doubtful and loss. On the other hand, in order to implement a refined quality management for credit assets 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 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 the Loan Risk Classification* require commercial banks of China to classify corporate and personal loans into the following five categories: normal, 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 risk, which based on the *Guidelines on the Loan Risk Classification*.

(2) Bonds and Interbank Investments

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

RMB bond investment mainly includes national debts issued by MOF, notes issued by the People's Bank of China in public and financial debts 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.

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 risk 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 risk.

(1) Credit Risk Limit Management

i. Loans and Advances to Customers

The Company has formulated credit management policies for corporate customers, which specify the credit limit of a single customer, a single group, region and industry, and specifically monitoring and managing loan borrowers. In view of working capital loans, the Company forecasts needs of working capital of customers and gradually increases 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 writes a report on credit risk control on a quarterly basis to analyze overall risk, policy risk, industrial risk, regional risk, concentration risk, new loans risk, stock loan risk, and non-performing loans risk 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 reports 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, analyzes risk factors, deliberates and prepares policy measures to control and prevent risk, and regularly analyzes the implementation of relevant risk limits. The quarterly report is submitted to the Risk Management Committee for deliberation, and regularly discloses 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:

① 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.

② Corporate business

Corporate credit business includes short-term, medium-term 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 carries out product marketing and business activities according to the variety of 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 risk within the whole process, including acceptance, investigation, review, approval, granting and post-granting management of each credit activity.

③ 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 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 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 Assets Transfer Business of Banking Financial Institutions* (YJF [2010] No.102) promulgated by the China Banking Regulatory Commission and further standardize purchase of credit assets.

ii. 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 risk of bonds at the portfolio level.

(2) Risk Mitigation Measures Include:

i. Loan Guarantees, Mortgage and Pledge

The Company requires the borrower to provide a guarantor or mortgage and pledge as risk mitigation according to degree of credit risk. 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 and transportation facilities, 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.

ii. Credit Commitments

Credit commitments are mainly expected to provide customers with necessary funds. The Company issues LC, issues a letter of guarantee or provides irrevocable guarantee for draft acceptance, that is to say, the Company pays the loan when the customer cannot fulfill its payment obligations to a third party, so the Company undertakes the same credit risk. In some cases, the Company collects the margin to reduce credit risk arising from providing the service. The margin is collected at a certain percentage of committed amounts according to the customer's credit

capacity, business credit rating and other risk degrees.

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

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 criterias whether there is objective evidence of impairment include:

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

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

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

1. Maximum Credit Risk Exposure

The Company's maximum credit risk exposure without mortgage, pledge and other credit enhancement measures as at 31 December 2018 is listed as follows. For items in the balance sheet, risk exposure of assets is the book value on the balance sheet date.

Item	The Company	
	31 December 2018	31 December 2017
Credit risk exposure of items in balance sheet includes:		
Deposits with banks and other financial institutions	45,481,562,446.15	52,584,084,315.42
Placements with banks and other financial institutions	28,323,750,000.00	17,257,500,000.00
Financial assets at fair value through profit or loss	45,343,004,946.98	13,884,052,952.65
Financial assets held under resale agreements	30,669,469,189.12	15,397,644,111.29

Continued

Item	The Company	
	31 December 2018	31 December 2017
Loans and advances to customers	121,999,498,113.56	106,827,126,420.35
Available-for-sale financial assets	21,078,973,860.50	21,697,805,158.68
Held-to-maturity investments	17,485,465,306.00	18,114,933,343.56
Investment classified as receivable	13,268,824,086.39	41,753,273,555.60
Interest receivable	2,103,857,884.47	1,640,437,621.53
Others	543,343,453.04	206,107,752.37
Subtotal	326,297,749,286.21	289,362,965,231.45
Off-balance sheet credit risk exposure includes:		
Banker's acceptance bills	5,288,403,144.87	4,125,172,312.58
Letters of guarantee issued	4,058,940,693.19	4,772,152,220.88
Loans and other credit commitments	12,167,818,714.50	10,310,513,337.30
Subtotal	21,515,162,552.56	19,207,837,870.76
Total	347,812,911,838.77	308,570,803,102.21

2. Concentration of Maximum Credit Risk Exposure

The capabilities of fulfilling contract obligations of a certain number of customers will be affected by the same economic trends if they conduct the same business activities, or are located within the same geographic area or classified in the same industry or similar industries. The concentration degree of credit risk reflects the sensitivity of the performance of the Company to a certain industry or geographic area.

Refer to Note V/(7) for the concentration degree of the loans of the Company to its customers within certain industries and geographic areas.

3. Collaterals and Other Credit Enhancement Measures

The Company determines the amounts and types of collaterals required according to the credit risk assessments of counterparties.

The collaterals mainly include:

Notes and negotiable securities, for transactions of purchase for resale, etc.;

Real estates, inventories, equities or receivables, for commercial loans;

and residential housing, for personal loans.

The management monitors the market values of such collaterals, requests to provide additional collaterals according to the related agreements, and checks the changes in the market values of collaterals during the reviews on the adequacy of loss allowances.

4. Credit Quality

(1) Credit Quality of Assets Subject to Credit Risk

Item	The Company				
	31 December 2018				
	Not overdue or impaired	Overdue but not impaired	Impaired	Allowance for impairment	Total
Deposits with banks and other financial institutions	45,506,816,638.13			25,254,191.98	45,481,562,446.15
Placements with banks and other financial institutions	29,050,000,000.00			726,250,000.00	28,323,750,000.00
Financial assets at fair value through profit or loss	45,343,004,946.98				45,343,004,946.98
Financial assets held under resale agreements	30,684,677,307.12			15,208,118.00	30,669,469,189.12
Interest receivable	2,103,864,754.38		26,220,000.00	26,226,869.91	2,103,857,884.47
Loans and advances to customers	125,007,048,032.58	63,507,296.71	1,722,969,975.63	4,794,027,191.36	121,999,498,113.56
Available-for-sale financial assets	21,087,990,109.00		230,000,000.00	239,016,248.50	21,078,973,860.50
Held-to-maturity investments	17,492,493,067.40			7,027,761.40	17,485,465,306.00
Investment classified as receivable	13,703,561,093.60			434,737,007.21	13,268,824,086.39
Other assets	541,353,727.97		7,278,640.47	5,288,915.40	543,343,453.04
Total	330,520,809,677.16	63,507,296.71	1,986,468,616.10	6,273,036,303.76	326,297,749,286.21

Item	The Company				
	31 December 2017				
	Not overdue or impaired	Overdue but not impaired	Impaired	Allowance for impairment	Total
Deposits with banks and other financial institutions	52,610,138,686.96			26,054,371.54	52,584,084,315.42
Placements with banks and other financial institutions	17,700,000,000.00			442,500,000.00	17,257,500,000.00
Financial assets at fair value through profit or loss	13,884,052,952.65				13,884,052,952.65

Continued

Item	The Company				
	31 December 2017				
	Not overdue or impaired	Overdue but not impaired	Impaired	Allowance for impairment	Total
Financial assets held under resale agreements	15,404,137,729.79			6,493,618.50	15,397,644,111.29
Interest receivable	1,640,445,347.31		26,220,000.00	26,227,725.78	1,640,437,621.53
Loans and advances to customers	109,219,801,006.78	145,839,089.60	1,739,337,469.30	4,277,851,145.33	106,827,126,420.35
Available-for-sale financial assets	21,708,339,106.57		230,000,000.00	240,533,947.89	21,697,805,158.68
Held-to-maturity investments	18,122,843,043.95			7,909,700.39	18,114,933,343.56
Investment classified as receivable	42,519,900,652.43			766,627,096.83	41,753,273,555.60
Other assets	205,028,726.57		3,365,163.76	2,286,137.96	206,107,752.37
Total	293,014,687,253.01	145,839,089.60	1,998,922,633.06	5,796,483,744.22	289,362,965,231.45

(2) Loans and Advances to Customers

i. The loans and advances not overdue or impaired are classified into five categories as follows:

Item	The Company		
	31 December 2018		
	Corporate loans	Personal loans	Total
Normal	108,758,854,775.42	15,891,387,940.25	124,650,242,715.67
Special-mention	269,525,000.00	87,280,316.91	356,805,316.91
Total	109,028,379,775.42	15,978,668,257.16	125,007,048,032.58
Less: Allowance for impairment	2,981,024,377.89	450,299,256.09	3,431,323,633.98
Net value	106,047,355,397.53	15,528,369,001.07	121,575,724,398.60

Item	The Company		
	31 December 2017		
	Corporate loans	Personal loans	Total
Normal	96,944,543,285.75	11,795,622,601.21	108,740,165,886.96
Special-mention	452,943,016.02	26,692,145.25	479,635,161.27
Total	97,397,486,301.77	11,822,314,746.46	109,219,801,048.23
Less: Allowance for impairment	2,401,869,648.80	295,561,074.39	2,697,430,723.19
Net value	94,995,616,652.97	11,526,753,672.07	106,522,370,325.04

ii. Maturity Analysis of Loans and Advances to Customers Overdue but not Impaired

Item	The Company		
	31 December 2018		
	Corporate loans	Personal loans	Total
Overdue for 1-90 days (including 90 days)	7,022,512.87	56,484,783.84	63,507,296.71
Overdue for 90-360 days (including 360 days)			
Overdue for 360 days-3 years (including 3 years)			
Overdue for over 3 years			
Total	7,022,512.87	56,484,783.84	63,507,296.71
Allowance for impairment	210,675.39	1,141,979.16	1,352,654.55
Net value	6,811,837.48	55,342,804.68	62,154,642.16

Item	The Company		
	31 December 2017		
	Corporate loans	Personal loans	Total
Overdue for 1-90 days (including 90 days)	132,558,697.17	9,898,374.23	142,457,071.40
Overdue for 90-360 days (including 360 days)	1,432,018.23	1,950,000.00	3,382,018.23
Overdue for 360 days-3 years (including 3 years)			
Overdue for over 3 years			
Total	133,990,715.40	11,848,374.23	145,839,089.63
Allowance for impairment	14,403,099.77	3,339,180.72	17,742,280.49
Net value	119,587,615.63	8,509,193.51	128,096,809.14

iii. Classification of Loans and Advances to Customers Impaired by Guarantee Types

Guarantee method	The Company	
	31 December 2018	31 December 2017
Credit loans	53,283,345.28	721,237.41
Guaranteed loans	360,191,756.74	817,362,444.67
Loans secured by mortgage	281,722,464.01	252,848,597.68
Loans secured by collaterals	1,027,772,409.60	668,405,189.54
Total	1,722,969,975.63	1,739,337,469.30
Less: Allowance for impairment	1,354,661,825.72	1,447,157,094.90
Net value	368,308,149.91	292,180,374.40

5. Investment Bonds

Rating distribution of bonds of the Company held by external rating agencies

31 December 2018	Bonds held for trading	Available-for-sale financial assets	Held-to-maturity investments
AAA	13,265,696,414.68	5,772,410,491.76	4,670,291,786.04
AA- to AA+	12,088,027,928.41	1,246,733,547.24	1,977,120,054.79
A- to A+			
Below A			
Unrated	19,989,280,603.89	14,994,438,150.00	10,946,650,405.51
Including: National debts		695,592,080.00	101,569,178.94
Local government debts		202,133,800.00	148,600,000.00
Financial debts	443,308,530.52	14,096,712,270.00	4,397,682,226.57
Asset-backed securities	885,652,626.91		6,298,799,000.00
Fund investment	18,660,319,446.46		
Total	45,343,004,946.98	22,013,582,189.00	17,594,062,246.34

31 December 2017	Bonds held for trading	Available-for-sale financial assets	Held-to-maturity investments
AAA	3,258,624,497.56	2,460,853,175.00	5,039,059,056.68
AA- to AA+	5,384,118,747.53	5,913,775,151.57	3,875,980,174.59
A- to A+			
Below A			
Unrated	5,241,309,707.56	14,228,043,930.00	9,309,606,092.68
Including: National debts		664,333,150.00	101,802,280.00
Local government debts			155,922,000.00
Financial debts	2,488,379,164.75	8,733,282,568.43	9,051,881,812.68
Fund investment	2,752,930,542.81	4,830,428,211.57	
Total	13,884,052,952.65	22,602,672,256.57	18,224,645,323.95

(2) Liquidity Risk

The liquidity risk refers to the risk 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 risk, 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 risk from affiliate related risk and the liquidity risk resulting from other system failure.

Liquidity Risk Management:

The Company has established a sound governance structure of liquidity risk management; has defined the duties of the Board of Directors, the Board of Supervisors, Senior Management and Subordinate Special Committee, and the relevant administrative departments in the liquidity risk management, and has 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 staffs are in charge of their respective functions of liquidity risk management and supervision.

The Company attaches great importance to the liquidity risk management. The objectives are to realize full identification, accurate measurement, continuous monitoring and effective control of the liquidity risk 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.

Taking into accounts the changes in internal and external situation, the Company actively promotes the management of liquidity risk in accordance with relevant regulatory requirements of the *Administrative Measures for the Liquidity Risk of Commercial Banks* (2018 CBIRC Decree No.3) issued by China Banking and Insurance Regulatory Commission and in combination with the practical business management needs. The liquidity is abundant 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 risk, 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 PBOC, 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.

1. Maturity Dates of Assets and Liabilities as at 31 December 2018

The table below presented on the balance sheet date of 2018 presents the analysis on maturity date of assets and liabilities.

Item	The Company					
	Overdue	Repayment on demand	Within 3 months	3 months-1 year	1-5 years	Over 5 years
						Total
Assets:						
Cash and balances with Central Bank		2,490,587,137.89			20,308,411,024.02	22,798,998,161.91
Deposits with banks and other financial institutions		37,246,668,523.74	2,183,302,944.53	6,051,590,977.88		45,481,562,446.15
Placements with banks and other financial institutions			9,993,750,000.00	18,330,000,000.00		28,323,750,000.00
Financial assets at fair value through profit or loss		18,660,319,446.46	140,183,200.00	199,870,850.00	26,342,631,450.52	45,343,004,946.98
Financial assets held under resale agreements			30,401,027,882.00	268,441,307.12		30,669,469,189.12
Interest receivable	14,333,112.23		1,215,446,941.93	899,301,236.25		2,129,081,290.41
Loans and advances to customers	322,096,037.88	259,839,415.60	25,355,119,287.30	53,855,541,231.07	21,875,194,551.61	20,331,707,590.10
Available-for-sale financial assets			4,239,836,090.02	1,613,353,395.37	14,106,764,803.62	1,814,611,651.49
Held-to-maturity investments			1,105,707,882.37	2,784,264,657.26	9,700,116,108.48	3,996,945,836.83
Investment classified as receivable			2,437,500,000.00	4,777,500,000.00	6,053,824,086.39	13,268,824,086.39
Fixed assets and construction in progress						395,961,822.31
Intangible assets						84,195,525.57
Deferred tax assets						645,503,905.12
Other assets		499,216,638.97	689,047.90	35,852,899.65	2,917,347.66	97,666,422.31
Total assets	336,429,150.11	59,156,631,162.66	77,072,563,276.05	88,815,716,554.60	78,081,448,348.28	47,675,003,777.75
Liabilities:						
Due to central bank			1,001,167,271.03	213,569,821.35		1,214,737,092.38
Due to banks and other financial institutions		63,748,003,766.18	5,700,998,931.90	24,340,696,521.76	177,352,969.63	93,967,052,189.47
Placements from banks and other financial institutions			1,000,000,000.00			1,000,000,000.00

Continued

Item	The Company					
	Overdue	Repayment on demand	Within 3 months	3 months-1 year	1-5 years	Over 5 years
Financial assets sold under repurchase agreements		16,483,942,585.18	11,145,572,688.44			27,629,515,273.62
Due to customers	77,680,832,759.03	18,631,428,900.00	27,549,064,069.09	31,940,028,800.00	3,241,600.00	155,804,596,128.12
Employee compensation payable		27,502,362.04				27,502,362.04
Tax payable		75,604,175.27	247,496,706.46			323,100,881.73
Interest payable	145,746,066.00	515,230,370.55	1,225,118,129.63	853,151,663.29	86,586.54	2,739,332,816.01
Bonds payable		6,478,327,947.65	26,781,791,592.47	500,000,000.00		33,760,119,540.12
Deferred tax liabilities						
Other liabilities	246,036,434.53	3,535,471,239.48	386,497,713.26	18,876,467.92		4,186,881,855.19
Total liabilities	141,820,619,025.74	53,449,673,783.10	91,889,807,242.46	33,489,409,900.84	3,328,186.54	320,652,838,138.68
Net amount of liquidity	336,429,150.11	(82,663,987,863.08)	23,622,889,492.95	(3,074,090,687.86)	44,592,038,447.44	30,484,954,130.77

2. Maturity Dates of Assets and Liabilities as at 31 December 2017

The table below presented on the balance sheet date of 2017 presents the analysis on maturity date of assets and liabilities.

Item	The Company					
	Overdue	Repayment on demand	Within 3 months	3 months-1 year	1-5 years	Over 5 years
Assets:						
Cash and balances with Central Bank	3,829,435,719.73				22,279,056,828.46	26,108,492,548.19
Deposits with banks and other financial institutions	15,128,545,531.35	4,876,864,848.03	32,578,673,936.04			52,584,084,315.42
Placements with banks and other financial institutions		7,117,500,000.00	10,140,000,000.00			17,257,500,000.00
Financial assets at fair value through profit or loss	1,519,188,000.00	2,125,494,249.97	9,775,873,492.68	254,181,270.00	209,315,940.00	13,884,052,952.65
Financial assets held under resale agreements		14,903,522,000.00	494,122,111.29			15,397,644,111.29
Interest receivable	11,881,634.04	468,821,048.20	1,169,599,808.09			1,650,302,490.33

Continued

Item	The Company					
	Overdue	Repayment on demand	Within 3 months	3 months-1 year	1-5 years	Over 5 years
Loans and advances to customers	395,855,513.92	177,416.02	23,805,126,886.45	49,823,677,814.61	17,848,729,186.27	14,953,559,603.08
Available-for-sale financial assets		5,028,188,321.39	519,305,507.35	3,946,264,563.67	10,921,138,044.30	1,947,241,871.97
Held-to-maturity investments			618,608,422.54	10,104,085,137.66	5,048,336,560.16	2,445,705,503.20
Investment classified as receivable			11,204,496,758.15	23,130,581,285.11	7,246,328,012.34	171,867,500.00
Fixed assets and construction in progress						339,848,282.00
Intangible assets						77,832,253.05
Deferred tax assets					732,266,591.60	732,266,591.60
Other assets		161,054,225.98	115,275.90		172,407,784.44	333,577,286.32
Total assets	407,737,147.96	25,666,589,214.47	65,639,854,996.59	141,162,878,149.15	42,223,387,449.11	42,424,427,781.76
Liabilities:						317,524,874,739.04
Due to central bank			292,380,200.00	126,072,036.09		418,452,236.09
Due to banks and other financial institutions		26,701,518,207.92	12,147,000,000.00	13,561,150,000.00	40,559,895,865.96	696,521.76
Placements from banks and other financial institutions			4,000,000,000.00			4,000,000,000.00
Financial assets sold under repurchase agreements			5,841,985,262.36	15,717,996,727.08		21,559,981,989.44
Due to customers		80,452,168,978.61	7,574,734,728.36	43,428,735,346.28	19,256,388,500.63	276,111,970.11
Employee compensation payable			19,557,829.44			19,557,829.44
Tax payable			64,450,584.59	136,439,317.84		200,889,902.43
Interest payable		150,945,692.94	242,050,109.17	1,387,762,147.28	615,336,524.11	8,823,138.35
Bonds payable			9,700,206,575.04	4,050,881,706.94	100,000,000.00	13,851,088,281.98
Deferred tax liabilities						
Other liabilities		389,395,044.43		2,783,827,622.26		3,173,222,666.69
Total liabilities		107,694,027,923.90	39,882,365,288.96	81,192,864,903.77	60,531,620,890.70	285,631,630.22
Net amount of liquidity	407,737,147.96	(82,027,438,709.43)	25,757,489,707.63	59,970,013,245.38	(18,308,233,441.59)	42,138,796,151.54
						27,938,364,101.49

3. Analysis on Maturity Date of Off-balance Sheet Credit Commitments in Each Period

31 December 2018	The Company and the Bank					
	Overdue	Repayment on demand	Within 3 months	3 months-1 year	1-5 years	Over 5 years
Banker's acceptance bills		169,219,093.69	2,402,309,058.18	2,716,874,993.00		5,288,403,144.87
Letters of guarantee issued		3,026,777,266.32	440,193,016.93	509,405,199.16	72,182,010.78	10,383,200.00
Loans and other commitments		2,749,994,314.67	862,017,208.32	1,870,324,372.83	3,404,407,168.16	3,281,075,650.52
Total		5,945,990,674.68	3,704,519,283.43	5,096,604,564.99	3,476,589,178.94	3,291,458,850.52

31 December 2017	The Company and the Bank					
	Overdue	Repayment on demand	Within 3 months	3 months-1 year	1-5 years	Over 5 years
Banker's acceptance bills		142,074,371.64	1,841,329,905.25	2,141,768,035.69		4,125,172,312.58
Letters of guarantee issued		2,652,531,929.59	785,459,856.44	947,987,645.14	386,172,789.71	4,772,152,220.88
Loans and other commitments				1,586,570,008.59	8,723,943,328.71	10,310,513,337.30
Total		2,794,606,301.23	2,626,789,761.69	4,676,325,689.42	9,110,116,118.42	19,207,837,870.76

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 date refers to the maturity period as at 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 31 December 2018

Item	The Company				
	Overdue	Repayment on demand	Within 3 months	3 months–1 year	1–5 years
					Over 5 years
					Total
Financial assets:					
Cash and balances with Central Bank	2,490,587,137.89	87,326,167.40	261,978,502.21	1,397,218,678.45	20,657,715,693.63
Deposits with banks and other financial institutions	37,272,333,203.33	2,201,678,110.00	6,148,784,822.03		45,622,796,135.36
Placements with banks and other financial institutions		10,530,709,697.22	19,082,582,611.11		29,613,292,308.33
Financial assets at fair value through profit or loss	18,660,319,446.46	151,750,066.67	1,261,447,791.22	30,477,793,215.40	50,551,310,519.75
Financial assets held under resale agreements		30,500,961,809.54	276,494,546.33		30,777,456,355.87
Loans and advances to customers	1,401,531,642.79	269,705,185.33	26,699,993,083.07	57,775,048,814.22	28,775,629,173.95
Available-for-sale financial assets	230,000,000.00	4,639,652,970.00	2,022,083,210.00	15,002,018,649.00	2,023,606,920.00
Held-to-maturity investments		1,230,300,390.00	3,213,485,774.00	11,282,154,109.39	5,058,795,341.96
Investment classified as receivable		2,500,615,562.50	4,905,098,480.83	6,309,866,818.04	13,715,580,861.37
Total financial assets	1,631,531,642.79	58,692,944,973.01	78,542,987,856.40	94,947,004,551.95	93,244,680,644.23
Financial liabilities:					
Due to central bank		1,003,942,597.26	215,140,220.26		1,219,082,817.52
Due to banks and other financial institutions	63,748,003,766.18	5,713,380,320.79	24,922,087,987.47	201,541,278.20	94,585,013,352.64
Placements from banks and other financial institutions		1,000,312,222.22			1,000,312,222.22
Financial assets sold under repurchase agreements		16,511,650,780.52	11,160,581,040.05		27,672,231,820.57
Due to customers	77,680,832,759.03	18,754,632,269.79	27,923,530,865.39	33,993,705,577.78	3,319,398.40
					158,356,020,870.39

Continued

Item	The Company				
	Overdue	Repayment on demand	Within 3 months	3 months-1 year	1-5 years
Bonds payable			6,520,000,000.00	27,390,000,000.00	544,800,000.00
Total financial liabilities		141,428,836,525.21	49,503,918,190.58	91,611,340,113.17	34,740,046,855.98
Net contractual cash flows in balance sheet	1,631,531,642.79	(82,735,891,552.20)	29,039,069,665.82	3,335,664,438.78	58,504,633,788.25
				62,429,790,311.62	72,204,798,295.06

Analysis on Contractual Cash Flows as at 31 December 2017

Item	The Company				
	Overdue	Repayment on demand	Within 3 months	3 months-1 year	1-5 years
Financial assets:					
Cash and balances with Central Bank		3,829,435,719.73	142,885,944.36	287,399,833.09	1,532,799,109.80
Deposits with banks and other financial institutions		15,128,545,531.35	5,069,690,111.34	32,818,735,845.64	
Placements with banks and other financial institutions			7,418,480,166.67	10,957,876,875.00	
Financial assets at fair value through profit or loss		1,519,188,000.00	2,158,653,000.00	9,787,219,492.68	474,850,120.00
Financial assets held under resale agreements			14,923,666,521.11	513,886,995.74	
Loans and advances to customers	1,885,176,558.93	181,237.23	25,634,069,494.56	54,564,722,089.68	22,721,399,947.65
Available-for-sale financial assets	230,000,000.00	5,028,188,321.39	863,400,890.18	4,333,109,400.00	12,264,785,600.00
Held-to-maturity investments			817,109,385.00	10,562,920,399.61	5,690,914,300.00
Investment classified as receivable			11,607,390,021.38	25,387,223,927.50	8,044,485,000.00
Total financial assets	2,115,176,558.93	25,505,538,809.70	68,635,345,534.60	149,213,094,858.94	50,729,234,077.45
Financial liabilities:					
				51,448,322,316.88	347,646,712,156.50

Item	The Company						Continued
	Overdue	Repayment on demand	Within 3 months	3 months–1 year	1–5 years	Over 5 years	
Due to central bank			335,406,729.35	138,905,354.75			474,312,084.10
Due to banks and other financial institutions		26,701,518,207.92	12,244,406,464.58	13,901,453,659.42	41,646,171,486.52	727,533.28	94,494,277,351.72
Placements from banks and other financial institutions			4,002,621,250.00				4,002,621,250.00
Financial assets sold under repurchase agreements			5,856,422,980.99	15,767,115,466.85			21,623,538,447.84
Due to customers	80,452,168,978.61		7,596,723,114.27	44,200,192,216.04	20,608,562,539.73	314,077,366.00	153,171,724,214.65
Bonds payable			9,750,000,000.00	4,136,000,000.00	111,704,109.59		13,997,704,109.59
Total financial liabilities	107,153,687,186.53		39,785,580,539.19	78,143,666,697.06	62,366,438,135.84	314,804,899.28	287,764,177,457.90
Net contractual cash flows in balance sheet	2,115,176,558.93 (81,648,148,376.83)		28,849,764,995.41	71,069,428,161.88 (11,637,204,058.39)	51,133,517,417.60	59,882,534,698.60	

(3) Market Risk

Market risk refers to the risk that cause losses to on-balance sheet and off-balance sheet business of a bank due to adverse changes in market prices (interest rate, exchange rate, share price, commodity price, etc.). The Bank classified all on-and-off balance sheet assets and liabilities into transaction account or bank account. Transaction account refer to financial instruments and commodity positions which are available for free transactions and held by the Bank for the purpose of transactions or evading the risk of other items of transaction account, and other kinds of positions are transferred into bank account. In view of different account categories, corresponding methods are utilized for control. The main market risk encountered by the Bank during the operation process include interest rate risk of transaction account, interest rate risk and exchange rate risk of bank account, without share price risk and commodity price risk.

1. Market Risk of Transaction Account

The Bank has established a market risk management system for transaction account covering risk identification, measurement, monitoring, reporting, and control to continuously monitor and control market risk in transactions and keep the market risk of transaction account within a tolerable and reasonable level of the Bank. In 2018, the Bank further promoted the application of risk measurement results in its services and management, set restrictions on positions and stop-loss, and strengthened the monitoring, early warning and reporting of trade book market risk based on market analysis.

2. Market Risk of Bank Account

Foreign Exchange Rate Risk

Exchange rate risk refers to the risk that cause losses to on-balance sheet and off-balance sheet business of a bank due to adverse changes in exchange rate. The exchange rate risk of the Bank manifested as the risk of causing losses by adverse changes of exchange rate to the foreign currency exposure generated by currency structures mismatch between foreign currency assets and foreign exchange liabilities in bank account. In 2018, the Bank set the foreign exchange exposure limit, risk value limit, strengthened analysis of foreign exchange rate changes, conducted monitoring, early warning and reporting of exchange rate risk situation.

Rate Risk

Due to the fluctuation in market interest rates, the Company's interest spread 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 PBOC. Based on historical experience, PBOC 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 risk through the distribution of the maturity date of loans and deposits.

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 risk to the best of its ability.

① Effects on net income and equities due to the analysis of interest rate fluctuation by the Company upon sensitivity
Effects of interest rate fluctuation on banking books:

Item	2018		
	Sensitivity of net interest income (RMB 10 ⁴)	Sensitivity of equities (RMB 10 ⁴)	Proportion of changes in net value in net capital
An increase of interest of 200 basis points	11,414.00	(174,713.70)	(5.3287%)

Item	2017		
	Sensitivity of net interest income (RMB 10 ⁴)	Sensitivity of equities (RMB 10 ⁴)	Proportion of changes in net value in net capital
An increase of interest of 200 basis points	(34,745.00)	(194,373.83)	(6.5413%)

Effects of interest rate fluctuation on trading books:

Item	2018		
	Sensitivity of net interest income (RMB 10 ⁴)	Sensitivity of equities (RMB 10 ⁴)	Proportion of changes in net value in net capital
An increase of interest of 200 basis points	734.00	(1,765.22)	(0.0538%)

Item	2017		
	Sensitivity of net interest income (RMB 10 ⁴)	Sensitivity of equities (RMB 10 ⁴)	Proportion of changes in net value in net capital
An increase of interest of 200 basis points	3,976.00	(4,430.73)	(0.1491%)

② The table below summarizes the interest rate risk exposure of the Company. Assets and liabilities in the balance sheet are 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 as at 31 December 2018

Item	The Company					Overdue/ non-accrual	Total
	Within 1 month	1-3 months	3 months - 1 year	1-5 years	Over 5 years		
Assets:							
Cash and balances with Central Bank	2,170,425,846.29			20,308,411,024.02		320,161,291.60	22,798,998,161.91
Deposits with banks and other financial institutions	38,916,119,813.24	513,851,655.03	6,051,590,977.88				45,481,562,446.15
Placements with banks and other financial institutions	5,460,000,000.00	4,533,750,000.00	18,330,000,000.00				28,323,750,000.00
Financial assets at fair value through profit or loss	18,660,319,446.46	140,183,200.00	199,870,850.00	26,342,631,450.52			45,343,004,946.98
Financial assets held under resale agreements	30,145,527,882.00	255,500,000.00	268,441,307.12				30,669,469,189.12
Interest receivable					2,129,081,290.41		2,129,081,290.41
Loans and advances to customers	8,047,891,344.79	17,567,067,358.11	65,527,119,248.43	21,620,576,732.97	8,914,747,391.38	322,096,037.88	121,999,498,113.56
Available-for-sale financial assets	2,152,150,077.83	2,087,686,012.19	1,613,353,395.37	14,106,764,803.62	1,814,611,651.49		21,774,565,940.50
Held-to-maturity investments		1,105,707,882.37	2,784,264,657.26	9,700,116,108.48	3,996,945,836.83		17,587,034,484.94
Investment classified as receivable	1,267,500,000.00	1,170,000,000.00	4,777,500,000.00	6,053,824,086.39			13,268,824,086.39
Fixed assets and construction in progress						395,961,822.31	395,961,822.31
Intangible assets						84,195,525.57	84,195,525.57
Deferred tax assets						645,503,905.12	645,503,905.12
Other assets						636,342,356.49	636,342,356.49
Total assets	106,819,934,410.61	27,373,746,107.70	99,552,140,436.06	77,823,913,181.98	35,034,715,903.72	4,533,342,229.38	351,137,792,269.45

Item	The Company						Continued
	Within 1 month	1–3 months	3 months – 1 year	1–5 years	Over 5 years	Overdue/ non-accrual	
Liabilities:							
Due to central bank	478,540,500.00	522,626,771.03	213,569,821.35				1,214,737,092.38
Due to banks and other financial institutions	63,748,003,766.18	5,700,998,931.90	24,340,696,521.76	177,352,969.63			93,967,052,189.47
Placements from banks and other financial institutions	1,000,000,000.00						1,000,000,000.00
Financial assets sold under repurchase agreements	13,865,946,800.00	2,617,995,785.18	11,145,572,688.44				27,629,515,273.62
Due to customers	84,293,712,759.03	12,018,548,900.00	27,549,064,069.09	31,940,028,800.00	3,241,600.00		155,804,596,128.12
Employee compensation payable					27,502,362.04		27,502,362.04
Tax payable						323,100,881.73	323,100,881.73
Interest payable						2,739,332,816.01	2,739,332,816.01
Bonds payable	149,800,951.25	6,328,526,996.40	26,781,791,592.47	500,000,000.00			33,760,119,540.12
Deferred tax liabilities							
Other liabilities						4,186,881,855.19	4,186,881,855.19
Total liabilities	163,536,004,776.46	27,188,697,384.51	90,030,694,693.11	32,617,381,769.63	3,241,600.00	7,276,817,914.97	320,652,838,138.68
Interest rate sensitivity gap	(56,716,070,365.85)	185,048,723.19	9,521,445,742.95	45,206,531,412.35	35,031,474,303.72	–	–

Analysis on Interest Rate Risk Exposure of Re-pricing Date or Expiration Date (whichever is earlier) of Assets and Liabilities as at 31 December 2017

Item	The Company					Overdue/non-accrual	Total
	Within 1 month	1-3 months	3 months - 1 year	1-5 years	Over 5 years		
Assets:							
Cash and balances with Central Bank	3,412,183,195.03			22,279,056,828.46	417,252,524.70	26,108,492,548.19	
Deposits with banks and other financial institutions	15,128,545,531.35	1,499,252,802.62	35,956,285,981.45			52,584,084,315.42	
Placements with banks and other financial institutions	2,145,000,000.00	15,112,500,000.00				17,257,500,000.00	
Financial assets at fair value through profit or loss	3,258,948,000.00	385,734,249.97	9,775,873,492.68	254,181,270.00	209,315,940.00	13,884,052,952.65	
Financial assets held under resale agreements	14,903,522,000.00		494,122,111.29			15,397,644,111.29	
Interest receivable					1,650,302,490.33	1,650,302,490.33	
Loans and advances to customers	3,726,811,651.12	7,212,335,606.45	58,358,274,955.71	17,016,251,239.01	20,117,597,454.14	106,827,126,420.35	
Available-for-sale financial assets	4,828,306,512.29		1,214,572,363.05	4,473,936,072.90	11,845,323,360.44	22,362,138,308.68	
Held-to-maturity investments			2,643,716,319.37	8,875,275,081.84	6,697,744,222.35	18,216,735,623.56	
Investment classified as receivable			32,418,663,573.92	8,573,482,481.68	761,127,500.00	41,753,273,555.60	
Fixed assets and construction in progress					339,848,282.00	339,848,282.00	
Intangible assets					77,832,253.05	77,832,253.05	

Item	The Company					Overdue/non-accrual	Total
	Within 1 month	1–3 months	3 months – 1 year	1–5 years	Over 5 years		
Continued							
Deferred tax assets						732,266,591.60	732,266,591.60
Other assets						333,577,286.32	333,577,286.32
Total assets	47,403,316,889.79	24,209,822,659.04	140,861,508,797.47	39,193,126,145.43	61,910,165,305.39	3,946,934,941.92	317,524,874,739.04
Liabilities:							
Due to central bank	11,492,093.75	280,888,106.25	126,072,036.09				418,452,236.09
Due to banks and other financial institutions	26,701,518,207.92	12,147,000,000.00	13,561,150,000.00	40,559,895,865.96	696,521.76		92,970,260,595.64
Placements from banks and other financial institutions		4,000,000,000.00					4,000,000,000.00
Financial assets sold under repurchase agreements		5,841,985,262.36	15,717,996,727.08				21,559,981,989.44
Due to customers	87,512,529,478.61	514,374,228.36	43,428,735,346.28	19,256,388,500.63	276,111,970.11		150,988,139,523.99
Employee compensation payable						19,557,829.44	19,557,829.44
Tax payable						200,889,902.43	200,889,902.43
Interest payable						2,404,917,611.85	2,404,917,611.85
Bonds payable	5,434,457,926.05	4,265,748,648.99	4,050,881,706.94	100,000,000.00			13,851,088,281.98
Deferred tax liabilities							
Other liabilities						3,173,222,666.69	3,173,222,666.69
Total liabilities	119,659,997,706.33	27,049,996,245.96	76,884,835,816.39	59,916,284,366.59	276,808,491.87	5,798,588,010.41	289,586,510,637.55
Interest rate sensitivity gap	(72,256,680,816.54)	(2,840,173,586.92)	63,976,672,981.08	(20,723,158,221.16)	61,633,356,813.52	–	–

(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 a specific time. 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 debts 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 CCDC) is obtained from price providers or the site of China Central Depository & Clearing Co., Ltd. (CCDC).

Level 3: Using valuation techniques-uses any input not based on observable market data (unobservable inputs).

(1) Financial Instruments Measured at Fair Value

On 31 December 2018, the Company's financial instruments measured at fair value are listed according to the above three levels:

Item	The Company and the Bank			Total
	Level 1	Level 2	Level 3	
Financial Assets:				
Financial Assets held for trading		45,343,004,946.98		45,343,004,946.98
Including: Trading bonds investment		26,682,685,500.52		26,682,685,500.52
Trading fund investment		18,660,319,446.46		18,660,319,446.46
Available-for-sale financial assets		22,013,582,189.00		22,013,582,189.00
Total		67,356,587,135.98		67,356,587,135.98

On 31 December 2017, the Company's financial instruments measured at fair value are listed according to the above three levels:

Item	The Company and the Bank			Total
	Level 1	Level 2	Level 3	
Financial Assets:				
Financial Assets held for trading		13,884,052,952.65		13,884,052,952.65
Including: Trading bonds investment		11,131,122,409.84		11,131,122,409.84
Trading fund investment		2,752,930,542.81		2,752,930,542.81
Available-for-sale financial assets		22,602,672,256.57		22,602,672,256.57
Total		36,486,725,209.22		36,486,725,209.22

For a financial instrument which has an active market, its fair value is recognized upon its price quoted on such active market. For a financial instrument which has no active market, its fair value is recognized by using a valuation technique. 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 rate, 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, and there are no changes made to the financial assets at Level 3.

(2) Fair Value of Financial Instruments not Measured at Fair Value of the Company and the Bank

Item	31 December 2018			31 December 2017		
	Book value	Fair value	Level	Book value	Fair value	Level
Held-to-maturity investments	17,587,034,484.94	17,074,579,224.28	Level 2	18,216,735,623.56	17,911,882,223.10	Level 2
Bonds payable	33,760,119,540.12	33,468,830,640.00	Level 2	13,851,088,281.98	13,704,336,470.00	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.

(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, or agent) 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 risk 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 and the Bank at the end of the reporting period are as follows:

Item	31 December 2018	31 December 2017
Entrusted funds	34,665,481,345.58	47,540,387,982.08
Entrusted loans	34,665,481,345.58	47,540,387,982.08

Including: Refer to Note VI / (8) for the deposits of entrusted loans of China National Petroleum Corporation and its holding subsidiaries as at 31 December 2018.

X. Capital Management

The capital management of the Company aims to guarantee the sustainable and stable operation, satisfy supervision requirements and maximize the return on capital. The Bank regularly reviews the capital status and the implementation of relevant capital management strategies, specifies the capital management mechanism, and effectively transmits supervision requirements; continues to research on the capital utilization efficiency and improve the return level; pays attention to the endogenous capital supplement, continues to consolidate the bank wide capital base, and enhances the abilities to support the development of the real economy; coordinates, allocates and utilizes the capital and promotes the sustainable and healthy development of various businesses. The Company submits the information required for capital adequacy ratio to the banking regulatory department on a quarterly basis.

The calculation of weighted risk assets indicates the predicted credit, market and other related risk based on each asset, counterparty and nature of any eligible collateral. This calculation method is also applicable to off-balance sheet exposures, as well as some adjustments to reflect the characteristics or that with loss contingencies.

According to the *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* issued by CBRC and other relevant stipulations, the Company discloses the following:

in RMB 10⁴

Item	31 December 2018	
	The Company	The Bank
Net common equity tier 1 capital	3,033,432.77	3,017,200.49
Net tier 1 capital	3,033,782.72	3,017,200.49
Tier 2 capital	263,189.86	261,543.41
Net capital	3,296,972.58	3,278,743.89
Risk-weighted assets	22,623,158.40	22,533,274.16
Common equity tier 1 capital adequacy ratio	13.41%	13.39%
Tier 1 capital adequacy ratio	13.41%	13.39%
Capital adequacy ratio	14.57%	14.55%

CBRC required that the capital adequacy ratio of commercial banks shall not be lower than 10.5%, the tier 1 capital adequacy ratio not lower than 8.5%, and common equity tier 1 capital adequacy ratio not lower than 7.5%. Currently, the Company fully satisfied various legal supervision requirements.

1. Tier 1 Capital

in RMB 10⁴

Item	31 December 2018	
	The Company	The Bank
Paid-in capital	1,028,787.93	1,028,787.93
Portion of capital reserve that can be included	1,019,299.07	1,019,288.95
Surplus reserve	211,620.91	211,620.91
General and statutory reserve	429,800.10	428,716.12
Undistributed profits	329,723.87	322,960.32
Eligible portion of minority's capital	2,624.63	0.00
Others	20,014.25	20,014.25
Total tier 1 capital	3,041,870.76	3,031,388.48
Common equity tier 1 capital adjustment items	8,437.99	14,187.99
Net common equity tier 1 capital	3,033,432.77	3,017,200.49
Other tier 1 capital	349.95	0.00
Net tier 1 capital	3,033,782.72	3,017,200.49

2. Tier 2 Capital

in RMB 10⁴

Item	31 December 2018	
	The Company	The Bank
Eligible portion of tier 2 capital instruments and their premiums		
Allowance for excess loan losses	262,489.96	261,543.41
Eligible portion of minority's capital	699.90	
Tier 2 capital adjustment items		
Net tier 2 capital	263,189.86	261,543.41
Net capital	3,296,972.58	3,278,743.89

3. Composition of Risk Assets

in RMB 10⁴

Item	31 December 2018	
	The Company	The Bank
Credit risk-weighted assets	21,261,686.79	21,185,016.19
Market risk-weighted assets	276,907.43	276,907.43
Operational risk-weighted assets	1,084,564.18	1,071,350.54
Total Risk-weighted assets	22,623,158.40	22,533,274.16

Since its establishment, the Company had always paid attention to the capital management work, and used capital to conduct management activities such as planning, measurement, allocation, and application in accordance with the capital supervision requirements of the *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)*. Overall objectives of capital management of the Company were to maintain a reasonable balance between capital, risk and profit, including utilization of different capital instruments, optimization of book capital structure, and reduction of capital financing cost; to keep a reasonable capital adequacy ratio level by the capital management mechanism, and continue to satisfy various supervision requirements of supervision departments on capital management to ensure the safe and steady operation; and to keep improving the capital management mechanism to satisfy the scale development and risk management requirements of the Bank. Reasonable allocation of capitals should achieve safe operation and maximization of capital income after risk adjustment.

XI. Events after the Balance Sheet Date

(1) Profit Distribution

On 28 March 2019, the 2nd meeting of the fifth session Board of Directors passed the proposal concerning the profit distribution for the second half of year 2018:

1. Withdrawal of statutory surplus reserve: to withdraw the statutory surplus reserve in total RMB 327,790,376.11.
2. Withdrawal of general risk preparation: according to the *Administrative Measures for the Provision of Reserves by Financial Enterprises* (CJ [2012] No. 20), to withdraw general risk preparation in total RMB 224,305,484.73.
3. Distribution of cash dividends: It was proposed to distribute the dividends as per 48% of the profit available for divided in 2018. In the first half of the year, dividends of RMB 720,151,548.12 had been distributed, and dividends of RMB 586,409,117.69 shall be distributed in the second half of the year.

The cash dividends in total RMB 586,409,117.69 (tax included) are to be distributed at RMB 0.57 / 10 shares (tax included) based on the total 10,287,879,300 capital shares as at 31 December 2018.

(2) Implementation of New Standards

In 2017, the Ministry of Finance issued four accounting standards, namely, the revised *Accounting Standards for*

Enterprises No.22–Recognition and Measurement of Financial Instruments, the *Accounting Standards for Enterprises No.23–Transfer of Financial Assets*, the *Accounting Standards for Enterprises No.24–Hedging*, the *Accounting Standards for Enterprises No.37–Presentation of Financial Instruments* (hereinafter referred to as the "New Accounting Standards for Financial Instruments"). The New Accounting Standards for Financial Instruments proposed new requirements for the classification and measurement of financial assets and financial liabilities, hedging and impairment of financial assets.

Based on the stipulations on the linkage with new standards, the Company didn't need to restate the earlier comparable figures. The adjustment of differences between the implementation of new standards on the first day and the original standards shall be included in the beginning retained income or other comprehensive income. The Company will adopt the New Accounting Standards for Financial Instruments from the financial year beginning on 1 January 2019. After adopting the New Accounting Standards for Financial Instruments, the Company's evaluation showed that the accrued owner's equity reduced RMB 44,737,686.41 on 1 January 2019, which mainly impacted the classification, measurement and impairment of financial assets.

Except for the above matters, the Company didn't need to disclose any matters after the date of significant balance sheet up to the approval date of the Financial Statements.

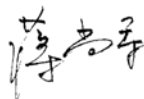
XII. Approval of the Financial Statements

The financial statements are provided upon the approval by all directors of the Bank.

Bank of Kunlun Corporation Limited
28 March 2019

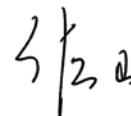
The Notes to the Financial Statements from Page 99 to Page 239 are signed by:

Legal Representative:



Signature Date: 2019.3.28

Person in Charge of Accounting:

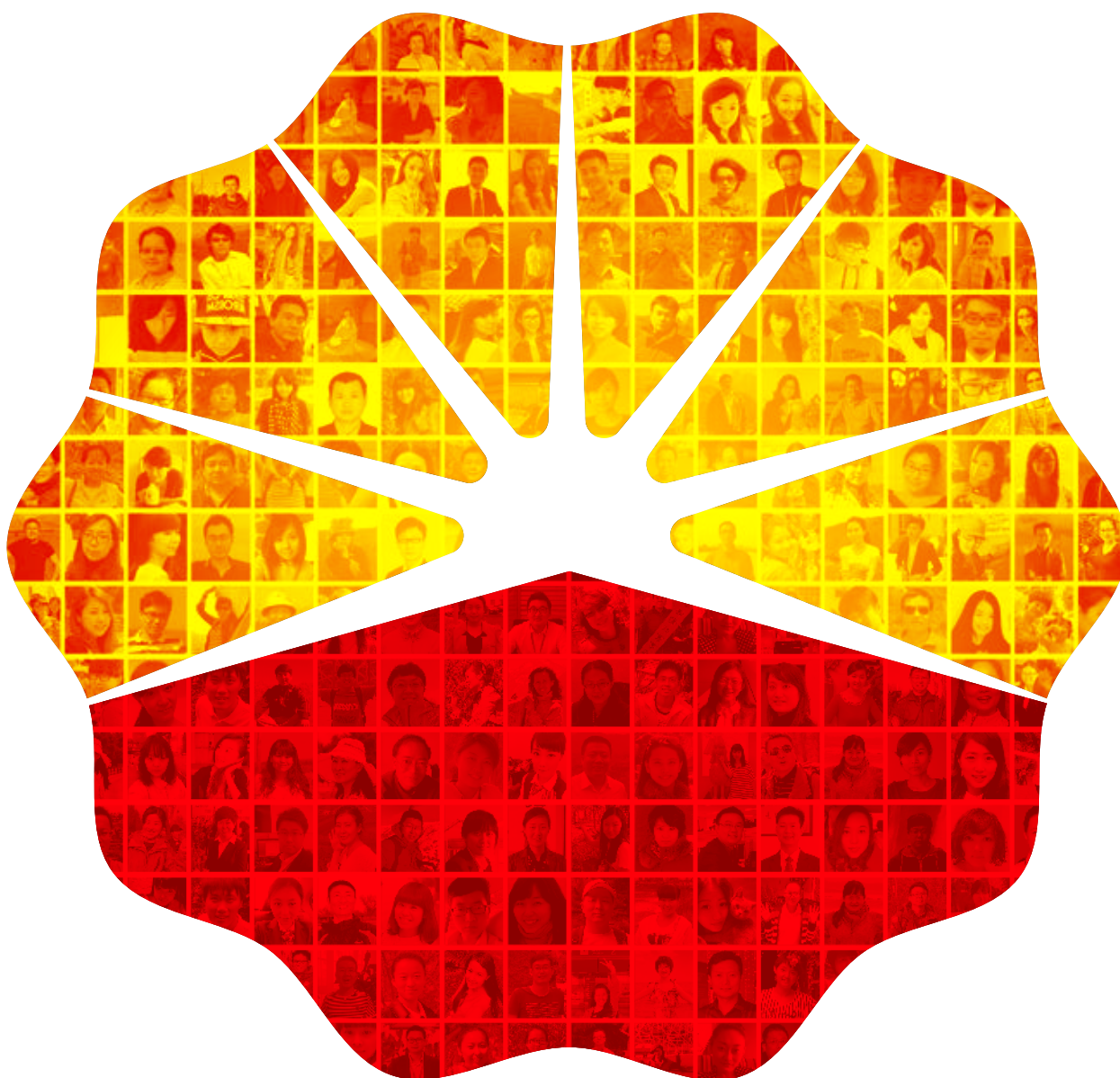


Signature Date: 2019.3.28

Director of Accounting Department:



Signature Date: 2019.3.28



Members of the writing group for the 2018 Annual Report (in order of Chinese Surname Strokes):

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