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BQD  **青岛银行**

Bank of Qingdao Co., Ltd.*

青島銀行股份有限公司*

(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 3866)

Annual Results for the year ended 31 December 2015

The board of directors (the “**Board**”) of Bank of Qingdao Co., Ltd.* (the “**Company**” or “**Bank**”) is pleased to announce the audited annual results (the “**Annual Results**”) of the Company for the year ended 31 December 2015 (the “**Reporting Period**”) prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board. The Board and its audit committee have reviewed and confirmed the Annual Results.

Unless otherwise stated, the currency of the amounts referred to in this annual results announcement is Renminbi (“**RMB**”).

1. CORPORATE INFORMATION

1.1 Corporate Basic Information

| | |
|-------------------------------|--|
| Legal name in Chinese: | 青島銀行股份有限公司 (Abbreviation: 青島銀行) |
| Legal name in English: | BANK OF QINGDAO CO., LTD. (Abbreviation: BANK OF QINGDAO) |
| Legal representative: | Guo Shaoquan |
| Authorised representatives: | Guo Shaoquan, Lu Lan |
| Listing exchange of H shares: | The Stock Exchange of Hong Kong Limited |
| Stock name: | BQD |
| Stock code: | 3866 |

1.2 Contact Persons and Contact Details

| | |
|--|---|
| Secretary to the Board: | Lu Lan |
| Joint company secretaries: | Lu Lan, Lai Siu Kuen |
| Registered and office address: | No. 68, Hong Kong Middle Road, Shinan District, Qingdao, Shandong Province, PRC Postal code: 266071 |
| Principal place of business in Hong Kong: | 36th Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong |
| Telephone: | +86 (532) 85709728 |
| Fax: | +86 (532) 85709725 |
| Email: | ir@qdbankchina.com |
| Company website: | http://www.qdccb.com/ |

2. FINANCIAL HIGHLIGHTS

2.1 Financial Data

| Item | <i>Unit: RMB'000</i> | | | | | |
|--|----------------------|-------------|--------------------------|-------------|-------------|-------------|
| | 2015 | 2014 | Year-on-year change % | 2013 | 2012 | 2011 |
| Net interest income | 4,114,054 | 3,596,336 | 14.40 | 3,087,784 | 2,607,371 | 2,299,610 |
| Net fee and commission income | 749,627 | 688,751 | 8.84 | 425,330 | 235,498 | 141,334 |
| Net trading gains, net gains arising from investments and other operating income | 141,827 | 79,965 | 77.36 | 43,178 | 44,091 | 45,696 |
| Operating income | 5,005,508 | 4,365,052 | 14.67 | 3,556,292 | 2,886,960 | 2,486,640 |
| Operating expenses | (2,076,578) | (1,995,253) | 4.08 | (1,688,944) | (1,380,363) | (1,132,311) |
| Impairment losses | (579,894) | (411,278) | 41.00 | (348,702) | (283,532) | (387,235) |
| Profit before taxation | 2,349,036 | 1,958,521 | 19.94 | 1,518,646 | 1,223,065 | 967,093 |
| Net profit | 1,813,776 | 1,495,352 | 21.29 | 1,141,914 | 920,028 | 738,445 |
| Net cash flows generated from operating activities | 8,513,108 | 11,196,260 | (23.96) | 10,374,213 | 9,818,168 | 7,921,562 |
| | 2015 | 2014 | Year-on-year change | 2013 | 2012 | 2011 |
| Net assets per share attributable to shareholders of the Company (RMB) | 4.14 | 3.83 | 0.31 | 3.21 | 2.91 | 2.72 |
| Basic earnings per share (RMB) | 0.58 | 0.59 | (0.01) | 0.45 | 0.36 | 0.37 |
| Dividend per share (RMB) | 0.20 | 0.25 | (0.05) | 0.08 | 0.07 | 0.05 |

2.2 Financial Indicators

Unit: RMB'000, %

| Item | 2015 | 2014 | Year-on-year change % | 2013 | 2012 | 2011 |
|--|--------------------|-------------|--------------------------|-------------|-------------|------------|
| Scale indicators | | | | | | |
| | | | Change % | | | |
| Total assets | 187,235,254 | 156,165,941 | 19.90 | 135,689,371 | 101,658,224 | 77,025,677 |
| Of which: loans and advances to customers, net | 70,655,221 | 61,248,341 | 15.36 | 54,105,925 | 44,495,597 | 33,283,250 |
| Total liabilities | 170,621,602 | 146,381,291 | 16.56 | 127,484,219 | 94,221,589 | 70,067,472 |
| Of which: deposits from customers | 115,321,997 | 101,733,660 | 13.36 | 96,283,907 | 75,647,869 | 60,243,829 |
| Share capital | 4,011,533 | 2,555,977 | 56.95 | 2,555,977 | 2,555,977 | 2,555,977 |
| Total equity | 16,613,652 | 9,784,650 | 69.79 | 8,205,152 | 7,436,635 | 6,958,205 |
| Profitability indicators | | | | | | |
| | | | Change | | | |
| Return on average total assets | 1.06 | 1.02 | 0.04 | 0.96 | 1.03 | 1.06 |
| Return on average equity | 13.74 | 16.62 | (2.88) | 14.60 | 12.78 | 13.30 |
| Net interest spread | 2.23 | 2.25 | (0.02) | 2.38 | 2.86 | 3.08 |
| Net interest margin | 2.36 | 2.43 | (0.07) | 2.54 | 3.04 | 3.26 |
| Net fee and commission income to operating income | 14.98 | 15.78 | (0.80) | 11.96 | 8.16 | 5.68 |
| Cost-to-income ratio | 35.80 | 39.61 | (3.81) | 41.04 | 41.57 | 40.15 |
| Asset quality indicators | | | | | | |
| | | | Change | | | |
| Non-performing loan ratio | 1.19 | 1.14 | 0.05 | 0.75 | 0.76 | 0.86 |
| Provision coverage ratio | 236.13 | 242.32 | (6.19) | 365.24 | 352.35 | 340.34 |
| Loan provision ratio | 2.81 | 2.76 | 0.05 | 2.74 | 2.68 | 2.94 |
| Indicators of capital adequacy ratio | | | | | | |
| | | | Change | | | |
| Core tier-one capital adequacy ratio | 12.48 | 9.72 | 2.76 | 9.75 | N/A | N/A |
| Tier-one capital adequacy ratio | 12.48 | 9.72 | 2.76 | 9.75 | N/A | N/A |
| Capital adequacy ratio | 15.04 | 10.75 | 4.29 | 10.88 | 13.70 | 14.52 |
| Total equity to total assets | 8.87 | 6.27 | 2.60 | 6.05 | 7.32 | 9.03 |
| Other indicators | | | | | | |
| | | | Change | | | |
| Loan-to-deposit ratio | 59.99 | 55.54 | 4.45 | 56.79 | 59.57 | 55.36 |
| Liquidity ratio | 60.04 | 45.57 | 14.47 | 41.16 | 49.75 | 55.51 |
| Percentage of loans to the single largest customer | 5.55 | 6.13 | (0.58) | 5.84 | 5.09 | 5.51 |
| Percentage of loans to the top ten customers | 32.66 | 47.04 | (14.38) | 46.46 | 41.65 | 46.70 |

- Notes:*
- (1) Net loans and advances to customers = the amount of total loan – impairment allowance
 - (2) Return on average total assets = net profit/average balance of total assets at the beginning and at the end of the period
 - (3) Return on average equity = net profit/average balance of equity attributable to shareholders at the beginning and at the end of the period
 - (4) Net interest spread = average yield on interest-earning assets – average cost of interest-bearing liabilities
 - (5) Net interest margin = net interest income/average interest-earning assets
 - (6) Net fee and commission income to operating income = Net fee and commission income/operating income
 - (7) Cost-to-income ratio = (operating expenses – business tax and surcharges)/operating income
 - (8) Since 1 January 2013, the capital adequacy ratio and other relevant indicators listed in the above chart were calculated in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) (Decree of the China Banking Regulatory Commission (the “CBRC”) 2012 No. 1) and other relevant regulatory regulations; The capital adequacy ratios as at the end of other periods were calculated in accordance with the Regulation Governing Capital Adequacy Ratios of Commercial Banks (《商業銀行資本充足率管理辦法》).

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Review of the Economic and Financial Environment and Policies

In 2015, the global economy has witnessed extensive adjustment. The economic recovery in developed countries continued to be unstable in general, while the emerging economies revealed significant differentiation. In 2015, the economy of China was still within a reasonable range, the deceleration in economic growth, enhancement of economic structure, change in growth drivers, and gradual advancement of reforms expanded the room for economic development, laying a solid foundation for the development during the period of China’s Thirteenth Five-Year Plan.

The Chinese government made positive adjustments to the economic structure of China, while implementing proactive fiscal policies and prudent monetary policies at the same time. Through a series of policy measures reform of the assessment system for reserves, lifting of the caps for deposit interest rates and successful inclusion of RMB in the Special Drawing Rights currency basket, the Chinese government promoted the reform towards a market-oriented and international finance system in an orderly manner.

In 2015, under the multiple impacts of the cyclical change in the economy, interest rates liberalization, financial disintermediation and the advancement of Internet economy, commercial banks suffered from adverse conditions including a slackened profit growth and an amplified non-performing loan ratio. Under this backdrop, in order to safeguard the stable development of the banking industry and further reforms in the financial industry, regulators carried out various measures including lifting the caps on deposit interest rates, implementing the deposit insurance system, relaxing the entry threshold of private banks and bringing internet finance under the ambit of the law, which prompted changes to the traditional business philosophy as well as transformation and upgrading of the banking industry.

In 2015, confronted with the complex and challenging macroeconomic environment, Shandong Province initiated concerted moves to maintain a stable growth of the economy, make structural adjustments, promote reforms, prevent risks and benefit people's livelihood by taking a series of policy measures to accelerate the transformation and upgrading of the economy. The economy ran smoothly in general, making progress while maintaining stability and achieving upgrades in quality for the year. Meanwhile, the Qingdao municipal government actively involved itself in the national strategy of "One Belt and One Road". The construction of facilities required for an international city led to and served as a driver for further opening up of the city, and its economy witnessed a good momentum of growth.

3.2 Summary of Overall Operations

1. Status of Key Operational Indicator Achievement

- (1) Total assets amounted to RMB187.235 billion, representing a year-on-year increase of RMB31.069 billion or 19.90%;
- (2) Total deposits amounted to RMB115.322 billion, representing a year-on-year increase of RMB13.588 billion or 13.36%;
- (3) Total loans amounted to RMB72.696 billion, representing a year-on-year increase of RMB9.707 billion or 15.41%;
- (4) Net profit amounted to RMB1.814 billion, representing a year-on-year increase of RMB318 million or 21.29%;
- (5) Non-performing loan ratio, provision coverage ratio and capital adequacy ratio were 1.19%, 236.13% and 15.04% respectively;
- (6) Return on average total assets was 1.06%, representing a year-on-year increase of 0.04 percentage points;
- (7) Return on average equity was 13.74%, representing a year-on-year decrease of 2.88 percentage points, mainly because the Company completed the capital and share increase in February 2015, and was listed on the main board of Hong Kong Stock Exchange in December 2015 with H share proceeds raised, resulting into significant increase in net assets at the end of the year.

2. Major Tasks of Operational Management

(1) Successful listing offering a new starting point of operating development

During the Reporting Period, confronted with the unprecedented complexity under the new norm, the Company as a whole held a united belief of making breakthroughs and tackling difficulties, successfully achieving the objectives and tasks of the year, continued boost in profitability, steady enhancement in risk management capabilities, and maintaining coordinated and sound development in terms of scale, benefits and quality.

After four years of incessant efforts, the Company was listed on the main board of The Stock Exchange of Hong Kong Limited (“**Hong Kong Stock Exchange**”), newly issuing a total of 947 million H shares and raising proceeds of HK\$4,499 million, and became the first city commercial bank in Shandong Province to have a presence in the international capital market.

(2) *Intensive business cultivation bringing development to new heights*

For retail business, on the back of its competitive edges in products, services, technologies and public-private partnership, the Company secured a sizeable number of customers through new channels with the breakthrough in “all-in-one cards”. For corporate business, the Company adhered to intensive business cultivation, strengthened collaborative partnership, actively marketed various government funds and special financial accounts, and rolled out inclusive strategic cooperation with livelihood industries including hospitals and transportation and education institutions, as well as listed companies and companies seeking to be listed. For financial market business, the Company enriched its investment channels and increased its investment in quality assets, boosting contribution to the profit of the Company dramatically. For risk management and control, the Company as a whole implemented a number of measures and achieved notable results in tackling and reducing non-performing loans, controlling its ratio at 1.19% and maintaining a record of no occurrence of risk incidents in the year under the challenging credit risk environment. For establishment of institutions, Yantai Branch and Binzhou Branch commenced operation, Qianwan Port Sub-branch and Metro Sub-branch, two feature sub-branches, were set up, and nine community sub-branches were also set up to extend services at basic levels of society, bringing the total number of institutions to over 100 at the end of the Reporting Period.

(3) *Innovative drivers for adding unique investment stories*

For Interface Banking, the Company joined hands with 23 domestic and overseas corporate financial institutions in initiating the establishment of the “One Belt and One Road Financial Alliance” and took the lead to form the financial strategic cooperation for the Shandong Province inter-bank market with 146 corporate financial institutions, and cooperated with e-commerce players in launching the online supply chain financing service mode.

For business innovation, the Company rolled out the business brand of “Win-win Innovative Financing” catered for listed companies and companies seeking to be listed; the business of “Bank-Customs Duty Pass” for importer and exporter corporate customers; the business of insurance and loans through pledge of intellectual property rights, the first of its kind domestically, for small business customers; and the business of online supply chain financing for individual customers by cooperating with large companies including Coca-Cola. For mobile banking and technology advancements, the Company officially announced the launch of direct banking and offered the first product “Reaping Returns from the Money Market”, further rolling out enhanced mobile finance projects.

3.3 Analysis of Major Items of the Statement of Profit or Loss and Other Comprehensive Income

3.3.1 Financial performance summary

| Item | Unit: RMB'000 | |
|--|------------------|------------------|
| | 2015 | 2014 |
| Net interest income | 4,114,054 | 3,596,336 |
| Net fee and commission income | 749,627 | 688,751 |
| Net trading gains, net gains arising from investments and net other operating income | 141,827 | 79,965 |
| Operating expenses | (2,076,578) | (1,995,253) |
| Impairment losses | (579,894) | (411,278) |
| Profit before taxation | 2,349,036 | 1,958,521 |
| Income tax | (535,260) | (463,169) |
| Net profit | 1,813,776 | 1,495,352 |

In 2015, the Company achieved a profit before taxation of RMB2.349 billion, representing a year-on-year increase of 19.94% and a net profit of RMB1.814 billion, representing a year-on-year increase of 21.29%; and the effective income tax rate was 22.79%, representing a year-on-year decrease of 0.86 percentage point. The following table sets forth the impact of changes in our significant profit or loss items on the profit before taxation in 2015.

| Item | Unit: RMB'000 |
|--|------------------|
| | Amount |
| Profit before taxation in 2014 | 1,958,521 |
| Changes in 2015 | |
| Net interest income | 517,718 |
| Net fee and commission income | 60,876 |
| Net trading gains, net gains arising from investments and net other operating income | 61,862 |
| Operating expenses | (81,325) |
| Impairment losses | (168,616) |
| Profit before taxation in 2015 | <u>2,349,036</u> |

3.3.2 Operating income

In 2015, the Company achieved an operating income of RMB5.006 billion, representing a year-on-year increase of 14.67%, of which the net interest income accounted for 82.19%, representing a year-on-year decrease of 0.20 percentage point, and the net non-interest income accounted for 17.81%, representing a year-on-year increase of 0.20 percentage point. The following table sets forth the comparison of composition of our operating income for corresponding periods in the recent five years.

| Item | 2015 | 2014 | 2013 | 2012 | Unit: % |
|--|---------------|--------|--------|--------|---------|
| | | | | | 2011 |
| Net interest income | 82.19 | 82.39 | 86.83 | 90.32 | 92.48 |
| Net fee and commission income | 14.98 | 15.78 | 11.96 | 8.16 | 5.68 |
| Net trading gains, net gains arising from investments and net other operating income | 2.83 | 1.83 | 1.21 | 1.52 | 1.84 |
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

3.3.3 Net interest income

In 2015, our net interest income was RMB4.114 billion, representing a year-on-year increase of 14.40%. The following table sets forth the average balance, interest income/interest expense and average yield/cost rate of the assets and liabilities items of the Company for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities were daily average balances.

Unit: RMB'000

| Item | 31 December 2015 | | | 31 December 2014 | | |
|--|--------------------|-------------------------|--------------------|--------------------|-------------------------|--------------------|
| | Average balance | Interest income/expense | Average yield/cost | Average balance | Interest income/expense | Average yield/cost |
| Interest-earning assets | | | | | | |
| Loans and advances to customers | 68,418,779 | 4,174,747 | 6.10% | 59,623,562 | 3,942,291 | 6.61% |
| Financial investments | 74,084,373 | 3,796,311 | 5.12% | 51,953,293 | 2,629,069 | 5.06% |
| Deposits with central bank | 19,194,302 | 298,028 | 1.55% | 19,548,662 | 302,888 | 1.55% |
| Deposits with banks and other financial institutions | 2,777,640 | 56,724 | 2.04% | 5,030,700 | 206,469 | 4.10% |
| Financial assets held under resale agreements | 8,879,306 | 233,525 | 2.63% | 9,611,346 | 436,848 | 4.55% |
| Placements with banks and other financial institutions | 970,698 | 12,188 | 1.26% | 1,868,958 | 62,613 | 3.35% |
| Financial assets at fair value through profit or loss | 343,052 | 16,186 | 4.72% | 287,994 | 15,211 | 5.28% |
| Total | 174,668,150 | 8,587,709 | 4.92% | 147,924,515 | 7,595,389 | 5.13% |
| Interest-bearing liabilities | | | | | | |
| Deposits from customers | 109,514,182 | 2,269,307 | 2.07% | 98,989,605 | 2,224,088 | 2.25% |
| Deposits from banks and other financial institutions | 23,017,573 | 1,032,734 | 4.49% | 16,828,439 | 889,349 | 5.28% |
| Financial assets sold under repurchase agreements | 14,738,220 | 368,151 | 2.50% | 13,651,371 | 532,536 | 3.90% |
| Placements from banks and other financial institutions | 1,895,648 | 12,484 | 0.66% | 2,771,155 | 54,145 | 1.95% |
| Debt securities issued | 15,571,933 | 705,470 | 4.53% | 5,826,940 | 278,924 | 4.79% |
| Others | 1,782,983 | 85,509 | 4.80% | 843,624 | 20,011 | 2.37% |
| Total | 166,520,539 | 4,473,655 | 2.69% | 138,911,134 | 3,999,053 | 2.88% |
| Net interest income | | 4,114,054 | | | 3,596,336 | |
| Net interest spread | | | 2.23% | | | 2.25% |
| Net interest margin | | | 2.36% | | | 2.43% |

In 2015, as the yield on loans to customers decreased, the net interest margin and net interest spread were 2.36% and 2.23% respectively, representing year-on-year decreases of 0.07 percentage point and 0.02 percentage point respectively.

The following table sets forth the breakdown of changes in the Company's interest income and interest expense due to volume and rate changes for the periods indicated: the volume changes were measured by changes in average balance (daily average balance); rate changes were measured by changes in average rate, and changes in interest income and expense due to volume and rate changes were included in the impact of volume changes on changes in interest income and expense.

| Item | 2015 vs. 2014 | | Net |
|--|------------------|------------------|-------------------------|
| | Due to volume | Due to rate | increase/ (decrease) |
| <i>Unit: RMB'000</i> | | | |
| Assets | | | |
| Loans and advances to customers | 536,536 | (304,080) | 232,456 |
| Financial investments | 1,136,070 | 31,172 | 1,167,242 |
| Deposits with central bank | (4,860) | – | (4,860) |
| Deposits with banks and other financial institutions | (45,962) | (103,783) | (149,745) |
| Financial assets held under resale agreements | (19,253) | (184,070) | (203,323) |
| Placements with banks and other financial institutions | (11,318) | (39,107) | (50,425) |
| Financial assets at fair value through profit or loss | 2,588 | (1,613) | 975 |
| Change in interest income | 1,593,801 | (601,481) | 992,320 |
| Liabilities | | | |
| Deposits from customers | 223,400 | (178,181) | 45,219 |
| Deposits from banks and other financial institutions | 276,330 | (132,945) | 143,385 |
| Financial assets sold under repurchase agreements | 27,171 | (191,556) | (164,385) |
| Placements from banks and other financial institutions | (5,778) | (35,883) | (41,661) |
| Debt securities issued | 441,696 | (15,150) | 426,546 |
| Others | 44,998 | 20,500 | 65,498 |
| Change in interest expense | 1,007,817 | (533,215) | 474,602 |
| Change in net interest income | 585,984 | (68,266) | 517,718 |

3.3.4 Interest income

In 2015, the Company achieved an interest income of RMB8.588 billion, representing a year-on-year increase of 13.06%, mainly due to an increase in the volume of interest-earning assets. The interest income of the loans extended and advances remained the largest part of our interest income.

Interest income of loans and advances to customers

In 2015, the interest income of our loans and advances was RMB4.175 billion, representing a year-on-year increase of RMB232 million or 5.90%. The following table sets forth the average balance, interest income and average yield of each component of our loans and advances for the periods indicated.

| Item | Unit: RMB'000 | | | | | |
|---------------------------------|-------------------|----------------------|---------------|-------------------|----------------------|---------------|
| | Average balance | 2015 Interest income | Average yield | Average balance | 2014 Interest income | Average yield |
| Corporate loans | 50,328,293 | 3,039,771 | 6.04% | 45,062,906 | 2,920,237 | 6.48% |
| Personal loans | 18,090,486 | 1,134,976 | 6.27% | 14,560,656 | 1,022,054 | 7.02% |
| Total loans to customers | 68,418,779 | 4,174,747 | 6.10% | 59,623,562 | 3,942,291 | 6.61% |

Interest income from financial investment

In 2015, our interest income from financial investment increased by RMB1.167 billion or 44.40% year-on-year, mainly due to increases in non-standard investments and yields.

Interest income from deposits with banks and other financial institutions

In 2015, our interest income from deposits with banks and other financial institutions decreased by RMB150 million or 72.53% year-on-year, mainly due to a decrease in the volume of deposits with banks and other financial institutions and a decrease in the yield of the interbank funds.

3.3.5 Interest expense

In 2015, our interest expense was RMB4.474 billion, representing a year-on-year increase of RMB475 million or 11.87%, mainly due to an increase in the volume of interest-bearing liabilities.

Interest expense on deposits from customers

In 2015, our interest expense on deposits from customers increased by RMB45 million or 2.03% year-on-year, and the average balance of deposits from customers increased by 10.63% year-on-year, which was partially offset by a year-on-year decrease of 0.18 percentage point in the average cost rate of deposits from customers. The following table sets forth the average balance, interest expense and average cost rate of our corporate deposits and personal deposits for the periods indicated.

| Item | 2015 | | | 2014 | | |
|--|--------------------|------------------|-------------------|-------------------|------------------|-------------------|
| | Average balance | Interest expense | Average cost rate | Average balance | Interest expense | Average cost rate |
| <i>Unit: RMB'000</i> | | | | | | |
| Corporate deposits from customers | | | | | | |
| Demand | 32,108,631 | 222,763 | 0.69% | 30,301,481 | 216,996 | 0.72% |
| Time | 39,574,846 | 981,517 | 2.48% | 35,834,452 | 1,041,543 | 2.91% |
| Subtotal | 71,683,477 | 1,204,280 | 1.68% | 66,135,933 | 1,258,539 | 1.90% |
| Personal deposits from customers | | | | | | |
| Demand | 7,376,420 | 27,093 | 0.37% | 5,633,879 | 22,401 | 0.40% |
| Time | 30,454,285 | 1,037,934 | 3.41% | 27,219,793 | 943,148 | 3.46% |
| Subtotal | 37,830,705 | 1,065,027 | 2.82% | 32,853,672 | 965,549 | 2.94% |
| Total deposits from customers | 109,514,182 | 2,269,307 | 2.07% | 98,989,605 | 2,224,088 | 2.25% |

Interest expense on deposits from banks and other financial institutions

In 2015, our interest expense on deposits from banks and other financial institutions increased by 16.12% year-on-year, mainly due to an increase in the volume of deposits from banks and other financial institutions.

Interest expense on issued debts

In 2015, our interest expense on issued debts increased by 152.93% year-on-year, mainly due to an increase in volume of issued debts.

3.3.6 Net non-interest income

In 2015, the Company achieved net non-interest income of RMB891 million, representing a year-on-year increase of RMB123 million or 15.97%, of which the net non-interest income of corporate banking business decreased by 27.60% to RMB252 million year-on-year, representing 28.32% of our net non-interest income; the net non-interest income of retail banking business increased by 256.34% to RMB180 million year-on-year, representing 20.24% of our net non-interest income; the net non-interest income of financial market business increased by 32.53% to RMB441 million year-on-year, representing 49.50% of our net non-interest income; the net non-interest income of other business decreased by 52.53% to RMB17 million year-on-year, representing 1.94% of our net non-interest income.

The following table sets forth the major components of our net non-interest income for the periods indicated.

| Item | Unit: RMB'000 | |
|--------------------------------------|----------------|----------------|
| | 2015 | 2014 |
| Fee and commission income | 787,427 | 721,022 |
| Less: fee and commission expense | (37,800) | (32,271) |
| Net fee and commission income | 749,627 | 688,751 |
| Net other non-interest income | 141,827 | 79,965 |
| Total net non-interest income | 891,454 | 768,716 |

3.3.7 Net fee and commission income

In 2015, our net fee and commission income increased by RMB61 million or 8.84% year-on-year, mainly due to increase in agency service fees and wealth management service fees.

The following table sets forth the major components of our net fee and commission income for the periods indicated.

| Item | Unit: RMB'000 | |
|--------------------------------------|-----------------|-----------------|
| | 2015 | 2014 |
| Fee and commission income | | |
| Agency service fees | 249,617 | 205,508 |
| Settlement fees | 230,151 | 327,898 |
| Wealth management service fees | 155,911 | 39,365 |
| Custody service fees | 106,544 | 107,758 |
| Bank card service fees | 22,308 | 18,910 |
| Others | 22,896 | 21,583 |
| Total | 787,427 | 721,022 |
| Fee and commission expense | (37,800) | (32,271) |
| Net fee and commission income | 749,627 | 688,751 |

Agency service fees increased by RMB44 million or 21.46% year-on-year, mainly due to increase in fees of our providing agency service to asset management plans. Settlement fees decreased by RMB98 million or 29.81% year-on-year, mainly due to decrease in volume of trade finance settlement business. Wealth management service fees increased by RMB117 million or 296.07% year-on-year, mainly due to increase in the scale of wealth management products issued by the Company. Custody service fees decreased by RMB1 million or 1.13% year-on-year, with business development remaining relatively stable. Bank card service fees increased by RMB3 million or 17.97% year-on-year, mainly due to increase in the number of bank cards issued by the Company. Other fees increased by RMB1 million or 6.08% year-on-year, with business development remaining relatively stable.

3.3.8 Net trading gains, net gains arising from investments and net other operating income

In 2015, our net trading gains, net gains arising from investments and net other operating income increased by RMB62 million or 77.36% year-on-year, mainly due to increase in net gains arising from disposal of available-for-sale financial assets and net foreign exchange gains. The following table sets forth the major components of our net trading gains, net gains arising from investments and net other operating income for the periods indicated.

| Item | <i>Unit: RMB'000</i> | |
|--|-----------------------|----------------------|
| | 2015 | 2014 |
| Net trading gains | | |
| Net gains from debt securities | 7,609 | 9,812 |
| Net foreign exchange gains | 59,045 | 23,818 |
| Dividends from available-for-sale equity investments | 550 | 450 |
| Net gains on disposal of available-for-sale financial assets | 59,811 | 10,766 |
| Net gains on disposal of property and equipment | 4,434 | 37,658 |
| Rental income | 975 | 1,396 |
| Others | 9,403 | (3,935) |
| Total | <u>141,827</u> | <u>79,965</u> |

3.3.9 Operating expenses

In 2015, our operating expenses amounted to RMB2.077 billion, representing a year-on-year increase of 4.08%; the cost-to-income ratio was 35.80%, representing a year-on-year decrease of 3.81 percentage points. Among those expenses, staff costs increased by 1.88% year-on-year, property and equipment expenses increased by 14.89% year-on-year, and other general and administrative expenses decreased by 2.83% year-on-year. The amount of operating expenses increased steadily, which was less than the increase in operating income. The following table sets forth the major components of our operating expenses for the periods indicated.

| Item | Unit: RMB'000 | |
|---|------------------|------------------|
| | 2015 | 2014 |
| Staff costs | 976,653 | 958,631 |
| Property and equipment expenses | 433,622 | 377,431 |
| Business tax and surcharges | 284,682 | 266,439 |
| Other general and administrative expenses | 381,621 | 392,752 |
| Total operating expenses | 2,076,578 | 1,995,253 |

3.3.10 Impairment losses

In 2015, our impairment losses amounted to RMB580 million, representing a year-on-year increase of 41.00%. The following table sets forth the major components of our impairment losses for the periods indicated.

| Item | Unit: RMB'000 | |
|---------------------------------|----------------|----------------|
| | 2015 | 2014 |
| Loans and advances to customers | 536,874 | 359,571 |
| Financial investments | 40,500 | 50,000 |
| Others | 2,520 | 1,707 |
| Total impairment losses | 579,894 | 411,278 |

Loan impairment losses were the largest component of impairment losses. In 2015, the loan impairment losses amounted to RMB537 million, representing a year-on-year increase of 49.31%, mainly due to the slowdown in economic growth, increase in non-performing loans and increase in provisions.

3.4 Analysis of Major Items of the Statement of Financial Position

3.4.1 Assets

As at the end of 2015, our total assets amounted to RMB187.235 billion, representing a year-on-year increase of 19.90%. The increase in total assets was mainly due to increase in loans and advances to customers and financial investments of the Company. The following table sets forth, as at the date indicated, the components of our total assets.

| Item | 31 December 2015 | | 31 December 2014 | |
|---|---------------------------|----------------------|---------------------------|----------------------|
| | Amount | % of amount | Amount | % of amount |
| Total loans and advances to customers | 72,695,518 | 38.83 | 62,988,229 | 40.33 |
| Provision for impairment on loans and advances to customers | (2,040,297) | (1.09) | (1,739,888) | (1.11) |
| Net loans and advances to customers | 70,655,221 | 37.74 | 61,248,341 | 39.22 |
| Financial investments | 84,482,857 | 45.12 | 61,053,026 | 39.10 |
| Cash and deposits with central bank | 19,920,303 | 10.64 | 23,609,591 | 15.12 |
| Deposits with banks and other financial institutions | 3,585,267 | 1.91 | 2,018,827 | 1.29 |
| Placements with banks and other financial institutions | 1,108,138 | 0.59 | 1,156,491 | 0.74 |
| Financial assets held under resale agreements | 2,516,977 | 1.34 | 2,697,628 | 1.73 |
| Financial assets at fair value through profit or loss | 297,595 | 0.16 | 190,195 | 0.12 |
| Property and equipment | 1,021,157 | 0.55 | 865,538 | 0.55 |
| Deferred income tax assets | 279,402 | 0.15 | 337,469 | 0.22 |
| Other assets | 3,368,337 | 1.80 | 2,988,835 | 1.91 |
| Total assets | <u>187,235,254</u> | <u>100.00</u> | <u>156,165,941</u> | <u>100.00</u> |

Unit: RMB'000

3.4.1.1 Loans and advances to customers

As at the end of 2015, our loans and advances to customers amounted to RMB72.696 billion, representing a year-on-year increase of 15.41%; the total loans and advances to customers accounted for 38.83% of the total assets, representing a year-on-year decrease of 1.50 percentage points. The following table sets forth, as at the date indicated, the loans and advances to customers of the Company by product type.

| Item | 31 December 2015 | | 31 December 2014 | |
|--|-------------------|---------------|-------------------|---------------|
| | Amount | % of | Amount | % of |
| | | amount | | amount |
| Corporate loans | 49,249,757 | 67.75 | 44,216,825 | 70.20 |
| Discounted bills | 3,570,642 | 4.91 | 2,552,046 | 4.05 |
| Personal loans | 19,875,119 | 27.34 | 16,219,358 | 25.75 |
| Total loans and advances to customers | 72,695,518 | 100.00 | 62,988,229 | 100.00 |

Unit: RMB'000

Corporate loans

As at the end of 2015, our total corporate loans amounted to RMB49.250 billion, representing a year-on-year increase of 11.38%, and accounted for 67.75% of the total loans and advances, representing a year-on-year decrease of 2.45 percentage points. In 2015, the Company established and implemented credit policies to complement the national and local development strategies, continuously adjusting and enhancing the customer structures with a focus on supporting development of the real economy, local infrastructure construction projects and small and micro enterprises.

Discounted bills

As at the end of 2015, our total discounted bills amounted to RMB3.571 billion, representing a year-on-year increase of 39.91%. In 2015, affected by the slowdown in the macro economy, the Company developed certain low-risk and low-capital-consumption bill financing business, and flexibly regulated the bill financing size in accordance with loan exposure plans.

Personal loans

As at the end of 2015, our personal loans amounted to RMB19.875 billion, representing a year-on-year increase of 22.54%, and accounted for 27.34% of loans and advances to customers, representing a year-on-year increase of 1.59 percentage points. In 2015, in response to adjustments to the national real estate policy, the Company played a proactive role and gained quality projects in the real estate market, resulting in the rapid growth in personal residential mortgage loans.

3.4.1.2 Investment

Our investments consist of financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables. The following table sets forth the components of our investment portfolio by accounting item.

| Item | 31 December 2015 | | 31 December 2014 | |
|--------------------------------------|-------------------|---------------|-------------------|---------------|
| | Amount | % of total | Amount | % of total |
| Financial assets at fair value | | | | |
| through profit or loss | 297,595 | 0.35 | 190,195 | 0.31 |
| Available-for-sale financial assets | 17,120,786 | 20.19 | 14,122,539 | 23.06 |
| Held-to-maturity investments | 22,575,284 | 26.63 | 19,721,428 | 32.20 |
| Investment classified as receivables | 44,786,787 | 52.83 | 27,209,059 | 44.43 |
| Total | 84,780,452 | 100.00 | 61,243,221 | 100.00 |

Financial assets at fair value through profit or loss

As at the end of 2015, our net financial assets at fair value through profit or loss increased by RMB107 million or 56.47% year-on-year. The following table sets forth the components of our financial assets at fair value through profit or loss.

| Item | <i>Unit: RMB'000</i> | |
|---|-----------------------------|---------------------|
| | 31 December 2015 | 31 December 2014 |
| Debt securities issued by banks and other financial institutions | 145,966 | – |
| Debt securities issued by corporate issuers | 151,629 | 190,195 |
| | <hr/> | <hr/> |
| Total financial assets at fair value through profit or loss | 297,595 | 190,195 |
| | <hr/> <hr/> | <hr/> <hr/> |

Available-for-sale financial assets

As at the end of 2015, our net available-for-sale financial assets increased by RMB2.998 billion or 21.23% year-on-year. In 2015, the Company increased its investment in policy financial bonds to meet demands for asset allocation and increase the proportion of liquid assets. The following table sets forth the components of our available-for-sale financial assets.

| Item | <i>Unit: RMB'000</i> | |
|---|-----------------------------|---------------------|
| | 31 December 2015 | 31 December 2014 |
| Debt securities issued by policy banks | 7,890,237 | 3,806,922 |
| Debt securities issued by banks and other financial institutions | 4,865,988 | 6,773,261 |
| Debt securities issued by corporate issuers | 4,200,101 | 2,958,809 |
| Trust fund plans | 80,119 | 300,316 |
| Investment funds | 61,091 | 259,981 |
| Equity investments | 23,250 | 23,250 |
| | <hr/> | <hr/> |
| Total available-for-sale financial assets | 17,120,786 | 14,122,539 |
| | <hr/> | <hr/> |
| Less: provision for impairment | – | – |
| | <hr/> | <hr/> |
| Net available-for-sale financial assets | 17,120,786 | 14,122,539 |
| | <hr/> <hr/> | <hr/> <hr/> |

Held-to-maturity investments

As at the end of 2015, our net held-to-maturity investments increased by RMB2.854 billion or 14.47% year-on-year. The Company kept the held-to-maturity investments on a long-term basis as strategic allocation. Affected by the asset replacement of local governments, and to enhance the financial cooperation with and support to local governments, the Company increased investments in local government bonds, resulting in an increase in held-to-maturity investments. The following table sets forth the components of our held-to-maturity investments.

| Item | <i>Unit: RMB'000</i> | |
|---|----------------------|---------------------|
| | 31 December 2015 | 31 December 2014 |
| Government bonds | 7,529,720 | 3,084,506 |
| Debt securities issued by policy banks | 7,918,996 | 9,441,005 |
| Debt securities issued by banks and other financial institutions | 5,866,945 | 5,715,970 |
| Debt securities issued by corporate issuers | 1,259,623 | 1,479,947 |
| Total held-to-maturity investments | 22,575,284 | 19,721,428 |
| Less: provision for impairment | — | — |
| Net held-to-maturity investments | 22,575,284 | 19,721,428 |
| Fair value of held-to-maturity investments | 23,434,562 | 19,846,408 |

Investment classified as receivables

Investment classified as receivables consists of asset management plans, trust fund plans, unsold allotments of certificated PRC government bonds and savings treasury bonds that we underwrote, beneficiary rights in margin financing, beneficiary certificates and wealth management products issued by financial institutions.

As at the end of 2015, our net investment classified as receivables amounted to RMB44.787 billion, representing a year-on-year increase of RMB17.578 billion, mainly due to increase in investments in asset management plans and wealth management products issued by financial institutions. The following table sets forth the components of our investment classified as receivables.

| Item | <i>Unit: RMB'000</i> | |
|--|----------------------|---------------------|
| | 31 December 2015 | 31 December 2014 |
| Asset management plans | 22,442,547 | 17,803,277 |
| Wealth management products issued by financial institutions | 9,640,547 | – |
| Trust fund plans | 8,671,888 | 9,358,000 |
| Beneficiary rights in margin financing | 2,500,000 | – |
| Beneficiary certificates | 1,568,451 | – |
| Others | 53,854 | 97,782 |
| Total investment classified as receivables | 44,877,287 | 27,259,059 |
| Less: provision for impairment | (90,500) | (50,000) |
| Net investment classified as receivables | 44,786,787 | 27,209,059 |

Investment in securities

Set out below are the government bonds held by the Company which are considered significant in terms of nominal value as at the end of the Reporting Period.

| Name of bond | Value date | Term (years) | Nominal value (RMB10 thousand) | Coupon (%) | Maturity date | Remaining years to maturity |
|---|------------|-----------------|---|---------------|---------------|-----------------------------------|
| 13 Interest-bearing Government Bond 18 | 2013-08-22 | 10 | 55,000 | 4.08 | 2023-08-22 | 7.65 |
| 13 Interest-bearing Government Bond 25 | 2013-12-09 | 30 | 50,000 | 5.05 | 2043-12-09 | 27.96 |
| 13 Interest-bearing Government Bond 16 | 2013-08-12 | 20 | 20,000 | 4.32 | 2033-08-12 | 17.63 |
| 12 Interest-bearing Government Bond 15 | 2012-08-23 | 10 | 15,000 | 3.39 | 2022-08-23 | 6.65 |
| 01 Government Bond 11 | 2001-10-23 | 20 | 8,000 | 3.85 | 2021-10-23 | 5.82 |
| 02 Government Bond 05 | 2002-05-24 | 30 | 5,000 | 2.90 | 2032-05-24 | 16.41 |
| 09 Interest-bearing Government Bond 16 | 2009-07-23 | 10 | 5,000 | 3.48 | 2019-07-23 | 3.56 |
| 09 Government Bond 01 | 2009-02-12 | 7 | 5,000 | 2.76 | 2016-02-12 | 0.12 |

3.4.2 Liabilities

As at the end of 2015, our total liabilities amounted to RMB170.622 billion, representing a year-on-year increase of 16.56%, mainly due to the stable increase in deposits from customers, debt securities issued, and deposits from banks and other financial institutions. The following table sets forth the components of our total liabilities as at the date indicated.

| Item | 31 December 2015 | | 31 December 2014 | |
|--|--------------------|---------------|--------------------|---------------|
| | Amount | % of total | Amount | % of total |
| Deposits from customers | 115,321,997 | 67.59 | 101,733,660 | 69.50 |
| Deposits from banks and other financial institutions | 27,335,870 | 16.02 | 20,362,589 | 13.91 |
| Borrowings from central bank | 528,909 | 0.31 | 1,003,676 | 0.69 |
| Placements from banks and other financial institutions | 3,051,992 | 1.79 | 1,379,835 | 0.94 |
| Financial assets sold under repurchase agreements | 2,000,000 | 1.17 | 10,069,144 | 6.88 |
| Income tax payable | 107,758 | 0.06 | 88,942 | 0.06 |
| Debt securities issued | 16,314,307 | 9.56 | 8,335,030 | 5.69 |
| Other liabilities | 5,960,769 | 3.50 | 3,408,415 | 2.33 |
| Total liabilities | 170,621,602 | 100.00 | 146,381,291 | 100.00 |

Unit: RMB'000

3.4.2.1 Deposits from customers

As at the end of 2015, our total deposits from customers amounted to RMB115.322 billion, representing a year-on-year increase of 13.36%, and accounted for 67.59% of our total liabilities, being our primary source of funding. The following table sets forth, as at the date indicated, deposits from customers by product type and customer type.

| Item | 31 December 2015 | | 31 December 2014 | |
|---|---------------------------|----------------------|---------------------------|----------------------|
| | Amount | % of total | Amount | % of total |
| Corporate deposits | 69,928,163 | 60.64 | 64,264,115 | 63.17 |
| Demand deposits | 40,164,726 | 34.83 | 34,586,278 | 34.00 |
| Time deposits | 29,763,437 | 25.81 | 29,677,837 | 29.17 |
| Personal deposits | 44,956,284 | 38.98 | 37,257,203 | 36.62 |
| Demand deposits | 9,192,474 | 7.97 | 6,552,927 | 6.44 |
| Time deposits | 35,763,810 | 31.01 | 30,704,276 | 30.18 |
| Outward remittance and remittance payables | 436,901 | 0.38 | 198,668 | 0.20 |
| Fiscal deposits to be transferred | 649 | 0.00 | 13,674 | 0.01 |
| Total deposits from customers | <u>115,321,997</u> | <u>100.00</u> | <u>101,733,660</u> | <u>100.00</u> |

As at the end of 2015, our personal deposits accounted for 38.98% of deposits from customers, representing a year-on-year increase of 2.36 percentage points.

As at the end of 2015, our demand deposits accounted for 42.80% of deposits from customers, representing a year-on-year increase of 2.36 percentage points. Among those deposits, corporate demand deposits accounted for 57.44% of corporate deposits, representing a year-on-year increase of 3.62 percentage points; and personal demand deposits accounted for 20.45% of personal deposits, representing a year-on-year increase of 2.86 percentage points.

3.4.2 Debt securities issued

As at the end of 2015, our debt securities issued amounted to RMB16.314 billion, representing a year-on-year increase of RMB7.979 billion or 95.73%. Among those debt securities, the balance of certificates of interbank deposit was RMB9.125 billion, representing a year-on-year increase of RMB5.781 billion; the Company issued tier-two capital bonds with nominal amount of RMB2.2 billion. In recent years, keeping pace with innovations in the national interbank bonds market, we have actively promoted innovative liabilities business to diversify liabilities channels.

3.4.3 Deposits from banks and other financial institutions

As at the end of 2015, our deposits from banks and other financial institutions amounted to RMB27.336 billion, representing a year-on-year increase of RMB6.973 billion or 34.25%, mainly due to enhancement of active liability management in light of market-oriented interest rates.

3.4.3 Equity attributable to shareholders

| Item | Unit: RMB'000 | |
|--|---------------------|---------------------|
| | 31 December 2015 | 31 December 2014 |
| Share capital | 4,011,533 | 2,555,977 |
| Capital reserve | 6,708,018 | 2,750,177 |
| Surplus reserve | 804,789 | 623,411 |
| General reserve | 2,391,182 | 1,886,628 |
| Investment revaluation reserve | 486,199 | 85,077 |
| Other reserve | (3,075) | 18,330 |
| Retained earnings | 2,215,006 | 1,865,050 |
| Total equity attributable to shareholders | 16,613,652 | 9,784,650 |

3.5 Analysis of Quality of Loans

3.5.1 Distribution of loans by five categories

Unit: RMB'000, except for percentages

| Loan item | 31 December 2015 | | 31 December 2014 | |
|----------------------------|-------------------|------------------------------------|-------------------|------------------------------------|
| | Amount | Percentage of the total amount (%) | Amount | Percentage of the total amount (%) |
| Normal | 69,526,053 | 95.64 | 60,656,197 | 96.30 |
| Special mention | 2,305,404 | 3.17 | 1,614,012 | 2.56 |
| Substandard | 340,105 | 0.47 | 265,270 | 0.42 |
| Doubtful | 500,753 | 0.69 | 427,222 | 0.68 |
| Loss | 23,203 | 0.03 | 25,528 | 0.04 |
| Total loans to customers | <u>72,695,518</u> | <u>100.00</u> | <u>62,988,229</u> | <u>100.00</u> |
| Total non-performing loans | 864,061 | 1.19 | 718,020 | 1.14 |

Under the five-category classification system for loan supervision, the non-performing loans of the Company belonged to the substandard, doubtful and loss categories. During the Reporting Period, facing the economic slowdown and challenges arising from greater changes in macro-economic control policies, the Company strengthened its efforts in restructuring its credit structure, undertook a rolling risk review of credit assets, proactively prevented and mitigated risks, strengthened early warning and tracking as well as post-loan management, thereby maintaining the quality of credit assets at a satisfactory level. As at the end of the Reporting Period, the total amount of non-performing loans of the Company was RMB864 million, a year-on-year increase of RMB146 million, and the non-performing loan ratio was 1.19%, a slight increase of 0.05 percentage point compared with that at the end of last year, substantially below the average of 0.87 percentage point of the financial institutions of Shandong's banking industry as well as lower than the national average of 0.48 percentage point.

3.5.2 Distribution of loans and non-performing loans by product type

Unit: RMB'000, except for percentages

| Item | 31 December 2015 | | | | 31 December 2014 | | | |
|--------------------------------------|-------------------|------------------------------------|--------------------------------|-------------------------------|------------------|------------------------------------|--------------------------------|-------------------------------|
| | Amount of loans | Percentage of the total amount (%) | Amount of non-performing loans | Non-performing loan ratio (%) | Amount of loans | Percentage of the total amount (%) | Amount of non-performing loans | Non-performing loan ratio (%) |
| Corporate loans | 52,820,399 | 72.66 | 628,605 | 1.19 | 46,768,871 | 74.25 | 546,505 | 1.17 |
| Working capital loans | 37,714,835 | 51.89 | 450,878 | 1.17 | 33,138,437 | 52.62 | 298,240 | 0.90 |
| Fixed asset loans | 10,942,908 | 15.05 | - | - | 9,758,730 | 15.49 | - | - |
| Import and export bills transactions | 400,435 | 0.55 | - | - | 1,033,584 | 1.64 | - | - |
| Discounted bills | 3,570,642 | 4.91 | - | - | 2,552,046 | 4.05 | - | - |
| Others | 191,579 | 0.26 | 177,727 | 92.77 | 286,074 | 0.45 | 248,265 | 86.78 |
| Retail loans | 19,875,119 | 27.34 | 235,456 | 1.18 | 16,219,358 | 25.75 | 171,515 | 1.06 |
| Personal housing loans | 11,139,443 | 15.33 | 32,798 | 0.29 | 6,351,013 | 10.08 | 23,637 | 0.37 |
| Personal business loans | 6,153,375 | 8.46 | 173,745 | 2.82 | 7,692,890 | 12.21 | 121,983 | 1.59 |
| Personal consumption loans | 1,606,745 | 2.21 | 27,070 | 1.68 | 1,216,767 | 1.93 | 23,856 | 1.96 |
| Others | 975,556 | 1.34 | 1,843 | 0.19 | 958,688 | 1.53 | 2,039 | 0.21 |
| Total loans to customers | 72,695,518 | 100.00 | 864,061 | 1.19 | 62,988,229 | 100.00 | 718,020 | 1.14 |

In 2015, the Company proactively developed its retail business by increasing personal housing loans and personal consumption loans, and the proportion of retail loans increased 1.59 percentage points year-on-year to 27.34%. Facing the grim external economic situation, the Company strengthened its efforts in preventing and controlling retail loan risks, enhancing the restructuring of its credit assets structure, proactively exited from or compressed businesses of personal loans with higher risk, consolidating and strengthening the chief examiner system of subsidiaries, thereby further enhancing the risk control mechanism. Under the impact of the decline in solvency of individuals during the economic downturn, the non-performing loan ratio of retail loans increased by 0.12 percentage points. As at the end of the Reporting Period, the non-performing loan ratio of the Company increased by 0.02 percentage point year-on-year to 1.19%.

3.5.3 Distribution of loans and non-performing loans by industry

Unit: RMB'000, except for percentages

| Item | 31 December 2015 | | | | 31 December 2014 | | | |
|--|-------------------|------------------------------------|--------------------------------|-------------------------------|-------------------|------------------------------------|--------------------------------|-------------------------------|
| | Amount of loans | Percentage of the total amount (%) | Amount of non-performing loans | Non-performing loan ratio (%) | Amount of loans | Percentage of the total amount (%) | Amount of non-performing loans | Non-performing loan ratio (%) |
| Corporate loans | 52,820,399 | 72.66 | 628,605 | 1.19 | 46,768,871 | 74.25 | 546,505 | 1.17 |
| Manufacturing | 18,516,466 | 25.47 | 306,647 | 1.66 | 18,991,889 | 30.15 | 181,856 | 0.96 |
| Wholesale and retail trade | 7,553,398 | 10.39 | 235,126 | 3.11 | 7,053,321 | 11.20 | 306,198 | 4.34 |
| Construction | 6,414,080 | 8.82 | 50,000 | 0.78 | 5,131,754 | 8.15 | 50,000 | 0.97 |
| Water, environment and public utility management | 4,204,375 | 5.78 | 15,000 | 0.36 | 2,005,947 | 3.18 | - | - |
| Renting and business activities | 4,147,063 | 5.70 | 3,232 | 0.08 | 3,312,626 | 5.26 | 3,551 | 0.11 |
| Real estate | 3,354,076 | 4.61 | - | - | 3,519,673 | 5.59 | - | - |
| Production and supply of electric and heating power, gas and water | 2,189,848 | 3.01 | - | - | 1,598,199 | 2.54 | - | - |
| Financial services | 1,887,874 | 2.60 | - | - | 569,111 | 0.90 | - | - |
| Transportation, storage and postal services | 1,274,605 | 1.75 | - | - | 1,505,188 | 2.39 | - | - |
| Others | 3,278,614 | 4.53 | 18,600 | 0.57 | 3,081,163 | 4.89 | 4,900 | 0.16 |
| Retail loans | 19,875,119 | 27.34 | 235,456 | 1.18 | 16,219,358 | 25.75 | 171,515 | 1.06 |
| Total loans to customers | 72,695,518 | 100.00 | 864,061 | 1.19 | 62,988,229 | 100.00 | 718,020 | 1.14 |

Under the backdrop of the economic downturn and the slowdown in the growth of the macro economy, the Company continued to support the development of the real economy, kept on to review and adjust the key areas of credit extension and gradually achieved active withdrawal of credit extension. It also lent greater support to industries with good prospects for market development, including advanced manufacturing industries, modern service industries, cultural industries, strategic emerging industries, modern information technology industries, as well as upgrading of labour-intensive industries and traditional industries and green and environmental protection industries, meanwhile reducing the total amount of credit extended to industries with overcapacity, obsolete manufacturing industries, wholesale and retail industries for production materials. The Company also enhanced its regional layout differentiation for regions with concentrated risks, and used portfolio management tools flexibly to strengthen risk management. As at the end of the Reporting Period, the proportion of the non-performing loans of the Company in manufacturing and wholesale and retail trade industries in the corporate non-performing loans reduced from 89.30% to 86.19%.

3.5.4 Distribution of loans and non-performing loans by region

Unit: RMB'000, except for percentages

| Region | 31 December 2015 | | | | 31 December 2014 | | | |
|---------------------------------|-------------------|------------------------------------|--------------------------------|-------------------------------|-------------------|------------------------------------|--------------------------------|-------------------------------|
| | Amount of loans | Percentage of the total amount (%) | Amount of non-performing loans | Non-performing loan ratio (%) | Amount of loans | Percentage of the total amount (%) | Amount of non-performing loans | Non-performing loan ratio (%) |
| Qingdao | 48,581,899 | 66.82 | 642,098 | 1.32 | 44,213,287 | 70.20 | 685,431 | 1.55 |
| Jinan | 7,505,911 | 10.33 | 73,377 | 0.98 | 6,388,657 | 10.14 | 32,589 | 0.51 |
| Dongying | 7,359,309 | 10.12 | 16,190 | 0.22 | 6,056,517 | 9.62 | - | - |
| Weihai | 4,208,551 | 5.79 | 4,582 | 0.11 | 3,355,354 | 5.33 | - | - |
| Zibo | 2,694,775 | 3.71 | 127,814 | 4.74 | 2,131,658 | 3.38 | - | - |
| Dezhou | 1,146,165 | 1.58 | - | - | 663,866 | 1.05 | - | - |
| Zaozhuang | 415,438 | 0.57 | - | - | 178,890 | 0.28 | - | - |
| Yantai | 618,664 | 0.85 | - | - | - | - | - | - |
| Binzhou | 164,806 | 0.23 | - | - | - | - | - | - |
| Total loans to customers | 72,695,518 | 100.00 | 864,061 | 1.19 | 62,988,229 | 100.00 | 718,020 | 1.14 |

In 2015, the economy of Shandong region, where the operation institutions of the Company are located, was under greater downtrend pressure. As the largest city commercial bank based in Qingdao with a footprint extending to other regions of Shandong Province, the Company continued to adjust its regional credit extension policy, appropriately imposed more stringent access and guarantee requirements for various businesses in regions with higher risks, and strengthened the management of business approval.

3.5.5 Distribution of loans and non-performing loans by type of collateral

Unit: RMB'000, except for percentages

| Item | 31 December 2015 | | | | 31 December 2014 | | | |
|---------------------------------|-------------------|------------------------------------|--------------------------------|-------------------------------|-------------------|------------------------------------|--------------------------------|-------------------------------|
| | Amount of loans | Percentage of the total amount (%) | Amount of non-performing loans | Non-performing loan ratio (%) | Amount of loans | Percentage of the total amount (%) | Amount of non-performing loans | Non-performing loan ratio (%) |
| Unsecured loans | 4,056,931 | 5.58 | 48,616 | 1.20 | 3,552,292 | 5.64 | 65,868 | 1.85 |
| Guaranteed loans | 30,170,838 | 41.50 | 461,132 | 1.53 | 26,201,135 | 41.60 | 274,883 | 1.05 |
| Mortgage loans | 30,427,847 | 41.86 | 354,313 | 1.16 | 26,537,600 | 42.13 | 377,269 | 1.42 |
| Pledged loans | 8,039,902 | 11.06 | - | - | 6,697,202 | 10.63 | - | - |
| Total loans to customers | 72,695,518 | 100.00 | 864,061 | 1.19 | 62,988,229 | 100.00 | 718,020 | 1.14 |

Under the backdrop of an economic downturn in the macro economy, the Company reduced the proportion of unsecured loans, while strengthening risk mitigation by credit enhancement measures including requiring more guarantees and collaterals. As at the end of the Reporting Period, the proportion of pledged loans increased by 0.43 percentage point year-on-year to 11.06%, while the non-performing loan ratio of unsecured loans decreased by 0.65 percentage point to 1.20%.

3.5.6 Loans to the top ten single borrowers

Unit: RMB'000, except for percentages

| Top ten borrowers | Industry | Amount of loans as at the end of the Reporting Period | Percentage of net capital (%) | Percentage of total loans (%) |
|-------------------|--|---|-------------------------------|-------------------------------|
| A | Manufacturing | 1,100,000 | 5.55 | 1.51 |
| B | Financial services | 784,030 | 3.94 | 1.08 |
| C | Water, environment and public utility management | 760,000 | 3.83 | 1.05 |
| D | Renting and business activities | 610,000 | 3.08 | 0.84 |
| E | Water, environment and public utility management | 608,000 | 3.07 | 0.84 |
| F | Wholesale and retail trade | 588,000 | 2.97 | 0.81 |
| G | Manufacturing | 522,076 | 2.63 | 0.72 |
| H | Renting and business activities | 520,452 | 2.63 | 0.72 |
| I | Water, environment and public utility management | 495,000 | 2.50 | 0.68 |
| J | Construction | 487,020 | 2.46 | 0.67 |
| Total | | 6,474,578 | 32.66 | 8.92 |

As at the end of the Reporting Period, the loan balance of the largest single borrower of the Company was RMB1.1 billion, accounting for 5.55% of the net capital of the Company; and the total amount of loans of the top ten single borrowers was RMB6.475 billion, accounting for 32.66% of the net capital of the Company and representing 8.92% of the total amount of loans of the Company.

3.5.7 Distribution of loans by overdue period

Unit: RMB'000, except for percentages

| Overdue period | 31 December 2015 | | 31 December 2014 | |
|-------------------------------------|--------------------------|-------------------------------------|--------------------------|-------------------------------------|
| | Amount | Percentage of total loans (%) | Amount | Percentage of total loans (%) |
| Overdue for 3 months or less | 1,100,833 | 1.51 | 741,144 | 1.18 |
| Overdue for over 3 months to 1 year | 534,403 | 0.74 | 462,119 | 0.73 |
| Overdue for over 1 year to 3 years | 447,529 | 0.62 | 96,205 | 0.15 |
| Overdue for over 3 years | 17,801 | 0.02 | 130,763 | 0.21 |
| Total overdue loans | <u>2,100,566</u> | <u>2.89</u> | <u>1,430,231</u> | <u>2.27</u> |
| Total loans to customers | <u>72,695,518</u> | <u>100.00</u> | <u>62,988,229</u> | <u>100.00</u> |

As at the end of the Reporting Period, the total amount of overdue loans of the Company was RMB2.101 billion, a year-on-year increase of RMB670 million; the proportion of overdue loans was 2.89%, a year-on-year of 0.62 percentage point. Among the overdue loans, mortgage loans accounted for 35.34%, guaranteed loans accounted for 61.86% and unsecured loans accounted for 2.80%. The Company adopted a more stringent classification criterion and the ratio of loans overdue more than 90 days to non-performing loans was 1.16.

3.5.8 Restructured loans

As at the end of the Reporting Period, the Company had no restructured loans.

3.5.9 Repossessed assets and provision for impairment

During the Reporting Period, the Company had no pending repossessed assets.

3.5.10 Changes in provision for impairment of loans

The Company uses two methods of assessing impairment losses of loans: those assessed individually and those assessed on a collective basis. Loans, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognised in profit or loss. Loans which are assessed collectively for impairment include individually assessed loans with no objective evidence of impairment on an individual basis, and homogeneous groups of loans which are not considered individually significant and not assessed individually. Loans are grouped for similar credit risk characteristics for collective assessment.

The changes in the Company's provision for impairment of loans are detailed in the following table.

| Item | Unit: RMB'000 | |
|---|-------------------------|-------------------------|
| | 2015 | 2014 |
| Opening balance | 1,739,888 | 1,524,262 |
| Charge for the year | 576,208 | 374,240 |
| Release for the year | (39,334) | (14,669) |
| Unwinding of discount | (25,104) | (20,875) |
| Write-offs for the year | (250,689) | (165,186) |
| Recoveries of loans and advances written off and others | 39,328 | 42,116 |
| Closing balance | <u>2,040,297</u> | <u>1,739,888</u> |

The Company adheres to sound and prudent provision policy. As at the end of the Reporting Period, the Company's balance of provision for impairment of loans amounted to RMB2.04 billion, a year-on-year increase of RMB300 million; the provision coverage ratio reached 236.13%, a year-on-year decrease of 6.19 percentage points; the provision rate of loans stood at 2.81%, a year-on-year increase of 0.05 percentage point.

3.5.11 Counter measures taken against non-performing assets

During the Reporting Period, the major policies and measures of the Company on management of non-performing assets are detailed as follows:

In 2015, under the backdrop of a more complicated environment in terms of the macro economy and credit risk control, the Company treated resolving the disposal of non-performing assets as one of the key tasks in credit risk management, and adopted "reducing existing amount and containing additional amount" as the main theme of its work in establishing a credit risk prevention and control mechanism to take the lead in resolving the disposal of and achieving effective control on non-performing assets by gradually devolving implementation downwards along the corporate hierarchy.

The Company strengthened the monitoring of asset quality and risk investigation, established an exit mechanism for risk customers, improved and enhanced its contingency mechanism, boosted the responsiveness and efficiency in adopting preservation measures for risk loans through litigation, and proactively seized opportunities for disposal of non-performing assets. The Company also implemented various measures for the disposal of non-performing loans on the back of traditional means of collection through litigation coupled with the integrated use of other means including write-off and transfer of assets to improve the efficiency and effectiveness of disposal; laid emphasis on strengthening communication and collaboration with government departments at all levels, industry associations and peer banks by proactively participating in jointly resolving the disposal of non-performing assets and mitigating risks to fully safeguard legitimate rights and interests; and strengthened the subsequent management and collection of non-performing assets already written-off to tap the potential arising from disposal of non-performing assets.

In addition, the Company conducted regular study and training sessions on laws and regulations, and strengthened and enhanced its ability in asset preservation. It also placed greater emphasis on accountability for non-performing assets and stepped up the roles of education and warning, so as to strengthen risk awareness and sense of responsibility of employees.

3.5.12 Credit extension to group customers and risk management

The Company adhered to the principles of “implementing unified credit extension, providing an appropriate amount, employing classified management, conducting real-time monitoring and adopting a leading bank system” in extending credit to group customers. In 2015, the Company strictly enforced its management measures on credit extension to group customers to further its efforts in finding out the associates of those customers to which credit was extended and identification of group customers so as to prudently determine the de facto controllers of the enterprises. The Company also created and maintained charts of the group structure of group customers and clearly set out the relevant identification and maintenance procedures so as to step up the verification and review of information of group customers. The Company strictly prohibited separate credit extension to individual members of the same group customer to evade management measures on group customers, so as to effectively prevent the credit risk of group customers.

3.5.13 Soft loans representing 20% or more of the total loans as at the end of the Reporting Period

As at the end of the Reporting Period, the Company had no soft loans representing 20% or more of the total loans.

3.6 Analysis of Capital Adequacy Ratio

The capital management of the Company, while satisfying regulatory requirements, is targeted to constantly enhance the ability to resist risk of capital and boosting return on capital, and on this basis, it reasonably identifies the Company's capital adequacy ratio target and guides business development by means of performance appraisal and capital allocation in a bid to achieve the coordinated development of its overall strategy, business development and capital management strategy.

To promote sustainable development of the Company, change growth pattern, coordinate capital business development and capital saving and further enhance the awareness of capital saving in business institutions, in recent years, the Company has taken into account the capital consumption and gains of the business institutions in the performance appraisal scheme, further enhanced the risk-adjusted performance appraisal scheme and guided its branches and management departments to conduct more capital saving business and business with high returns on capital. Meanwhile, a check and balance system between capital consumption and risk assets has been established to ensure that capital adequacy ratio constantly meets the standard.

3.6.1 Capital adequacy ratio

The Company calculates capital adequacy ratio in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) issued by the CBRC and other regulatory provisions. The on-balance sheet weighted risk assets are calculated with different risk weights determined in accordance with each asset, credit counterparty, market and other relevant risks and by considering the effects of qualified pledge and guarantee. The same method is also applied to the calculation of off-balance sheet exposure. Market risk-weighted assets are calculated with the standard approach, and the operational risk-weighted assets with the basic indicator approach. During the Reporting Period, the Company complied with the capital requirements prescribed by the regulators.

Relevant information on the Company's capital adequacy ratio on the date shown is listed in the following table:

| Item | <i>Unit: RMB'000</i> | |
|---|----------------------|---------------------|
| | 31 December 2015 | 31 December 2014 |
| Total core tier-one capital | | |
| Share capital | 4,011,533 | 2,555,977 |
| Qualifying portion of capital reserve | 6,708,018 | 2,750,177 |
| Surplus reserve and general reserve | 3,195,971 | 2,510,039 |
| Retained earnings | 2,215,006 | 1,865,050 |
| Investment revaluation reserve and others | 483,124 | 103,407 |
| Core tier-one capital deductions | <u>(165,631)</u> | <u>(114,721)</u> |
| Net core tier-one capital | <u>16,448,021</u> | <u>9,669,929</u> |
| Net amount of other tier-one capital | - | - |
| Net tier-two capital | <u>3,376,236</u> | <u>1,022,946</u> |
| Net capital base | <u>19,824,257</u> | <u>10,692,875</u> |
| Total credit risk-weighted assets | 119,355,120 | 88,933,495 |
| Total market risk-weighted assets | 4,424,871 | 3,807,011 |
| Total operation risk-weighted assets | <u>8,044,706</u> | <u>6,709,350</u> |
| Total risk-weighted assets | <u>131,824,697</u> | <u>99,449,856</u> |
| Core tier-one capital adequacy ratio | <u>12.48%</u> | <u>9.72%</u> |
| Tier-one capital adequacy ratio | <u>12.48%</u> | <u>9.72%</u> |
| Capital adequacy ratio | <u>15.04%</u> | <u>10.75%</u> |

As at the end of 2015, the Company's capital adequacy ratio amounted to 15.04%, a year-on-year increase of 4.29 percentage points; the core tier-one capital adequacy ratio stood at 12.48%, a year-on-year increase of 2.76 percentage points. Changes in capital adequacy ratio during the Reporting Period are mainly attributable to an increase of RMB9.131 billion in net capital over that at the beginning of the year via issuance of tier-two capital debt, capital and share increase, issuance and listing of H shares and other channels.

3.6.2 Leverage Ratio

The leverage ratio of commercial banks shall not be less than 4% in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision) promulgated by the CBRC and taking effect from 1 April 2015. As at the end of the Reporting Period, the Company's leverage ratio stood at 7.89%, higher than the regulatory requirements of the CBRC.

The following table sets out the Company's related accounting items corresponding with the regulatory items of leverage ratio and the differences between regulatory items and accounting items:

| | | <i>Unit: RMB'000</i> |
|------------|--|----------------------|
| | | Balance as at |
| | | 31 December |
| No. | Item | 2015 |
| 1 | Consolidated total assets | 187,235,254 |
| 2 | Consolidated adjustments | – |
| 3 | Customer assets adjustments | – |
| 4 | Derivatives adjustments | – |
| 5 | Securities financing transactions adjustments | – |
| 6 | Off balance sheet item adjustments | 21,519,055 |
| 7 | Other adjustments | (165,631) |
| 8 | The balance of assets on and off balance sheet after adjustments | 208,588,678 |

The following table sets out information of the Company's leverage ratio, net tier-one capital, assets on and off balance sheet after adjustments and relevant details:

| | | <i>Unit: RMB'000</i> |
|------------|--|----------------------|
| | | Balance as at |
| | | 31 December |
| No. | Item | 2015 |
| 1 | Assets on the balance sheet (excluding derivatives and securities financing transactions) | 186,735,254 |
| 2 | Less: tier-one capital deductions | (165,631) |
| 3 | The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions) | 186,569,623 |
| 4 | Replacement cost of various types of derivatives (net of qualified margins) | – |
| 5 | Potential risk exposure in various derivatives | – |
| 6 | The sum of collaterals deducted from the balance sheet | – |
| 7 | Less: assets receivables formed due to qualified margins | – |
| 8 | Less: the balance of derivative assets formed due to transactions with central counterparties for providing clearing service for the customers | – |
| 9 | Notional principal for sold credit derivatives | – |
| 10 | Less: the balance of sold credit derivatives assets which can be deducted | – |
| 11 | The balance of derivatives assets | – |
| 12 | The balance of accounting assets for securities financing transactions | 500,000 |
| 13 | Less: the balance of securities financing transactions assets which can be deducted | – |
| 14 | Counterparty credit risk exposure to securities financing transactions | – |
| 15 | The balance of securities financing transactions assets formed due to securities financing transactions by proxy | – |
| 16 | The balance of securities financing transactions assets | 500,000 |
| 17 | The balance of items off balance sheet | 21,519,055 |
| 18 | Less: the balance of items off balance sheet reduced due to credit conversion | – |
| 19 | The balance of items off balance sheet after adjustments | 21,519,055 |
| 20 | Net tier-one capital | 16,448,021 |
| 21 | The balance of assets on and off balance sheet after adjustments | 208,588,678 |
| 22 | Leverage ratio (%) | 7.89% |

3.7 Segment Reporting

The following segment operating performance is presented by business segment. The Company's businesses mainly include corporate banking, retail banking, financial market business, un-allocated items and others. The following table shows a summary of the operating performance of each business segment of the Company during the period presented.

| Item | 2015 | | Unit: RMB'000 2014 | |
|-------------------------------|--------------------------------|---------------|--------------------------------|---------------|
| | Segment profit before taxation | Ratio (%) | Segment profit before taxation | Ratio (%) |
| Corporate banking | 1,054,838 | 44.91 | 1,006,538 | 51.39 |
| Retail banking | 384,144 | 16.35 | 292,290 | 14.92 |
| Financial market business | 892,717 | 38.00 | 623,172 | 31.83 |
| Un-allocated items and others | 17,337 | 0.74 | 36,521 | 1.86 |
| Total | 2,349,036 | 100.00 | 1,958,521 | 100.00 |

| Item | 2015 | | Unit: RMB'000 2014 | |
|-------------------------------|--------------------------|---------------|--------------------------|---------------|
| | Segment operating income | Ratio (%) | Segment operating income | Ratio (%) |
| Corporate banking | 2,652,291 | 52.98 | 2,459,709 | 56.34 |
| Retail banking | 1,023,139 | 20.44 | 882,951 | 20.23 |
| Financial market business | 1,312,741 | 26.23 | 985,871 | 22.59 |
| Un-allocated items and others | 17,337 | 0.35 | 36,521 | 0.84 |
| Total | 5,005,508 | 100.00 | 4,365,052 | 100.00 |

3.8 Other Financial Information

3.8.1 Analysis of off-balance sheet items

The Company's off-balance sheet items include credit commitments, operating lease commitments, capital commitments, etc. Credit commitments are the most important part and as at the end of the Reporting Period, the balance of credit commitments reached RMB24.129 billion. For details, please refer to Note 14 of the financial statements in this results announcement.

3.8.2 Overdue and outstanding debts

As at the end of 2015, the Company had no overdue or outstanding debts.

3.9 Business Development Strategy

In the next three to five years, fully leveraging the advantages of adequate capital, regulated operations and enhanced brand image resulting from its listing of H shares, the Company will trigger traditional drivers including pan-wholesale, pan-retail, pan-asset management, and interface banking, proactively foster the development of new drivers including Internet+ and commercial banking+, calmly respond to the slowdown in economic growth and strengthen risk identification and governance capability, so as to achieve a steady increase in market capitalisation. To achieve this goal, the Company will implement the following business development strategies:

1. Continuously enhancing the distinct Interface Bank model. For the retail business line, the Company will build up the platform service model focusing on the provision of bill payment and convenient services for communities, industrial parks and campuses, construct the online financing ecosystem for small and micro-sized enterprises and the payment ecosystem connecting major enterprises and high quality customers through all-in-one cards and chain finance, and explore the mobile service model by providing on-site connection and extended services. For the corporate business line, the Company will set up a channel to provide international logistics businesses in the regions along the Silk Road with financial services by strengthening and expanding the “One Belt and One Road Financial Alliance” and enriching the Interface Bank model, and partner with the core corporations of the industrial chain to proactively extend credit in bulk to the enterprises in their upstream and downstream chains by means of capital account supervision. For the financial market business line, the Company will further expand its interbank customer base, proactively explore the opportunities of cooperating with local small-sized financial institutions, and form alliance with medium and small-sized banks in Shandong Province, thereby significantly expanding our business coverage.
2. Integrating retail businesses to become the most convenient retail bank. Firstly, the Company will continue with its efforts to become the most convenient retail bank by enriching card functions and launching the multi-functional bank card that integrates functions for transportation, medical services, industrial parks and others, thus providing the most convenient services to customers. Secondly, the Company will enrich the product line of retail finance by developing new products related to liabilities and asset management including deposit, wealth management and distribution, and manage our product portfolio according to the needs of customers to achieve the preservation and increase of the value of their assets. Thirdly, the Company will expand the scale of personal loans by increasing the business of residential mortgage loans and personal consumption loans to build up a consumption finance platform, further enhancing the full life cycle of products and improving service capability of the platform. Finally, the Company will strengthen the cooperation of online and offline marketing based on the integration of online and offline service channels to shift customers to online channels and services such as personal online banking, mobile banking, Wealth e-House (財富e屋) and direct banking.

3. Fostering professionalism as the core competitiveness of corporate banking business. Leveraging Qingdao's prime location as the gateway of the New Silk Road, the Company will enhance its strategic cooperation with Qingdao Port and provide supply chain financing solutions for Qingdao Port's sea-land intermodal transportation logistics network, thus establishing a leading trade finance platform in China. The Company will further expand its cooperation with the public sector by providing diversified services to increase their deposits and fund flow with the Company, and further explore big data accumulated from public sector finance to support business development and risk management. By paying special attention to and following up the traditional enterprises under transformation and upgrade to resolve overcapacity, the service industries and emerging industries, particularly enterprises with new business model and technology, and the industries that are positioned to benefit from the regional economic development, the Company will build on the experience of the technology sub-branch and port sub-branch to develop expertise in selected sectors. The Company will also explore the development opportunities and profit models of innovative businesses such as cross-border finance while expanding the customer base and scale of international settlement business and other traditional businesses.
4. Improving comprehensive service capability through innovations in the financial market. By establishing a foothold in both domestic and overseas financial markets, the financial market business of the Company will set up customer marketing and promotion pivots to serve customers, expand markets and attract talents, thus leveraging financing, intelligence and credit. Meanwhile, the Company will continue to expand its regular business and strengthen its special business, focus on three business sectors, namely asset management, interbank finance and investment banking, to establish channels of assets, liabilities and income for its branches and sub-branches, and improve comprehensive financial innovation capability by providing customer-based and market-oriented services, aiming to build up the brand of the Company in the financial market business.

3.10 Overview of Business Development

3.10.1 Retail banking

The Company gradually implemented the “Interface Bank” strategy to build itself into the “most convenient retail bank” in 2015. On the one hand, the “Interface Bank” strategy delivered the noticeable achievements in the areas of financial IC cards, cloud payment system, etc., which are very supportive for acquiring a massive number of customers and improving financial assets. On the other hand, the proportion of mid and high-end customer groups significantly expanded, thanks to the events such as Kai Men Hong (開門紅) and Li Cai Ji (理財節), as well as the use of big data for tapping into existing customers, and customer segmentation for precision marketing. As at the end of the Reporting Period, the scale of existing assets held at the Company by retail customers increased by 32.48% year-on-year to RMB79.125 billion. The income contribution¹ of retail business in 2015 increased by 0.21 percentage points year-on-year to 20.44%. During the Reporting Period, the net non-interest income of retail banking business reached RMB180 million, representing a year-on-year increase of 256.34%, and accounting for 20.24% of the net non-interest income of the Company as a whole, representing a year-on-year increase of 13.65 percentage points.

¹ *Note:* The income contribution refers to the proportion of various business lines' operating income to the Company's operating income (same hereinafter).

1. *Retail deposits*

As at the end of the Reporting Period, the amount of retail deposits of the Company reached RMB44.956 billion, an increase of RMB7.699 billion or 20.66% over that at the beginning of the year; and retail deposits accounted for 38.98% of the deposits of the Company as a whole, an increase of 2.36 percentage points over that at the beginning of the year. The balance of retail deposits ranked sixth in Qingdao with a market share of 8.09%, a year-on-year increase of 0.82 percentage point. Retail deposits ranked second in Qingdao in terms of the amount of increase.

The number of newly-issued financial IC cards was 578,500 with 410,000 new customers in 2015. The all-in-one metro card was officially launched in November 2015, and the number of newly-issued cards as at the end of the Reporting Period reached 320,900 within 1.5 months since its launch. The number of newly-issued all-in-one cards for school campuses, industry parks and port areas reached 46,000 with stored value of over RMB10 million. The all-in-one community card was launched in early 2015 and five communities signed the contracts. The cloud payment business was fast-developing in 2015, and the number of payment collection agencies of enterprises and businesses in livelihood industries including public utilities, public transport and mobile communications, the systems of which have been connected with those of the Company, increased to 24 with the amount of payment and number of transactions up to RMB456 million and 592,800 respectively.

2. *Retail loans*

The balance of retail loans was RMB19.875 billion, an increase of RMB3.656 billion over that at the beginning of the year or 22.54%, accounting for 27.34% of the Company's credit assets. As at the end of the Reporting Period, the number of personal loan customers was 67,099. The balance of retail loans ranked sixth in Qingdao with a market share of 6.01%, representing a year-on-year increase of 0.39 percentage point, and the growth of retail loans ranked fifth in Qingdao.

In 2015, the Company laid emphasis on the objective of “adjusting structure and promoting development” in respect of personal business loans, and continuously adjust and enhance the loan structure, proactively withdrawing from or reducing joint guarantee personal business loans with higher risks. The Company ardently developed interface banking business and rolled out supply chain finance business catered for nationally renowned fast retailing enterprises. The Company and Coca-Cola officially entered into a contract to cooperate in supply chain financing business, and conducted analysis of the big data of distributors of the branch company of Coca-Cola in Shandong made accessible through connecting with its ERP system, so as to proactively select quality distributors for credit extension. The Internet finance model under which borrowing and repayment can be made online has been achieved.

Catered for personal customers and covering the entire life cycle, the Happy Family Scheme extended loans of RMB5.908 billion during the Reporting Period, including RMB5.615 billion personal loans for property purchase and RMB293 million personal loans for renovation. During the Reporting Period, the Company also launched other consumer loan products under the Happy Family Scheme, including express vehicle loans, marriage loans and taxis loans.

3. *Retail customers*

In 2015, the number of retail customers of the Company reached 2.7876 million, a year-on-year increase of 426,200, including 98,000 customers with financial assets of RMB200,000 or above, a year-on-year increase of 24,000 customers. Assets reached RMB61.56 billion, representing a share of 77.80% and a year-on-year increase of 3.05 percentage points, and the average increase in assets per customer was RMB24,500. While retail customers grew substantially in absolute number, customer structure was also gradually enhanced with an increasing proportion of mid and high-end customers, making a greater contribution to the Company.

4. *Wealth management and private banking business*

The Company continued to enhance its professional capability in wealth management and private banking, establish wealth management and private banking business models, and enhance its financial services for high-end customers in 2015. To prevent business risks, the Company continued to ramp up the product mix of the prestigious series and the asset management solutions for wealth management and private banking customers, so as to offer asset allocation-based dynamic wealth management consultancy financial services. The business operation extended its positive development trend.

As at the end of the Reporting Period, there were 4,160 customers with assets of RMB2 million or more, with total assets of RMB18.162 billion, representing a year-on-year growth of 42.17% and 43.38% respectively. During the Reporting Period, the total sales of wealth management and private banking financial solutions and asset management solutions amounted to RMB23.951 billion, representing a year-on-year increase of 10.71%.

5. *Customer service management*

The Company made every effort to offer warm customer service experience in 2015. Focusing on “refined management, flexible approaches and creation of better service experience”, the Company adopted “refined” development for various aspects including system establishment, performance appraisal, training and counselling, as well as cultural development. Meanwhile, the Company improved the management standards for services at various levels and customer service experience for boosting its service competitiveness, transforming its service management towards the “detailed, refined and in-depth” model. During the Reporting Period, the Company’s outlet of Jinan Branch, No. 1 Sub-branch on West Donghai Road and No. 2 Sub-branch on Middle Xianggang Road, Jiaonan Zhuhai East Road Sub-branch, Maidaos Sub-branch, Jinan Zhangqiu Sub-branch were awarded “Five-star Outlets for Civilised and Standardised Services in China’s Banking Industry” (中國銀行業文明規範服務五星級營業網點) by the China Banking Association, while the Company’s Qing Xin (青馨) Service brand was awarded the title of “Shandong Province Service Brand”.

The Company revamped its call centre as the Multimedia Interactive Customer Centre of Bank of Qingdao (青島銀行多媒體客戶互動中心) in 2015. Through the customer service centre’s outbound calls and with the assistance of 100 physical outlets, the Company conducted the customer satisfaction survey so as to listen to the opinions of end-customers and find out the critical points and problematic areas in relation to the rights and interests of customers, provided customers with professional solutions for their problems, opinions and suggestions based on the principle of “professional guidance and line management”, conducted customer satisfaction surveys in full, built up good communication with customers and solved their problems so as to impress them with warm services.

3.10.2 *Corporate banking*

Against the backdrop of the volatile global economies, greater downside pressure in China and significant heightening of various risks in 2015, the Company grasped the key areas of China’s policies and economic transformation by focusing on strengthening the marketing of large-scale projects and government finance business, while the launch of new corporate banking products tailored for market-oriented interest rates and the strengthening of business layout and management ensured the steady development of corporate banking business.

1. *Corporate deposits*

During the Reporting Period, corporate deposits maintained a steady growth as the Company adjusted its mindset amid heated competition. As at the end of the Reporting Period, the balance of corporate deposits reached RMB69.928 billion, representing 60.64% of the balance of various deposits and a year-on-year increase of RMB5.664 billion, with a rate of growth of 8.81%.

2. *Corporate loans*

During the Reporting Period, the Company grasped the industry policies under the industry restructuring by expanding some of them while contracting others and focusing on the key areas. The Company boosted its support for infrastructure development and livelihood improvement projects, enhanced its loan support for key economic areas including the restructuring and upgrade of modern equipment manufacturing industries, strategic emerging industries, energy conservation and environmental protection, and agricultural and irrigation facilities, while it invigorated existing assets and made good use of incremental ones, and continued to promote the steady improvement and quality of the credit assets of the Company. As at the end of the Reporting Period, the total corporate loans including discounted bills reached RMB52.82 billion, accounting for 72.66% of the total loans, a year-on-year increase of RMB6.052 billion or 12.94%.

3. *Corporate customers*

As a bank serving local corporates, the Company has given full play to its uniqueness in efficient decision-making and flexible operations, formulating different marketing strategies and management measures catered for each type of customers. The Company has made every effort to retain and serve existing quality customers through intensive cultivation to fully tap potentials for cooperation. For new customers, the Company has carried out targeted marketing to provide effective differentiated services. The Company has highlighted the principal status of government authority customers in its business, and has made every effort to expand and enhance its government finance business. For quality large enterprises, the Company has adopted chain finance as its main marketing direction, tapping on the financing needs of upstream and downstream enterprises as drivers for business growth to boost overall economic efficiency. For medium-sized customers, the Company has selected and screened quality ones for implementing one-to-one policies to boost the frequency and amount of settlement through the Company by the customers and build up a backbone customer base. For small and micro enterprises, the Company has placed emphasis on its featured finance offerings and innovative products and services to raise the standards and efficiency of services for small micro enterprises on the back of government and social efforts.

4. *Corporate products*

The Company closely followed the pace of switching towards market-oriented interest rates and launched debt products in response to the new trend of market-oriented interest rates, so as to boost the steady growth of debt business, and timely sales of negotiable certificates of deposit in large denominations and corporate wealth management products, and provide key customers with a variety of deposit products such as smart corporate deposits and negotiated deposits.

The Company has adopted innovative financial service approaches and launched the business brand of Win-win Innovative Financing. The integration of resources has provided companies seeking to be listed with financing, as well as support in promoting services for popularising financial knowledge, and the Company has made full play of its advantages with unique features to enhance its product mix based on customer demand. The Company launched the business of Instant E Loans, and after conducting sufficient big data analysis on the transactions between core corporate customers including Haier Group and their upstream and downstream customers, provided such upstream and downstream customers of core corporate customers with on-the-fly online financing services without the need for them to travel to outlets, thus pioneering a breakthrough in removing the geographical constraints of bank financing, and making it convenient for upstream and downstream customers of core corporate customers to have access to financing. The launch of innovative products such as Bank-Customs Duty Pass, Chain Finance, Commercial Acceptance Bill Discounting, Ke Yi Dai and Zhi Yi Dai has lent strong support to broadening the base of corporate customers and laid a solid foundation for developing corporate banking business.

3.10.3 *Financial market business*

In 2015, amid the opportunities and challenges arising from market-oriented interest rates, financial disintermediation, pan financial and asset management, the Company achieved development breakthroughs in areas including proprietary investment, interbank business, asset management and investment banking. As at the end of the Reporting Period, the assets under management of the financial market business reached RMB126.085 billion, a year-on-year increase of 41.86%. Income contribution of the financial market business in 2015 was 26.23%, a year-on-year increase of 3.64 percentage points. During the Reporting Period, the net non-interest income of the financial market business was RMB441 million, a year-on-year increase of 32.53% and accounting for 49.50% of the net non-interest income of the Company as a whole, a year-on-year increase of 6.19 percentage points.

1. *Proprietary investment*

During the Reporting Period, the Company further its cooperation with financial institutions including brokers, funds and trusts to develop innovative cross-industry, cross-market and cross-product financial services and products, advanced the development and setup of asset business, and made full use of its capital to meet investment needs to boost the capital returns of the Company as a whole. As at the end of the Reporting Period, the scale of investment was RMB84.78 billion, a year-on-year increase of RMB23.537 billion or 38.43%, of which bond investment maintained a steady growth with a balance of RMB39.883 billion as at the end of the Reporting Period, a year-on-year increase of RMB6.335 billion or 18.88%, mainly due to increased investment in highly liquid assets including policy financial bonds and local government bonds. The balance of investment classified as receivables was RMB44.787 billion, a year-on-year increase of RMB17.578 billion or 64.60%, mainly due to increased investment in non-standard assets with low risks but high yields, including beneficiary rights in margin financing business, beneficiary certificates and wealth management products issued by financial institutions.

2. *Interbank business*

- (1) The development of financial market business served as an important exemplary for the Shandong Province region. In September 2015, the Company took the lead to promote interbank strategic financial cooperation in Shandong Province, with positive response from 146 financial institutions incorporated in the province, for creating a peer cooperation platform for intensive cultivation of business among financial institutions in Shandong Province and paving the way for its development both in terms of breadth and depth, which laid a strong customer base for developing businesses of the Company, including interbank deposits, certificates of deposit and wealth management agency. During the Reporting Period, the Company took interbank deposits of RMB64.97 billion and issued certificates of deposit of RMB27.44 billion, rendering strong support to the development of the asset business of the Company.
- (2) The Company has been active in national interbank market transactions, and has established a stable and efficient business partnership with policy banks, state-owned banks, large joint stock banks and important city commercial banks. During the Reporting Period, our transaction volume in the national interbank bond market was RMB4,821.3 billion, a year-on-year increase of RMB1,761.7 billion or 57.58%, ranking 35th among national financial institutions and 11th among city commercial banks.

3. *Asset management*

During the Reporting Period, riding on the success of the Su Jue Su Sheng (速决速胜) brand of corporate wealth management products and the Hai Rong Wealth (海融财富) brand of retail wealth management products, the Company introduced Hai Ying (海赢) brand of interbank wealth management products to widen the sales channels for wealth management products, providing corporate, retail and interbank customers with quality wealth management products and services. Meanwhile, the Company also launched innovative businesses including wealth management agency and entrusted asset management, further enriching its range of product offerings.

According to the Ranking of Bank's Capability in Wealth Management for the fourth quarter of 2015 published by CnBenefit, the Company ranked fifth among regional banks in terms of overall financial capability, and maintained its competitiveness in the wealth management market. In 2015, the Company issued wealth management products of RMB144.828 billion in total, with a balance of RMB40.273 billion as at the end of the year, a year-on-year increase of RMB15.853 billion or 64.92%. All payments in respect of wealth management products were paid when due, without any case of default and failure to meet expected returns.

4. *Investment banking*

The development of the investment banking business of the Company plays an important role in driving business transformation and product innovation as well as serving the real economy, giving strong support to the marketing efforts of branch institutions and promoting the adjustment and enhancement of the asset structure and business income of the Company. Through tools including structured financing, specific asset management plans of fund subsidiaries and financial advisers, the Company offers comprehensive financial services to corporate customers. During the Reporting Period, the Company expedited its pace of development for innovative products, and introduced new types of business including overseas preference shares investment, stock index arbitrage, private placement funds, investment actively managed by securities companies and fund houses, preference repurchase of pledged shares, new shares subscription investment and domestic preference shares.

During the Reporting Period, the Company was among the first batch of commercial banks obtaining qualifications for credit asset-backed securities, adding another interbank market business licence to its repertoire, and successfully issued the first tranche of 2015 Haiyuan credit asset-backed securities of RMB2.543 billion, effectively making good use of existing loans, bringing in investment demands from new funds and increasing fee and commission income at the same time.

In March 2015, the Company issued 2015 Qingdao Bank tier-two capital bonds of RMB2.2 billion in total for a term of 10 years, effectively supplementing the capital of the Company and raising its capital adequacy ratio.

3.10.4 Distribution channels

3.10.4.1 Physical distribution channels

The business outlets of the Company are based in Qingdao with a footprint extending to other regions of Shandong Province. As at the end of the Reporting Period, the Company had a total of 100 business outlets in nine cities in Shandong Province, namely Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai and Binzhou, with a head office and 67 sub-branches in Qingdao regions. As at the end of the Reporting Period, the Company had 84 self-service banks, 313 self-service ATM cash transaction facilities and 101 BST self-service terminals. In future, the Company will steadily expand its business outlets to all major cities in Shandong Province.

3.10.4.2 Electronic banking channels

The year 2015 was a period of rapid development in the electronic banking business of the Company, in particular mobile banking business which grew by leaps and bounds. The electronic banking channels took a solid step forward through transformation towards data-driven precision marketing channels, with new breakthroughs in Internet online financing and services.

1. The number of personal online banking and mobile banking customers exceeded 500,000, and the number of corporate online banking customers exceeded 50,000. As at the end of the Reporting Period, the volume of electronic banking transactions reached 109 million, a year-on-year increase of 13.20%, with transaction amount of RMB1.05 trillion, a year-on-year increase of 18.46%. The mobile banking business in 2015 developed by leaps and bounds, with a year-on-year increase of 73.39% in the number of new users, 75.19% in the number of transactions and 304.48% in transaction amount.
2. New breakthroughs in Internet financial products under Internet+
 - (1) The Company has set up direct financing channels on the Internet. Using e-commerce platforms as a portal and through the Internet direct bank financing gateway, online supply chain financing services can be accessed and the provision of Internet on-demand bank financing services can be achieved.
 - (2) The Company offers one-stop payment services for Internet enterprises which support online payment to various banks, so that clients need not negotiate with other third-party payment companies or banks. One-stop payment to various banks will enhance the capability and scope of services of the Company in the areas of Internet payment.
 - (3) The Company has created a system of Internet-based products and services for speedy deployment of banking services through various electronic channels, paving the way for further access to banking services through the Internet.

3. The transformation of electronic banking channels towards data-driven precision marketing and service channels has achieved preliminary results. Personal online banking, mobile banking and self-service facilities have been equipped with functions for precision marketing and services, offering meticulously crafted and tailored banking services to customers using electronic banking. During the Reporting Period, the Company witnessed notable achievements in attracting wealthier customers and diversion towards mobile banking through the implementation of tailored precision marketing through electronic banking channels.
4. Wider access to third-party payment institutions has paved the way for using the bank cards of the Company for Internet consumption and payment, giving a boost to their usage and resulting in enhanced customer loyalty. During the Reporting Period, the usage of the bank cards of the Company for Internet consumption and payment witnessed a substantial increase.

3.10.4.3 Information technology

The integration of information technology and financial business as evidenced by the extensive application of advanced technologies such as big data, cloud computing, smart chip and terminal, and mobile network in the financial industry has driven the rapid business development of the Company. The Company has elevated “excellence in technology” to a bank-wide strategy and made significant investments in information technology systems and teams. During the Reporting Period, the Company continued to strengthen the construction of information systems to give full play to the Interface Bank model, and reinforced the management system of information technology and internal control to improve the capability of preventing and controlling information technology risks while placing emphasis on the development of technology innovation and talents, therefore successfully achieving the business strategic goals for the Reporting Period.

1. Vigorously pushing forward the construction of information systems to support the implementation of the Interface Bank strategy

During the Reporting Period, the Company vigorously pushed forward the projects in relation to electronic channels, Internet finance, Internet payment system, and third party cooperation. In terms of electronic channel construction, direct banking was officially launched and the enhancement of electronic channels including e-commerce platform, Internet finance platform, mobile banking, WeChat banking and online banking was completed.

The Company completed information systems such as integrated payment platform, online financing platform and Coca-Cola supply chain financing platform to expand business with the port, the customs, the metro, hospitals and other local major enterprises, launched a co-branded Quick Pass card with the metro and rolled out the IC card metro application system, and promoted partnership between banks and hospitals through the Bank Hospital Pass (銀醫通) platform. As at the end of the Reporting Period, the Company has established system connection with 24 public-sector enterprises covering utilities, public transportation and mobile communication, effectively supporting the implementation of its distinct Interface Bank strategy.

2. Construction of information technology risk management systems

During the Reporting Period, the Company continued to enhance the operation and management of information systems and improved the information technology risk prevention systems in relation to business continuity, operation and maintenance, and information security. No major production or security related accidents occurred during the Reporting Period. The Company obtained the ISO27001 certification on its information security management systems for three consecutive years, and carried out application back-up for 12 major information systems with coverage ratio of 80%.

3. Technological innovation and talents cultivation

Placing emphasis on technological innovation, the Company attached great importance to research studies. Research and Implementation of In-depth Application of Cloud Computing in the Data Centres of Commercial Banks (雲計算技術在商業銀行數據中心的深入應用研究及全面推廣實踐) won a third class research award granted by CBRC in information technology risk management, achieving outstanding results for four consecutive years. Online Trade Platform (在線自主交易平台) won the third prize of Bank Science and Technology Development Awards granted by the People's Bank of China. Research and Implementation of Visualisation and Intellectualisation of Business Continuity Management of Medium and Small Bank (中小銀行業務連續性可視化、智能化的研究與實踐) was awarded the third prize for the Outstanding Research Results on the Development of China's Banking Industry. The mobile banking service was acclaimed the Best Regional Commercial Bank for Mobile Banking Customer Experience in the 2015 Award Ceremony of China E-Banking. In terms of cultivation of professional talents, the Company, focusing on the new trends of financial reform and the key aspects of business transformation, recruited professional talents on multiple levels and improved the professional knowledge of technical staff through systematic internal and external training.

3.11 Risk Management

3.11.1 Credit risk management

Credit risk refers to the risk arising from the failure by an obligor or a party concerned to meet its obligations in accordance with agreed upon terms. The Company is exposed to credit risk primarily through the on- and off-balance sheet credit extension business. During the Reporting Period, aiming to become a bank featuring rigorous risk management, the credit risk management of the Company laid a solid foundation for management by focusing on the prevention and mitigation of credit risk, improved the management mechanism by enhancing credit procedures and structure, and strengthened post-disbursement management and asset quality, thus achieving the credit risk management goals of controllable risk and management enhancement.

The Credit Management Department takes a leading role in the credit risk management of the Company and regularly reports to the management and the Risk Management Committee of the Board of Directors on risk management. Pursuant to regulatory requirements, the Company, taking into consideration the intention and capability of the borrower to repay the loan, coupled with other factors such as guarantor, collateral and overdue payment, has implemented twelve-category classification and management on corporate credit assets based on the regulatory five-category loan classification. The loan classification is conducted by customer managers, preliminarily reviewed by the operating units, and confirmed by the credit management department of branches or the head office. The confirmation of large-sum loans and loss loans is determined by the Asset Classification and Management Committee, while personal loans and interest payments of credit card are classified and confirmed by the system in accordance with the number of overdue days. During the Reporting Period, the Company took the following measures to strengthen credit risk management:

1. Strengthening research study and specifying credit guidelines to enhance credit structure. Placing emphasis on the follow-up analysis of macroeconomic situations, sector policies and industry dynamics, the Company enhanced in advance its credit use and credit structure and adjusted the mid-term targets for manufacturing and other industries. To carry out adjustment to customer structure, industry structure and product structure pursuant to credit policy, the Company vigorously explored local markets to enhance industrial layout, attached great importance to capital saving and capital return, and supported the development of high-quality customers and key projects.
2. Tightening the dynamic monitoring of credit risk to promptly identify and address risks. Adhering to the principle of “proactive inspection, timely identification, close monitoring and effective mitigation”, the Company focused on the dynamic surveillance of credit asset quality, conducted daily monitoring and reporting of overdue loan interest, and established the mechanism of alert message and immediate reporting of large sum risk, so as to accelerate the effective delivery of information and promptly address risks. To thoroughly implement the philosophy of “risk prevention being the foundation of business development”, the Company invested in employee education to improve their risk awareness and compliance awareness.

3. The Company tightened the credit extension management of certain customer segments and business types including group customers, government platforms, bulk trade finance and convertible loans, strengthened monitoring and analysis of industrial risk and regional risk to promptly adjust credit extension policy, and established the mechanism of exiting from customers with high risks and the flexible long-term credit mechanism to facilitate the customer structure adjustment in branches and rationally allocate credit resources.
4. Constantly carrying out risk identification and business inspection. The Company carried out risk identification by means of weekly inspections, special review, spot check and direct check to obtain details of risks and identify problems. Special credit risk inspections were conducted on zombie enterprises, industries with oversupply problems, platform loans and external risks to prevent systemic risks.
5. The Company strengthened internal control by taking measures to enhance post-disbursement management, further improved the credit risk management mechanism of branches by carrying out regular appraisal and evaluation on their credit risk management to beef up their management capabilities, and continued to enhance credit risk management system to facilitate management through technology.

3.11.2 Liquidity risk management

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business even if a bank's solvency remains strong. Liquidity risk management is to ensure that the Company has sufficient cash flow to meet payment obligations and fund business operations on a timely basis. To achieve this, the Company should have the ability to make full payment due on demand deposits or early withdrawal of term deposits, make full repayment of placement upon maturity, or meet other payment obligations. The Company also needs to comply with statutory requirements on liquidity ratios, and actively carry out lending and investment business. The Company monitors the future cash flow according to its liquidity management policies, and keeps its high liquidity assets at an appropriate level.

The Financial Planning Department performs daily management of liquidity risk under the guidance of the Assets and Liabilities Management Committee in accordance with the liquidity management objectives of the Company, and to ensure payment of the Company's business.

The Company holds an appropriate amount of liquid assets (such as deposits with central bank, other short-term deposits and securities) to ensure liquidity needs and unpredictable demand for payment in the ordinary course of business. A substantial portion of the Company's assets are funded by deposits from customers. As a major source of funding, deposits from customers have been growing steadily in recent years and are widely diversified in terms of type and duration.

The Company has liquidity risk measurement and monitoring mechanisms in place to conduct real-time monitoring of the Company's overall money-market balance, liquidity reserves, liquidity exposure and related supervisory indicators. At the same time, the Company's assets and liabilities are managed in accordance with factors such as liquidity exposure, liquidity reserves, money market balances, market conditions, and relevant monitoring targets. By means of quota management, internal funds transfer pricing and other management methods, proactive adjustments to the assets and liabilities maturity structure can be achieved, which provide security against liquidity risk.

The Company continues to improve its liquidity management strategies, upgrade liquidity risk measurement and forecasting capability, establish coordinate system meetings for asset-liability management and step up the building of systems and related liquidity management policies in order to enhance capability for liquidity risk control. Additionally, it actively applies scientific and technological means to improve liquidity management related information systems. By establishing such systems, the precision of liquidity risk monitoring and measurement, and the level of automation is increased.

In addition, the Company continuously carried out liquidity risk stress tests (at least once a quarter). Through such stress tests, the Company can identify its weak link in liquidity risk management at an early stage and constantly improve its liquidity risk control capability. The results of the quarterly stress tests in 2015 indicated that liquidity risks remained within an controllable range even under stressful conditions. In the future, the Company will continue to optimize its testing capabilities and enhance liquidity risk monitoring and its early warning system.

In 2015, China's interbank liquidity was adequate, but market-oriented interest rates and decline in the growth of deposits imposed stricter requirements on liquidity risk management of commercial banks. The Company is always committed to improving its standard in liquidity risk management, and adheres to prudent liquidity risk management philosophy, and develops and implements policies and measures including real-time monitoring, inter-departmental coordination system, liquidity quota management, position management, active liability, liquidity reserves, stress tests and contingency plans. During the Reporting Period, neither liquidity risk nor costly financing events has happened to the Company.

3.11.3 Market risk management

Market risk is the risk of loss, in respect of the Company's activities, arising from adverse movements in market rates including interest rates, exchange rates, commodity prices, stock prices and other prices. Interest rate risk and currency risk are major market risks that confront the Company.

Pursuant to the requirements of the Market Risk Management Guidelines for Commercial Banks, the Guidelines for the Internal Controls of Commercial Banks and the Guidelines for the Stress Tests of Commercial Banks formulated by the CBRC and based on the relevant provisions of New Basel Capital Accord, the Company manages its interest rate risk and exchange rate risk, and establish a market risk management system through provisions, monitoring and reporting of authorisation, credit facilities and risk limits and other measures.

3.11.3.1 Analysis of interest rate risk

The Company's interest rate exposures mainly comprise the mismatching of assets and liabilities' repricing dates, as well as the effect of interest rate volatility on trading positions.

With regard to the repricing risk of assets and liabilities businesses, the Company mainly adjusts the repricing cycle and enhances the deposit term structure in accordance with the prevailing gap situation.

The Company implements various methods, such as sensitivity analysis and scenario simulation to measure and monitor interest risk exposure; risk exposure limits, such as interest rate sensitivity and risk exposure are set regularly, and the relevant implementation of these limits is also supervised, managed and reported on a regular basis.

In 2015, confronted with the advances in switching towards market-oriented interest rates and the increasingly fierce competition in the financial market, the Company made rational use of the Fund Transfer Pricing (FTP) system, perfected interest rate pricing management, promptly adjusted the pricing of funds, effectively controlled fluctuations in loan interest rates and interest-bearing costs and improved forward-looking interest rate risk management to guarantee the continued increase in the Company's revenues.

3.11.3.2 Analysis of interest rate sensitivity

The Company uses sensitivity analysis to measure the potential effect of changes in interest rates to the Company's net interest income. The following table sets forth the results of the interest rate sensitivity analysis based on the current assets and liabilities on 31 December 2015 and 31 December 2014.

| Item | Unit: RMB'000 | |
|--|---|---|
| | 31 December 2015 Increase/ (Decrease) | 31 December 2014 Increase/ (Decrease) |
| Change in annualised net interest income | | |
| Interest rates increase by 100 bps | (225,906) | (152,825) |
| Interest rates decrease by 100 bps | 225,906 | 152,825 |

3.11.3.3 Analysis of exchange rate sensitivity

The following table presents the results of the analysis of exchange rate sensitivity based on the current assets and liabilities on 31 December 2015 and 31 December 2014.

| Item | Unit: RMB'000 | |
|--|---|---|
| | 31 December 2015 Increase/ (Decrease) | 31 December 2014 Increase/ (Decrease) |
| Increase/(Decrease) in annualised net profit | | |
| Foreign exchange rate increase by 100 bps | 396 | 332 |
| Foreign exchange rate decrease by 100 bps | (396) | (332) |

3.11.4 Operational risk management

Operational risk refers to the risk of loss arising from inadequate or problematic internal procedures, personnel and information technology systems, or external events.

Concentrating on system improvement and enhancement of operational risk management during the Reporting Period, the Company placed emphasis on prevention and control measures by adhering to the operational risk management principle of "prioritising internal control, standardising operations, complying with regulations, accountability for irregularities, comprehensive management, and addressing problems at both superficial and fundamental levels", and strengthened measures on business line inspection, business supervision and internal audit to ensure the identification, assessment and monitoring of operational risk, thus improving capabilities of operational risk management, prevention and control. During the Reporting Period, the Company enhanced the risk prevention management of the various areas below:

1. Laying emphasis on prevention and monitoring in operational risk management

To establish a multi-dimensional operational risk control mechanism with a focus on prevention, the Company strengthened prevention through risk education, sought to prevent risk through the three lines of defence, and moved forward the defence of risk by introducing the system of chief reviewers, thus improving its comprehensive operational risk prevention and control. Meanwhile, the Company reinforced its operational risk defence through monitoring, actively cooperated in regulatory inspection while conducting regular checks, spot checks, special checks and other inspections on business lines and departments of branches, carried out internal audit to improve audit workflow, and implemented remediation through system enhancement and training.

2. Strengthening information technology system to ensure system safety

In 2015, the Company prevented operational risk of the system and ensured the safe and stable operations of information systems by introducing automated management, central control and refined management. The launch of projects such as the central data backup platform and numerous enhancement projects of the cloud data centre resulted in gradual achievement of automated management. Phase two of the same-city disaster recovery project and various switch drills of same-city disaster recovery were carried out to improve the capabilities of emergency response and technology recovery, thus systematically pushing forward central control. The internal systems and flows were strengthened and the internal management mechanism was enhanced to steadily achieve refined management.

3. Improving the prevention mechanism and flow control to establish a new case management layout

Addressing the challenging case management situation in 2015, the Company, under the guidance of regulatory requirements, continued to carry out case inspection, implement self-assessment of case management and set up test question databank of case management to push forward the establishment of a long-term case management mechanism.

4. Reinforcing employee and position management to prevent operational risk arising from human factors

The Company stressed the management of and carried out special inspections on the irregularities of employees, reinforced management measures such as job rotation on a regular basis and compulsory leave, and conducted employee education on compliance and operations, so as to prevent operational risk.

5. Improving outsourcing and business continuity management to expand the scope of operational risk prevention

To improve outsourcing management, the Company streamlined the management system, flow, and supervision on contractors, conducted risk inspection of outsourcing management, and prevented system failure and leakage of business secrets.

3.12 Social Responsibility

1. In terms of operational responsibility, the Company continued to push forward innovation in areas including people's livelihood infrastructure, business management, inclusive finance, technology finance and service improvement and gave full play to the supporting role of finance in the development of the real economy. As at the end of the Reporting Period, the balance of loans increased by RMB9.707 billion year-on-year, of which the balance of personal loans increased by RMB3,656 million. The Company explored ways to solve the corporate and personal financing issues of obtaining loans and mortgages through the launch of loan businesses including pledge of intellectual property rights, the first of its kind nationwide, and pledge of rural land operating rights, and continued to share its achievements with and benefit its shareholders by paying cash dividends to ensure their stable income. To perform its tax obligations, the Company paid a total of RMB974 million for taxes in 2015 and an accumulated amount of RMB4.624 billion for taxes and fees since 2007.
2. In terms of social responsibility, the Company proactively carried out various charitable activities. During the Reporting Period, a donation of RMB700,000 was made to Anshun No. 1 Middle School and Anshun No. 2 Middle School through the Dream and Care Fund of Bank of Qingdao (青銀夢想愛心基金)" to support the education of 100 impoverished students. Another donation of RMB2.2 million was made to Ocean University of China, Qingdao University, Shandong University of Science and Technology, Qingdao Technological University and Qingdao University of Science and Technology to set up scholarships. The Company helped to alleviate poverty through targeted small secured loans and supported the reemployment of more than 26,000 low-income residents. The service of One Lowering and Multiple Waivers (i.e. the waiver of card activation fee, account management fee and annual fee for personal customers and the waiver of domestic remittance fee for personal online banking) was offered as in the past to benefit residents. To popularise financial knowledge and increase financial safety awareness, the Company made arrangements for the Company to launch a series of activities such as "March 15 Consumer Protection Promotion", "Universalising Financial Knowledge", "Popularising Financial Knowledge into Every Household" and "Financial Knowledge Online Competition", and thus the activities in relation to financial knowledge popularisation and education have become regular initiatives. By strengthening its employees' capabilities of identifying and addressing financial frauds, the Company successfully prevented several new Internet financial scams and therefore helped customers avoid capital losses. To improve employee quality through multiple channels, the Company carried out employee caring schemes and set up post-doctoral scientific research workstations to host Doctoral Salon, Youth Forum and multi-level training activities. To assist needy employees and improve its medical care and mutual assistance system, the Company visited more than 40 employees and their families and rendered assistance to employees in filing 110 insurance claims in 2015.

3. In terms environmental responsibility, the Company accorded priority to the development of “green finance” by stepping up its support for green economy, low-carbon economy and circular economy and its research and development on green loan products, while promoting the development of regional green finance. As at the end of the Reporting Period, an accumulated amount of RMB2.604 billion of on- and off-balance sheet green loans was granted by the Company to projects in relation to resource recycling, the use of electric vehicles in the public transport sector, the construction of small-scale farmland water conservation facilities, waste treatment and pollution control, and energy and water conservation in the industrial sector. The upgrade of online banking and mobile banking has not only enriched the financial products and expanded the channels for direct banking, but also shifted customers towards using telephone banking, self-service facilities, online banking and mobile banking so as to gradually decrease their use of outlets. The Company launched the Quick Pass metro co-branded card and the Free Card Scheme for Millions of Residents to promote electronic payment and encourage green and environmental-friendly travel.

3.13 Protection of Consumer Rights

Protection of consumer rights in the banking industry is instrumental to the maintenance of a fair and just market environment and the healthy development of commercial banks. Committed to the protection of consumer rights and guided by its mission of “developing together with customers by providing them with professional, convenient and high-quality financial services”, Bank of Qingdao has incorporated the protection of consumer rights into its operation and development strategy and strived to achieve a win-win for the development of the Company and the protection of financial consumer rights.

1. Enhancing organisation structure and improving workflow mechanism

During the Reporting Period, seizing the opportunity of revamping consumer rights protection workflow, the Company continued to enhance its internal organisation structure and improve its management system and workflow mechanism to comprehensively enhance its capability of protecting consumer rights. By redefining the structure as well as the responsibilities and duties of the functional departments under the consumer rights protection committee of the head office, the Company further refined their functions and clarified the management structure of consumer rights protection. The Company further specified the departments and the persons responsible for consumer rights protection in branches and sub-branches and improved the top-down organisational structure for consumer rights protection, thus effectively and systematically carrying out consumer rights protection within the Company.

2. Reinforcing sense of responsibility and comprehensively performing obligations

Firstly, the Company reinforced sense of responsibility and increased the awareness of consumer rights protection in the processes of design and development, pricing management, agreement formulation, review and approval, promotion and marketing, and after-sales management. The sales process, products and services were further regulated by tightening legal examination and fully disclosing information such as risks, achieving comprehensiveness in consumer rights protection. Secondly, attaching importance to customer experience, the Company conducted in-depth market research to promote product innovation so as to provide more diversified, effective and convenient financial products and services based on the business model featuring the integration of online and offline as well as multiple channels. Thirdly, aiming to satisfy the needs of customers, the Company enhanced its service system and workflow, expedited the construction of barrier-free facilities and enhanced the tailored services for customers with special needs to improve service convenience. Fourthly, to guarantee the effectiveness of the mechanism for consumer rights protection, the Company established the customer complaint handling system with the service supervision centre as the pillar to enhance the complaint handling process, strengthened internal assessment and supervision, and improved the efficiency of customer services to entertain reasonable requests from customers in a timely manner.

3. Expanding publicity channels and popularising public education

The Company regularised and standardised the publicity and popularisation of financial knowledge among the public by furthering the public's understanding of financial risks and knowledge and strengthening the publicity and education on personal financial information protection and telemarketing fraud prevention, particularly the popularisation of financial knowledge among people with special needs such as rural financial consumers and the physically challenged. To introduce basic knowledge of banking industry to the public, illustrate financial knowledge and perform social responsibility, the Company hosted various activities including "March 15 Consumer Protection Promotion", "Universalising Financial Knowledge" and "Popularising Financial Knowledge into Every Household" during the Reporting Period.

3.14 Development plan for 2016

3.14.1 Operating situation analysis for 2016

The sluggish growth and differentiated policies of major economies, coupled with geopolitical conflicts, have given rise to the volatility of financial market, resulting in dim outlook for global economy. Due to the increasingly complex domestic economic situation, the Company is faced with risks and opportunities as follows: Firstly, China recorded a GDP growth of 6.9% in 2015, hitting the lowest point in the past 25 years, yet the economic growth will continue to slow down and the commodity prices will remain low. Secondly, the development of mix operation in financial sector will increase the risks of banking industry. Confrontation between the banking industry and various cross-sector competitors as well as the disturbing credit risk of real economy will intensify the volatility, cross-sector interaction and risks in the financial market. Thirdly, the drastic changes in financial ecosystem have forced the commercial banks to switch development models. In the era of market-oriented interest rates, the profit contribution arising from the dominating and traditional deposit-taking and loan business will barely cover the costs of expanding outlet network, recruiting new employees and upgrading information technology. Fourthly, economy will maintain mid- to high-speed growth driven by both the old and the new economic growth momentum. The GDP growth of 2016, the first year of China's "Thirteenth Five-Year Plan", will be underpinned by strong policies and the supply-side structural reform. Fifthly, the mix operation and new technologies have brought about more opportunities for high-quality financial service.

3.14.2 Development guidance for 2016

In 2016, adhering to its operations philosophy of "gathering momentum, stabilising development, controlling risks, and increasing market value", the Company will proactively gather momentum on traditional businesses of wholesale, retail and asset management as well as on innovative businesses of Internet+ and commercial bank+, strengthening its capabilities of risk management and control and achieving the steady growth of its market value.

3.14.3 Measures to be adopted for 2016

- (1) "Strengthening the two ends and focusing on the intermediary" to promote the steady development of wholesale business line;
- (2) Dedicating itself to retail business to become the most convenient retail bank;
- (3) Pushing forward the financial market business to facilitate the evolvement of asset management model;
- (4) Popularising the "Interface Bank" model to improve the capability of acquiring customers in bulk;

- (5) Increasing risk management awareness to reinforce the feature of rigorous risk management;
- (6) Enhancing channel construction to provide convenient, high-quality and efficient service;
- (7) Placing emphasis on innovation management to gather strong momentum for development;
- (8) Strengthening strategy execution to ensure the smooth implementation of transformation and upgrade.

4. OTHER EVENTS

4.1 Use of Proceeds Raised from Initial Public Offering

The proceeds from issuance of H shares of the Company had been used in accordance with the intended usage as disclosed in the prospectus of the Company. The net proceeds raised from the global offering (after deduction of the underwriting commissions and estimated expenses payable by the Company in relation to the global offering) had been used to replenish the capital of the Company to meet the needs of the continued growth of its business.

4.2 Corporate Governance Code

From its date of listing to 31 December 2015, the Company strictly complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Listing Rules**”), and, where appropriate, adopted the recommended best practices therein.

4.3 Securities Transactions by Directors and Supervisors

The Company has adopted the required standard in the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors and Supervisors. Having made specific enquiries to all Directors and Supervisors, each of the Directors and Supervisors confirmed that he/she has complied with the above Model Code during the Reporting Period.

4.4 Changes in Directors, Supervisors and Senior Management

During the Reporting Period, pursuant to the resolutions of the 2014 annual general meeting of the Company, Mr. Zhou Yunjie was newly appointed as a non-executive director of the Company; Mr. Wong Tin Yau Kelvin and Mr. Chen Hua were newly appointed as independent non-executive directors of the Company, and the qualifications of Mr. Zhou Yunjie, Mr. Wong Tin Yau, Kelvin and Mr. Chen Hua as directors were approved by Qingdao Supervision and Administration Bureau of China Banking Regulatory Commission in June 2015. Ms. Yang Mianmian, a former non-executive director of the Company, no longer served as a non-executive director of the Company from April 2015; Ms. Wang Jialing, a former independent non-executive director of the Company, no longer served as an independent non-executive director of the Company from April 2015.

During the Reporting Period, pursuant to the resolutions of the 2014 general meeting of the Company, Mr. Wang Jianhua, Mr. Fu Changxiang and Mr. Hu Yanjing were newly appointed as external supervisors of the Company. Mr. Li Zhanguo, no longer served as a shareholder supervisor of the Company from April 2015; Ms. Lu Zhengming and Mr. Zhang Xu, no longer served as external directors of the Company from April 2015.

During the Reporting Period, no changes occurred to the senior management of the Company.

4.5 Profits and Dividends

The Company's profit for the year ended 31 December 2015 and the Company's financial position as at the same date are set out in the section headed "Financial Statements" of this results announcement.

1. Pursuant to the relevant resolutions considered and passed at the annual general meeting of 2014 of the Company on 10 April 2015, the Company distributed to the eligible shareholders, whose names appeared on the share register of the Company on 27 April 2015, dividends in cash in an aggregate amount of RMB777,883,187.25 (tax inclusive), according to the profit distribution plan to distribute a dividend of RMB0.25 per shares (tax inclusive) on 28 April 2015.
2. The Board has proposed a final dividend of RMB0.20 per share (tax inclusive) for the year ended 31 December 2015 in an aggregate amount of RMB811,742,549.80 (tax inclusive) to all shareholders of the Company. The dividend distribution proposal will be submitted to the 2015 annual general meeting for consideration and approval.

If the proposal is approved by the 2015 annual general meeting, the dividend will be distributed to holders of domestic shares and holders of H shares whose names appear on the register of members on 19 May 2016. The proposed dividend will be denominated in RMB. Dividends to holders of domestic shares shall be paid in RMB, and dividends to holders of H shares shall be paid in Hong Kong dollars. The exchange rate of RMB to HK\$ to be adopted shall be the average of the central parity rates in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends (including the day the annual general meeting will be held) as announced by the People's Bank of China. The register of members of the Company will be closed from Saturday, 14 May 2016 to Thursday, 19 May 2016 (both days inclusive), during such period no transfer of domestic shares or H shares will be registered. In order to be entitled to the dividend payment, holders of H shares of the Company who have not registered the related transfer documents are required to lodge the transfer documents together with the relevant share certificates with the Company's H-share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Friday, 13 May 2016.

The Board is set to distribute the final dividends of 2015 on Friday, 8 July 2016. If there are any changes to the dividend payment date, an announcement will be published regarding such changes.

4.6 Tax relief (holders of H shares)

Non-resident enterprise shareholders

In accordance with the Enterprise Income Tax Law of the People's Republic of China and the related implementation provisions effective from 1 January 2008, the Company shall withhold and pay enterprise income tax at the rate of 10% for non-resident enterprise shareholders whose names appear on the H-share register on 19 May 2016.

Non-resident individual shareholders

Pursuant to the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) promulgated by the State Administration of Taxation on 28 June 2011, dividend received by overseas resident individual shareholders from domestic non-foreign invested enterprises which have issued share in Hong Kong are subject to individual income tax, which shall be withheld and paid by such domestic non-foreign invested enterprises acting as a withholding agent according to relevant laws; however, the overseas resident individual shareholders of the shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax arrangements between the countries where they reside and China and the tax arrangements between mainland China and Hong Kong (Macau).

In accordance with the above tax regulations, the Company shall withhold and pay enterprise income tax at the rate of 10% for individual holders of H shares of the Company unless otherwise specified by the relevant tax regulations and tax agreements, in which case the Company will conduct specific procedures according to the relevant regulatory requirements of tax authorities.

4.7 Annual General Meeting of 2015 and Closure of Register of Members

The Company's 2015 annual general meeting is scheduled to be held on Tuesday, 10 May 2016. In order to determine the list of shareholders who are entitled to attend and vote at the annual general meeting, the H-share register of members of the Company will be closed from Sunday, 10 April 2016 to Tuesday, 10 May 2016 (both days inclusive), during which period no share transfer will be registered. Holders of H shares of the Company who intend to attend and vote at the annual general meeting must lodge all the transfer documents accompanied by the relevant share certificates with the Company's H-share registrar, Computershare Hong Kong Investor Services Limited (address: Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) no later than 4:30 p.m. on Friday, 8 April 2016.

4.8 Purchase, Sale and Redemption of Listed Securities of the Company

During the Reporting Period, the Company had not purchased, sold or redeemed any listed securities of the Company.

4.9 Audit Committee

The audit committee of the Company has audited the accounting standards and practices adopted by the Company with the management and has reviewed the annual results for the year ended 31 December 2015.

5. FINANCIAL STATEMENTS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in thousands of Renminbi, unless otherwise stated)

| | 2015 | 2014 |
|--------------------------------------|-------------------------|-------------------------|
| Interest income | 8,587,709 | 7,595,389 |
| Interest expense | <u>(4,473,655)</u> | <u>(3,999,053)</u> |
| Net interest income | 4,114,054 | 3,596,336 |
| Fee and commission income | 787,427 | 721,022 |
| Fee and commission expense | <u>(37,800)</u> | <u>(32,271)</u> |
| Net fee and commission income | 749,627 | 688,751 |
| Net trading gains | 66,654 | 33,630 |
| Net gains arising from investments | 60,361 | 11,216 |
| Other operating income | <u>14,812</u> | <u>35,119</u> |
| Operating income | 5,005,508 | 4,365,052 |
| Operating expenses | <u>(2,076,578)</u> | <u>(1,995,253)</u> |
| Impairment losses | <u>(579,894)</u> | <u>(411,278)</u> |
| Profit before taxation | 2,349,036 | 1,958,521 |
| Income tax expense | <u>(535,260)</u> | <u>(463,169)</u> |
| Net profit for the year | <u>1,813,776</u> | <u>1,495,352</u> |

| | 2015 | 2014 |
|--|------------------|------------------|
| Other comprehensive income: | | |
| Items that will not be reclassified subsequently to profit or loss | | |
| – Remeasurement of net defined benefit liability | (21,405) | – |
| Items that may be reclassified subsequently to profit or loss | | |
| – Available-for-sale financial assets: | | |
| – Net movement in the investment revaluation reserve | <u>401,122</u> | <u>288,624</u> |
| Other comprehensive income, net of tax | <u>379,717</u> | <u>288,624</u> |
| Total comprehensive income | <u>2,193,493</u> | <u>1,783,976</u> |
| Basic and diluted earnings per share (<i>in RMB</i>) | <u>0.58</u> | <u>0.59</u> |

STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of Renminbi, unless otherwise stated)

| | 31 December 2015 | 31 December 2014 |
|--|---------------------|---------------------|
| Assets | | |
| Cash and deposits with central bank | 19,920,303 | 23,609,591 |
| Deposits with banks and other financial institutions | 3,585,267 | 2,018,827 |
| Placements with banks and other financial institutions | 1,108,138 | 1,156,491 |
| Financial assets at fair value through profit or loss | 297,595 | 190,195 |
| Financial assets held under resale agreements | 2,516,977 | 2,697,628 |
| Loans and advances to customers | 70,655,221 | 61,248,341 |
| Financial investments: | | |
| Available-for-sale financial assets | 17,120,786 | 14,122,539 |
| Held-to-maturity investments | 22,575,284 | 19,721,428 |
| Investment classified as receivables | 44,786,787 | 27,209,059 |
| Property and equipment | 1,021,157 | 865,538 |
| Deferred tax assets | 279,402 | 337,469 |
| Other assets | 3,368,337 | 2,988,835 |
| Total assets | 187,235,254 | 156,165,941 |
| Liabilities | | |
| Borrowings from central bank | 528,909 | 1,003,676 |
| Deposits from banks and other financial institutions | 27,335,870 | 20,362,589 |
| Placements from banks and other financial institutions | 3,051,992 | 1,379,835 |
| Financial assets sold under repurchase agreements | 2,000,000 | 10,069,144 |
| Deposits from customers | 115,321,997 | 101,733,660 |
| Income tax payable | 107,758 | 88,942 |
| Debt securities issued | 16,314,307 | 8,335,030 |
| Other liabilities | 5,960,769 | 3,408,415 |
| Total liabilities | 170,621,602 | 146,381,291 |
| Equity | | |
| Share capital | 4,011,533 | 2,555,977 |
| Reserves | 12,602,119 | 7,228,673 |
| Total equity | 16,613,652 | 9,784,650 |
| Total liabilities and equity | 187,235,254 | 156,165,941 |

STATEMENT OF CHANGES IN EQUITY

(Expressed in thousands of Renminbi, unless otherwise stated)

| | Share capital | Capital reserve | Surplus reserve | General reserve | Investment revaluation reserve | Other reserve | Retained earnings | Total |
|------------------------------------|------------------|--------------------|--------------------|--------------------|--------------------------------------|------------------|----------------------|-------------------|
| Balance at 1 January 2015 | 2,555,977 | 2,750,177 | 623,411 | 1,886,628 | 85,077 | 18,330 | 1,865,050 | 9,784,650 |
| Profit for the year | - | - | - | - | - | - | 1,813,776 | 1,813,776 |
| Other comprehensive income | - | - | - | - | 401,122 | (21,405) | - | 379,717 |
| Total comprehensive income | - | - | - | - | 401,122 | (21,405) | 1,813,776 | 2,193,493 |
| Owners' contributions | | | | | | | | |
| - Contribution by owners | 1,455,556 | 3,957,841 | - | - | - | - | - | 5,413,397 |
| Appropriation of profit: | | | | | | | | |
| - Appropriation to surplus reserve | - | - | 181,378 | - | - | - | (181,378) | - |
| - Appropriation to general reserve | - | - | - | 504,554 | - | - | (504,554) | - |
| - Cash dividends | - | - | - | - | - | - | (777,888) | (777,888) |
| Sub-total | 1,455,556 | 3,957,841 | 181,378 | 504,554 | - | - | (1,463,820) | 4,635,509 |
| Balance at 31 December 2015 | <u>4,011,533</u> | <u>6,708,018</u> | <u>804,789</u> | <u>2,391,182</u> | <u>486,199</u> | <u>(3,075)</u> | <u>2,215,006</u> | <u>16,613,652</u> |
| Balance at 1 January 2014 | 2,555,977 | 2,750,177 | 473,876 | 1,334,063 | (203,547) | 18,330 | 1,276,276 | 8,205,152 |
| Profit for the year | - | - | - | - | - | - | 1,495,352 | 1,495,352 |
| Other comprehensive income | - | - | - | - | 288,624 | - | - | 288,624 |
| Total comprehensive income | - | - | - | - | 288,624 | - | 1,495,352 | 1,783,976 |
| Appropriation of profit: | | | | | | | | |
| - Appropriation to surplus reserve | - | - | 149,535 | - | - | - | (149,535) | - |
| - Appropriation to general reserve | - | - | - | 552,565 | - | - | (552,565) | - |
| - Cash dividends | - | - | - | - | - | - | (204,478) | (204,478) |
| Sub-total | - | - | 149,535 | 552,565 | - | - | (906,578) | (204,478) |
| Balance at 31 December 2014 | <u>2,555,977</u> | <u>2,750,177</u> | <u>623,411</u> | <u>1,886,628</u> | <u>85,077</u> | <u>18,330</u> | <u>1,865,050</u> | <u>9,784,650</u> |

CASH FLOW STATEMENT

(Expressed in thousands of Renminbi, unless otherwise stated)

| | 2015 | 2014 |
|---|--------------------|--------------------|
| Cash flows from operating activities | | |
| Profit before taxation | 2,349,036 | 1,958,521 |
| <i>Adjustments for:</i> | | |
| Impairment losses | 579,894 | 411,278 |
| Depreciation and amortisation | 300,218 | 240,880 |
| Un-winding of interest | (25,104) | (20,875) |
| Unrealised foreign exchange gains | (13,657) | (369) |
| Net gains on disposal of long-term assets | (4,434) | (37,658) |
| Revaluation gains on investments | (7,400) | (5,699) |
| Dividends from available-for-sale equity investments | (550) | (450) |
| Net gains on disposal of available-for-sale financial assets | (59,811) | (10,766) |
| Interest expense on debt securities issued | 705,470 | 278,924 |
| Interest income on financial investments | (3,796,311) | (2,629,069) |
| Defined benefit cost | (174,110) | – |
| | <u>(146,759)</u> | <u>184,717</u> |
| <i>Changes in operating assets</i> | | |
| Net decrease/(increase) in deposits with central bank | 3,356,331 | (2,431,221) |
| Net (increase)/decrease in deposits with banks and other financial institutions | (120,000) | 234,406 |
| Net decrease/(increase) in placements with banks and other financial institutions | 361,021 | (361,021) |
| Net increase in loans and advances to customers | (9,917,425) | (7,499,835) |
| Net (increase)/decrease in financial assets held under resale agreements | (569,349) | 6,230,255 |
| Net (increase)/decrease in financial assets at fair value through profit or loss | (100,000) | – |
| Net increase in other operating assets | (42,874) | (170,667) |
| | <u>(7,032,296)</u> | <u>(3,998,083)</u> |
| <i>Changes in operating liabilities</i> | | |
| Net decrease in borrowings from central bank | (474,767) | (20,564) |
| Net increase in deposits from banks and other financial institutions | 6,973,281 | 7,809,217 |
| Net increase in placements from banks and other financial institutions | 1,672,157 | 1,119,497 |
| Net decrease in financial assets sold under repurchase agreements | (8,069,144) | (60,856) |
| Net increase in deposits from customers | 13,588,337 | 5,449,753 |
| Income tax paid | (584,949) | (570,507) |
| Net increase in other operating liabilities | 2,587,248 | 1,283,086 |
| | <u>15,692,163</u> | <u>15,009,626</u> |
| Net cash flows generated from operating activities | <u>8,513,108</u> | <u>11,196,260</u> |

| | 2015 | 2014 |
|--|---------------------------|---------------------------|
| Cash flows from investing activities | | |
| Proceeds from disposal and redemption of investments | 25,273,475 | 17,918,038 |
| Net cash received from investment gains and interest | 3,624,234 | 2,449,880 |
| Proceeds from disposal of property and equipment, intangible assets and other assets | 11,320 | 47,096 |
| Payments on acquisition of investments | (48,412,945) | (32,866,694) |
| Payments on acquisition of property and equipment, intangible assets and other assets | (666,690) | (414,006) |
| Net cash flows used in investing activities | <u>(20,170,606)</u> | <u>(12,865,686)</u> |
| Cash flows from financing activities | | |
| Proceeds from issuance of new shares | 5,413,397 | – |
| Net proceeds from debt securities issued | 29,231,868 | 5,005,170 |
| Repayment of debt securities issued | (21,620,000) | (1,700,000) |
| Interest paid on debt securities issued | (235,800) | (235,800) |
| Dividends paid | (779,724) | (204,705) |
| Net cash flows generated from financing activities | <u>12,009,741</u> | <u>2,864,665</u> |
| Effect of foreign exchange rate changes on cash and cash equivalents | <u>23,908</u> | <u>369</u> |
| Net increase in cash and cash equivalents | 376,151 | 1,195,608 |
| Cash and cash equivalents as at 1 January | <u>7,318,868</u> | <u>6,123,260</u> |
| Cash and cash equivalents as at 31 December | <u><u>7,695,019</u></u> | <u><u>7,318,868</u></u> |
| Net cash flows generated from operating activities include: | | |
| Interest received | <u><u>4,748,186</u></u> | <u><u>4,912,626</u></u> |
| Interest paid | <u><u>(3,702,412)</u></u> | <u><u>(3,185,116)</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

Bank of Qingdao Co., Ltd. (the “Bank”), formerly known as Qingdao City Cooperative Bank Co., Ltd., is a joint-stock commercial bank established on 15 November 1996 with the approval of the People’s Bank of China (the “PBOC”) according to the notices YinFu [1996] No. 220 “Approval upon the Preparing of Qingdao City Cooperative Bank” and YinFu [1996] No.353 “Approval upon the Opening of Qingdao City Cooperative Bank”.

The Bank changed its name from Qingdao City Cooperative Bank Co., Ltd. to Qingdao City Commercial Bank Co., Ltd. in 1998 according to LuyinFu [1998] No. 76 issued by Shandong Branch of the PBOC. The Bank changed its name from Qingdao City Commercial Bank Co., Ltd. to Bank of Qingdao Co., Ltd. in 2008 according to YinJianFu [2007] No.485 issued by the China Banking Regulatory Commission (the “CBRC”).

The Bank obtained its financial institution licence No. B0170H237020001 from the Qingdao branch of the CBRC. The Bank obtained its business license No. 370000018010094 from the Administration for Industry and Commerce of Qingdao City. The registered office of the Bank is located at No. 68 Hong Kong Middle Road, Shinan District, Qingdao, Shandong Province, the PRC. The share capital of the Bank is RMB4.012 billion as at 31 December 2015. In December 2015, the Bank’s H-shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 3866).

The Bank has 8 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai and Binzhou as at 31 December 2015. The principal activities of the Bank are the provision of corporate and personal deposits, loans and advances, settlement, financial market business and other banking services as approved by the CBRC. The Bank mainly operates in Shandong Province.

For the purpose of this report, Mainland China excludes the Hong Kong Special Administration Region of the PRC (“Hong Kong”), the Macau Special Administration Region of the PRC (“Macau”) and Taiwan.

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and related interpretations, issued by the International Accounting Standards Board (the “IASB”), as well as with the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the financial statements, the Bank has adopted all the new and revised IFRSs in issue which are relevant to the Bank for the reporting period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2015. The revised and new accounting standards and interpretations probably related to the Bank, which are issued but not yet effective for the accounting period ended 31 December 2015, are set out below:

| | Effective for accounting periods beginning on or after |
|--|---|
| Amendments to IAS 16, <i>Property, plant and equipment</i> and IAS 38, <i>Intangible assets</i> , Clarification of acceptable methods of depreciation and amortization | 1 January 2016 |
| IFRS 15, <i>Revenue from contracts with customers</i> | 1 January 2018 |
| IFRS 9, <i>Financial instruments</i> | 1 January 2018 |

The Bank is in the process of assessing the impact of the new standards and amendments on the financial statements. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements except for IFRS 9 Financial Instruments.

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9. Given the nature of the Bank's operations, the standard is expected to have an impact on the Bank's financial statements. The Bank has not completed its assessment of the full impact of adopting IFRS 9 and therefore its possible impact on the Bank's operating results and financial position has not been quantified.

3 NET INTEREST INCOME

| | 2015 | 2014 |
|---|---|---|
| Interest income arising from | | |
| Deposits with central bank | 298,028 | 302,888 |
| Deposits with banks and other financial institutions | 56,723 | 206,469 |
| Placements with banks and other financial institutions | 12,188 | 62,613 |
| Financial assets at fair value through profit or loss | 16,186 | 15,211 |
| Loans and advances to customers | | |
| – Corporate loans and advances | 2,901,166 | 2,768,767 |
| – Personal loans and advances | 1,134,976 | 1,022,054 |
| – Discounted bills | 138,606 | 151,470 |
| Financial assets held under resale agreements | 233,525 | 436,848 |
| Financial investments | 3,796,311 | 2,629,069 |
| | <hr/> | <hr/> |
| Sub-total | 8,587,709 | 7,595,389 |
| | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |
| Interest expense arising from | | |
| Deposits from banks and other financial institutions | (1,032,734) | (889,349) |
| Placements from banks and other financial institutions | (12,484) | (54,145) |
| Deposits from customers | (2,269,307) | (2,224,088) |
| Financial assets sold under repurchase agreements | (368,151) | (532,536) |
| Debt securities issued | (705,470) | (278,924) |
| Others | (85,509) | (20,011) |
| | <hr/> | <hr/> |
| Sub-total | (4,473,655) | (3,999,053) |
| | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |
| Net interest income | 4,114,054 | 3,596,336 |
| | <hr style="border-top: 3px double black;"/> | <hr style="border-top: 3px double black;"/> |
| Of which: | | |
| Interest income arising from impaired financial assets identified | 25,104 | 20,875 |
| | <hr style="border-top: 3px double black;"/> | <hr style="border-top: 3px double black;"/> |

Notes:

- (1) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on tier-two capital bonds issued.
- (2) Total interest income arising from financial assets that are not at fair value through profit or loss for the year ended 31 December 2015 amounted to RMB8,572 million (2014: RMB7,580 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the year ended 31 December 2015 amounted to RMB4,474 million (2014: RMB3,999 million).

4 NET FEE AND COMMISSION INCOME

| | 2015 | 2014 |
|--------------------------------------|----------------|----------------|
| Fee and commission income | | |
| Agency service fees | 249,617 | 205,508 |
| Settlement fees | 230,151 | 327,898 |
| Wealth management service fees | 155,911 | 39,365 |
| Custody service fees | 106,544 | 107,758 |
| Bank card service fees | 22,308 | 18,910 |
| Others | 22,896 | 21,583 |
| | <hr/> | <hr/> |
| Sub-total | 787,427 | 721,022 |
| Fee and commission expense | (37,800) | (32,271) |
| | <hr/> | <hr/> |
| Net fee and commission income | <u>749,627</u> | <u>688,751</u> |

5 NET TRADING GAINS

| | 2015 | 2014 |
|--------------------------------|---------------|---------------|
| Net gains from debt securities | 7,609 | 9,812 |
| Net foreign exchange gains | 59,045 | 23,818 |
| | <hr/> | <hr/> |
| Total | <u>66,654</u> | <u>33,630</u> |

Net gains from debt securities include gains arising from the buying and selling of, and changes in the fair value of financial assets at fair value through profit or loss.

Net foreign exchange gains mainly include gains from the purchase and sale of foreign currency spot.

6 OTHER OPERATING INCOME

| | 2015 | 2014 |
|---|---------------|---------------|
| Net gains on disposal of property and equipment | 4,434 | 37,658 |
| Rental income | 975 | 1,396 |
| Other | 9,403 | (3,935) |
| | <hr/> | <hr/> |
| Total | <u>14,812</u> | <u>35,119</u> |

7 OPERATING EXPENSES

| | 2015 | 2014 |
|---|------------------|------------------|
| Staff costs | | |
| – Salaries, bonuses and allowances | 844,569 | 690,907 |
| – Social insurance and housing allowances | 122,413 | 103,637 |
| – Staff welfare expenses | 84,346 | 73,838 |
| – Staff education expenses | 20,629 | 17,261 |
| – Labor union expenses | 16,500 | 13,809 |
| – Contribution to annuity funds | 57,553 | 43,905 |
| – Others (<i>Note (1)</i>) | (169,357) | 15,274 |
| Sub-total | 976,653 | 958,631 |
| Property and equipment expenses | | |
| – Depreciation and amortization | 300,218 | 240,880 |
| – Electronic equipment operating expenses | 72,532 | 75,917 |
| – Maintenance | 60,872 | 60,634 |
| Sub-total | 433,622 | 377,431 |
| Business tax and surcharges | 284,682 | 266,439 |
| Other general and administrative expenses (<i>Note (2)</i>) | 381,621 | 392,752 |
| Total | <u>2,076,578</u> | <u>1,995,253</u> |

Notes:

- (1) The Bank amended its supplementary retirement benefits plan in 2015 and the decrease in the present value of the defined benefit obligation resulting from the amendments to supplementary retirement benefits plan (amounting to RMB178 million) was recognized in profit or loss.
- (2) Other general and administrative expenses include auditors' remunerations which amounted to RMB2.40 million for the year ended 31 December 2015 (2014: RMB1.28 million).

8 IMPAIRMENT LOSSES

| | 2015 | 2014 |
|--------------------------------------|----------------|----------------|
| Loans and advances to customers | 536,874 | 359,571 |
| Financial investments: | | |
| Investment classified as receivables | 40,500 | 50,000 |
| Others | 2,520 | 1,707 |
| Total | <u>579,894</u> | <u>411,278</u> |

9 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

| | 2015 | 2014 |
|--------------|-----------------------|-----------------------|
| Current tax | 603,765 | 535,265 |
| Deferred tax | <u>(68,505)</u> | <u>(72,096)</u> |
| Total | <u><u>535,260</u></u> | <u><u>463,169</u></u> |

(2) Reconciliations between income tax and accounting profit are as follows:

| | 2015 | 2014 |
|--|-------------------------|-------------------------|
| Profit before taxation | <u><u>2,349,036</u></u> | <u><u>1,958,521</u></u> |
| Statutory tax rate | 25% | 25% |
| Income tax calculated at statutory tax rate | <u>587,259</u> | <u>489,630</u> |
| Tax effect of non-deductible expenses for tax purpose | | |
| – Entertainment expenses | 2,533 | 3,204 |
| – Annuity and supplemental medical insurance | 3,117 | 1,889 |
| – Others | <u>729</u> | <u>35</u> |
| | <u>6,379</u> | <u>5,128</u> |
| Tax effect of non-taxable income for tax purpose (<i>Note (i)</i>) | <u>(58,378)</u> | <u>(31,589)</u> |
| Income tax | <u><u>535,260</u></u> | <u><u>463,169</u></u> |

Note:

- (i) Non-taxable income consists of interest income from the PRC government bonds and local government bonds, which are exempt from income tax under the PRC tax regulations.

10 BASIC AND DILUTED EARNINGS PER SHARE

| | 2015 | 2014 |
|--|-----------|-----------|
| Net profit attributable to equity shareholders of the Bank | 1,813,776 | 1,495,352 |
| Weighted average number of ordinary shares (<i>in thousands</i>) | 3,115,125 | 2,555,977 |
| Basic and diluted earnings per share | | |
| attributable to equity shareholders of the Bank (<i>in RMB</i>) | 0.58 | 0.59 |

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the reporting period.

11 FINANCIAL INVESTMENTS

| | 31 December 2015 | 31 December 2014 |
|--------------------------------------|-----------------------------|---------------------|
| Available-for-sale financial assets | 17,120,786 | 14,122,539 |
| Held-to-maturity investments | 22,575,284 | 19,721,428 |
| Investment classified as receivables | 44,786,787 | 27,209,059 |
| | <hr/> | <hr/> |
| Total | 84,482,857 | 61,053,026 |
| | <hr/> <hr/> | <hr/> <hr/> |

(1) Available-for-sale financial assets

| | <i>Note</i> | 31 December 2015 | 31 December 2014 |
|-------------------|--------------|-----------------------------|---------------------|
| Debt securities | <i>(i)</i> | 16,956,326 | 13,538,992 |
| Trust fund plans | <i>(ii)</i> | 80,119 | 300,316 |
| Investment funds | <i>(ii)</i> | 61,091 | 259,981 |
| Equity investment | <i>(iii)</i> | 23,250 | 23,250 |
| | | <hr/> | <hr/> |
| Total | | 17,120,786 | 14,122,539 |
| | | <hr/> <hr/> | <hr/> <hr/> |

(i) Debt securities issued by the following institutions:

| | 31 December 2015 | 31 December 2014 |
|--|-----------------------------|---------------------|
| In Mainland China | | |
| – Policy banks | 7,890,237 | 3,806,922 |
| – Banks and other financial institutions | 4,865,988 | 6,773,261 |
| – Corporate entities | 4,200,101 | 2,958,809 |
| | <hr/> | <hr/> |
| Total | 16,956,326 | 13,538,992 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Unlisted | 16,956,326 | 13,538,992 |
| | <hr/> <hr/> | <hr/> <hr/> |

(ii) The trust fund plans and investment funds are unlisted investments.

(iii) Available-for-sale unlisted equity investments do not have any quoted market prices and their fair values cannot be measured reliably. Therefore, these equity investments are stated at cost less any impairment losses (if any).

(2) Held-to-maturity investments

| | 31 December 2015 | 31 December 2014 |
|--|-----------------------------|---------------------|
| In Mainland China | | |
| – Government | 7,529,720 | 3,084,506 |
| – Policy banks | 7,918,996 | 9,441,005 |
| – Banks and other financial institutions | 5,866,945 | 5,715,970 |
| – Corporate entities | 1,259,623 | 1,479,947 |
| | <u>22,575,284</u> | <u>19,721,428</u> |
| Carrying value | <u>22,575,284</u> | <u>19,721,428</u> |
| Unlisted | <u>22,575,284</u> | <u>19,721,428</u> |
| Fair value | <u>23,434,562</u> | <u>19,846,408</u> |

(3) Investment classified as receivables

| | 31 December 2015 | 31 December 2014 |
|---|-----------------------------|---------------------|
| Asset management plans | 22,442,547 | 17,803,277 |
| Wealth management products issued by financial institutions | 9,640,547 | – |
| Trust fund plans | 8,671,888 | 9,358,000 |
| Beneficiary rights in margin financing | 2,500,000 | – |
| Beneficiary certificates | 1,568,451 | – |
| Others | 53,854 | 97,782 |
| | <u>44,877,287</u> | <u>27,259,059</u> |
| Gross amount | <u>44,877,287</u> | <u>27,259,059</u> |
| Less: provision for impairment losses | <u>(90,500)</u> | <u>(50,000)</u> |
| Total | <u>44,786,787</u> | <u>27,209,059</u> |

12 DIVIDEND DISTRIBUTION

| | 2015 | 2014 |
|-------------------|--------------------------------|--------------------------------|
| Dividend declared | 777,883 | 204,478 |
| Dividend proposed | 811,743 | 777,883 |
| | (RMB0.20 per share) | (RMB0.25 per share) |

In accordance with the resolution approved in the general meeting on 10 April 2015, based on the total share capital of RMB 3,111.53 million as at the 2014 dividend payout announcement date of the Bank, a total amount of approximately RMB 777.88 million (RMB0.25 per share before tax) was distributed in the form of cash dividend to the Bank's shareholders entitled.

In accordance with the resolution of profit distribution for the year ended 31 December 2015 approved by the Board of Directors on 9 March 2016, the Board of Directors proposed cash dividends of RMB0.20 per share before tax and in aggregation of RMB811.74 million to all shareholders, based on the total share capital of RMB4,058.71 million of the Bank. Subject to the approval of the shareholders at the Annual General Meeting, the dividends are payable to shareholders.

13 SEGMENT REPORTING

Segment assets and liabilities, and segment income, expense and operating results are measured in accordance with the Bank's accounting policies. Internal charges and transfer pricing of transactions between segments are determined for management purpose and have been reflected in the performance of each segment. Interest income and expenses earned from third parties are referred to as "External net interest income/expense". Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "Internal net interest income/expense".

Segment income, expense, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets, and liabilities are determined before intra-Bank balances, and intra-Bank transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total payment during the period to acquire property and equipment, intangible assets and other long-term assets.

The Bank defines its reporting segments based on the following for management purpose:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, deposit taking activities, agency services, remittance and settlement services.

Retail banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans and deposit services.

Financial market business

This segment covers the Bank's financial market operations. The financial market business enters into inter-bank money market transactions, repurchases transactions, investments in debt securities, and non-standardized debt investments.

Un-allocated items and others

This segment contains head office assets, liabilities, income and expenses that are not directly attributable to a segment.

| | Year ended 31 December 2015 | | | | |
|--|-----------------------------|-------------------|---------------------------|-------------------------------|--------------------|
| | Corporate banking | Retail banking | Financial market business | Un-allocated items and others | Total |
| External net interest income | 2,170,053 | 29,051 | 1,914,950 | – | 4,114,054 |
| Internal net interest income/(expense) | 229,854 | 813,618 | (1,043,472) | – | – |
| Net interest income | 2,399,907 | 842,669 | 871,478 | – | 4,114,054 |
| Net fee and commission income | 253,579 | 181,720 | 314,328 | – | 749,627 |
| Net trading gains | – | – | 66,654 | – | 66,654 |
| Net gains arising from investments | – | – | 60,361 | – | 60,361 |
| Other operating (expenses)/income | (1,195) | (1,250) | (80) | 17,337 | 14,812 |
| Operating income | 2,652,291 | 1,023,139 | 1,312,741 | 17,337 | 5,005,508 |
| Operating expenses | (1,110,494) | (586,560) | (379,524) | – | (2,076,578) |
| Impairment losses | (486,959) | (52,435) | (40,500) | – | (579,894) |
| Profit before taxation | <u>1,054,838</u> | <u>384,144</u> | <u>892,717</u> | <u>17,337</u> | <u>2,349,036</u> |
| Other segment information | | | | | |
| – Depreciation and amortisation | <u>(141,981)</u> | <u>(148,681)</u> | <u>(9,556)</u> | – | <u>(300,218)</u> |
| – Capital expenditure | <u>315,296</u> | <u>330,173</u> | <u>21,221</u> | – | <u>666,690</u> |
| | 31 December 2015 | | | | |
| | Corporate banking | Retail banking | Financial market business | Un-allocated items and others | Total |
| Segment assets | <u>65,720,450</u> | <u>28,282,992</u> | <u>92,952,410</u> | – | <u>186,955,852</u> |
| Deferred tax assets | | | | | <u>279,402</u> |
| Total assets | | | | | <u>187,235,254</u> |
| Segment liabilities/Total liabilities | <u>71,338,368</u> | <u>47,379,550</u> | <u>51,903,684</u> | – | <u>170,621,602</u> |
| Credit commitments | <u>23,780,294</u> | <u>349,094</u> | – | – | <u>24,129,388</u> |

| | Year ended 31 December 2014 | | | | |
|--|-----------------------------|-------------------|---------------------------------|-------------------------------------|--------------------|
| | Corporate banking | Retail banking | Financial market business | Un-allocated items and others | Total |
| External net interest income | 1,924,332 | 89,894 | 1,582,110 | – | 3,596,336 |
| Internal net interest income/(expense) | 186,768 | 742,412 | (929,180) | – | – |
| Net interest income | 2,111,100 | 832,306 | 652,930 | – | 3,596,336 |
| Net fee and commission income | 349,268 | 51,358 | 288,125 | – | 688,751 |
| Net trading gains | – | – | 33,630 | – | 33,630 |
| Net gains arising from investments | – | – | 11,216 | – | 11,216 |
| Other operating (expenses)/income | (659) | (713) | (30) | 36,521 | 35,119 |
| Operating income | 2,459,709 | 882,951 | 985,871 | 36,521 | 4,365,052 |
| Operating expenses | (1,121,054) | (561,500) | (312,699) | – | (1,995,253) |
| Impairment losses | (332,117) | (29,161) | (50,000) | – | (411,278) |
| Profit before taxation | <u>1,006,538</u> | <u>292,290</u> | <u>623,172</u> | <u>36,521</u> | <u>1,958,521</u> |
| Other segment information | | | | | |
| – Depreciation and amortisation | <u>(113,243)</u> | <u>(122,477)</u> | <u>(5,160)</u> | <u>–</u> | <u>(240,880)</u> |
| – Capital expenditure | <u>194,634</u> | <u>210,504</u> | <u>8,868</u> | <u>–</u> | <u>414,006</u> |
| | 31 December 2014 | | | | |
| | Corporate banking | Retail banking | Financial market business | Un-allocated items and others | Total |
| Segment assets | <u>62,591,707</u> | <u>25,336,430</u> | <u>67,900,335</u> | <u>–</u> | <u>155,828,472</u> |
| Deferred tax assets | | | | | <u>337,469</u> |
| Total assets | | | | | <u>156,165,941</u> |
| Segment liabilities/Total liabilities | <u>65,416,984</u> | <u>39,287,066</u> | <u>41,677,241</u> | <u>–</u> | <u>146,381,291</u> |
| Credit commitments | <u>25,422,952</u> | <u>284,469</u> | <u>–</u> | <u>–</u> | <u>25,707,421</u> |

14 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

The Bank's credit commitments take the form of bank acceptances, credit card limits, letters of credit and financial guarantees.

Acceptances comprise of undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from its customers. The contractual amounts of credit card commitments represent the amounts should the contracts be fully drawn upon. The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

| | 31 December 2015 | 31 December 2014 |
|--------------------------------|-----------------------------|---------------------|
| Bank acceptances | 18,776,982 | 17,794,176 |
| Letters of credit | 3,498,936 | 5,012,524 |
| Letters of guarantees | 1,359,376 | 2,087,552 |
| Loan commitments | 145,000 | 528,700 |
| Unused credit card commitments | 349,094 | 284,469 |
| Total | <u>24,129,388</u> | <u>25,707,421</u> |

The Bank may be exposed to credit risk in all the above credit businesses. Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(2) Credit risk-weighted amount

| | 31 December 2015 | 31 December 2014 |
|---|-----------------------------|---------------------|
| Credit risk-weighted amount of contingent liabilities and commitments | <u>8,415,863</u> | <u>7,934,979</u> |

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors.

(3) Operating lease commitments

As at the end of the reporting period, the Bank's future minimum lease payments under non-cancellable operating leases for properties are as follows:

| | 31 December 2015 | 31 December 2014 |
|--|-----------------------------|---------------------|
| Within one year (inclusive) | 96,069 | 87,725 |
| After one year but within five years (inclusive) | 294,144 | 339,131 |
| After five years | 194,617 | 295,835 |
| Total | <u>584,830</u> | <u>722,691</u> |

(4) Capital commitments

As at the end of the reporting period, the Bank's authorised capital commitments are as follows:

| | 31 December 2015 | 31 December 2014 |
|-----------------------------|-----------------------------|-----------------------|
| Contracted but not paid for | <u>687,894</u> | <u>267,889</u> |
| Total | <u><u>687,894</u></u> | <u><u>267,889</u></u> |

(5) Outstanding litigations and disputes

As at 31 December 2014 and 2015, there were no significant legal proceedings outstanding against the Bank. Management is in the opinion that it is not necessary to provide any contingent liabilities as at the reporting period.

(6) Bonds redemption obligations

As an underwriting agent of PRC government bonds, the Bank has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the Ministry of Finance of the People's Republic of China and the People's Bank of China. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Bank, but not yet matured at the reporting date:

| | 31 December 2015 | 31 December 2014 |
|------------------------------|-----------------------------|---------------------|
| Bonds redemption obligations | <u>2,843,173</u> | <u>2,408,237</u> |

(7) Pledged assets

| | 31 December 2015 | 31 December 2014 |
|-----------------------|-----------------------------|--------------------------|
| Investment securities | <u>4,547,229</u> | <u>12,739,261</u> |
| Total | <u><u>4,547,229</u></u> | <u><u>12,739,261</u></u> |

Some of the Bank's assets are pledged as collateral under repurchase agreements, deposits from banks and other financial institutions and deposits from customers.

The Bank maintains statutory deposit reserves with the PBOC as required. These deposits are not available for the Bank's daily operations.

The Bank's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. The fair value of such pledged assets was RMB2,017 million as at 31 December 2015 (31 December 2014: RMB2,698 million). As at 31 December 2015, the Bank did not sell or repledge any pledged assets which it has an obligation to repurchase when they are due (31 December 2014: nil).

6. RELEASE OF RESULTS ANNOUNCEMENT AND 2015 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This results announcement will be published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Company (www.qdccb.com). The 2015 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders and released on the website of the Hong Kong Stock Exchange and the website of the Company in due course.

This results announcement was prepared in both Chinese and English versions, where there is a discrepancy between the Chinese and English versions, the Chinese version shall prevail.

By Order of the Board
Bank of Qingdao Co., Ltd.
Guo Shaoquan
Chairman

Hong Kong, 9 March 2016

As at the date of this announcement, the Board comprises Mr. Guo Shaoquan, Mr. Wang Lin and Mr. Yang Fengjiang as executive Directors; Mr. Zhou Yunjie, Mr. Rosario Strano, Mr. Wang Jianhui, Ms. Tan Lixia and Mr. Marco Mussita as non-executive Directors; Mr. Wang Zhuquan, Mr. Du Wenhe, Mr. Wong Tin Yau, Kelvin and Mr. Chen Hua as independent non-executive Directors.

* *Bank of Qingdao Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking and/or deposit-taking business in Hong Kong.*