

BANK OF QINGDAO CO., LTD.

2015 Annual Report

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 3866)



BANK OF QINGDAO CO., LTD.

2015 Annual Report

BQD  **青岛银行**

Important Notice

1. The Board of Directors, Board of Supervisors, directors, supervisors and senior management members of the Company assure that the information in this report contains no false records, misleading statements or material omissions, and shall be liable jointly and severally for the authenticity, accuracy and completeness of the information in this report.
2. The proposals on the 2015 Annual Report of Bank of Qingdao Co., Ltd. and the 2015 Financial Statements were considered and approved at the 11th meeting of the sixth session of the Board of Directors of the Company held on 9 March 2016. There were 12 directors eligible for attending the meeting, of whom 10 directors attended the meeting.
3. The overseas auditor of the Company for 2015 was KPMG. The 2015 financial report of the Company prepared in accordance with International Financial Reporting Standards has been audited by KPMG, with unqualified auditor's report issued.
4. Unless otherwise specified, the currency of the amounts mentioned in this annual report is RMB.
5. The Company's chairman Mr. Guo Shaoquan, president Mr. Wang Lin, vice president in charge of financial work Mr. Yang Fengjiang and head of planning and finance Mr. Wang Bo assure the authenticity and completeness of this annual report.
6. Profit distribution plan: the Board of Directors of the Company has proposed a final dividend of RMB0.20 per share (tax inclusive) in cash 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 approval.
7. This report contains certain forward-looking statements about the financial conditions, operating results and business developments of the Company. The report uses the words "will", "may", "strive", "plan" and similar wording to express forward-looking statements. These statements are made based on current plans, estimates and projections, and although the Company believes that the expectations reflected in these forward-looking statements are reasonable, the Company cannot assure that these expectations will be attained or confirmed to be correct and therefore they do not constitute substantive undertakings of the Company. Investors should not unduly rely on such statements, and should be aware of investment risks. Please note that these forward-looking statements are related to future events or future financial, business or other performance of the Company, and are subject to certain uncertainties which may cause the actual results to differ substantially.

Board of Directors of Bank of Qingdao Co., Ltd.

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Chapter I Corporate Information

1.1 BASIC INFORMATION OF THE COMPANY

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

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

Office of Board of Directors & Supervisors

Address: No. 68, Hong Kong Middle Road, Shinan District, Qingdao, Shandong Province, PRC

Postal code: 266071

Telephone: +86 (532) 85709728

Fax: +86 (532) 85709725

Email: ir@qdbankchina.com

Principal place of business in Hong Kong:

36th Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong

Company website: <http://www.qdccb.com/>

Stock exchange on which H shares are listed:

The Stock Exchange of Hong Kong Limited

Stock name: BQD

Stock code: 3866

Business licence registration number: 370000018010094

Date of first registration: 15 November 1996

Date of change of registration: 14 July 2015

Organisational code:

26460960-2

Financial licence institution number:

B0170H237020001

Tax registration certificate number:

Lu Shui Qing Zi number 370202264609602

Overseas auditor:

KPMG

8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

Domestic auditor:

KPMG Huazhen LLP

8th Floor, KPMG Tower, Oriental Plaza, 1 East Chang An Avenue, Dongcheng District, Beijing

Legal adviser as to PRC law:

King & Wood Mallesons Beijing

Legal adviser as to Hong Kong law:

Clifford Chance

Compliance Adviser:

Somerley Capital Limited

Registrar for H shares:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Registrar for domestic shares:

China Securities Depository and Clearing Co., Ltd.
No. 17 Taipingqiao Avenue, Xicheng District, Beijing

Newspapers designated by the Company for information disclosure:

China Securities Journal

Website for information disclosure by the Company:

Website of the Company

(<http://www.qdccb.com/>)

HKExnews Website of the Hong Kong Stock Exchange

(<http://www.hknews.hk/>)

1.2 RECOGNITIONS AND AWARDS

In January 2015, the Company's Jinan Branch outlet, Donghai West Road No.1 Sub-branch, Hong Kong Middle Road No.2 Sub-branch received the title of 2014 Top 1,000 Exemplary Entities in Offering Civilised and Standardised Services in the China Banking Industry from the China Banking Association, and were acclaimed as among the first batch of national Five-star Outlets in Offering Civilised and Standardised Services in the China Banking Industry.

In January 2015, the Company received the title of Advanced Entity for Legal Risk Management in the National Banking Industry from the China Banking Association.

In January 2015, the Company received the title of 2013-2014 Advanced Entity and Advanced Player in Corporate Culture Building in the National Financial System from the Research Association on Ideological and Political Work in the Financial Industry in China. Chairman Guo Shaoquan of the Company received the title of 2013-2014 Exemplary Leader in Corporate Culture Building in the National Financial System.

In January 2015, the Company received the title of 2014 Outstanding Dealer in the Bond Market from the China Central Securities Depository and Clearing Corporation Limited, and the award of 2014 Most Influential Bank in the Interbank Local Currency Market from the China Foreign Exchange Trading Centre and National Interbank Funding Centre.

In February 2015, the Company received the title of the Best City Commercial Bank in Trade Finance for 2014 from the Trade Finance magazine and SINOTF.COM.

In July 2015, among the Top 1,000 World Banks released by The Banker, a UK magazine, the Company ranked 434th in terms of asset size, rising by 40 positions compared with that for 2014.

In September 2015, at the 2015 Summit Forum on the Development of Small and Medium-sized Banks in China held by the Modern Bankers magazine, the Company received awards of the Best Board of Directors and the Best Company in Safeguarding Brand Integrity and Controlling Reputation Risk.

In September 2015, among the top 500 enterprises in the service industry in China jointly released by the China Enterprise Confederation and China Enterprise Directors Association, the Company ranked 274th, rising by 51 positions compared with that for 2014.

In December 2015, the Company's research topic on In-depth Applied Research on Cloud Computing Technology and its Full Promotion and Implementation in Commercial Banks received the recognition of class three research achievement in Information Technology Risk Management in the Banking Industry from the China Banking Regulatory Commission.

In December 2015, the Company received the 2015 Award for Best User Experience in Mobile Banking among Regional Commercial Banks at the Eleventh China Electronic Banking Annual Conference held by the China Financial Certification Authority.

In December 2015, the Company received awards of the Best Small and Medium-sized Bank and Top Ten Institutions for Innovation in Internet Finance under the Chinese Financial Institutions Golden Medal List – Golden-dragon Award jointly hosted by Financial News and the Institute of Finance and Banking of the Chinese Academy of Social Sciences, winning a total of 6 Golden-dragon Award trophies over the past 5 years.

In December 2015, the innovative Online Self-service Trading Platform developed independently by the Company received the third class prize under the Science and Technology Development Award presented by the People's Bank of China.



Chapter II Financial Highlights

2.1 FINANCIAL DATA

Unit: RMB'000

Item	2015	2014	Year-on-year change Change (%)	2013	2012	2011
Business Performance						
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 net 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)	(1,132,312)
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
Per Share (RMB)						
Change						
Net assets per share attributable to shareholders of the Company	4.14	3.83	0.31	3.21	2.91	2.72
Basic earnings per share	0.58	0.59	(0.01)	0.45	0.36	0.37
Dividend per share	0.20	0.25	(0.05)	0.08	0.07	0.05

2.2 FINANCIAL INDICATORS

Item	2015	2014	Year-on-year change Change (%)	2013	2012	2011
Scale indicators (RMB'000)						
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

Item	2015	2014	Year-on-year change	2013	2012	2011
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 – provision for impairment
- (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 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》).

Chapter III Chairman's Statement



Guo
Shaoquan
Chairman

Chapter III Chairman's Statement

The year 2015 is a milestone in the history of the development of Bank of Qingdao. The Company was successfully listed on the Main Board of the Stock Exchange of Hong Kong, raising HK\$4.499 billion by newly issuing 947 million H shares, accomplishing the listing of Bank of Qingdao, a dream long sought-after by us, marking the overcoming of challenges posed by the capital market and the gaining of recognition by investors of the formulation of a unique strategy of becoming a distinctive city commercial bank and setting up a model with sound operations and sustainable development under the leadership of the Board of Directors over the years.

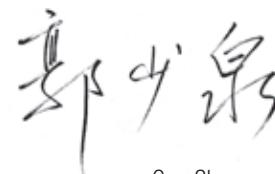
During the Reporting Period, the Company replenished its capital in diversified ways, including H Shares Initial Public Offering, capital increase and issuance of tier-two capital bonds, thereby substantially increased its capital adequacy ratio. As at the end of the Reporting Period, the capital adequacy ratio reached 15.04%, laying a solid capital base for sustainable development in future.

Faced with the challenging situation featured by a slowdown in the growth of the macro economy, restructuring and upgrading of regional industries and frequent credit risk events, the Company maintained a relatively stable and healthy development momentum and steadily boosted its profitability, achieving a net profit of RMB1.8 billion or a year-on-year increase of 21% during the Reporting Period. Meanwhile, risk control and management initiatives continued to be strengthened. Sound and prudent risk appetite, stable yet enhanced risk prevention and control, consistent, effective and time-proven risk control measures and a compliance culture infused into the minds of all enabled the Company to maintain a record of zero major incident throughout the Reporting Period in which regional and systemic incidents were prevalent. Non-performing loan ratio was 1.19%, lower than the averages of the banking sector in China and the regional peers.

The development mode featuring differentiation and uniqueness became clearer, and the operation of the innovative mode of "Interface Bank" in attracting customers became more mature and was quickly replicated in all branches and business sectors, creating a relative strong brand advantage in the region. Efforts to adjust the business structure were highly effective. Drivers of profit growth including business like pan-retail and pan-asset management led to enhancement in business and revenue structure. By implementing the "Interface Bank" strategy, the scope of conceptual development of the retail banking business was broadened, stimulating the robustness of the operation of the financial market business. As at the end of the Reporting Period, retail deposits accounted for 39% of the deposits of the Company as a whole and the income contribution of retail banking business reached 20%. Assets under management of the financial market business reached over RMB120 billion, representing a year-on-year increase of 42%, and revenue contribution reached 26%.

This first set of notable operating results after public listing showcased a "trustworthy, resilient and unique" Bank of Qingdao, fulfilling the pledge of the Company to the capital market.

In 2016, the first year of China's "Thirteenth Five-Year Plan", a string of reforms will be rolled out, offering attractive development opportunities for the Company. The Company will formulate mid to long-term development strategies after its listing, and make full play of its strengths in abundant capital from its listing, regulated operations and brand enhancement, as well as better, faster, and more substantive developments, so as to provide customers with financial services of better quality, achieve higher return on capital for shareholders, and develop Bank of Qingdao into a listed bank that is outstanding with fast growth and unique competitive edge!



Guo Shaoquan
Chairman of Bank of Qingdao Co., Ltd.

Chapter IV President's Statement



Wang Lin
President

Chapter IV President's Statement

2015 is undoubtedly an extraordinary year for the Bank of Qingdao in its development history. Despite unprecedented complex conditions and increasingly fierce competition under the new normal, we accomplished all annual goals and tasks and maintained coordinated and healthy growths in scale, profitability and quality, based on our bank-wide consensus to earnestly implement requirements of regulators and the Board. Thanks to relentless efforts across the organisation, our Company was successfully listed in Hong Kong as the first urban commercial bank in Shandong to gain access to international capital market, realizing our dream that lasted for years.

As at the end of 2015, the Company's total assets were RMB187.235 billion, up 19.90% from the beginning of the year; total deposit balance reached RMB115.322 billion, up 13.36% from the beginning of the year; outstanding loans totalled RMB72.696 billion, up 15.41% from the beginning of the year; and non-performing loan ratio was 1.19% while the annual net profit grew by 21.29% year-on-year to RMB1.814 billion, drawing a satisfactory conclusion for the listing year with sound results.

In 2015, the Company kept cultivating its traditional business with great care and effort. We carried out strategic cooperation with hospitals, transportation, education and other livelihood sectors, and drew on our strengths in products, services and technology to open up new channels to acquire high-volume retail customers via public-private collaboration. In November, the Company partnered with the Metro Group to launch the "Co-Branded Metro Card", with 320,900 cards issued in a month and a half.

In 2015, the Company continued to strengthen innovations in products and technology with its "Interface Bank" strategy going smoothly. We also established the "One Belt One Road Financial Alliance" to lead financial strategic cooperation among the banks in Shandong, cooperated with Haier, Coca-Cola and other companies to launch online supply chain financing services, and constantly enhanced our mobile financial products with a direct banking line launched in December.

In 2015, the Company kept risk prevention, internal control and compliance under close scrutiny, leading to a low level of non-performing loan ratio at the end of the year and sustaining zero default case throughout the year. As at the end of the year, the number of our branches exceeded one hundred, reaching the milestone one year ahead of schedule.

What's past is prologue. Our listing success and desirable results are owed to dedication of our employees and strong support from our customers, investors and all sectors of society. On behalf of senior management of the Company, I would like to express our sincere gratitude to people from all walks of life for their cares and supports to us. Looking to 2016, we will endeavour to ride on the current favourable momentum to pursue a better future for the Company.



Wang Lin
President of Bank of Qingdao Co., Ltd.

Chief Supervisor



Zou Junqiu
Chief Supervisor

Chapter V Management Discussion and Analysis

5.1 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 liberalisation, 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.

5.2 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 in a 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 Hong Kong Stock Exchange, newly issuing a total of 947 million H shares and raising proceeds of HK\$4.499 billion, 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.



On 3 December 2015, the Company was listed on the main board of Hong Kong Stock Exchange. Chairman Mr. Guo Shaoquan rang the opening bell on that day.

5.3 ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

5.3.1 Financial performance summary

Unit: RMB'000

Item	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 major profit or loss items on the profit before taxation in 2015.

Unit: RMB'000

Item	Amount
Profit before taxation in 2014	
Changes in 2015	1,958,521
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	2,349,036

5.3.2 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 net interest income accounted for 82.19%, representing a year-on-year decrease of 0.20 percentage point, and 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.

Unit: %

Item	2015	2014	2013	2012	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



On 19 November 2015, the Company held a press conference in Hong Kong, announcing the listing plan on the main board of the Stock Exchange of Hong Kong.

5.3.3 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.

Unit: RMB'000

Item	2015 vs. 2014		Net increase/ (decrease)
	Due to volume	Due to rate	
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



In September 2015, the Company led the establishment of Shandong Province interbank market financial strategic cooperation. President Wang Lin participated and signed in the kick-off ceremony.

5.3.4 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 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.

Unit: RMB'000

Item	Average balance	2015	Average yield	Average balance	2014	Average yield
		Interest income			Interest income	
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.

5.3.5 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.

Unit: RMB'000

Item	2015			2014		
	Average balance	Interest expense	Average cost rate	Average balance	Interest expense	Average cost rate
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.

5.3.6 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.

Unit: RMB'000

Item	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

5.3.7 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.

Unit: RMB'000

Item	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.

5.3.8 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.

Unit: RMB'000

Item	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	141,827	79,965

5.3.9 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.

Unit: RMB'000

Item	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

5.3.10 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.

Unit: RMB'000

Item	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.

5.4 ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF FINANCIAL POSITION

5.4.1 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.

Unit: RMB'000

Item	31 December 2015		31 December 2014	
	Amount	% of total	Amount	% of total
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	187,235,254	100.00	156,165,941	100.00

5.4.1.1 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.

Unit: RMB'000

Item	31 December 2015		31 December 2014	
	Amount	% of total	Amount	% of total
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

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.

5.4.1.2 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.

Unit: RMB'000

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.

Unit: RMB'000

Item	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
Total financial assets at fair value through profit or loss	297,595	190,195

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.

Unit: RMB'000

Item	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
Total available-for-sale financial assets	17,120,786	14,122,539
Less: provision for impairment	-	-
Net available-for-sale financial assets	17,120,786	14,122,539

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.

Unit: RMB'000

Item	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.

Unit: RMB'000

Item	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 (RMB 10 thousand)	Coupon (%)	Maturity date	Remaining years to maturity (years)
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

5.4.2 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.

Unit: RMB'000

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

5.4.2.1 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.

Unit: RMB'000

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	115,321,997	100.00	101,733,660	100.00

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.

5.4.2.2 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.

5.4.2.3 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.

5.4.3 Equity attributable to shareholders

Unit: RMB'000

Item	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

5.5 ANALYSIS OF QUALITY OF LOANS

5.5.1 Distribution of loans by five categories

Unit: RMB'000

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	72,695,518	100.00	62,988,229	100.00
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 lower than the average of the financial institutions of Shandong's banking industry by 0.87 percentage point as well as lower than the national average by 0.48 percentage point.

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

Unit: RMB'000

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 point. 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%.

5.5.3 Distribution of loans and non-performing loans by industry

Unit: RMB'000

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%.

5.5.4 Distribution of loans and non-performing loans by region

Unit: RMB'000

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.

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

Unit: RMB'000

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%.

5.5.6 Loans to the top ten single borrowers

Unit: RMB'000

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.

5.5.7 Distribution of loans by overdue period

Unit: RMB'000

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

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.

5.5.8 Restructured loans

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

5.5.9 Repossessed assets and provision for impairment

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

5.5.10 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.

Unit: RMB'000

Item	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	2,040,297	1,739,888

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.

5.5.11 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.

5.5.12 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.

5.5.13 Soft loans representing 20% (inclusive) 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% (inclusive) or more of the total loans.

5.6 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.

5.6.1 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:

Unit: RMB'000

Item	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	(165,631)	(114,721)
Net core tier-one capital	16,448,021	9,669,929
Net amount of other tier-one capital	-	-
Net tier-two capital	3,376,236	1,022,946
Net capital base	19,824,257	10,692,875
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	8,044,706	6,709,350
Total risk-weighted assets	131,824,697	99,449,856
Core tier-one capital adequacy ratio	12.48%	9.72%
Tier-one capital adequacy ratio	12.48%	9.72%
Capital adequacy ratio	15.04%	10.75%

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.

5.6.2 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.

Chapter V Management Discussion and Analysis

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:

Unit: RMB'000

No.	Item	Balance as at 31 December 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:

Unit: RMB'000

No.	Item	Balance as at 31 December 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%

5.7 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.

Unit: RMB'000

Item	2015		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

Unit: RMB'000

Item	2015		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

5.8 OTHER FINANCIAL INFORMATION

5.8.1 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 39 of the financial statements in this annual report.

5.8.2 Overdue and outstanding debts

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

5.9 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 (财富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.



On 19 June 2015, the Company participated in the “Qingdao Wealth Management Expo”. The employee of the Company demonstrated how to pay subway fare using bank cards of the Company.

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.

5.10 OVERVIEW OF BUSINESS DEVELOPMENT

5.10.1 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 Jie (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. 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.

Note:

¹ The income contribution refers to the proportion of various business lines’ operating income to the Company’s operating income (same hereinafter)

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.



In July 2015, Baresi (second from the left), famous Italian soccer player was invited to participate in “Bank of Qingdao A.C. Milan Teenagers Summer Soccer Camp”. Baresi signed for young soccer fans.

5.10.2 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.

5.10.3 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. In 2015, 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.



On 17 September 2015, the Company led the establishment of "One Belt and One Road Financial Union". Union members posed for group photo.

5.10.4 Distribution channels

5.10.4.1 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.

5.10.4.2 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.

5.10.4.3 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%.



On 15 May 2015, the Company held the 2nd “Youth Forum”. The staff discussed on the subject of “Business Transformation under the New Trend”.

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.

5.11 RISK MANAGEMENT

5.11.1 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.

5.11.2 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 a 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.

5.11.3 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.

5.11.3.1 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.

5.11.3.2 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.

Unit: RMB'000

Item	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

5.11.3.3 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.

Unit: RMB'000

Item	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)

5.11.4 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.

5.12 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 billion. 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.



On December 22, 2015, the Awarding Ceremony of Qingdao University of Science and Technology-Bank of Qingdao Scholarship took place in Qingdao University of Science and Technology. The picture shows Ms. Wang Yu (first left), Vice President of the Company, delivered speech on the ceremony.

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.

5.13 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, 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. Thirdly, 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.



In May 2015, the Company held the speech contest of “The Dream of Financial Youth in China”.

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.

5.14 DEVELOPMENT PLAN FOR 2016

5.14.1 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.

5.14.2 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.



In 2015, the Company held the "Little Banker" activity to develop the inspiring education on financial knowledge for kids.

5.14.3 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.

Chapter VI Significant Events

6.1 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Company strictly complied with the relevant guidelines of the regulatory authorities and the Administrative Measures for the Related Party Transactions of Bank of Qingdao and the Implementation Provisions of the Related Party Transactions of Bank of Qingdao formulated by the Company to execute the credits granted to the connected parties. During the reporting period, all the credits in relation to related party transactions were granted in accordance with the requirements of relevant regulations of the laws, loan conditions and the examination procedure. The operating results and financial condition of the Company suffered no negative impact as all the loans was recovered with no non-performing loans.

During the reporting period, a total of three significant related party transactions of the Company were approved by the Board of Directors, which were integrated credits granted to Haier Group, Qingdao Conson Industrial Co., Ltd. and Intesa Sanpaolo S.p.A. respectively.

As at the end of the reporting period, the balance of significant related party transactions of the Company amounted to RMB0.5 billion. The details are as follows:

Unit: RMB'0000

Name of related party	Balance of credits granted	Business category	Manner of guarantee	Percentage of net capital
Qingdao Haier Real Estate Group Co., Ltd.	30,000.00	Non-standard debt assets	Suretyship	1.51%
Qingdao Conson Blue Silicon Valley Development Co., Ltd.	20,000.00	Non-standard debt assets	Suretyship	1.01%

The related party transactions disclosed in this section were transactions entered by the Company in its ordinary and usual course of business to connected persons of the Company, the terms of which were normal commercial terms or better from the perspective of the Company. According to Rule 14A.87(1) of the Listing Rules, those transactions were fully exempted.

6.2 SIGNIFICANT LITIGATION AND ARBITRATION AND MATERIAL CASES IN THE REPORTING PERIOD

During the reporting period, no significant litigation and arbitration and material cases having a significant adverse effect on the financial conditions and operating results of the Company had occurred.

6.3 PUNISHMENT IMPOSED ON THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the reporting period, no punishment was imposed by relevant regulatory authorities and judicial authorities on the Company and its directors, supervisors and senior management.

6.4 PERFORMANCE OF UNDERTAKINGS BY THE COMPANY OR SHAREHOLDERS WITH SHAREHOLDING OF 5% OR MORE

1. In June 2011, in accordance with the relevant requirements of the Notice of the General Office of China Banking Regulatory Commission on Strengthening the Examination of Qualifications of Substantial Shareholders of Small- and Medium-sized Commercial Banks, Haier Group, Intesa Sanpaolo S.p.A. and Qingdao Conson Industrial Co., Ltd., shareholders of the Company with shareholding of 5% or more, respectively undertook: not to seek related transactions with terms more favourable than those of other shareholders; not to intervene in the daily business affairs of the Company; not to transfer the new shares subscribed for within five years from the date of completion of the change of business registration, and any transfer of shares upon the expiry of the said period and the qualifications of the transferee shall be subject to the consent of regulatory authorities; and to continue to provide the Company with additional capital as shareholding is the main source of the capital of the Company; not to impose undue pressure on the Company by setting indicators.

2. During the reporting period, Intesa Sanpaolo S.p.A. undertook not to make any application to subscribe for H shares of the Company during the global offering; the Company undertook to Intesa Sanpaolo S.p.A. and Rothschilds Continuation Holdings AG not to participate in the subscription for H shares of the Company during the global offering, and not to issue to any single foreign shareholder shares exceeding 20% of the total number of shares of the Company upon completion of the global offering.
3. In accordance with Framework Agreement entered into by the Company and the Intesa Sanpaolo S.p.A. on 12 July 2007, Intesa Sanpaolo S.p.A. was entitled to certain special rights in the Company, including rights to restrict the Company from issuing shares to and entering into strategic cooperation with foreign financial institutions, to maintain and increase equity interest in the Company, to have priority in negotiating with the Company on certain material events, to obtain information of the Company, including the financial, business, regulatory and shareholders' information, and to have representatives on the Board of Directors and special committees of the Company. During the reporting period, Intesa Sanpaolo S.p.A. undertook to terminate the above special rights on the day of listing of the H shares of the Company.
4. Qingdao Conson Industrial Co., Ltd., six companies under the Haier Group (including Qingdao Haier Mold Co., Ltd. (青島海爾模具有限公司), Qingdao Haier Tooling Development Co., Ltd. (青島海爾工裝研製有限公司), Qingdao Haier Robot Co., Ltd. (青島海爾機器人有限公司), Qingdao Haier Co., Ltd. (青島海爾股份有限公司), Qingdao Haier Air-Conditioner Co., Ltd. (青島海爾空調器有限總公司) and Qingdao Haier Special Refrigerator Co., Ltd. (青島海爾特種電冰櫃有限公司)) and Intesa Sanpaolo S.p.A., which participated in the subscription for the shares of the Company in 2014, respectively undertook not to transfer the 95,179,773 shares, 145,018,723.97 shares and 111,111,187 shares subscribed for in the above subscription within five years from 28 February 2015 (being the day of completion of business registration of the relevant subscription). In addition, Intesa Sanpaolo S.p.A. further undertook not to transfer the other equity interest held by it within a period of three years from the day of listing of the H shares of the Company.
5. For undertakings made by the Company to the Hong Kong Stock Exchange, Joint Sponsors, Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers and Hong Kong Underwriters during the reporting period, please refer to the Underwriting section of the H-share prospectus dated 20 November 2015 published on the website of the Company (<http://www.qdccb.com/>).

In so far as the Company is aware, during the reporting period, there was no breach of the above undertakings by the Company and shareholders with shareholding of 5% or more.

6.5 ACQUISITION, MERGER AND DISPOSAL OF ASSETS DURING THE REPORTING PERIOD

During the reporting period, the Company did not engage in any material acquisition, merger and disposal of assets.

6.6 SIGNIFICANT GUARANTEE, COMMITMENT AND ENTRUSTED ASSET MANAGEMENT

During the reporting period, save for guarantee, commitment and entrusted asset management business within the scope of operations approved by regulatory authorities, the Company did not have any other significant guarantees requiring disclosure. For details on guarantee and commitment, please refer to the audited financial report.

6.7 NON-PERFORMING LOANS OF SHAREHOLDERS AND THEIR ASSOCIATES

During the reporting period, there were no non-performing loans among the loans of the Company's shareholders and their associates.

6.8 PUBLISHING OF ANNUAL REPORT

This annual report was prepared both in Chinese and English in accordance with the International Financial Reporting Standards, Hong Kong Listing Rules and domestic rules for preparing annual reports is available at the website of the Hong Kong Stock Exchange and the website of the Company. In case of any discrepancy in interpretation between the two versions, the Chinese version shall prevail.

Chapter VII Changes in Share Capital and Information on Shareholders

7.1 STATEMENT OF SHARE STRUCTURE

Unit: share

Type of shareholder	31 December 2014		Changes during the reporting period	31 December 2015	
	Number of shares	Percentage of total share capital		Number of shares	Percentage of total share capital
Domestic legal persons	1,890,231,448.24	73.95%	358,313,561.76	2,248,545,010.00	56.05%
Domestic natural persons	55,719,952.79	2.18%	(3,869,193.79)	51,850,759.00	1.29%
H shares	–	–	1,711,136,980.00	1,711,136,980.00	42.66%
Other foreign shares	610,025,793.00	23.87%	(610,025,793.00)	–	–
Total	2,555,977,194.03	100.00%	1,455,555,554.97	4,011,532,749.00	100.00%

7.2 STATEMENT OF CHANGES IN TOTAL SHARE CAPITAL

In 2014, the Company initiated its fund-raising efforts. On 6 January 2015, the fund-raising plan of the Company was approved by the CBRC. On 12 February 2015, the change in capital arising from the fund-raising was approved by the CBRC. On February 28, 2015, the Company completed the registration of the change of industrial and commercial registration, with the total share capital changing from 2,555,977,194.03 shares to 3,111,532,749 shares.

The Company obtained approval from CBRC Qingdao Office on matters regarding the listing of H Shares on 2 July 2015 and from CSRC on 25 September 2015. The H Shares of the Company was listed on the Main Board of the Hong Kong Stock Exchange on 3 December 2015, offering a total of 990,000,000 H Shares (including 90,000,000 Sale Shares sold by shareholders of the state-owned shares of the Company), with the total share capital changing from 3,111,532,749 shares to 4,011,532,749 shares, and this offering of shares raised a total of HK\$4.275 billion. On December 24, 2015, the Company partially exercised the Over-allotment Option to issue 51,898,000 H Shares (including 4,718,000 Sale Shares sold by shareholders of the state-owned shares of the Company). The Over-allotment Shares were listed on the Main Board of the Hong Kong Stock Exchange on 4 January 2016, with the total share capital changing from 4,011,532,749 shares to 4,058,712,749 shares, and HK\$0.224 billion was raised as a result of Over-allotment.

7.3 PARTICULARS OF SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF DOMESTIC SHARES OF THE COMPANY

Unit: share

No.	Name of shareholder	Total number of shares held at end of year	Shareholding percentage	Number of shares pledged	Number of shares frozen
1	Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	507,117,631	12.64%	–	–
2	Qingdao Haier Investment and Development Co. Ltd. (青島海爾投資發展有限公司)	409,693,339	10.21%	–	–
3	Qingdao Haier Air Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	218,692,010	5.45%	–	–
4	Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	152,170,000	3.79%	143,100,000	–
5	Qingdao Haier Co., Ltd. (青島海爾股份有限公司)	139,663,690	3.48%	–	–
6	Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司)	133,910,000	3.34%	–	–
7	Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司)	90,936,164	2.27%	–	–
8	Shanghai Jiacheng Investment Management Co., Ltd. (上海嘉誠投資管理有限公司)	77,276,328	1.93%	77,276,328	–
9	Beijing International Trust Co., Ltd. (北京國際信託有限公司)	61,061,710	1.52%	–	–
10	Qingdao Enterprise Development & Investment Co., Ltd. (青島市企業發展投資有限公司)	56,789,304	1.42%	52,731,899	–

Note: For the abovementioned shareholders, Qingdao Haier Investment and Development Co. Ltd., Qingdao Haier Air Conditioner Electronics Co., Ltd. and Qingdao Haier Co., Ltd. are all under Haier Group. The Company is not aware of any other connected relationship between other shareholders.

7.4 INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, in so far as the directors, supervisors and chief executives of the Company are aware, substantial shareholders who had an interest or short position in the issued share capital of the Company which are required to be recorded in the register to be kept under section 336 of the SFO or held an equity interest or short position of 5% or more in the issued share capital of the Company which are required to be notified to the Company are shown as below:

Name of shareholder	Type of shares	Capacity	Number of shares held	Approximate percentage of the total share capital ⁽¹⁾	Approximate percentage of the total number of Domestic Shares ⁽¹⁾	Approximate percentage of the total number of H Shares ⁽¹⁾	Long/short position
Haier Group Corporation (海爾集團公司) ⁽²⁾	Domestic Shares	Interest of controlled corporation	812,214,572	20.25	35.31	–	Long
Qingdao Haier Investment and Development Co., Ltd. (青島海爾投資發展有限公司) ⁽³⁾	Domestic Shares	Beneficial owner	409,693,339	10.21	17.81	–	Long
		Interest of controlled corporation	5,633,715	0.14	0.24	–	Long
		Other interest	396,887,518	9.89	17.25	–	Long
Qingdao Haier Co., Ltd. (青島海爾股份有限公司) ⁽⁴⁾	Domestic Shares	Beneficial owner	139,663,690	3.48	6.07	–	Long
		Interest of controlled corporation	244,680,795	6.09	10.64	–	Long
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	Domestic Shares	Beneficial owner	218,692,010	5.45	9.51	–	Long
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司) ⁽⁵⁾	Domestic Shares	Interest of controlled corporation	507,117,630	12.64	22.04	–	Long
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司) ⁽⁵⁾	Domestic Shares	Beneficial owner	507,117,630	12.64	22.04	–	Long
Ge Shoujiao(葛守蛟) ⁽⁶⁾	Domestic Shares	Interest of controlled corporation	152,170,000	3.79	6.61	–	Long
Leng Qiyuan(冷啟媛) ⁽⁶⁾	Domestic Shares	Interest of controlled corporation	152,170,000	3.79	6.61	–	Long
Shandong Sanliyuán Trading Co., Ltd. (山東三利源經貿有限公司) ⁽⁶⁾	Domestic Shares	Beneficial owner	152,170,000	3.79	6.61	–	Long
Han Huiru (韓匯如) ⁽⁷⁾	Domestic Shares	Interest of controlled corporation	133,910,000	3.34	5.82	–	Long
Wang Yunyun (王芸芸) ⁽⁷⁾	Domestic Shares	Interest of spouse	133,910,000	3.34	5.82	–	Long
Qingdao East Steel Tower Stock Co., Ltd. (青島東方鐵塔股份有限公司) ⁽⁷⁾	Domestic Shares	Interest of controlled corporation	133,910,000	3.34	5.82	–	Long
Qingdao Hairén Investment Co., Ltd. (青島海仁投資有限責任公司) ⁽⁷⁾	Domestic Shares	Beneficial owner	133,910,000	3.34	5.82	–	Long
Intesa Sanpaolo S.p.A.	H Shares	Beneficial owner	622,306,980	15.51	–	36.37	Long
Chan Mei Ching ⁽⁸⁾	H Shares	Interest of controlled corporation	200,000,000	4.99	–	11.69	Long
Chan Min Chi ⁽⁸⁾	H Shares	Interest of controlled corporation	200,000,000	4.99	–	11.69	Long

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Name of shareholder	Type of shares	Capacity	Number of shares held	Approximate percentage of the total share capital ⁽¹⁾	Approximate percentage of the total number of Domestic Shares ⁽¹⁾	Approximate percentage of the total number of H Shares ⁽¹⁾	Long/short position
LRC. Strategic (Global) Investment Group Limited ⁽⁸⁾	H Shares	Interest of controlled corporation	200,000,000	4.99	–	11.69	Long
LRC. Belt and Road Investment Limited ⁽⁸⁾	H Shares	Beneficial owner	200,000,000	4.99	–	11.69	Long
Jinan Binhe New District Constructive Investment Group (濟南濱河新區建設投資集團有限公司)	H Shares	Beneficial owner	200,000,000	4.99	–	11.69	Long
Ouyang Xinxiang (歐陽新香) ⁽⁹⁾	H Shares	Interest of controlled corporation	110,000,000	2.74	–	6.43	Long
Keystone Group Ltd. ⁽⁹⁾	H Shares	Beneficial owner	110,000,000	2.74	–	6.43	Long
Yan Lei (閔磊) ⁽¹⁰⁾	H Shares	Interest of controlled corporation	100,000,000	2.49	–	5.84	Long
Yue Jingfeng (岳敬峰) ⁽¹⁰⁾	H Shares	Interest of controlled corporation	100,000,000	2.49	–	5.84	Long
Rizhao Huaheng Materials Trade Co., Ltd.(日照市華亨物資貿易有限公司) ⁽¹⁰⁾	H Shares	Beneficial owner	100,000,000	2.49	–	5.84	Long
Rothschilds Continuation Holdings AG ⁽¹¹⁾	H Shares	Beneficial owner	98,830,000	2.46	–	5.78	Long
Rothschild & Co SCA ⁽¹¹⁾	H Shares	Interest of controlled corporation	98,830,000	2.46	–	5.78	Long
The Goldman Sachs Group, Inc. ⁽¹²⁾	H Shares	Interest of controlled corporation	66,602,000	1.66	–	3.90	Long
		Interest held together with another person	51,898,000	1.29	–	3.03	Long
		Interest held together with another person	118,500,000	2.95	–	6.93	Short

Notes:

- (1) The above percentage is calculated according to the Company's total issued Shares, Domestic Shares and H Shares of 4,011,532,749 Shares, 2,300,395,769 Shares and 1,711,136,980 Shares respectively as at 31 December 2015. On 4 January 2016, the Company partially exercised an Over-allotment Option to issue an extra of 51,898,000 H Shares, of which 4,718,000 H Shares were converted from Domestic Shares. As of the Reporting Date of the year, the number of the Company's total issued Shares, Domestic Shares and H Shares are 4,058,712,749 Shares, 2,295,677,769 Shares and 1,763,034,980 Shares respectively.
- (2) 812,214,572 Shares of the Company are held by its directly or indirectly controlled companies of Haier Group Corporation.
- (3) These 812,214,572 Shares are held as to 409,693,339 Shares directly by Qingdao Haier Investment and Development Co., Ltd., as to 5,633,715 Shares by its controlled company and as to 396,887,518 Shares as to its person acting in concert respectively.
- (4) 139,663,690 Shares are held directly by Qingdao Haier Co., Ltd. and 244,680,795 Shares are held by its controlled company.

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- (5) Qingdao Conson Industrial Co., Ltd. is 100% owned by Qingdao Conson Development (Group) Co., Ltd. Therefore, Qingdao Conson Development (Group) Co., Ltd. is deemed or taken to be interested in all our Shares held by Qingdao Conson Industrial Co., Ltd. After 31 December 2015, the Company received a notification from Qingdao Conson Industrial Co., Ltd. and Qingdao Conson Development (Group) Co., Ltd. that 3,561,289 Shares was sold by the parties on 4 January 2016.
- (6) Ge Shoujiao and Leng Qiyuan hold 55% and 45% equity interest in Shandong Sanliyuan Trading Co., Ltd. respectively. Therefore, Ge Shoujiao and Leng Qiyuan are deemed or taken to be interested in all our Shares held by Shandong Sanliyuan Trading Co., Ltd.
- (7) Qingdao Hairen Investment Co., Ltd. is 100% owned by Qingdao East Steel Tower which is in turn 52.45% owned by Han Huiru. Therefore, Qingdao East Steel Tower Stock Co., Ltd and Han Huiru are deemed or taken to be interested in all our Shares held by Qingdao Hairen Investment Co., Ltd. Wang Yunyun is the spouse of Han Huiru. Therefore, Wang Yunyun is deemed or taken to be interested in all our Shares held by Han Huiru.
- (8) LRC. Strategic (Global) Investment Group Limited is held as to 47% and 51% by Chan Mei Ching and Chan Min Chi respectively. LRC. Strategic (Global) Investment Group Limited holds 99% equity interest in LRC. Belt and Road Investment Limited. Therefore, Chan Mei Ching, Chan Min Chi and LRC. Strategic (Global) Investment Group Limited are deemed or taken to be interested in all our Shares held by LRC. Belt and Road Investment Limited.
- (9) Keystone Group Ltd. is 100% owned by Ouyang Xinxiang. Therefore, Ouyang Xinxiang is deemed or taken to be interested in all our Shares held by Keystone Group Ltd.
- (10) Yan Lei and Yue Jingfeng hold 60% and 40% equity interest in Rizhao Huaheng Materials Trade Co., Ltd., respectively. Therefore, each of Yan Lei and Yue Jingfeng is deemed or taken to be interested in all our Shares held by Rizhao Huaheng Materials Trade Co., Ltd.
- (11) Rothschilds Continuation Holdings AG is 98.40% owned by Rothschild & Co SCA. Therefore, Rothschild & Co SCA is deemed or taken to be interested in all our Shares held by Rothschilds Continuation Holdings AG.
- (12) The Goldman Sachs Group, Inc. holds 66,602,000 Shares of the Company by its directly or indirectly controlled companies and 51,898,000 Shares (L) and 118,500,000 Shares (S) with CLSA Limited and AMTD Asset Management Limited. After 31 December 2015, the Company received a notification from The Goldman Sachs Group, Inc. on 7 January 2016 stating that it no longer holds any of the equity interest of the above Shares on 4 January 2016.

As at 31 December 2015, Goldman Sachs (Asia) Corporate Holdings L.P., Goldman Sachs (Asia) L.L.C., Goldman Sachs (Cayman) Holding Company, Goldman Sachs Holdings (Hong Kong) Limited and GS India Holdings (Delaware) L.L.C. hold an equity interest of 51,898,000 Shares (L) and 148,500,000 Shares (S), accounting for 3.03% and 8.68% of the total number of the Company's H Shares respectively.

As at 31 December 2015, save as disclosed above, in so far as the directors, supervisors and senior management personnel of the Company are aware, there is no person who had an interest or short position in the shares, underlying shares or equity derivatives of the Company which are required to be recorded in the register to be kept under section 336 of the SFO or held an equity interest or short position of 5% or more in the issued capital of the Company which are required to be notified to the Company

7.5 SHAREHOLDERS HOLDING 5% OR MORE OF THE TOTAL SHARE CAPITAL

(I) Intesa Sanpaolo S.p.A.

Intesa Sanpaolo S.p.A. is a multi-national bank headquartered in Milan, Italy. It is one of the most prominent players of the Eurozone's banking industry as well as the industry-leader of Italy's retail, corporate business and wealth management businesses. Intesa Sanpaolo S.p.A. has a total of 4,100 subsidiaries in Italy, providing tens of millions of customers with high-quality service. Tapping into overseas market is of great importance in Intesa Sanpaolo S.p.A.'s development strategy. By acquiring commercial banks in over a dozen countries in the regions of Central and Eastern Europe as well as the Mediterranean, Intesa Sanpaolo S.p.A. owns nearly 1,200 subsidiaries and 8.2 million customers in the above regions. In addition, Intesa Sanpaolo S.p.A. has set up subsidiaries in 28 countries and regions around the world to support its corporate business customers.

(II) Qingdao Conson Industrial Co., Ltd.

Qingdao Conson Industrial Co., Ltd. was established in 1997, and its legal representative is Wang Jianhui, with a registered capital of RMB2,000,000,000. It is a wholly state-owned company established on the basis of regulating the operation of state-owned assets according to the overall strategic requirement of the economic development of Qingdao with the approval of the People's Government of Qingdao. As an investment entity of the government, it is principally engaged in the management and operation of state-owned capital and state-owned equity interests and the preservation and increase of the value of state-owned assets.

(III) Qingdao Haier Investment and Development Co., Ltd.

Qingdao Haier Investment and Development Co. Ltd. was established in 2000, and its legal representative is Zhang Ruimin, with a registered capital of RMB252,050,000. It is principally engaged in projects including internal corporate investment and financial consultancy of Haier Group; consultancy and services of home appliances, electronic products, communication equipment, computers and accessories, general machineries, kitchen appliances and production of industrial robots; domestic commercial wholesaling and retailing; external investment.

(IV) Qingdao Haier Air Conditioner Electronics Co., Ltd.

Qingdao Haier Air Conditioner Electronics Co., Ltd. was established in 1999, and its legal representative is Liang Haishan, with a registered capital of RMB356,000,000. It is principally engaged in the production, sales and after-sales service and air conditioner installation and maintenance services of fluorine-free air-conditioner, cooling equipment and related products.

8.1 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS, EMPLOYEES AND INSTITUTIONS

1. Basic information of Directors

Name	Gender	Date of Birth	Position	Term	Initial shareholding (shares)	Final shareholding (shares)
GUO Shaoquan	Male	1962.08	Executive Director, Chairman	2015.4-2018.4	1,500,000	500,000
WANG Lin	Male	1963.09	Executive Director, President	2015.4-2018.4	802,359	500,000
YANG Fengjiang	Male	1964.07	Executive Director, Vice President	2015.4-2018.4	583,321	500,000
ZHOU Yunjie	Male	1966.11	Non-executive Director	2015.4-2018.4	–	–
Rosario STRANO	Male	1963.04	Non-executive Director	2015.4-2018.4	–	–
WANG Jianhui	Male	1963.08	Non-executive Director	2015.4-2018.4	–	–
TAN Lixia	Female	1970.09	Non-executive Director	2015.4-2018.4	–	–
Marco MUSSITA	Male	1959.06	Non-executive Director	2015.4-2018.4	–	–
WANG Zhuquan	Male	1965.05	Independent Non-executive Director	2015.4-2018.4	–	–
DU Wenhe	Male	1958.03	Independent Non-executive Director	2015.4-2018.4	–	–
WONG Tin Yau, Kelvin	Male	1960.10	Independent Non-executive Director	2015.4-2018.4	–	–
CHEN Hua	Male	1967.07	Independent Non-executive Director	2015.4-2018.4	–	–

2. Basic information of Supervisors

Name	Gender	Date of Birth	Position	Terms	Initial Shareholding (shares)	Final Shareholding (shares)
ZOU Junqiu	Female	1956.10	Chairlady of the Board of Supervisors, Employee Supervisor	2015.4-2018.4	1,259,006	500,000
FAN Jianjun	Male	1954.10	Shareholder Supervisor	2015.4-2018.4	–	–
SUN Jigang	Male	1969.05	Employee Supervisor	2015.4-2018.4	272,822	272,822
XU Wangsheng	Male	1967.05	Employee Supervisor	2015.4-2018.4	196,021	196,021
WANG Jianhua	Male	1953.09	External Supervisor	2015.4-2018.4	–	–
FU Changxiang	Male	1971.08	External Supervisor	2015.4-2018.4	–	–
HU Yanjing	Male	1959.06	External Supervisor	2015.4-2018.4	–	–

3. Basic information of senior management

Name	Gender	Date of Birth	Position	Terms	Initial Shareholding (shares)	Final Shareholding (shares)
WANG Lin	Male	1963.09	President	2012.03	802,359	500,000
CHEN Qing	Female	1959.06	Vice President	2004.12	891,311	500,000
YANG Fengjiang	Male	1964.07	Vice President	2007.06	583,321	500,000
WANG Yu	Female	1968.01	Vice President	2007.06	688,666	500,000
YANG Changde	Male	1959.10	Vice President	2012.08	–	–
LU Lan	Female	1964.07	Secretary to the Board	2010.08	380,000	380,000

8.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

During the reporting period, according to the resolution at the 2014 Shareholders Meeting of the Company, Mr. Zhou Yunjie was newly elected as the Non-executive Director of the Company, and Mr. Wong Tin Yau, Kelvin and Mr. Chen Hua were newly elected as the Independent Non-executive Directors of the Company. The qualification of directors of Mr. Zhou Yunjie, Mr. Wong Tin Yau, Kelvin and Mr. Chen Hua was approved by the Qingdao CSRC in June 2015. Former Non-executive Director Ms. Yang Mian Mian ceased to be the Non-independent Director of the Company since April 2015. Former Independent Non-executive Director Ms. Wang Jialing ceased to be the Independent Non-executive Director since April 2015.

During the reporting period, according to the resolution at the 2014 Shareholders Meeting of the Company, Mr. Wang Jianhua, Mr. Fu Changxiang and Mr. Hu Yanjing were newly elected as the external supervisors of the Company. Mr. Li Zhanguo, the former external shareholder supervisor, ceased to be the shareholder supervisor of the Company since April 2015, and Mr. Lu Zhengming and Mr. Zhang Xu, the former external supervisors ceased to be the external supervisors of the Company since April 2015.

During the reporting period, there was no change in the senior management of the Company.

8.3 CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS DURING THE REPORTING PERIOD

1. Mr. Wang Zhuquan, an Independent Non-executive Director of the Company, has been a professor and doctoral tutor of the Ocean University of China, and ceased to be the vice dean of the school of management, controller of the master's education center in accounting, controller of the research center of operation capital management of Chinese enterprises and controller of Chinese mixed ownership and capital management research institute of Ocean University of China.
2. Mr. Fan Jianjin, the Shareholder Supervisor of the Company, retired in March 2015, and ceased to be the member of the party committee, deputy general manager of Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd., and the chairman of Qingdao Lucent Communications Equipment Co., Ltd.

8.4 EMPLOYMENT OF DIRECTORS AND SUPERVISORS BY CORPORATE SHAREHOLDERS OR CONNECTED ENTITIES

Name	Name of Employers	Roles	Term
ZHOU Yunjie	Haier Group	Alternative president and deputy president of the board	Since May 2013 to date
WANG Jianhui	Qingdao Conson Development (Group) Co., Ltd.	Director	Since April 2013 to date
TAN Lixia	Haier Group	Senior vice president and chief financial officer Executive vice president and chief financial officer	Since June 2010 to February 2016 Since February 2016 to date
Rosario STRANO	Intesa Sanpaolo Bank – Italy	Head of human resources	Since August 2015 to date
Marco MUSSITA	Unionlife Insurance Co., Ltd.	Director	Since May 2008 to date
WANG Zhuquan	Ocean University of China	Professor and doctoral tutor	Since April 2001 to date
DU Wenhe	Jiantou Holding Co., Ltd.	Head of supervisor	Since February 2014 to date
WONG Tin Yau, Kelvin	COSCO Pacific Ltd.	Executive director and deputy managing general manager	Since July 1996 to date
CHEN Hua	Finance Research Institute of Shandong University of Finance and Economics	Head of the institute	Since August 2014 to date
FAN Jianjun	Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	Member of the party committee, deputy general manager	February 2008 to March 2015
	Qingdao Lucent Communications Equipment Co., Ltd.	Chairman	November 2010 to March 2015
FU Changxiang	Qingdao Ruize Certified Tax Agents Firm Co., Ltd.	Deputy general manager	Since November 1997 to date
HU Yanjing	Qingdao University	Professor	Since November 2001 to date

8.5 BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

Directors

Mr. GUO Shaoquan, aged 53, was appointed as our Executive Director on 6 January 2010 and has been appointed as our Chairman in January 2010. Mr. Guo graduated from Nankai University in Tianjin in December 2004, majoring in executive business administration and obtained an EMBA degree. He also graduated from Peking University in July 2013, majoring in executive business administration and obtained an EMBA degree. Mr. Guo joined our Bank in November 2009 as secretary of the party committee. Prior to joining our Bank, Mr. Guo served as the head of the Tianjin branch of China Merchants Bank from July 2009 to November 2009, and he also served as the head of the Qingdao sub-branch and Qingdao branch of China Merchants Bank from April 2000 to December 2002 and from December 2002 to June 2009. Prior to that, he worked at the Qingdao branch of China Construction Bank from December 1980 to April 2000, successively as deputy chief of appropriation sub-department II, deputy of chief of investment sub-department II and deputy chief of the investment sub-department of the business department of the branch, chief of the investment department, assistant to the director and deputy director of the Shinan District office, deputy head and head of the Hi-tech Industrial Park, sub-branch and deputy head of the Hi-tech Industrial Park branch.

Mr. WANG Lin, age 52, was appointed as our Executive Director on September 16, 2011, and has been our President since March 2012. Mr. Wang graduated from Nanjing University of Finance in Jiangsu Province, majoring in finance, and obtained a bachelor's degree in management in December 2000. He also graduated from Peking University, majoring in executive business administration, and obtained an EMBA degree in July 2006. He joined our Bank in July 2011 as the deputy secretary of the party committee. Prior to joining our Bank, Mr. Wang served as the general manager of the pension finance department and supplementary pension management center of the head office of China Merchants Bank from February 2010 to August 2010 and from August 2010 to July 2011, respectively. He also served as the head and secretary of the party committee of the Ningbo branch of China Merchants Bank from July 2005 to February 2010, and general manager of the corporate banking department of the head office of China Merchants Bank from June 2002 to July 2005. He also worked at the Nanjing branch of China Merchants Bank from December 1996 to June 2002 as deputy head and head of Chengbei sub-branch, head of Hunan Road sub-branch and Chengxi sub-branch, assistant to the head and deputy head of the Nanjing branch. Prior to that, he worked with the Nanjing branch of Agricultural Bank of China from July 1984 to December 1996 as an accountant, staff member of the credit office, secretary of the office and senior staff member of Pukou sub-branch, assistant to the director and deputy director of the Chengbei office as well as deputy general manager of the international department of the Nanjing branch.

Mr. YANG Fengjiang, aged 51, was appointed as our Executive Director on 10 April 2012 and has been our Vice President since June 2007. Mr. Yang graduated from Shaanxi Financial College, majoring in finance, and obtained a bachelor's degree in economics in July 1985. Mr. Yang joined our Bank in July 2003 and served as an assistant to the President and general manager of our treasury operation department from January 2006 to June 2007, Mr. Yang was the general manager of our treasury operation department from July 2003 to January 2006. Prior to joining our Bank, he served as the general manager of the investment banking department and bond department of Qingdao Wantong Securities Co., Ltd. (now known as CITIC Securities (Shandong) Co., Ltd.) from April 1999 to July 2003. Mr. Yang served successively as a member of the preparation group, deputy manager and general manager of the business development department of the Qingdao Securities Trading Center from May 1993 to April 1999. He also served as a senior staff member of the Qingdao branch of the People's Bank of China from November 1989 to May 1993.

Mr. ZHOU Yunjie, aged 48, was appointed as our Non-executive Director on 10 April 2015. Mr. Zhou graduated from Huazhong Polytechnic University (now known as Huazhong University of Science and Technology), majoring in welding engineering and obtained a bachelor's degree in engineering in July 1988. He graduated from Ocean University of China in Shandong, majoring in corporate management, and obtained a master's degree in corporate management in June 1999. He also graduated from Xi'an Jiaotong University in Shaanxi, majoring in business administration, and obtained a doctorate degree in business administration in January 2006. He has been serving as an executive director and general manager of Haier Electronics Group Co., Ltd. since November 2009, and he was appointed as chief executive officer and chairman of the board of the abovementioned company in March 2013 and June 2013, respectively. He has been an alternative president and deputy chairman of the board of Haier Group Corporation since May 2013. Mr. Zhou served as the senior vice president, chief marketing officer and executive vice president of Haier Group Corporation from November 2007 to May 2013. He served as probational vice president, vice president and head of the refrigeration product department and head of the promotion division and secretary of the party committee of Haier Group Corporation from August 1999 to November 2007. Mr. Zhou has been the head and general manager of the quality department, head of the electrical department and secretary of the party committee of Qingdao Haier Refrigerator Co., Ltd. (now known as Qingdao Haier Co., Ltd.) from August 1994 to August 1999. He has been the assistant to the chief, deputy chief and chief of the sales division of Qingdao Refrigerator Factory (now known as Qingdao Haier Co., Ltd.) and the vice director and director of the second factory of Qingdao Refrigerator Co., Ltd. (now known as Qingdao Haier Co., Ltd.) from October 1989 to August 1994.

Mr. Rosario STRANO, aged 52, was appointed as our Non-executive Director on 10 April 2012. Mr. Strano graduated cum laude with a degree in law in July 1988 from the University of Bari in Italy. He has been serving as the chief human resources officer of ISP since 1 August 2015. He has also been an non-executive director of Intesa Sanpaolo Bank-Albania since March 2011. He served as the head of resources and corporate governance department at the international subsidiary banks division of Intesa Sanpaolo from May 2010 to July 2015. He was a vice president of Credit Agricole Cariparma from January 2010 to May 2010. Prior to that, he held the positions of the head of human resources and organisation department, human resources department and resources and corporate governance department at the international subsidiary banks division of ISP from January 2007 to January 2010. He also served as the supervisor of Privredna Banka Zagreb, and the director of KMB Bank since April 2009. He also served as the head of human resources and organisation department of Italian and international subsidiary banks division of Banca Intesa (now known as ISP) from October 2002 to December 2006. Before that, Mr. Strano served as the head of external relations of the central south department of Poste Italiane from May 2000 to October 2002. From January 1989 to May 2000, Mr. Strano worked at Banca di Roma, Alitalia, Grand Hotel Baglioni and Agenzia Nazionale Stampa Associata successively.

Mr. WANG Jianhui, aged 52, was appointed as our Non-executive Director on March 30, 2007. Mr. Wang graduated from Qingdao Financial College, majoring in finance and taxation, in July 1984. Mr. Wang graduated from Tianjin University, majoring in business administration, in June 1998, and obtained a master's degree in business administration in September 1998. He served successively as the general manager, director, vice chairman and deputy secretary of the party committee of Qingdao Conson Development (Group) Co., Ltd., which is engaged in the management of state-owned capital, since February 2008, as the general manager and chairman since April 2013 and as the chairman since December 2015. Prior to that, he served as the general manager and director of Qingdao Conson from April 2006 to February 2008. He also served as deputy director of the State-owned Assets Supervision and Administration Commission of Qingdao Government from July 2004 to April 2006, and as deputy director of the National Asset Management Office of Qingdao from April 2001 to July 2004. Mr. Wang was also head of the property rights and regulation division and chief of the assessment and management division of the State-owned Assets Administration of Qingdao (State-owned Assets Office) from July 1996 to April 2001, and successively as senior staff member, principal staff member and deputy division chief of the Finance Bureau of Qingdao from July 1984 to July 1996.

Ms. TAN Lixia, aged 45, was appointed as our Non-executive Director on 10 April 2012. Ms. Tan graduated from Central Institute of Finance and Banking (now known as Central University of Finance and Economics), majoring in agricultural finance and credit, and obtained a bachelor's degree in economics in June 1992. She graduated from Europe International Business School in Shanghai, majoring in business administration, and obtained a master's degree in business administration in September 2010. She has been serving as a non-executive director of Haier Electronics Group Co., Ltd. since November 2013. Ms. Tan was also our Supervisor from August 2007 to April 2012. Ms. Tan joined Haier Group Corporation in August 1992 and had held several positions since then. She is currently the senior vice president and chief financial officer of Haier Group Corporation and deputy chairman of the board of directors of Qingdao Haier Co., Ltd. From June 2010 to February 2016, she has been the senior vice president and chief financial officer of Haier Group Corporation and deputy chairman of the board of directors of Qingdao Haier Co., Ltd. Ms. Tan served as the vice president, head of department of financial management and chief financial officer of Haier Group Corporation from June 2006 to May 2010 and the deputy head and head of department of overseas market development of Haier Group Corporation from April 1999 to June 2006.

Mr. Marco MUSSITA, aged 56, was appointed as our Non-executive Director on 16 September 2011. Mr. Mussita graduated from Università Ca' Foscari Venezia (Ca' Foscari University of Venice) in Italy, majoring in oriental literature and language, and obtained a master's degree in oriental literature and language in March 1986. He has been the general manager of Eurizon (Beijing) Business Consultation Co., Ltd. and a director of Union Life Insurance Co., Ltd. since May 2008. He had been the general manager and director of Shanghai Zhongyi Business Consulting Co. Ltd. from September 2003 to April 2008. Prior to that, he joined Banca Commerciale Italiana (now known as ISP) in April 1987, and successively served as an assistant to the chief representative of the Beijing office, assistant to the vice-president of the New York branch, manager of the credit department of the Hong Kong branch, vice general manager of the Shanghai branch and vice general manager of the Tokyo branch from May 1990 to August 2003. From March 1984 to April 1987, Mr. Mussita worked respectively at SKYHO A.G. as a sales representative of the Beijing branch and Ing.L.Dolci S.p.A. as a sales manager of the China region.

Mr. WANG Zhuquan, aged 50, was appointed as our Independent Non-executive Director on 10 April 2012. He has been serving as an independent director of Yantai Changyu Pioneer Wine Company Limited from September 2007 to May 2013 and since May 2014. Furthermore, he has been serving as the independent director of Qingdao Doublestar Co., Ltd. since December 2013, and Qingdao TGOOD Electric Co., Ltd. from May 2009 to December 2015, and Shandong Binzhou Bohai Piston Co., Ltd. from April 2009 to November 2015. He held the position of a supervisor (from May 2010 to April 2013) and independent director (from April 2004 to May 2010) of Qingdao Kingking Applied Chemistry Co., Ltd. He also served as an independent director of Mesnac Co., Ltd. from December 2006 to December 2009. Between October 2004 to June 2009, he was the independent director of Qingdao Jiante Biological Investment Co., Ltd.

Mr. Wang graduated from Beijing University of Iron and Steel Technology (now known as University of Science & Technology of Beijing), majoring in industrial automation, and obtained a bachelor's degree in engineering in July 1984. He graduated from the technology, economics and business administration track of Tianjin University with a master's degree in December 1993. Mr. Wang graduated from Zhongnan University of Economics and Law in Hubei Province, majoring in accounting, and obtained a doctorate degree in management in June 2002. He has been a professor, vice dean of the school of management, controller of the master's education center in accounting, controller of the research center of operation capital management of Chinese enterprises and controller of Chinese mixed ownership and capital management research institute of Ocean University of China since April 2001. He is currently a professor and a doctoral supervisor of Ocean University of China. Prior to that, he served successively as an assistant professor, lecturer, associate professor and professor of Qingdao Institute of Architecture and Engineering (now known as Qingdao Technological University) from March 1985 to April 2001. He also worked at the Shandong Mining Co., Ltd. from August 1984 to February 1985.

Mr. DU Wenhe, aged 58, was appointed as our Independent Non-executive Director on 6 December 2013. Mr. Du graduated from the second branch of the Beijing Institute of Technology (now known as Beijing Union University), majoring in computer technology, and obtained a bachelor's degree in engineering in January 1983. He has been the chairman of the board of supervisors of JIC Holding Co., Ltd. since February 2014. He served as the head of the information technology center of China Jianyin Investment Ltd. from April 2011 to April 2013. He was the chairman, general manager and secretary of the party committee of Zhongtuo Kexin Technology Co., Ltd. (now known as Jiantou Huake Investment Co., Ltd.), a company engaged in technology development, from August 2007 to April 2011. He was also the general manager of Jianyin technology development centre of China Jianyin Investment Ltd. from February 2005 to August 2007. Prior to that, he served as the deputy division chief and division chief of the planning standard division of the electronic computation center, vice general manager of the information technology department and the deputy head of the Suzhou branch of China Construction Bank from August 1986 to February 2005. He worked with the Computer Software Center of Beijing from February 1983 to August 1986.

Mr. WONG Tin Yau, Kelvin, aged 55, was appointed as our Independent Non-executive Director on 10 April 2015. Mr. Wong has been an independent non-executive director of Huarong International Financial Holdings Limited, AAG Energy Holdings Limited, Shanghai Fosun Pharmaceutical (Group) Co., Ltd., Xinjiang Goldwind Science & Technology Co., Ltd., China ZhengTong Auto Services Holdings Limited and I.T Limited since October 2015, June 2015, June 2015, June 2011, November 2010, August 2007, respectively.

Mr. Wong obtained his professional diploma in banking from The Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in November 1985, and obtained his professional qualification as an associate of the Chartered Institute of Bankers in December 1987. He obtained a Master of Business Administration degree from Andrews University in Michigan, USA in August 1992 and a Doctorate of Business Administration degree from The Hong Kong Polytechnic in December 2007. Mr. Wong has been an executive director and a deputy managing general manager of COSCO Pacific Limited since July 1996, and served as an assistant to the president of COSCO (H.K.) Group Limited from June 1996 to April 2005. Before that, he was the general manager in enterprise development of Termbray Industries International (Holdings) Limited from October 1994 to July 1996. From June 1992 to December 1994, Mr. Wong was the senior manager in the corporate finance and affairs division of Yuen Sang Enterprises (Holdings) Limited (now known as Chuang's China Investments Limited). Prior to that, he worked as a research analyst for Credit Lyonnais Securities (Asia) Ltd. in France from May 1989 to February 1991; and served as assistant manager in multinational/banks division of Credit Lyonnais Hong Kong (Finance) Limited from June 1988 to May 1989. Mr. Wong was the supervisor of the 4th division of the loan department of the Bank of Tokyo (Hong Kong office) from August 1987 to May 1988, and was a credit analyst of Wing Lung Bank from August 1985 to April 1987.

Mr. CHEN Hua, aged 48, was appointed as our Independent Non-executive Director on 10 April 2015. Mr. Chen graduated from Southwestern University of Finance and Economics in Sichuan Province, majoring in statistics, and obtained a bachelor's degree in economics in July 1989. He graduated from Shandong University, majoring in operational research and cybernetics, and obtained a master's degree in science in December 2001. He also graduated from Soochow University in Jiangsu Province, majoring in finance, and obtained a doctorate degree in economics in June 2005. He has been the head of the finance research institute of Shandong University of Finance and Economics since August 2014, and was the head of the center of economics research of Shandong University of Finance and Economics from November 2011 to July 2014 and the head of the finance and taxation institute of Shandong Economic University from March 2005 to October 2011. Mr. Chen served as the deputy chief of the planning department of Qufu branch, chief of the international clearing department and public deposit department of the Jining branch, deputy head of the Wenshang sub-branch, manager of the asset and risk management department of the Jining branch of the Industrial and Commercial Bank of China from July 1989 to September 2002.

Supervisors

Ms. ZOU Junqiu, aged 59, was appointed as our Supervisor and Chairlady of the Board of Supervisors on 25 January 2006. Ms. Zou is currently an Employee Supervisor of the Company. Ms. Zou graduated from Shandong Radio and TV University in July 1986, majoring in finance. Ms. Zou joined our Company in September 1996 and served as our Vice President from September 1996 to January 2006. Prior to joining our Company, she served successively as a clerk of the Shibei District office, clerk of integrated planning division, deputy chief and chief of fund planning division, and the chief of the finance management division of the Qingdao branch of the People's Bank of China from November 1976 to September 1996.

Mr. FAN Jianjun, aged 61, was appointed as our Supervisor on 20 April 2009. Mr. Fan is currently a Shareholder Supervisor of our Company. Mr. Fan graduated from the Shandong Academy of Governance in July 1996, majoring in economic management. He also graduated from Nankai University in July 2005, majoring in industry and business administration (online education), and obtained an EMBA degree from Nankai University in December of the same year. He was the chairman of Qingdao Lucent Communications Equipment Co., Ltd. from November 2010 to March 2015. He served as the deputy general manager of Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. from February 2008 to March 2015, and retired in March 2015. Prior to that, he served as the deputy general manager of Qingdao Enterprise Development and Investment Corporation from October 1996 to February 2008. He was also deputy chief of Qingdao Xintong Urban Credit Cooperative from August 1994 to October 1996, and credit department and deputy general manager of Qingdao Trust Investment Company of China Construction Bank from November 1993 to August 1994. Mr. Fan also served as section chief and division chief of the Qingdao Economic Planning Commission from December 1980 to November 1993.

Mr. SUN Jigang, aged 46, was appointed as our Employee Supervisor on 25 January 2006. Mr. Sun graduated from Xiamen University, majoring in finance, and obtained a bachelor's degree in economics in July 1991. He has been the general manager of our credit management department since February 2010. He joined our Company in December 1996, and served as the deputy general manager and general manager of our risk control department from September 2004 to February 2010. He also served as an accountant of the business department, officer of special asset management department, deputy chief of credit planning division of the business department and assistant to the general manager of our business department from December 1996 to September 2004. Prior to joining our Company, he served as a clerk of the Qingdao Check Point office under the Shandong branch of the State Administration of Foreign Exchange from July 1991 to December 1996.

Mr. XU Wansheng, aged 48, was appointed as our Employee Supervisor on 23 January 2007. Mr. Xu graduated from the Shandong Industrial University, majoring in applied mathematics, and obtained a bachelor's degree in engineering in July 1990. He joined our Company in July 2003, and has been the general manager of our audit department since December 2012. He was the head of our internal audit department (which was renamed as audit department from February 2012) from September 2006 to December 2012, where he was mainly responsible for organising our internal audits. He was the deputy general manager of our finance and accounting department from July 2003 to September 2006. Prior to that, between July 1990 to July 2003, he served various roles at the Bank of China, including staff member of the finance and accounting division of the Huanghai branch, staff member of system check and balancing section under finance and accounting division, head of system division of Qingdao branch, deputy head of the Chengyang sub-branch, the principal of the system sub-division under the finance and accounting division and the chief of the computer audit sub-division under the audit division of the Shandong branch.

Mr. WANG Jianhua, aged 62, was appointed as our External Supervisor on 10 April 2015. Mr. Wang graduated from Liaoning Institute of Finance and Economics (now known as Dongbei University of Finance and Economics), majoring in construction finance and credit, and obtained a bachelor's degree in economics in July 1983. He graduated from Xiamen University, majoring in monetary banking, and obtained a master's degree in economics in July 1997. He was a director of Happy Life Insurance Co., Ltd. from August 2007 to December 2014, mainly responsible for the management of its Shenzhen branch. He served as, among others, the director of the Shenzhen office of China Cinda Asset Management Corporation (now known as China Cinda Asset Management Co., Ltd., from August 1999 to August 2007. Mr. Wang was the head of the Qingdao branch of China Construction Bank from March 1998 to July 1999. He successively served as the deputy chief of the planning division, chief of the credit division, general manager of the international business department, head of the regional center sub-branch, general manager of the trust investment company, chief of the finance and accounting division and deputy head of the Jiangxi branch of China Construction Bank from August 1983 to March 1998.

Mr. FU Changxiang, aged 44, was appointed as our External Supervisor on 10 April 2015. Mr. Fu graduated from Lanzhou University, majoring in national economy management, and obtained a bachelor's degree in economics in June 1993. He has been serving as the chief accountant in Qingdao Xinyongda Accounting Firm Co., Ltd. since July 2003. He has also been working as a deputy general manager in Qingdao Ruize Certified Tax Agents Firm Co., Ltd. since November 1997. Prior to that, he worked at Qingdao Special Purpose Vehicles Factory (now known as Sinotruk Qingdao Heavy Industry Co., Ltd.) from July 1993 to November 1997.

Mr. HU Yanjing, aged 56, was appointed as our External Supervisor on 10 April 2015. Mr. Hu graduated from Lanzhou University, majoring in political economics, and obtained a bachelor's and a master's degree in economics in July 1984 and June 1996, respectively. He also graduated from Ocean University of China in Shandong Province, majoring in fishery resources, and obtained a doctorate degree in agronomy in June 2004. Mr. Hu has been working at Qingdao University since July 1996. He has been the associate editor of the "Oriental Forum" and professor of economics since August 2013, and concurrently the deputy director of the society of Shandong University Journals since 2014. He was the dean and a professor of economics of the International College of Qingdao University from August 2007 to July 2013, and taught at the International Business College and School of Economics from July 1996 to July 2007. He has been the deputy dean of International Finance College and School of Economics since December 2000. Prior to that, he taught at the political economics department of the Party School under Gansu Provincial Committee of the Communist Party of China from July 1984 to August 1993.

Senior Management

Mr. WANG Lin, for the biography of Mr. Wang, please refer to “Directors” in this section.

Ms. CHEN Qing, aged 56, was appointed as our Vice President on 31 December 2004. Ms. Chen graduated from Shanghai University of Finance and Economics, majoring in finance (adult higher education) in December 1989. She also graduated from the Southwest University of Science and Technology in Sichuan Province, majoring in accounting (online education), and obtained a bachelor's degree in accounting in July 1996. She joined Qingdao City Cooperative Bank (the predecessor of our Company) in October 1996 and had held various positions including the principal of the Huiheng sub-branch, deputy head of the Technology sub-branch, deputy head of the Rehe Road sub-branch and head of the Yan'ansan Road sub-branch from October 1996 to September 2002. Prior to joining our Company, she was the chief of the planning sub-division under the planning division of the Qingdao Xintong Urban Credit Cooperative from November 1994 to October 1996. She was an accounting officer of the cadre training center of People's Bank of China from February 1994 to November 1994. Prior to that, she successively served as the deputy chief of the accounting division of the Shinan District office and director of Shinan District Tianqiao office under the Qingdao branch of Industrial and Commercial Bank of China from December 1987 to February 1994. She also served as an accountant of the Shinan District office and the deputy director of the Longkou Road branch office under the Shinan District office of the Qingdao branch of the People's Bank of China from December 1980 to December 1987. In addition, she was an accountant of Jiaoxian sub-branch of the People's Bank of China from May 1978 to December 1980.

Mr. YANG Fengjiang, for the biography of Mr. Yang, please refer to “Directors” in this section.

Ms. WANG Yu, aged 48, was appointed as our Vice President on June 2007. Ms. Wang graduated from Finance and Economic Institute of Tianjin, majoring in enterprise management, and obtained a bachelor's degree in economics in July 1989. She graduated from Tongji University in Shanghai, majoring in business administration, and obtained a Master of Business Administration in November 2001. She joined our Company in April 2002 and served as deputy head and head of our Hong Kong East Road sub-branch, as well as assistant to our President from April 2002 to June 2007. Prior to joining our Company, she successively served as cadre and staff member of the deposit and remittance division of the Huanghai branch, a senior staff member and principal staff member of the credit card division of the Qingdao branch, as well as deputy head of the high-technology park sub-branch of Bank of China from June 1990 to April 2002.

Mr. YANG Changde, aged 56, was appointed as our Vice President in August 2012. Mr. Yang graduated from Distance Education College of Renmin University of China, majoring in finance, and obtained a bachelor's degree in economics in June 2007. He joined our Company in March 2012 and served as assistant to our President from March 2012 to August 2012. Prior to joining our Company, he served as the chief of the personnel division of the Qingdao CBRC from April 2007 to March 2012, officer and chief of the joint-stock banks regulation division of the Qingdao CBRC from October 2003 to April 2007. Prior to that, he served as a cadre and principal staff member of the personnel division of the Qingdao branch, deputy head of the Pingdu sub-branch, deputy director and director of the office of Qingdao central sub-branch, as well as the head of the joint-stock banks regulation division of the Qingdao central sub-branch of the People's Bank of China from September 1994 to October 2003.

Ms. LU Lan, aged 51, was appointed as our secretary to the Board on 26 August 2010. Ms. Lu graduated from Nankai University, majoring in sociology, and obtained a bachelor's and master's degree in law in July 1987 and June 1990, respectively. She joined our Company in August 2010. Prior to that, she served as a deputy manager, manager and senior manager of the office of board of directors of China Merchants Bank from October 2001 to July 2010. She was also a practicing lawyer working with Fuzhou Junli Law Firm from August 1997 to October 2001. She served as a project manager of Jardine Fleming's Beijing office from August 1995 to August 1997. She was an editor of the China Society Press from June 1990 to August 1995.

8.6 REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVE MEMBERS

During the reporting period, remuneration of directors, supervisors and senior executive members are set out in note 9, note 10 and note 35 of the financial statements of this annual report.

8.7 EMPLOYEES AND HUMAN RESOURCES MANAGEMENT

8.7.1 Details of employees

1. Composition of employees

As at the end of the reporting period, the Company had 2,970 employees, including 551 at the head office, accounting for 18.55%; 1,431 at branches and sub-branches in Qingdao, accounting for 48.18%; and 988 at branches and sub-branches in other cities, accounting for 33.27%.

2. Composition by age

The average age of the employees of the Company was 34, of which 495 were aged 25 or below, accounting for 16.67%; 920 were aged 26 to 30, accounting for 30.98%; 513 were aged 31 to 35, accounting for 17.27%; 321 were aged 36 to 40, accounting for 10.81%; 375 were aged 41 to 45, accounting for 12.63%; 199 were aged 46 to 50, accounting for 6.70%; and 147 were aged above 50, accounting for 4.94%.

3. Composition by education

There were 448 employees of the Company with a master's degree or above, accounting for 15.08%, of which 9 were doctoral degree holders; 1,879 were bachelor's degree holders, accounting for 63.27%; and 643 were college graduates or below, accounting for 21.65%.

4. Composition by gender

There were 1,368 male employees, accounting for 46.06%; and 1,602 female employees, accounting for 53.94%.

8.7.2 Overall management of human resources

In 2015, by aligning closely to its business guiding principles of “sophisticated business cultivation, stringent risk management, strengthened features and steady development” and taking into account of its beliefs on “regulated, enhanced, refined and innovative” work, the Company constantly enhanced the deployment of its human resources, made innovative improvements to the management of institutions at all levels, perfected the incentive and restraint mechanisms and devoted efforts to the regulation of employee conduct management, so that the human resources management of the Company could better line up with the needs arising from accelerated development and provide strong and ample support in human resources for the rapid and sound development of the Company.

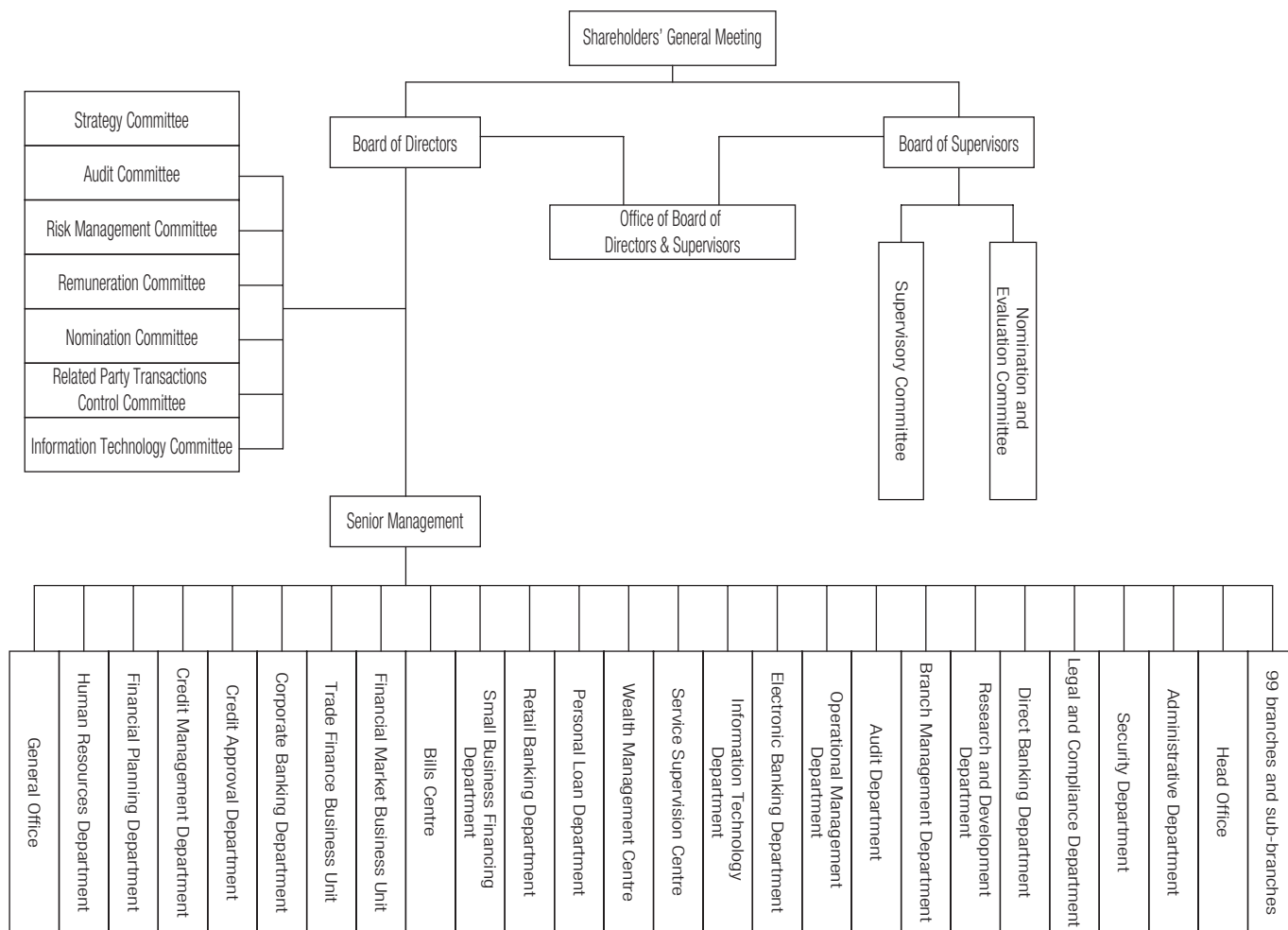
8.7.3 Policy on employee remuneration

Currently, the Company has established a market-oriented remuneration system that is based on a post-specific salary regime, under which employee remuneration is linked to the responsibilities, requirements and importance of the post and the results of performance appraisal. Under this remuneration system, remuneration is pegged to the post and the performance of the employee. The Company strictly implements the relevant requirements for supervision of remuneration payment, and implements deferred payment for middle and senior management staff.

8.7.4 Training for employees

By setting up a tiered staff training system, the Company incessantly introduces innovative training mechanisms, means and methods to carry out comprehensive training for management, professional and new staff for ongoing enhancement of the overall quality of employees. In 2015, the number of participants of staff training conducted by the Company reached 20,290, with an annual average of 6.83 training sessions for each employee.

8.8 ORGANISATIONAL CHART



8.9 LIST OF BRANCHES AND SUB-BRANCHES

No.	Name of branch/sub-branch	Address
1	Head Office	No.68 Hong Kong Middle Road, Shinan District, Qingdao
2	Jinan Branch	Industry Association Building, No.157 Lishan Road, Lixia District, Jinan
3	Jinan High-tech Zone Sub-branch	Tower C, Yinhe Building, No.2008 Xinluo Avenue, Jinan Hi-tech Development Zone
4	Jinan Jiluo Road Sub-branch	1st and 2nd Floors, Qilu Brand-name Shoe City Building, No.82 Jiluo Road, Tianqiao District, Jinan
5	Jinan Zhangqiu Sub-branch	1st and 4th Floor, Jiahua Shopping Plaza, No.76 Huiquan Road, Zhangqiu
6	Jinan Shungeng Sub-branch	1st – 3rd Floors, No.2 Shunyu Road, Shizhong District, Jinan
7	Jinan Jiangshuiquan Sub-branch	Room 101, Yanjie Commercial Building, Phase 2, Zhengda City Garden, West of Jiangshuiquan Road, Lixia District, Jinan
8	Jinan Quanfu Sub-branch	No.301, Gongye North Road, Licheng District, Jinan
9	Jinan Luoyuan Sub-branch	No.480, Weiyi Road, Shizhong District, Jinan
10	Jinan Jiaoyuan Sub-branch	1st Floor, Library (Office Building) of Shandong Jiaotong University, No.5001 Haitang Road, Changqing District, Jinan
11	Jinan Nanquanfu Community Sub-branch	Room 102, Unit 2, Building 12, Block South-2, Nanquanfu Avenue, Licheng District, Jinan
12	Jinan Yongda Mingzhu Community Sub-branch	No.101, Unit 1, Building 29, Zone 4, Yongda Mingzhu Dongshan Garden, No.1992, Shuangshan North Road, Zhangqiu City, Jinan
13	Jinan Lishan North Road Sub-branch for Small and Micro Enterprises	No.105-2, Lishan North Road, Tianqiao District, Jinan
14	Jinan High-tech Zone Administrative Service Centre Sub-branch for Small and Micro Enterprises	9th Floor, Administrative Approval Centre Office Building of Jinan High-tech Zone Administrative Committee, No.77 Shunhua Road, Jinan High-tech Zone
15	Jinan Huaiyin Sub-branch	No.192, Zhangzhuang Road, Huaiyin District, Jinan
16	Jinan Technology Market Community Sub-branch	1st Floor, No.160, Shanda Road, Lixia District, Jinan
17	Dongying Branch	No.72 Fuqian Avenue, Dongying District, Dongying
18	Dongying Xicheng Sub-branch	No.490 Xi'er Road, Dongying District, Dongying
19	Dongying Kenli Sub-branch	No.27 Zhongxing Road, Kenli County, Dongying
20	Dongying Guangrao Sub-branch	No.790 Le'an Avenue, Guangrao County, Dongying
21	Weihai Branch	No.112, No.3-4 Shichang Avenue, Weihai
22	Weihai Rongcheng Sub-branch	No.389 Chengshan Avenue Middle, Rongcheng
23	Weihai Economic and Technological Development Zone Sub-branch	No.106-1 Daqing Road, Weihai Economic and Technological Development Zone
24	Weihai Shidao Sub-branch	Building located at No.99 Huanghai Middle Road, Shidao, Rongcheng
25	Zibo Branch	No.266 Liantong Road, Zhangdian District, Zibo
26	Zibo Linzi Sub-branch	No.772, Linzi Avenue, Linzi District, Zibo
27	Zibo Zhangdian Sub-branch	No.126 Huaguang Road, Zhangdian District, Zibo
28	Dezhou Branch	No.717, Dexing Middle Avenue, Decheng District, Dezhou
29	Dezhou Technology Sub-branch	No.101, Building S6, Zhongjian Huafu Community, Sanba East Road, Dezhou
30	Zaozhuang Branch	No.215 Qingtan North Road, Shizhong District, Zaozhuang
31	Zaozhuang Tengzhou Sub-branch	No.1601, Building 16, Jiuzhou Qingyan Community, Shanguo Middle Road, Tengzhou
32	Yantai Branch	No.454 Shengli Road, Zhifu District, Yantai
33	Binzhou Branch	No.471 8th Huanghe Road, Binzhou
34	Jiaonan Sub-branch	No.49 Zhuhai Road, Jiaonan City, Qingdao
35	Economic and Technological Development Zone Sub-branch	Jianguo Building, No.519-2 Changjiang Middle Road, Qingdao Economic and Technological Development Zone

No.	Name of branch/sub-branch	Address
36	Jinggangshan Road Sub-branch	No.541 Jinggangshan Road, Qingdao Economic and Technological Development Zone
37	Jiaonan Zhuhai East Road Sub-branch	No.286 Zhuhai East Road, Jiaonan
38	Chongmingdao Road Sub-branch	No.17 Chongmingdao West Road, Qingdao Economic and Technological Development Zone
39	Dongjiakou Sub-branch	No.2 Muguandao Road, Residence Area of Poli Town, Jiaonan
40	Wuyishan Road Sub-branch	No.364 Wuyishan Road, Qingdao Economic and Technological Development Zone
41	Shandong University of Science and Technology Sub-branch	No.594 Qianwangang Road, Qingdao Economic and Technological Development Zone
42	Dongjiakou No.2 Sub-branch	Building 3, Complex Building, Dongjiakou Port Area, Qingdao Port, Qingdao
43	City North Sub-branch	No.172-1 Dunhua Road, Qingdao
44	Nanjing Road Sub-branch	No.308 Nanjing Road, Qingdao
45	Remin Road No.1 Sub-branch	No.102 Renmin Road, Qingdao
46	Chongqing Road Sub-branch	No.298 Chongqing South Road, Qingdao
47	Dunhua Road Sub-branch	No.50-D Dunhua Road, Qingdao
48	Xianggang Middle Road No.1 Sub-branch	Qingdao Yamai International Centre, No.7-A Xianggang Middle Road, Qingdao
49	Minjiang Road Sub-branch	No.18 Minjiang Road, Qingdao
50	Jiaozhou Sub-branch	No.333 Aomen Road, Jiaozhou
51	Jiaozhou Fuzhou South Road Sub-branch	No.17 Fuzhou South Road, Jiaozhou
52	Jiaozhou Jiaodong Community Sub-branch	Shop 107, 1st Floor, Building 10, Pinshuo Huanian Community, No.7 Heping Road, Jiaodong Office, Jiaozhou
53	Jiaozhou Ligezhuang Community Sub-branch	No.182 Lianyi Avenue, Ligezhuang Town, Jiaozhou
54	Xiangyang Road Sub-branch	No.90 Xiangyang Road, Qingdao
55	Jiushuidong Road Sub-branch	Nos.189-1 and 189-2 Jiushui East Road, Qingdao
56	Jufeng Road Sub-branch	Nos.3011-3014, No.178 Jufeng Road, Qingdao
57	Chengyang Sub-branch	No.220 Zhengyang Road, Chengyang District, Qingdao
58	Zhengyang Road Sub-branch	No.179-1 Zhengyang Road, Chengyang District, Qingdao
59	May Fourth Square Sub-branch	No.31 Donghai West Road, Shinan District, Qingdao
60	Maidao Sub-branch	Shop 45-1, Maidao Jin'an, No.1 Donghai East Road, Qingdao
61	Shanzikou Sub-branch	No.94 Laoshan Road, Qingdao
62	6th Taidong Road Sub-branch	No.60 6th Taidong Road, Qingdao
63	3rd Taidong Road Sub-branch	No.120 3rd Taidong Road, Qingdao
64	Jimo Sub-branch	No.848 Lan'ao Road, Jimo City, Qingdao
65	Jimo Economic Development Zone Sub-branch	No.38-8 Heshan Road, Jimo Economic Development Zone
66	Xianggang Middle Road No.2 Sub-branch	No.169 Xianggang Middle Road, Qingdao
67	Qingdao University Sub-branch	Outlet located at the library of Qingdao University, No.308, Ningxia Road, Qingdao
68	Laoshan Sub-branch	Jinling Shangjie Outlet, No.17-10 Xianxialing Road, Qingdao
69	Pingdu Sub-branch	No.23 Hongqi Road, Pingdu
70	Pingdu No.2 Sub-branch	No.29 Renmin Road, Pingdu

No.	Name of branch/sub-branch	Address
71	Laixi Sub-branch	No.118 Yantai Road, Laixi City, Qingdao
72	Laixi Wenhua East Road Sub-branch	Unit 1, Building 2, No.13 Wenhua East Road, Laixi City
73	Nanjing Road No.2 Sub-branch	No.8 Nanjing Road, Qingdao
74	Liaoyang Road Sub-branch	Outlet located at Nos.16-10 and 16-11 Liaoyang East Road, Qingdao
75	Technology Sub-branch	Outlet located at Tower C, Chuangye Building, No.1 Zhilidao Road, Qingdao Hi-Tech Industrial Development Zone
76	Hongdao Community Sub-branch	No.88 Aodong South Road, Hongdao Street, Qingdao Hongdao Economic Zone
77	Jiangxi Road Sub-branch	No.100 Nanjing Road, Qingdao
78	Guangxi Road Sub-branch	No.28 Guangxi Road, Qingdao
79	Liaoning Road Sub-branch	No.129 Liaoning Road, Qingdao
80	Ningxia Road Sub-branch	No.129-C Ningxia Road, Qingdao
81	Zhejiang Road Sub-branch	No.17 Hubei Road, Qingdao
82	Hai'er Road Sub-branch	Outlet located at 1st Floor of the attached wing of Zhongshang International Building, No.8 Quanling Road, Laoshan District, Qingdao
83	Tong'an Road Sub-branch	No.809 Tong'an Road, Qingdao
84	2nd Yan'an Road Sub-branch	Nos.1-3, 1st Floor, Unit A-10, No.142 Yan'an Road, Qingdao
85	Metro Building Sub-branch	No.6 Changning Road, Qingdao
86	Donghai West Road No.1 Sub-branch	Outlet located at Building 2, No.41 Donghai West Road, Qingdao
87	Beizhong Road Community Sub-branch	No.30 Beizhong Road, Qingdao
88	Ruichang Road Sub-branch	No.122 Ruichang Road, Qingdao
89	Xianggang Garden Sub-branch	Outlet located at No.75-A Xianggang Middle Road, Qingdao
90	3rd Yan'an Road Sub-branch	No.129 3rd Yan'an Road, Qingdao
91	Qidong Road Community Sub-branch	No.27-A 2nd Laiwu Road, Qingdao
92	Taiwan Road Sub-branch	No.6 Taiwan Road, Qingdao
93	Fuzhou Road Sub-branch	No.97-A Fuzhou South Road, Qingdao
94	Yinchuan Road Sub-branch	Outlet located at No.1 Zhonghai Yinhai, No.7 Yinchuan West Road, Qingdao
95	Yanji Road Community Sub-branch	No.155 Yanji Road, Qingdao
96	Minjiang Road No.1 Sub-branch	Outlet located at No.169-C and D Minjiang Road, Qingdao
97	Guantao Road Sub-branch	No.1 Guantao Road, Qingdao
98	Port Sub-branch	No.7 Ganghua Road, Qingdao
99	Qianwan Port Sub-branch	No.12 Fenjin North Road, Qianwan Port, Huangdao District, Qingdao
100	Donghai West Road Sub-branch	No.52-B Donghai West Road, Qingdao

Chapter IX Corporate Governance Report

In compliance with the domestic and overseas regulations, the Company has been committed to the establishment of regulated, market-oriented and featured corporate governance mode and mechanism, gradually establishing an equity structure of mixed-ownership, continuously improving the corporate governance structure and system, and keeping sound performance of the Board of Directors and Supervisors, so as to promote the continuous and healthy development of the Company through effective corporate governance.

During the reporting period, in order to comply with the Listing Rules and the Guidelines on Corporate Governance of Commercial Banks, the Company made comprehensive amendments to rules and regulations including the Articles of Association, the rules of general meeting and the Board of Directors and Supervisors; changed the session of the Board of Directors and Supervisors, further regulated the structure of the Board of Directors and Supervisors, and enhanced the diversity of expertise of Directors and Supervisors; enhanced the professional guidance of the Special Committees under the Board of Directors, through increasing the frequency of meetings and enhancing the efficiency of performing duties; enriched the means of supervision of the Board of Supervisors, through periodic physical meetings, research and investigation and attending important meetings of the Company to continuously enhanced the supervision. The mechanism of regular business investigation by independent Directors and external supervisors was established, to fully exert the expertise and the supervisory function of external experts. In 2015, we performed self-check on the corporate governance construction in contrast with the laws, regulations and supervisory opinions, pushed forward the mechanisms of transmission and feedback from the execution of the decisions of the Board of Directors and Supervisors, to promote the positive run of the Board of Directors and Supervisors and efficient execution of the decisions. Through continuous improving the various systems and working mechanisms of corporate governance, we continuously enhanced the standardisation and efficiency of the corporate governance.

From the listing to 31 December 2015, the Company had strictly complied with the code provisions sets out in the Code on Corporate Governance Practices contained in Appendix 14 to the Hong Kong Listing Rules, and adopted the suggested best practices as set out therein as appropriate.

9.1 CONVENING OF SHAREHOLDERS' GENERAL MEETING

During the reporting period, the Company convened one shareholders' general meeting, the details of which are as follows:

On 10 April 2015, the 2014 Annual General Meeting of the Company was convened in the conference room on the fourth floor of the Head Office. A total of 39 shareholders attended the meeting in person or by proxy, representing a total of 2,996,793,909 shares with voting rights, which accounted for 96.31% of the total number of shares of the Company. A total of 14 proposed matters were considered and passed by way of resolutions at the meeting, namely the Work Report of the Board of Directors for 2014 of Bank of Qingdao, the Work Report of the Board of Supervisors for 2014 of Bank of Qingdao, the Final Financial Report for 2014 and Financial Budget Report for 2015 of Bank of Qingdao, the Profit Distribution Plan for 2014 of Bank of Qingdao, the Proposal Regarding Appointment and Remuneration of the Auditing Firm of Bank of Qingdao for 2015, the Proposal Regarding Amendments to the Articles of Association of Bank of Qingdao Co., Ltd., the Proposal Regarding Amendments to the Rules of Procedures for the Shareholders' General Meetings, the Proposal Regarding Amendments to the Rules of Procedures for the Board of Directors, the Proposal Regarding Amendments to the Rules of Procedures for the Board of Supervisors, the Proposal Regarding Grant of Mandate by the Shareholders' General Meeting to Purchase Liability Insurance for the Directors, Supervisors and Senior Management and Liability Insurance in Respect of the Prospectus, the Proposal Regarding Grant of General Mandate to Issue Shares by Bank of Qingdao Co., Ltd., the Proposal Regarding Members of the Sixth Session of Board of Directors of Bank of Qingdao, the Proposal Regarding Members of the Sixth Session of Board of Supervisors of Bank of Qingdao, and the Special Report on Connected Transactions of Bank of Qingdao for 2014. All present Directors have signed such resolutions. In addition, the Proposal Regarding Evaluation Report on Duty Performance of the Board of Directors and Its Members of Bank of Qingdao for 2014 and the Proposal Regarding Evaluation Report on Duty Performance of the Board of Supervisors and Its Members of Bank of Qingdao for 2014 were heard at the meeting.

9.2 BOARD OF DIRECTORS AND SPECIAL COMMITTEES

The Company's president takes the responsibility of the Company under the leadership of the Board of Directors. The Board is the independent decision-making body of the Company. The Board can play the role of strategic guidance, formulates our development strategies and evaluates the performance of the strategies each year, decides important issues such as the operation development strategies, plans and risk appetite each year, monitors the status of management of various risks and provides guiding opinions, formulate capital management policy and plans for medium and long-term capital replenishment, lead the replenishment of short-term capital, and conducts appraisals on the work performance of the senior management annually.

9.2.1 The implementation of resolutions passed at shareholders' general meetings by the Board

During the reporting period, the Board strictly implemented the resolutions passed on the general meetings, and conscientiously implemented the resolutions considered and passed on the general meetings, including the Proposal of Profit Distribution for 2014, the engagement of external auditor for 2015, the change of session of the Board and the Board of Supervisors, modification of the Articles of Association, the Rules of General Meetings and the Rules of the Board Meetings.

9.2.2 Members of the Board

The Company selected Directors in accordance with the qualifications of Directors and election procedures as specified in the Articles of Association. At the end of the reporting period, the Board consisted of twelve Directors, including three executive Directors, namely Guo Shaoquan (Chairman), Wang Lin (President) and Yang Fengjiang (Vice President); five non-executive Directors, namely Zhou Yunjie, Rosario STRANO, Wang Jianhui, Tan Lixia and Marco MUSSITA; and four independent non-executive Directors, namely Wang Zhuquan, Du Wenhe, Wong Tin Yau, Kelvin and Chen Hua. The number of members and the composition of the Board complied with the requirements of the laws and regulations.

The Company considered the diversity of the members of the Board of Committee in several aspects including gender, age, culture, region, and professional experience. The Nomination Committee under the Board of the Directors examined the structure, number of members and composition of the Board of the Directors, and made recommendation to the Board of the Directors on the size and composition of the Board of the Directors in accordance with our strategic programme, operational development and shareholding structure etc., and studied the selection criteria, the nomination and appointment procedures of the Directors and made recommendations to the Board of the Directors for approval.

9.2.3 Changes in the Directors

For changes in the Directors, please refer to the section headed "Directors, Supervisors and Senior Management – Changes in Directors, Supervisors and Senior Management" in this annual report.

9.2.4 Responsibilities and operation of the Board

In accordance with the laws and regulations and the Articles of Association, the major functions and powers of the Board include convening the general meetings, reporting its work at the general meetings, implementing the resolutions passed at the general meetings, deciding on business plans and investment plans of the Company, establishing operation development strategies of the Company and supervising the implementation of such development strategies, formulating annual financial budgets and final accounts of the Company, formulating profit distribution plans and plans on making-up losses of the Company, formulating plans regarding increase or reduction of registered capital, issuance of debentures or other securities and listing plan, formulating basic management system of the Company, formulating and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board of the Directors, reviewing and monitoring the training and continuing professional development of Directors and senior management, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, formulating, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors and reviewing the Company's compliance with relevant codes and disclosure in the Corporate Governance Report; etc.

During the reporting period, the Board held a total of twelve meetings, of which four meetings were held in the form of physical meetings and eight meetings were held in the form of circulation of written resolutions. At these meetings, the Board passed resolutions on 56 significant events including the 2014 Work report of the President, Report on Financial Budget and Final Account, Proposal on Profit Distribution and Change of session of the Board, and also listened to or reviewed 37 special reports including risk management report, internal and external audit report, proposal on external audit management and rectification report, in an effort to diligently perform the duties of the Board.

The Directors of the Company have acknowledged their responsibility for preparing the financial statements of the Company for the year ended December 31, 2015. The Directors are responsible for overseeing the preparation of financial statements for each accounting period to make sure such financial statements give a true and fair view of the financial conditions, operation results and cash flows of the Company. In preparing the financial statements for the year ended December 31, 2015, the Directors have adopted and consistently applied applicable accounting policies, and exercised prudent and reasonable judgement.

9.2.5 Attendance of Individual Directors at General Meetings, Board Meetings and Meetings of the Special Committees

Directors	Actual attendance/Number of meetings requiring attendance								
	Attendance of general meetings	Board meetings	Strategy Committee	Remuneration Committee	Nomination Committee	Related Party Transactions Control Committee	Audit Committee	Risk Management Committee	Information Technology Committee
Executive Directors									
Guo Shaoquan	–	12/12	5/5	3/3	3/3	–	–	–	4/4
Wang Lin	–	12/12	5/5	–	3/3	–	–	4/4	4/4
Yang Fengjiang	–	12/12	–	–	–	4/4	3/3	2/2	–
Non-executive Directors									
Zhou Yunjie	–	7/9	1/2	1/1	1/1	–	–	–	–
Rosario Strano	–	11/12	5/5	3/3	–	–	–	–	–
Wang Jianhui	–	9/12	3/5	–	–	–	4/6	2/2	–
Tan Lixia	–	11/12	–	–	–	2/2	6/6	4/4	4/4
Marco Mussita	–	12/12	–	–	–	2/2	–	4/4	4/4
Independent non-executive Directors									
Wang Zhuquan	–	12/12	–	3/3	3/3	4/4	6/6	2/2	2/2
Du Wenhe	–	11/12	3/3	3/3	3/3	4/4	3/3	–	4/4
Wong Tin Yau, Kelvin	–	8/9	2/2	1/1	1/1	2/2	3/3	–	–
Chen Hua	–	9/9	2/2	1/1	1/1	2/2	3/3	2/2	–

Note:

- There is no provision in the PRC laws and regulations that require the Directors to attend the general meetings before the Listing Date of the Company.
- On 16 February 2016, the Company held the first extraordinary general meeting of 2016, at which the resolution regarding the issuance of non-capital financial bonds by Bank of Qingdao was considered and approved. Directors of the Company, namely Guo Shaoquan, Yang Fengjiang, Wang Zhuquan, Zhou Yunjie, Tan Lixia, Wang Jianhui, Marco Mussita, Du Wenhe, Wong Tin Yau, Kelvin and Chen Hua attended the meeting in person or by telephone.
- As shown in the table above, actual attendance was lower than attendance required, which was because that the Director had appointed another Director as his/her proxy to attend such meetings on his/her behalf.

9.2.6 Performance of the independent non-executive Directors

Our Board of Directors consists of four independent non-executive Directors and the qualification, number and proportion are in accordance with the regulations of CBRC, CSRC and the Hong Kong Listing Rules. The four independent non-executive Directors are not involved in any conflict with the independence issue described in the Rule 3.13 of the Hong Kong Listing Rules. The Company has received from each of the independent non-executive Director the annual independence confirmation in accordance with the Rule 3.13 of the Hong Kong Listing Rules. Therefore, the Company confirmed that all the independent non-executive Directors complied with the Hong Kong Listing Rules in respect of their independence. Independent non-executive directors represent the majority of the Company's Remuneration Committee, Nomination Committee, Related Party Transaction Control Committee and Audit Committee under the Board and serve as chairman of these committees.

During the reporting period, the four independent non-executive Directors kept in touch with the Company through various means such as attending the meetings and conducting business investigation and research. They participated in the meetings of the Board and the Board committees seriously, actively giving their opinions and emphasizing on the interests of minority shareholders. The non-executive independent Directors have fully discharged their responsibilities.

During the reporting period, our independent non-executive Directors issued independent opinions on material matters including our profit distribution, staff bonus appropriation and performance bonus of the senior management at bank level, appointment of auditors and material related party transactions. They have not raised any objections to the resolutions passed at the Board meetings or other meetings during the year.

9.2.7 Special Committees under the Board

The Company currently has seven special committees under the Board, including a Strategy Committee, a Remuneration Committee, a Nomination Committee, a Related Party Transactions Control Committee, an Audit Committee, a Risk Management Committee, and an Information Technology Committee.

During the reporting period, the Board committees exercised their respective authorities and powers in an independent, standardised and effective manner according to law. They held a total of 29 meetings during the year, at which 44 resolutions were studied and considered, 31 reports of all kinds were reviewed, 8 physical special reports were listened to, providing professional support for the scientific decision-making of the Board, and improving the efficiency and scientific decision-making ability of the Board.

9.2.7.1 Strategy Committee

Our Strategy Committee consists of two executive Directors, three non-executive Directors and two independent non-executive Directors. The two executive Directors are Mr. Guo Shaoquan and Mr. Wang Lin. The three non-executive Directors are Mr. Zhou Yunjie, Mr. Rosario STRANO and Mr. Wang Jianhui. The two independent non-executive Directors are Mr. Wong Tin Yau, Kelvin and Mr. Chen Hua. Mr. Guo Shaoquan is the chairman of the committee.

The primary duties of the Strategy Committee include the following:

1. studying and providing advice on our mid- and long-term development strategies;
2. supervising and inspecting the implementation of annual operation plans and investment plans;
3. studying and formulating our capital supplement plans and channels;
4. studying and providing advice on our material investment plans and other material matters which may have an effect on our development;
5. reviewing modification proposals of Articles of Association;
6. inspecting the implementation of the above items.

Our Strategic Development Committee held 5 meetings in total in 2015, at which resolutions on the Interim Work Report of the President, the Report on Implementation Of the Strategic Programme, the general mandate of share issue, the prospectus of the H-share listing, modification of the Articles of Association, modification of the Rules of the General Meetings, modification of the Rules of the Board Meetings and modification of the Terms of Reference of the Strategic Committee, were considered and approved.

9.2.7.2 Remuneration Committee

Our Remuneration Committee consists of one executive Director, two non-executive Directors and four independent non-executive Directors. The one executive Director is Mr. Guo Shaoquan. The two non-executive Directors are Mr. Zhou Yunjie and Mr. Rosario STRANO. The four independent non-executive Directors are Mr. Wang Zhuquan, Mr. Du Wenhe, Mr. Wong Tin Yau, Kelvin and Mr. Chen Hua. Mr. Wang Zhuquan is the chairman of the committee.

The primary duties of the Remuneration Committee include the following:

1. studying the criteria for appraising Directors and senior management members, conducting the appraisal, and submitting the appraisal reports to the Board;
2. formulating our policy and structure of remuneration management, formulating the policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, and making recommendations to the Board and overseeing the execution of the proposal;
3. reviewing and approving the management's remuneration proposals with reference to the corporate goals and objectives formulated by the Board;
4. reviewing and approving compensations payable to directors and senior management members for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
5. reviewing and approving compensation arrangements relating to dismissal or removal of any director for his misconduct to ensure that such arrangements are consistent with contractual terms and are otherwise reasonable and appropriate;
6. ensuring that no director or any of his associates is involved in deciding his own remuneration.

During the reporting period, our Remuneration Committee held 3 meetings in total, at which resolutions on the 2014 Appropriation of the Staff Bonus and Distribution of the Performance Bonus of Senior Management at Company Level, modification of the Rules of the Remuneration Committee, were considered and approved.

9.2.7.3 Nomination Committee

Our Nomination Committee consists of two executive Directors, one non-executive Director and four independent non-executive Directors. The two executive Directors are Mr. Guo Shaoquan and Mr. Wang Lin. The one non-executive Director is Mr. Zhou Yunjie. The four independent non-executive Directors are Mr. Wang Zhuquan, Mr. Du Wenhe, Mr. Wong Tin Yau, Kelvin and Mr. Chen Hua. Mr. Wong Tin Yau, Kelvin is the chairman of the committee.

The primary duties of the Nomination Committee include the following:

1. reviewing the structure, size and composition of the Board annually, and making recommendations on any proposed changes to the Board to complement our strategy;
2. formulating the criteria and procedures for selecting directors and senior management members and succession planning for directors, and making recommendations to the Board;
3. extensively identifying qualified candidates for directors and senior management members, and making recommendations to the Board;
4. conducting the preliminary examination of qualifications of candidates for directorships and senior management positions, and making recommendations to the Board on the selection;
5. assessing the independence of independent non-executive directors.

During the reporting period, our Nomination Committee held 3 meetings in total, at which resolutions on the List of Candidates for the Directors of the Sixth Session of the Board Meeting and modification of the Rules of the Nomination Committee, were considered and approved.

9.2.7.4 Related Party Transactions Control Committee

Our Related Party Transactions Control Committee consists of one executive Director and four independent non-executive Directors. The one executive Director is Mr. Yang Fengjiang. The four independent non-executive Directors are Mr. Wang Zhuquan, Mr. Du Wenhe, Mr. Wong Tin Yau, Kelvin and Mr. Chen Hua. Mr. Chen Hua is the chairman of the committee.

The primary duties of the Related Party Transactions Control Committee include the following:

1. identifying related parties and connected persons;
2. conducting review of related party transactions and connected transactions subject to review by the Board and general meeting of shareholders, reporting such related party transactions and connected transactions to the Board, and reviewing the related party transactions and connected transactions within the scope of authority of the Board.

During the reporting period, our Related Party Transaction Control Committee held 4 meetings in total, at which it considered the 2015 Work Plan of Related Party Transaction Control Committee, the 2014 Special Report on the Related Party Transactions, modification of the Rules of the Related Party Transaction Control Committee, modification of the Measures on Management of the Related Party Transactions and the Implementation Provisions of Management of the Related Party Transactions and considered three significant related party transactions.

9.2.7.5 Audit Committee

Our Audit Committee consists of two non-executive Directors and three independent non-executive Directors. The two non-executive Directors are Mr. Wang Jianhui and Ms. Tan Lixia. The three independent non-executive Directors are Mr. Wang Zhuquan, Mr. Wong Tin Yau, Kelvin and Mr. Chen Hua. Mr. Wang Zhuquan is the chairman of the committee, with appropriate expertise of accounting or related financial management as required under the Rule 3.10(2) of the Hong Kong Listing Rules.

The primary duties of the Audit Committee include the following:

1. examining our compliance status, accounting policies, financial reporting procedures and financial position, monitoring our financial information, including the integrity of our financial statements and annual reports and accounts, interim reports and quarterly reports (if prepared for publication), and reviewing significant financial reporting judgments contained in such statements and reports;
2. making recommendations to the Board on the appointment, reappointment or removal of the external auditor, and reviewing the fees and terms of engagement of the external auditor;
3. examining and supervising the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
4. formulating and implementing policies on engaging an external auditor to provide non-audit services;
5. reviewing the external auditor's letter to the management, any material queries raised by the external auditor to the management about accounting records, financial accounts or systems of control and management's response;
6. acting as the key representative body for overseeing our relations with the external auditor, overseeing the communication between internal and external auditors, and ensuring coordination between the internal and external auditors;
7. taking charge of the annual audit work;
8. ensuring that the internal audit function is adequately resourced;
9. reviewing our financial reporting system, internal control system and their implementation;
10. discussing the internal control system with management to ensure that management has performed its duty to establish an effective internal control system.

During the reporting period, our Audit Committee held 6 meetings in total, at which it reviewed resolutions on our annual report, engagement of external auditor, the self-evaluation report of internal control, the financial report, the proposal on profit distribution, modification of the Articles of Internal Control, modification of the basic rules of internal control. It communicated with the external auditor and the management regarding the audit opinion and suggestions for internal control as proposed by the external auditor, and pushed forward and made guidance in the execution of the Company.

9.2.7.6 Risk Management Committee

Our Risk Management Committee consists of two executive Directors, two non-executive Directors and one independent non-executive Director. The two executive Directors are Mr. Wang Lin and Mr. Yang Fengjiang. The two non-executive Directors are Ms. Tan Lixia and Mr. Marco MUSSITA. The one independent non-executive Director is Mr. Chen Hua. Mr. Wang Lin is the chairman of the committee.

The primary duties of the Risk Management Committee include the following:

1. supervising the risk control condition conducted by the senior management in credit, marketing, liquidity, operation, compliance, information technology and reputation, and conducting regular reviews of the risk reports;
2. assessing our risk policies, management, tolerance and capacity;
3. supervising our risk management and internal control systems, and making proposals on the improvement plans of our risk management and internal control;
4. discussing our risk management and internal control system with management to ensure the effectiveness of our risk management systems;
5. conducting regular review of and supervising the effectiveness of our risk management system, and assisting the Board to report the completed reviews to the shareholders;
6. conducting research on major investigation findings in relation to internal control matters and management's response to these findings.

During the reporting period, our Risk Management Committee held 4 meetings in total, at which it considered the resolutions on the 2015 risk appetite of business operation, modification of the Rules of the Risk Management Committee, and listened to the report on credit risk management, the report on operational risk management, the report on compliance risk management and the report on market risk management, and reviewed the report on reputational risk management and report on information technology risk management etc.

9.2.7.7 Information Technology Committee

Our Information Technology Committee consists of two executive Directors, two non-executive Directors and one independent non-executive Director. The two executive Directors are Mr. Guo Shaoquan and Mr. Wang Lin. The two non-executive Directors are Ms. Tan Lixia and Mr. Marco MUSSITA. The one independent non-executive Director is Mr. Du Wenhe. Mr. Du Wenhe is the chairman of the committee.

The primary duties of the Information Technology Committee include the following:

1. studying and formulating the strategy of information technology of the Company, and submitting the strategy to the Board for review;
2. appraising the overall result of the work of information technology of the Company, and the process of strategic planning and other material projects;
3. instructing and supervising the development and governance of the work of information technology in senior management and other departments, and conducting risk identification, measurement and control;
4. listening to or reviewing the information technology management report, business continuity management report, and special auditor's report in information technology of the Company, and providing advices.

During the reporting period, our Information Technology Committee held 4 meetings in total, at which it considered the resolutions on modification of the Rules of the Information Technology Committee, and reviewed the report on the execution of the strategic programme of the information technology, the report on the management of information technology risk, the report on the management of business continuity and listened to the interim work report of information technology.

9.3 BOARD OF SUPERVISORS

The Board of Supervisors is the supervisory body of the Company and is responsible to the general meeting. The Board of Supervisors shall supervise over the financial affairs, risk management and internal control of the Company and the performance of the Board, the Directors, the senior management and its members of their respective duties for the purposes of safeguarding the lawful rights and interests of the Company, the shareholders and other stakeholders.

9.3.1 Composition of the Board of Supervisors

The Board of Supervisors of the Company consists of seven supervisors, including three employee supervisors, one shareholder supervisors and three external supervisors. The structure of composition of the Board of Supervisors is reasonable, and is sufficiently professional and independent to ensure the effective performance of its supervisory role.

9.3.2 Changes in the supervisors

For changes in the supervisors, please refer to the section headed “Chapter VIII Directors, Supervisors, Senior Management Members, Employees and Institutions – Changes in Directors, Supervisors and Senior Management” in this annual report.

9.3.3 Responsibilities and operating model of the Board of Supervisors

The Board of Supervisors is the internal supervisory body of the Company and is responsible to the general meeting. The principal powers include supervising the discharge of duties by the Board and the senior management; examining and supervising the financial affairs of the Company, and supervising and examining the operational decision-making process, risk management and internal control and supervising rectification on the same.

Through various means such as convening meetings, conducting regular business investigation and research, and attending Board meetings and important meetings of the Company, the Board of Supervisors reviewed various documents presented by the senior management, listened to the work reports of senior management and special reports, and appraised the discharge of the duties of directors and senior management during the year, grasped the state of operation and management of the Company, gave their opinions after supervising and examination and continuously supervised the implementation of the various opinions by the Company.

9.3.4 Meetings of the Board of Supervisors held during the reporting period

During the reporting period, the Board of Supervisors of the Company held five meetings, of which three meetings were held in the form physical meetings and two meetings were held by way of circulating written resolutions. At these meetings, the Board of Supervisors considered and approved 19 resolutions, listened to 29 reports and carried out one business investigation and research in relation to operation management and risk management of the Company, as well as the performance of supervisors and the senior management. The Board of Supervisors improved its various rules and regulations and organisational structure in accordance with the domestic and foreign supervision regulations, so as to enhance its supervision over the financial activities and major risks of the Company and actively perform its duties as a supervisory body.

During the reporting period, there was no objection raised by the Board of Supervisors to the matters supervised.

The attendance of supervisors at physical meetings of the Board of Supervisors during the reporting period is as follows:

	Number of meetings requiring attendance	Attendance in person	Attendance by proxy
Zou Junqiu	5	5	0
Li Zhanguo	2	2	0
Fan Jianjun	5	5	0
Lu Zhengming	2	2	0
Zhang Xu	2	2	0
Sun Jigang	5	4	1
Xu Wansheng	5	5	0
Wang Jianhua	3	3	0
Fu Changxiang	3	3	0
Hu Yanjing	3	2	1

Notes:

1. On 10 April 2015, the Company held the general meeting, at which the proposal regarding change of the Sixth Session of the Board of Supervisors was considered and approved, thus Li Zhanguo (shareholder supervisor), Lu Zhengming (external supervisor) and Zhang Xu (external supervisor) ceased to be the supervisors of the Company, Wang Jianhua, Fu Changxiang and Hu Yanjing were appointed as external supervisors of the Sixth Session of the Board of Supervisors of the Company.
2. During the reporting period, the Board of Supervisors of the Company held a total of three physical meetings. In case of absence, the supervisor had appointed another supervisor as his/her proxy to attend such meetings on his/her behalf.

9.3.5 Attendance at shareholders' general meetings during the reporting period

During the reporting period, the Company held one general meeting. The Board of Supervisors has designated representatives to attend such meeting to carry out on-site supervision over the legal compliance of the matters transacted at the meeting, procedures of the meeting and the voting process.

9.3.6 Attendance at meetings of the Board and meetings of the senior management

During the reporting period, the Board of Supervisors reviewed the documents of the Board meetings in the form of circulation of written resolutions, designated representatives to attend physical meetings of the Board, and supervised the legal compliance of the meetings, procedures of voting, as well as the attendance, speech and voting of Directors. The Board of Supervisors also sent representatives to attend important senior management meetings such as the meetings of presidents and review and inspect meetings on internal control, and gave opinions on the financial budget management and risk management etc.

9.3.7 Operation of the Special Committees under the Board of Supervisors

The Board of Supervisors has established a Nomination and Evaluation Committee and a Supervision Committee. The composition of these committees is as follows:

No.	Committees under the Board of Supervisors	Chairman	Members
1	Nomination and Evaluation Committee	Hu Yanjing	Zou Junqiu, Wang Jianhua, Fu Changxiang, Sun Jigang
2	Supervisory Committee	Fu Changxiang	Zou Junqiu, Fan Jianjun, Hu Yanjing, Xu Wansheng

Nomination and Evaluation Committee under the Board of Supervisors

The primary duties of the Nomination and Evaluation Committee including the following:

1. formulating the selection standards and procedures of supervisors, and making recommendations to the Board of Supervisors;
2. preliminarily reviewing the qualifications and conditions of candidates for supervisors and making recommendations to the Board of Supervisors;
3. supervising the process of election and appointment of Directors and independent Directors;
4. conducting comprehensive evaluation of the duties performance of Directors, supervisors and senior management and reporting to the Board of Supervisors.

In 2015, the Nomination and Evaluation Committee held one meeting at which the resolutions on the list of candidates for supervisors of the sixth session of the Board of Supervisors, the evaluation report on the duties performance of the Board of Directors and Directors, the evaluation report on the duties performance of the Board of Supervisors, the evaluation report on duties performance of the senior management and senior executives were considered and approved.

Supervisory Committee under the Board of Supervisors

The primary duties of the Supervisory Committee include the following:

1. formulating the plans for supervising the Company's financial affairs, and implementing related examinations;
2. supervising the Board of Directors for the establishment of stable operational principle, value criterion, and formulating the development strategy based on the Company's actual needs;
3. supervising and examining the Company's operational decisions, risk management and internal control.

In 2015, the Supervision Committee held three meetings at which the resolutions on financial report, proposals for profit distribution, annual report, the engagement of external auditor, self-evaluation report on internal control, and evaluation report on strategic programme for 2014 were approved, and the work report of internal audit and the market risk management report were listened to.

9.3.8 Work of external supervisors

The Special Committees under the Board of Supervisors are all chaired by external supervisors, which strengthened the external supervisors' independent supervision function in work performance evaluation, internal control and other aspects, playing a positive role in improving the Company's management level and governance structure.

In 2015, external supervisors informed themselves of the status of Company's operation and management; attended the meetings of the Board of Supervisors and its Special Committees, considered each issue from the interests of the Company and depositors, and gave their independent and objective opinions and suggestions; actively participated in the investigation conducted by the Board of Supervisors, and put forward constructive suggestions, and performed their duties as external supervisors according to law.

9.4 TRAINING AND STUDIES UNDERTAKEN BY DIRECTORS AND SUPERVISORS DURING THE REPORTING PERIOD

During the reporting period, the Company's Board of Directors and Board of Supervisors conducted regular training and investigations to make the Directors and supervisors' informed with of the general situation of our operation and management and their own duties, and to constantly enhance the level of professional performance.

During the reporting period, all the Directors and supervisors participated in the trainings on the regulations under the Hong Kong Stock Exchange, the performance of duties by the Directors and supervisors, and the regulations on the related party transactions and information disclosure for H-share listed companies, to ensure they have proper understanding of the responsibilities and duties of Directors and supervisors conferred by relevant laws and regulations.

During the reporting period, led by independent Directors, the Board of Directors conducted special investigation on the science and technology financial business of the Company, to get informed with the overall deployment and development of such business, and give guiding opinions on the future development path and measures of such business. The Board of Supervisors conducted investigations on the management of risks arising from loans granted to small and medium sized enterprises, and gave suggestions on the prevention of risks arising from loans granted to SME from establishment of the internet financing service mode and refined the incentive mechanism.

9.5 SENIOR MANAGEMENT

Serving as the executive body of the Company, the senior management is responsible for the Board of Directors and is subject to the supervision of the Board of Supervisors. Powers and authority of the senior management and the Board of Directors are divided in strict compliance with the Articles of Association and other documents.

Under the Company's system, the president is responsible under the leadership of the Board of Directors. The president shall be accountable to the Board of Directors and shall perform the following functions and powers:

- (I) take charge of the operation and management of the Company, make arrangements for the implementation of the resolutions of the Board of Directors and report the work to the Board of Directors;
- (II) submit business plans and investment proposals to the Board of Directors on behalf of the members of senior management, and make arrangements for the implementation upon approval by the Board of Directors;
- (III) make arrangements for the formulation and implementation of the Company's various rules and regulations, development plans and annual operation plans;
- (IV) authorize members of senior management and persons in charge of internal departments and branches to conduct operating activities;
- (V) draft proposals on the establishment of the Company's internal management entities;
- (VI) propose to the Board of Directors to engage or dismiss the vice presidents, chief financial officers and other members of senior management of the Company;
- (VII) engage or dismiss persons in charge of the internal departments and branches of the Company other than those to be engaged or dismissed by the Board of Directors;

- (VIII) draw up wages, benefits, rewards and punishment of the employees of the Company, and decide on their appointment and dismissal;
- (IX) propose the convening of an extraordinary meeting of the Board of Directors;
- (X) adopt emergency measures when any major emergency, such as bank run, arises in the Company and promptly report them to the banking regulatory authorities of the State Council as well as the Board of Directors and the Board of Supervisors; and
- (XI) other duties and powers conferred by the laws, administrative regulations, departmental rules, regulatory documents, the regulations of the relevant regulatory authorities, the Articles of Association and by the Board of Directors.

9.5.1 Delegation of authority by the Board of Directors

The Board of Directors of the Company and the management led by the President exercise their respective powers in accordance with their responsibilities as set out in the Articles of Association. Apart from the responsibilities stipulated in the Articles of Association, the Board of Directors has delegated to the management the authority to decide on the setting up of internal institutions, approve the appointment of heads of key departments required to be appointed by the Board of Directors by regulatory authorities, and decide on the setting up of relevant institutions including branch institutions. The validity period of the delegation is from the date of consideration and approval by the Board of Directors until new delegation arrangements for the relevant matters have been made by the Board of Directors.

9.5.2 Chairman and President

In line with the recommendations of the Hong Kong Listing Rules, the roles and responsibilities of the Chairman and President of the Company are taken up by different persons, and the respective responsibilities are clearly defined in the Articles of Association of the Company.

Mr. Guo Shaoquan, Chairman of the Company, is responsible for the development strategy of the Company, and leads the Board and promote timely consideration, review and discussion of major issues of the Company by the Board, so as to ensure the sound operation of the Board and effective implementation of decisions. Mr. Wang Lin serves as President of the Company, and is responsible for business development and overall operational management in accordance with the provisions of laws and regulations and the Articles of Association of the Company.

9.5.3 Securities transactions by Directors and Supervisors

The Company has adopted the required standard set by the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Hong Kong Listing Rules as the code of conduct for securities transactions by directors and supervisors of the Company. Having made enquiries to all Directors and Supervisors, the Company confirmed that they had complied with the above Model Code.

9.5.4 External auditors and auditors' remuneration

The domestic and overseas auditors of the Company for 2015 were KPMG Huazhen LLP and KPMG respectively. For the year ended 31 December 2015, the Company has paid RMB4.99 million and RMB1.17 million to KPMG Huazhen LLP and KPMG for audit services and non-audit services, respectively.

9.5.5 Internal Control

The Company has set up a relatively comprehensive and standardised internal control system. The Board is responsible for ensuring the establishment and implementation of an adequate and effective internal control system by the Company, determining an appropriate risk appetite and supervising senior management in taking necessary risk control measures. The Board of Supervisors is responsible for supervising the Board of Directors and senior management in improving the internal control system and implementing effective internal control. The senior management is responsible for making arrangements for and taking the lead in the daily internal control operation of the Company to ensure the effective performance of various internal control responsibilities.

During the reporting period, based on the provisions of laws and regulations including the Basic Standards for Corporate Internal Control and the accompanying guidelines and the Guidelines on Internal Control of Commercial Banks, as well as the relevant requirements of the Hong Kong Stock Exchange, the Board of Directors of the Company amended the basic rules and regulations on internal control of the Company, and conducted an annual evaluation on the internal control of the Company in terms of aspects including internal control systems, control measures and risk assessment. The Company also engaged a professional third party institution to carry out diagnosis on and enhancement of the internal control system of the Company, so as to have in place more standardised and effective internal control systems and mechanisms on an ongoing basis.

9.5.6 Company Secretaries

During the reporting period, Ms. Lu Lan and Ms. Lai Siu Kuen of KCS Hong Kong Limited (company secretary service provider), both had undertaken not less than 15 hours of continuing professional training in compliance with the requirements of Rule 3.29 of the Hong Kong Listing Rules. Ms. Lu Lan, one of the joint company secretaries of the Company, is the chief liaison person of the Company.

9.6 INFORMATION DISCLOSURE AND TRANSPARENCY

During the reporting period, the Company prepared the 2014 Annual Report of Bank of Qingdao Co., Ltd. in both English and Chinese in accordance with the requirements of Measures for the Information Disclosure of Commercial Banks and Notice on the Normative Content of the Annual Report of the Joint-stock Commercial Banks.

These reports are available at the offices of the Board of Directors and the Board of Supervisors as well as the business outlets of the Company for inspection by investors and stakeholders. In addition, a summary of the 2014 Annual Report has been published on the official website of the Company (<http://www.qdccb.com/>) and the *Financial News*.

The Company has also established a special column for investor relations on its website which contains relevant e-mail address and contact details, reflecting the Company's commitment to earnestly responding to questions and enquiries raised by shareholders and to ensuring all shareholders have equal access to relevant information.

9.7 AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the reporting period, in view of the listing of its H shares, the Company carried out comprehensive amendments to the Articles of Association, Rules of Procedure of the Shareholders' General Meeting, Rules of Procedure of the Board of Directors and Rules of Procedure of the Board of Supervisors in accordance with domestic and overseas laws and regulations and regulatory documents. The Company held its 2014 annual general meeting on 10 April 2015, during which the relevant proposals were considered and approved. The amended Articles of Association had been examined and approved by the CBRC Qingdao Office.

9.8 SHAREHOLDERS' RIGHTS

9.8.1 Convening of extraordinary general meetings on requisition by shareholders

In accordance with relevant requirements of laws and regulations and relevant regulations of the Articles of Association, shareholders of the Company shall have the right to convene extraordinary general meetings. Shareholders individually or jointly holding ten percent or more of the total shares with voting rights of the Company shall have the right to propose by written requisition to the Board of Directors or the Board of Supervisors to convene an extraordinary general meeting.

The Board of Directors shall, in accordance with the laws, administrative regulations and these Articles, make a written response as to whether or not it agrees to convene an extraordinary general meeting within ten days upon receipt of the proposal. If the Board of Directors agrees to convene the extraordinary general meeting, a notice convening such a meeting shall be issued within five days after the resolution of the Board of Directors is passed. If the Board of Directors does not agree to convene such extraordinary general meeting or no response has been made within ten days upon receipt of the requisition, the shareholders shall have the right, by written requisition to the Board of Supervisors, to propose an extraordinary general meeting to be called. If the Board of Directors does not agree to convene the extraordinary general meeting, or fails to give its response within ten days upon receipt of the proposal, the shareholders shall have the right to propose to the Board of Supervisors to convene an extraordinary shareholders' general meeting and such proposal shall be made to the Board of Supervisors in writing.

If the Board of Supervisors agrees to convene an extraordinary general meeting, a notice for convening such meeting shall be issued within five days upon receipt of the proposal. If the Board of Supervisors fails to issue notice of the shareholders' general meeting within the prescribed period, it shall be deemed to have failed to convene and preside over the extraordinary general meeting, and the shareholders having individually or jointly held ten percent or more of the total shares of the Company for at least ninety consecutive days may convene and preside over the meeting by themselves.

For details of relevant requirements, please refer to the Articles of Association published on the websites of the Company and the Hong Kong Stock Exchange.

9.8.2 Proposals of shareholders' general meetings

Shareholders individually or jointly holding 3% or more of the total shares with voting rights of the Company may submit provisional proposals to the conveners in writing ten days prior to the date of the general meeting. The conveners shall issue a supplemental notice setting out the content of the provisional proposals within two days upon receipt of the proposals.

Shareholders individually or jointly holding 1% or more of the total shares with voting rights of the Company may nominate independent directors, who shall be elected at a shareholders' general meeting.

For details of relevant requirements, please refer to the Articles of Association published on the websites of the Company and the Hong Kong Stock Exchange.

9.9 INVESTOR RELATIONS

The Company attaches importance to the comments and recommendations of shareholders, and proactively hosts various communication activities with investors and analysts, so as to maintain a good relationship, and satisfy the reasonable requests of shareholders in a timely manner. Shareholders may direct their enquiries to the Board of Directors through the Office of Board of Directors & Supervisors of the Company. Contact details of the Office of Board of Directors & Supervisors of the Company are as follows:

Address: No. 68 Hong Kong Middle Road, Shinan District, Qingdao, Shandong Province, PRC
Postal code: 266071
Telephone number: +86 (532) 85709728
Facsimile number: +86 (532) 85709725
E-mail: ir@qdbankchina.com

9.10 OTHER INFORMATION

The Company is the holder of the financial institution licence No. B0170H237020001 from the Qingdao Branch of the CBRC and the business license No. 370000018010094 from the Administration for Industry and Commerce of Qingdao City. As the Company is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of Laws of Hong Kong), it is neither subject to the supervision of the Hong Kong Monetary Authority, nor authorized to carry on banking or deposit-taking business in Hong Kong.

Chapter X Report of the Board of Directors

PRINCIPAL ACTIVITIES

The principal activities of the Company are: intake deposits from public; provide short-term, mid-term and long-term loans; conduct domestic and overseas settlements; conduct acceptance, discounting and inter-bank discounting of notes; issue financial bonds; issue, cash-in, underwrite government bonds and financial bonds as agent; trade government bonds, notes of central banks, financial bonds, corporate bonds, mid-term notes, short-term financing coupons and other bonds issued and circulated in the national interbank bond market; participate in interbank lending and borrowing and interbank deposit businesses; perform foreign exchange trading as agent; carry out the foreign exchange settlement and sales businesses; engage in bank card business; provide letter of credit service and guarantee; perform receipt and payment, insurance business as agent as well as other agency services including funds and sales of precious metals; provide safe deposit box service; wealth management business; bond settlement agency business and the Fixed Deposits Business of Commercial Banks for Cash Management of Central Treasury; other businesses approved by the relevant national regulatory authorities.

OPERATIONS IN COMPLIANCE WITH LAWS AND REGULATIONS

During the reporting period, the Company had been operating in compliance with relevant laws and regulations. Its decision-making procedures complied with laws, regulations and the Articles of Association.

BUSINESS REVIEW AND OUTLOOK

The business review of the Company for the year ended 31 December 2015, financial indicators and its development outlook for 2016 are set out in "Chapter II Financial Highlights" and "Chapter V Management Discussion and Analysis" of this annual report.

EXPOSURE TO MAJOR RISKS

Please refer to "Chapter V Management Discussion and Analysis – Risk Management" for the major risks the Company had exposed to during the reporting period.

EARNINGS AND DIVIDENDS

The revenue of the Company for the year ended 31 December 2015 and the financial position of the Company on the same date are set out in the financial statements of this annual report.

1. Pursuant to the resolutions passed at the annual general meeting of 2014 of the Company on 10 April 2015, the Company had 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 share (tax inclusive) on 28 April 2015.
2. The Board of the Company has proposed a 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 approval.

If the proposal is approved, 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 of the five business days preceding the date of declaration of such dividends by the Company (including the day the annual general meeting to 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 Registrar for H shares, Computershare Hong Kong Investor Services Limited at Shops 1712 to 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 of the Company intends to distribute the final dividends for 2015 on Friday, 8 July 2016. If there are any changes to the expected date for dividend payment, an announcement will be published.

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 register of holders of H shares 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.

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 2015 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 to 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.

DISTRIBUTABLE RESERVES

The details of distributable reserves of the Company for the year ended 31 December 2015 are set out in the statement of changes in equity in the financial statements of this annual report.

FINANCIAL HIGHLIGHTS

The highlights of the operational results, assets and liabilities of the Company for the year ended 31 December 2015 and previous four years are set out in "Chapter II Financial Highlights" of this annual report.

DONATIONS

The Company made charity and other donations of approximately RMB3.037 million in total for the year ended 31 December 2015.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Please refer to "Chapter V Management Discussion and Analysis – Social Responsibilities" for the details of the environmental policies and performance of the Company during the reporting period.

PROPERTY AND EQUIPMENT

The details of the changes in the property and equipment of the Company for the year ended 31 December 2015 are set out in note 21 of the financial statements of this annual report.

ACQUISITIONS, DISPOSAL OF ASSETS DURING THE REPORTING PERIOD

During the reporting period, the Company did not have any significant acquisition and disposal of assets.

RETIREMENT BENEFITS

Details of the retirement benefits provided by the Company to employees are set out in note 2 and note 30 of the financial statements of this annual report.

SUBSTANTIAL SHAREHOLDERS

Details of the Company's substantial shareholders as at the end of the reporting period are set out in "Chapter VII Change in Share Capital and Shareholders – Interests and Short Positions of Substantial Shareholders and Other Persons" and the relevant parts of the notes of the financial statements.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Since the listing date of the Company and up to 31 December 2015, the Company had not purchased, sold or redeemed any listed securities of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions in the relevant PRC laws and the Articles of Association for granting pre-emptive rights to shareholders of the Company. The Articles of Association provides that, after the resolution made by the annual general meeting was submitted to and approved by the relevant national regulatory authorities, the Company may increase its capital by the following ways: public issuance of shares; non-public issuance of shares; placing new shares to existing shareholders; distributing new shares to existing shareholders; performing capital conversion from capital reserve; any other ways permitted by laws, administrative regulations and relevant national regulatory authorities.

EMPLOYEES AND MAJOR CUSTOMERS

Please refer to "Chapter VIII Directors, Supervisors, Senior Management Members, Employees and Institutions – Employees and Human Resources Management" for details of employees of the Company.

In 2015, the aggregate interest income and other operating income from the top five customers of the Company did not exceed 30% of the total interest income and other operating income of the Company for the year.

ISSUANCE OF DEBENTURE

The Company issued tier-two capital bonds of Bank of Qingdao Co., Ltd. in 2015 with RMB2.2 billion in total and a nominal value of RMB100 for a term of 10 years on 3 March 2015. Its issue price is RMB100. The issuer is entitled to conditionally redeem the bonds at the end of the fifth year with the coupon rate of 5.59%. The proceeds from the bonds is mainly used for replenishing the tier-two capital.

EQUITY-LINKED AGREEMENT

During the reporting period, the Company did not enter into or renew any other equity-linked agreement except for the H-share issuance on 3 December 2015 and the partly exercise of over-allotment option on 24 December 2015.

USE OF PROCEEDS

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 of the Company (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.

RELATED UNDERTAKINGS OF H-SHARE ISSUANCE

Please refer to “Chapter VI Significant Events – Performance of Undertakings by the Company or Shareholders with Shareholding of 5% or More” for related undertakings of H-share issuance of the Company.

SHARE CAPITAL

Details of the change in share capital of the Company during the reporting period are set out in the “Chapter VII Change in Share Capital and Shareholders – Change in Total Share Capital.”

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the directors, supervisors and senior management of the Company are set out in “Chapter VIII Directors, Supervisors, Senior Management Members, Employees and Institutions” of this report.

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors the confirmation of his/her independence, and is of the view that all of its independent non-executive directors are independent pursuant to the independence guidelines set out in Rule 3.13 of the Hong Kong Listing Rules.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN SHARES AND UNDERLYING SHARES OF THE COMPANY

In so far as the directors, supervisors and chief executives of the Company are aware, as at 31 December 2015, the directors, supervisors and chief executives who had interests or short positions in the issued shares, debentures or equity derivatives of the Company which are required to be recorded in the register referred to in section 352 of the Securities and Futures Ordinance, or interests or short positions which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, are as follows.

Name of director/ supervisor/ chief executive	Type of share	Capacity	Number of shares held	Approximate percentage of the total share capital ⁽¹⁾	Approximate percentage of the total number of domestic shares ⁽¹⁾	Long position/ Short position
Mr. Guo Shaoquan	Domestic share	Beneficial owner	500,000	0.01	0.02	Long position
Ms. Zou Junqiu	Domestic share	Beneficial owner	500,000	0.01	0.02	Long position
Mr. Wang Lin	Domestic share	Beneficial owner	500,000	0.01	0.02	Long position
Mr. Yang Fengjiang	Domestic share	Beneficial owner	500,000	0.01	0.02	Long position
Mr. Sun Jigang	Domestic share	Beneficial owner	272,822	0.01	0.02	Long position
Mr. Xu Wansheng	Domestic share	Beneficial owner	196,021	0.005	0.01	Long position

Note: The above percentages are calculated based on the total issued share capital of 4,011,532,749 shares and 2,300,395,769 domestic shares of the Company as at 31 December 2015. On 4 January 2016, there was partial exercise of the over-allotment option of the Company, and an additional 51,898,000 H shares were issued, of which 4,718,000 shares were H shares converted from domestic shares. As at the date of this annual report, the total number of the issued share capital and the number of domestic shares of the Company were 4,058,712,749 shares and 2,295,677,769 shares respectively.

Save as disclosed above, in so far as the directors, supervisors and senior management personnel of the Company are aware, as at 31 December 2015, no one had any interests or short positions in the shares, debentures or equity derivatives of the Company which are required to be recorded in the register referred to in section 352 of the Securities and Futures Ordinance, or any interests or short positions which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There are no relationships between each of the Directors, Supervisors and senior management of the Company, including financial, business, family or other material relationships.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the reporting period was the Company a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE AND SERVICE CONTRACTS

Saved for the continuing connected transactions which are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, as at 31 December 2015 and at any time during the year, none of the directors or supervisors or any entity connected with the directors or supervisors had any interest, whether directly or indirectly, in any transaction, arrangement or contract of significance (excluding service contracts) in relation to the Company's business to which the Company is a party.

PERMITTED INDEMNITY PROVISIONS

For the year ended 31 December 2015, there was or is not any permitted indemnity provision being in force for the benefit at any of the Directors of the Company (whether made by the Company or otherwise).

MANAGEMENT CONTRACTS

During the reporting period, the Company did not enter into any management contract.

DIRECTORS AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

None of the directors and supervisors have any interest in a business that competes directly or indirectly, or is likely to compete with the business of the Company.

INSURANCE FOR DIRECTORS

During the reporting period, the Company applied for effective liability insurance for all of the Directors.

CORPORATE GOVERNANCE

Details are set out in "Chapter IX Corporate Governance Report".

CONNECTED TRANSACTIONS

Transactions between the Company and the Company's connected persons (as defined under the Hong Kong Listing Rules) constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. The Company provides commercial banking services and products to the general public in China, including connected persons of the Company (such as Directors, Supervisors, chief executives of the Company and/or their respective connected persons) in its daily and normal business. Such connected transactions are entered into during the course of the Company's daily and normal business in accordance with normal commercial terms (or more privileged commercial terms to the Company). Such connected transactions can be fully exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Hong Kong Listing Rules. The Company has reviewed all of its connected transactions and confirmed that it had complied with the requirements under Chapter 14A of the Hong Kong Listing Rules.

The definition of connected persons under Chapter 14A of the Hong Kong Listing Rules is different from the definition of related parties under International Accounting Standard 24, "Related Party Disclosures", and its interpretations by the IASB. Certain related party transactions set out in the notes of the financial statements also constitute connected transactions or continuing connected transactions as defined under the Hong Kong Listing Rules, but none constitutes a discloseable connected transaction as required under the Hong Kong Listing Rules.

REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Board of Directors assesses senior management personnel using the Measures for Performance Appraisal of Senior Management Personnel of Bank of Qingdao and offers remuneration to executive directors and other senior management personnel based on the results of the assessment. The Company offers remuneration to employee supervisors in accordance with the administrative measures for staff salary. Non-executive directors, independent non-executive directors, shareholder supervisors and external supervisors of the Company do not receive remuneration from the Company. The "Policies on the allowance of Directors of Bank of Qingdao" which stipulated the distribution standard of allowance to directors, was approved and passed at the general meeting of the Company.

PUBLIC FLOAT

Based on the public information available to the Company and to the knowledge of the Directors, as at the end of the reporting period, the Company has maintained sufficient public float as required by the Hong Kong Stock Exchange.

AUDITORS

The domestic and overseas auditors of the Company for 2015 were KPMG Huazhen LLP and KPMG respectively. The 2015 financial report of the Company prepared in accordance with International Financial Reporting Standards has been audited by KPMG, with unqualified auditor's report issued.

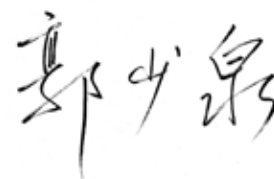
EVENTS AFTER THE REPORTING PERIOD

1. On 24 December 2015, the Company partially exercised its Over-allotment option and 51,898,000 H shares (including 4,718,000 sale shares sold by shareholders of the state-owned shares of the Company). The Over-allotment Shares were listed on the Main Board of the Hong Kong Stock Exchange on 4 January 2016, the total share capital accordingly changed from 4,011,532,749 Shares to 4,058,712,749 Shares, and HK\$0.224 billion was raised as a result of the Over-allotment.
2. The Company completed the issue of first tranche of Green Bond on 10 March 2016. The Green Bond consists of two types of bonds, total issue size is RMB4 billion. Particulars are as follow:

3-years bond: issue size of RMB3.5 billion, mature date is 14 March 2019, nominal value of the bond is RMB100, issue price is RMB100 and coupon rate is 3.25%; and

5-years bond: issue size of RMB0.5 billion, mature date is 14 March 2021, nominal value of the bond is RMB100, issue price is RMB100 and coupon rate is 3.40%.

By Order of the Board of Directors



Guo Shaoquan
Chairman

Chapter XI Report of the Board of Supervisors

During the reporting period, the Board of Supervisors proactively carried out effective supervision on areas including the financial activities, internal control, risk management, compliant operations, and the performance of duties by the Board of Directors and the senior management in accordance with the duties conferred by the Company Law, the Articles of Association and regulatory authorities.

In 2015, the Board of Supervisors held a total of 5 meetings, of which 3 were on-site meetings and 2 were conference meetings; and considered proposals including the 2014 report on the work of the Board of Supervisors, 2014 annual financial report and 2015 interim financial report, 2014 annual report, 2014 annual and 2015 interim reports on the work of the President, 2014 evaluation report on the performance of duties by the Board of Directors, senior management and their members, 2014 self-evaluation report on internal control; and received reports including the audit reports issued by internal and external auditors, report on financial regulation notification and rectification, and risk management reports on major risks including credit risk, operation risk, market risk.

The independent opinions of the Supervisors on relevant matters are as follows:

COMPLIANT OPERATIONS OF THE COMPANY

During the reporting period, the business operations of the Company complied with the requirements of the Company Law, the Commercial Bank Law and the Articles of Association, and the decision-making procedures were legitimate and valid. No Directors or senior management members of the Company were found to have contravened any laws or regulations or the Articles of Association or to have committed any acts detrimental to the interests of the Company and its shareholders.

AUTHENTICITY OF FINANCIAL REPORT

KPMG Huazhen LLP and KPMG respectively audited the 2015 annual financial report prepared by the Company in accordance with PRC accounting standards and international financial reporting standards, and respectively issued unqualified audit reports. The financial report has truly, objectively and accurately reflected the financial position and operating results of the Company.

ACQUISITION AND DISPOSAL OF ASSETS

During the reporting period, the Company had no material new acquisitions or disposal of assets.

RELATED PARTY TRANSACTIONS

For related party transactions conducted in the reporting period, the Board of Supervisors did not find any acts in violation of the principle of fairness or detrimental to the interests of the Company and its shareholders.

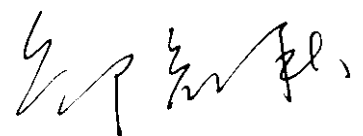
IMPLEMENTATION OF RESOLUTIONS OF THE SHAREHOLDERS' GENERAL MEETING

The Board of Supervisors had no objection to the reports and proposals submitted by the Board of Directors of the Company to the general shareholders' meeting in 2015; supervised the implementation of the resolutions of the shareholders' general meeting, and considered that the Board of Directors had conscientiously implemented the relevant resolutions of the shareholders' general meeting.

INTERNAL CONTROL

The Company attaches importance to the establishment of internal control systems for continuous improvement of its standards of internal control. During the reporting period, the Board of Supervisors reviewed the 2015 Self-evaluation Report on Internal Control of Bank of Qingdao Co., Ltd., and considered that the internal control systems of the Company were regulated, comprehensive and effective, and the implementation of the internal control mechanisms and systems was relatively sound.

By Order of the Board of Supervisors



Zou Junqiu
Chief Supervisor

Chapter XII Internal Control

12.1 INTERNAL CONTROL

The Company has established a sound corporate governance structure and governance mechanism, under which the Board of Directors, Board of Supervisors and the senior management are subject to effective checks and balances while engaging in constructive interaction. The Board of Directors is responsible for ensuring the establishment and implementation of an adequate and effective internal control system by the Company; the Board of Supervisors is responsible for supervising the Board of Directors and the senior management in the improvement of internal control system, implementation of internal control measures; the senior management is responsible for making arrangements for and leading the daily operation of internal control of the Company.

Taking into account the needs of internal management and risk control, the Company has established an internal control structure featuring reasonable delineation of duties, well-defined responsibilities and clear reporting relationships. As the functional department responsible for the internal control management of the Company, the legal and compliance department takes the lead in coordinating the planning and making arrangements for the implementation of the internal control system; the audit department is responsible for monitoring and evaluating internal control; and various departments are responsible for the establishment, implementation and self-examination of internal control of their respective lines.

The Company has established the “Weekly Inspection Practice,” a senior management inspection system to look into compliance- and operation-related issues, lagged-behind regulatory executions and potential risks from time to time; the Company has continued to launch activities including Year of Establishment, Year of Implementation, Year of Assessment and Year of Improvement for rules and regulations, and on the basis of carefully sorting out various rules and regulations, an in-depth evaluation of existing items in force have been conducted. Operation flowcharts and descriptions for understanding rules and regulations are in place, the requirements for implementation of rules and regulations are specified, and reminders on key risks are provided. The Company has established a sound internal control evaluation and post-evaluation mechanism, conducted annual regular audits, responsibility audits, departure audits and special audits, established a new operational risk assessment and rectification mechanism with sustained effectiveness; the Company commissioned internationally-renowned external independent agencies to audit and monitor the situation of risk control and internal control as a third party, so as to uncover and rectify issues and carry out reforms, thereby enhancing the risk control and management standard.

The Board considers that during the reporting period, it was not aware of any material defect in the Company's design or implementation of its internal control or of any material errors in the disclosure of information in the annual report, indicating an effective internal control of the Company.

12.2 INTERNAL AUDIT

The Company has established an audit department as its internal auditor, which is responsible for independent and comprehensive examination and evaluation of all business and operational management activities and operational conditions of the Company. The Chairman directly takes charge of the work of the audit department, and material audit findings will be reported to the Board of Directors and Board of Supervisors via the Office of Board of Directors & Supervisors so as to achieve independence. The Company has been continuously improving the standards of its internal audit management, and was awarded the title of Advanced Internal Audit Entity in Shandong Province.

The Company established regulated systems and work management structures for its internal audit. Currently, the Company has established an internal audit team at Jinan Branch, putting into place internal audit management systems with full integration between the head office and branches. The innovative model of conducting audits through a virtual branch by temporarily substituting regular staff by ad hoc staff has played a significant role in identifying potential risks and assisting basic institutions to strengthen internal management through down-to-earth work at the frontline.

By continuing to promote the establishment of audit information systems, the Company has adopted internal audit measures including system case based automatic early warning, big data mining and information based audit process to effectively boost the relevance and quality of early warning and further strengthen internal audit in terms of regulation, effectiveness and timeliness.

The Company facilitates the establishment and improvement of its internal control systems and enhance management standards through methods including holding of internal control assessment meetings, supervision of internal management, notification of issues identified in audits and release of internal audit information.

Chapter XIII Independent Auditor's Report

To the shareholders of Bank of Qingdao Co., Ltd.

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

We have audited the financial statements of Bank of Qingdao Co., Ltd. (the "Bank") set out on pages 97 to 177, which comprise the statement of financial position as at 31 December 2015, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015 and the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Princes' Building

10 Chater Road

Central, Hong Kong

9 March 2016

Chapter XIV Financial Statements and Notes

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2015 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2015	2014
Interest income		8,587,709	7,595,389
Interest expense		(4,473,655)	(3,999,053)
Net interest income	3	4,114,054	3,596,336
Fee and commission income		787,427	721,022
Fee and commission expense		(37,800)	(32,271)
Net fee and commission income	4	749,627	688,751
Net trading gains	5	66,654	33,630
Net gains arising from investments	6	60,361	11,216
Other operating income	7	14,812	35,119
Operating income		5,005,508	4,365,052
Operating expenses	8	(2,076,578)	(1,995,253)
Impairment losses	11	(579,894)	(411,278)
Profit before taxation		2,349,036	1,958,521
Income tax expense	12	(535,260)	(463,169)
Net profit for the year		1,813,776	1,495,352
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	32(4)	401,122	288,624
Other comprehensive income, net of tax		379,717	288,624
Total comprehensive income		2,193,493	1,783,976
Basic and diluted earnings per share (in RMB)	13	0.58	0.59

The notes on pages 102 to 177 form part of these financial statements.

Statement of financial position

as at 31 December 2015 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2015	31 December 2014
Assets			
Cash and deposits with central bank	14	19,920,303	23,609,591
Deposits with banks and other financial institutions	15	3,585,267	2,018,827
Placements with banks and other financial institutions	16	1,108,138	1,156,491
Financial assets at fair value through profit or loss	17	297,595	190,195
Financial assets held under resale agreements	18	2,516,977	2,697,628
Loans and advances to customers	19	70,655,221	61,248,341
Financial investments:			
Available-for-sale financial assets	20	17,120,786	14,122,539
Held-to-maturity investments	20	22,575,284	19,721,428
Investment classified as receivables	20	44,786,787	27,209,059
Property and equipment	21	1,021,157	865,538
Deferred tax assets	22	279,402	337,469
Other assets	23	3,368,337	2,988,835
Total assets		187,235,254	156,165,941
Liabilities			
Borrowings from central bank	24	528,909	1,003,676
Deposits from banks and other financial institutions	25	27,335,870	20,362,589
Placements from banks and other financial institutions	26	3,051,992	1,379,835
Financial assets sold under repurchase agreements	27	2,000,000	10,069,144
Deposits from customers	28	115,321,997	101,733,660
Income tax payable		107,758	88,942
Debt securities issued	29	16,314,307	8,335,030
Other liabilities	30	5,960,769	3,408,415
Total liabilities		170,621,602	146,381,291
Equity			
Share capital	31	4,011,533	2,555,977
Reserves	32	12,602,119	7,228,673
Total equity		16,613,652	9,784,650
Total liabilities and equity		187,235,254	156,165,941

Approved and authorised for issue by the board of directors on 9 March 2016.

Guo Shaoquan

Legal Representative (Chairman)

Wang Lin

President

Yang Fengjiang

Vice President in charge of finance function

Wang Bo

Head of the Planning & Finance Department

The notes on pages 102 to 177 form part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2015 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Share capital	Capital reserve Note 32(1)	Surplus reserve Note 32(2)	General reserve Note 32(3)	Investment revaluation reserve Note 32(4)	Other reserve Note 32(5)	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	31	1,455,556	3,957,841	–	–	–	–	–	5,413,397
Appropriation of profit:									
– Appropriation to surplus reserve	33	–	–	181,378	–	–	–	(181,378)	–
– Appropriation to general reserve	33	–	–	–	504,554	–	–	(504,554)	–
– Cash dividends	33	–	–	–	–	–	–	(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		4,011,533	6,708,018	804,789	2,391,182	486,199	(3,075)	2,215,006	16,613,652
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	33	–	–	149,535	–	–	–	(149,535)	–
– Appropriation to general reserve	33	–	–	–	552,565	–	–	(552,565)	–
– Cash dividends	33	–	–	–	–	–	–	(204,478)	(204,478)
Sub-total		–	–	149,535	552,565	–	–	(906,578)	(204,478)
Balance at 31 December 2014		2,555,977	2,750,177	623,411	1,886,628	85,077	18,330	1,865,050	9,784,650

The notes on pages 102 to 177 form part of these financial statements.

Cash flow statement

for the year ended 31 December 2015 (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)	–
	(146,759)	184,717
<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)
	(7,032,296)	(3,998,083)
<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
	15,692,163	15,009,626
Net cash flows generated from operating activities	8,513,108	11,196,260

The notes on pages 102 to 177 form part of these financial statements.

Cash flow statement (continued)

for the year ended 31 December 2015 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	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		(20,170,606)	(12,865,686)
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		12,009,741	2,864,665
Effect of foreign exchange rate changes on cash and cash equivalents		23,908	369
Net increase in cash and cash equivalents		376,151	1,195,608
Cash and cash equivalents as at 1 January		7,318,868	6,123,260
Cash and cash equivalents as at 31 December	34	7,695,019	7,318,868
Net cash flows generated from operating activities include:			
Interest received		4,748,186	4,912,626
Interest paid		(3,702,412)	(3,185,116)

The notes on pages 102 to 177 form part of these financial statements.

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 SIGNIFICANT ACCOUNTING POLICIES

(1) 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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(1) Statement of compliance and basis of preparation (continued)

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.

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousands, which is the functional currency of the Bank.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements that have a significant effect on the Financial Statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(22).

The measurement basis used in the preparation of financial statements is historical cost, with the exception of certain financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(4).

(2) Translation of foreign currencies

When the Bank receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rates ruling at the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates ruling at the transaction dates.

A spot exchange rate is quoted by the PBOC, the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rates ruling at the dates the fair value is determined; the exchange differences are recognised in profit or loss, except for the exchange differences arising from the translation of non-monetary available-for-sale financial assets which are recognised in investment revaluation reserve.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) Financial instruments

(i) Recognition and measurement of financial assets and liabilities

A financial asset or financial liability is recognised in the statements of financial position when the Bank becomes a party to the contractual provisions of a financial instrument.

The Bank classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorised as follows:

- **Financial assets and financial liabilities at fair value through profit or loss**

A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, it is managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contain an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transactions costs that may occur on sale, and changes therein are recognised in profit or loss.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) Financial instruments (continued)

(i) Recognition and measurement of financial assets and liabilities (continued)

- **Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than:

- (a) those that the Bank, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- (b) those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are stated at amortised cost using the effective interest method.

- **Loans and receivables**

Loans and receivables are non-derivative financial assets held by the Bank with fixed or determinable recoverable amounts that are not quoted in an active market, other than:

- (a) those that the Bank intends to sell immediately or in the near-term, which will be classified as held for trading;
- (b) those that the Bank, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- (c) those where the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Subsequent to initial recognition, loans and receivables are stated at amortised cost using the effective interest method.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) Financial instruments (continued)

(i) Recognition and measurement of financial assets and liabilities (continued)

- **Available-for-sale financial assets**

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sale and other financial assets which do not fall into any of the above categories.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, without any deduction for transaction costs that may occur on sale, and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, are recognised directly in other comprehensive income. Investments in available-for-sale equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured, are measured at cost less impairment losses, if any. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is reclassified to profit or loss.

- **Other financial liabilities**

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(ii) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Bank at the end of the reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is recognised in profit or loss. Objective evidence of impairment in a financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence includes the following loss events:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

- **Loans and receivables**

The Bank uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, 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.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Collective assessment

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

When impairment is assessed collectively, the Bank uses statistical modelling and considers historical trends of various factors such as credit quality, loan portfolio size, concentrations and economic factors. In order to estimate the provision for the impairment losses, the Bank makes assumptions both to define the way the Bank models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Bank operates.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

- **Loans and receivables** (continued)

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets are removed from the portfolio of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

The Bank periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Bank determines that a loan or receivable has no reasonable prospect of recovery after the Bank has completed all the necessary legal or other claim proceedings, the loan or receivable is written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loan written off is recovered, the amount recovered is recognised in profit or loss through impairment losses.

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Bank has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan meets specific conditions, it is no longer considered as impaired.

- **Held-to-maturity investments**

The impairment loss is calculated based on 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. All impairment losses are recognised in profit or loss.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

- **Available-for-sale financial assets**

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised in other comprehensive income is reclassified to profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from other comprehensive income is the difference between the acquisition cost net of any principal repayment and amortisation and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, after an impairment loss has been recognised on available-for-sale debt instruments, the fair value of the assets increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an equity instrument classified as available-for-sale is not reversed through profit or loss but recognised directly in other comprehensive income.

(iii) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value using the quoted price in an active market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets at a bid price and liabilities at an ask price.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) Financial instruments (continued)

(iv) Derecognition of financial assets and financial liabilities

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statements of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities sale and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(5) Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Interest earned on resale agreements and interest incurred on repurchase agreements are recognised respectively as interest income and interest expense over the life of each agreement using the effective interest method.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(6) Property and equipment

Property and equipment are tangible assets held by the Bank for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(10)). Construction in progress ("CIP") is stated in the statements of financial position at cost less impairment loss (Note 2(10)).

The cost of a purchased property and equipment asset comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Bank in different patterns, each part is depreciated separately.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Property and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

	Estimated useful lives	Estimated net residual value	Annual depreciation rate
Premises	20 – 50 years	3% – 5%	1.90% – 4.85%
Machinery equipment and others	5 – 10 years	3% – 5%	9.50% – 19.40%
Vehicles	5 years	3% – 5%	19.00% – 19.40%
Electronic equipment	3 – 5 years	3% – 5%	19.00% – 32.33%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Operating lease

Lease payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent lease payments are recognised as expenses in the accounting period in which they are incurred.

(8) Intangible assets

The intangible assets of the Bank have finite useful lives. The intangible assets are stated in the statements of financial position at cost less accumulated amortisation and impairment losses (Note 2(10)). The cost of intangible assets less residual value and impairment losses is amortised on a straight-line basis over the estimated useful lives.

The respective amortisation periods for intangible assets are as follows:

Software	3 – 5 years
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(9) Repossessed assets

Repossessed assets are initially accounted at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

(10) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the reporting period based on the internal and external sources of information to determine whether there is any indication of impairment:

- property and equipment
- land use rights
- intangible assets
- investments in subsidiaries, associates and joint ventures

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A Cash-Generating Unit (the “CGU”) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Bank also considers how management monitors the Bank’s operations and how management makes decisions about continuing or disposing of the Bank’s assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called “asset”) is the greater of its fair value less costs of disposal and value in use. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Bank determines the recoverable amount of the asset group to which the assets belongs.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(10) Provision for impairment losses on non-financial assets (continued)

An asset's fair value less costs of disposal is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The value in use of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups and then, to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs of disposal (if measurable), value in use (if measurable) and zero.

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment is recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

(11) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The defined contribution retirement plans of the Bank include the social pension schemes and an annuity plan.

Social pension schemes

Pursuant to the relevant laws and regulations in the PRC, the Bank has participated in the social pension schemes for employees arranged by local government labor and social security authorities. The Bank makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local government labor and social security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Annuity plan

The Bank provides an annuity plan to its eligible employees. The Bank makes annuity contributions in proportion to its employees' total salaries and bonuses, which are charged to profit or loss when the contributions are made.

Housing fund and other social insurances

In addition to the retirement benefits above, the Bank has joined social security contributions schemes for employees pursuant to the relevant laws, regulations and policies of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Bank makes monthly contributions to the housing fund and other social insurances schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(11) Employee benefits (continued)

(ii) Supplementary retirement benefits

Early retirement plan

The Bank provides early retirement benefit payments to employees who voluntarily agree to retire early for the period from the date of early retirement to the regulated retirement date. The benefit is discounted to determine the present value based on certain assumptions. The calculation is performed by a qualified actuary using the expected cumulative unit credit method. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

Supplementary retirement plan

The Bank provides a supplementary retirement plan to its eligible employees. The Bank's obligations in respect of the supplementary retirement plan are calculated by estimating the present value of the total amount of future benefits that the Bank is committed to paying to the employees after their retirement. Such obligations are discounted at the interest yield of government bonds with similar duration at the reporting date. The calculation is performed by a qualified actuary using the expected cumulative unit credit method. The related service cost and net interest from the retirement plan are recognised in profit or loss, and the actuarial gains and losses arising from remeasurements are recognised in other comprehensive income.

Early retirement plan and supplementary retirement plan are thereafter collectively referred to as "supplementary retirement benefits".

(12) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items that are recognised in other comprehensive income, in which case the relevant amounts of tax are recognised in other comprehensive income.

Current tax is the expected tax payable calculated at the applicable tax rate on the taxable income for the period, and any adjustment to tax payable in respect of previous years.

At the end of the reporting period, current tax assets and liabilities are offset if the taxable entity has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be used.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the end of the reporting period, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(12) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at the end of the reporting period. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the end of the reporting period, deferred tax assets and liabilities are offset if all the following conditions are met:

- the taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- they relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities, simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(13) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in other liabilities. The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statements of financial position as stated in Note 2(13)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Bank under the guarantee, and the amount of that claim on the Bank is expected to exceed the carrying amount of the deferred income.

(ii) Provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Bank has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(14) Fiduciary activities

The Bank acts in fiduciary activities as a manager, a custodian, or an agent for customers. Assets held by the Bank and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Bank enters into entrusted loan agreements with customers, whereby the customers provide funding (the “entrusted funds”) to the Bank, and the Bank grants loans to third parties (the “entrusted loans”) under instructions of the customers. As the Bank does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

(15) Income recognition

Income is the gross inflow of economic benefit in the periods arising in the course of the Bank’s ordinary activities when the inflows result in an increase in shareholder’s equity, other than an increase relating to contributions from shareholders. Income is recognised in profit or loss when it is probable that the economic benefits will flow to the Bank, the income and costs can be measured reliably and the following respective conditions are met:

(i) Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the reporting period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognised using the rate of interest used to discount future cash flows (“unwinding of discount”) for the purpose of measuring the related impairment loss.

(ii) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Bank which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognised as fee and commission income upon its expiry.

(iii) Other income

Other income is recognised on an accrual basis.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(16) Expenses recognition

(i) Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognised on an accrual basis.

(17) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the end of the reporting period are not recognised as a liability at the end of the reporting period but disclosed separately in the notes to the Financial Statements.

(18) Related parties

The related parties of the Bank include but are not limited to:

(i) A person, or a close member of that person's family, if that person:

(a) has significant influence over the Bank; or

(b) is a member of the key management personnel of the Bank.

(ii) An entity, if that entity:

(a) has significant influence over the Bank;

(b) controls an entity identified in (ii)(a);

(c) is controlled or jointly controlled by an entity identified in (ii)(a) and (ii)(b);

(d) is controlled or jointly controlled by a person identified in (i).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(19) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Bank's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Bank's management to make decisions about resources to be allocated to the segment and assess its performance. Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services, the type or class of customers, the methods used to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated as "others" segment if they share a majority of these criteria.

(20) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Bank. The Bank controls an entity if it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Bank reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Bank having power over an entity.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-bank balances, transactions and any unrealised profits or loss arising from intra-bank transactions are eliminated in full in preparing the consolidated financial statements.

In the Bank's statements of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 2(10)).

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank.

Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Bank are presented on the face of the consolidated statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Bank.

Changes in the Bank's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

(21) Associates and joint ventures

An associate is an entity in which the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Bank and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements of the Bank under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Bank's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Bank's share of the investee's net assets and any impairment loss relating to the investment (Note 2(10)). Any acquisition-date excess over cost, the Bank's share of the post-acquisition, post-tax results of the investees and any impairment losses for the period are recognised in profit or loss, whereas the Bank's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income of the Bank. The Bank's interest in associate or joint venture is included in the consolidated financial statements from the date that significant influence or joint control commences until the date that significant influence or joint control ends.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(21) Associates and joint ventures (continued)

When the Bank's share of losses exceeds its interest in the associate or the joint venture, the Bank's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Bank's interest is the carrying amount of the investment under the equity method together with the Bank's long-term interests that in substance form part of the Bank's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Bank and its associate and joint venture are eliminated to the extent of the Bank's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Bank ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(4)).

(22) Significant accounting estimates and judgements

The preparation of the Financial Statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(i) Impairment losses on loans and advances to customers and financial investments (available-for-sale financial assets, held-to-maturity investments and investment classified as receivables)

The Bank reviews portfolios of loans and advances to customers and financial investments periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for loans and advances to customers and financial investments. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for loans and advances to customers, and debt investments that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

The objective evidence of impairment for an available-for-sale equity investment includes significant or prolonged decline in its fair value below its cost. When deciding whether there is significant or prolonged decline in fair value, the Bank will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(22) Significant accounting estimates and judgements (continued)

(ii) Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments and discounted cash flow analysis, etc. Valuation models established by the Bank make maximum use of market input and rely as little as possible on the Bank's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Bank reviews the above estimations and assumptions periodically and makes adjustment if necessary.

(iii) Classification of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments, if the Bank has the intention and ability to hold them until maturity. In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Failure in correctly assessing the Bank's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(iv) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Bank carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reviewed periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will be available against which deductible temporary differences can be utilized.

(v) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discount rate to calculate the present value. All relevant materials which can be obtained are used for the estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumptions.

(vi) Depreciation and amortisation

Property and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account their residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on the historical experiences of similar assets and estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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
Sub-total	8,587,709	7,595,389
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)
Sub-total	(4,473,655)	(3,999,053)
Net interest income	4,114,054	3,596,336
Of which:		
Interest income arising from impaired financial assets identified	25,104	20,875

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).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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
Sub-total	787,427	721,022
Fee and commission expense	(37,800)	(32,271)
Net fee and commission income	749,627	688,751

5 NET TRADING GAINS

	2015	2014
Net gains from debt securities	7,609	9,812
Net foreign exchange gains	59,045	23,818
Total	66,654	33,630

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 NET GAINS ARISING FROM INVESTMENTS

	2015	2014
Dividends from available-for-sale equity investments	550	450
Net gains on disposal of available-for-sale financial assets	59,811	10,766
Total	60,361	11,216

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

7 OTHER OPERATING INCOME

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

8 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 (Note (1))	(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 (Note (2))	381,621	392,752
Total	2,076,578	1,995,253

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).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments before individual income tax in respect of the directors and supervisors during the reporting period are as follows:

Name	Year ended 31 December 2015					
	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Contributions to pension schemes RMB'000	Other benefits RMB'000	Total emoluments before tax RMB'000
Executive directors						
GUO Shaoquan	–	868	848	163	72	1,951
WANG Lin	–	789	848	157	72	1,866
YANG Fengjiang	–	616	700	131	72	1,519
Non-executive directors						
YANG Mianmian	57	–	–	–	–	57
Rosario STRANO (Note (2))	–	–	–	–	–	–
WANG Jianhui	106	–	–	–	–	106
TAN Lixia	119	–	–	–	–	119
Marco MUSSITA (Note (2))	–	–	–	–	–	–
ZHOU Yunjie	56	–	–	–	–	56
Independent non-executive directors						
WANG Jialing	85	–	–	–	–	85
WANG Zhuquan	182	–	–	–	–	182
DU Wenhe	177	–	–	–	–	177
WONG Tin Yau, Kelvin	91	–	–	–	–	91
CHEN Hua	97	–	–	–	–	97
Supervisors						
ZOU Junqiu	–	616	700	131	72	1,519
LI Zhanguo	39	–	–	–	–	39
FAN Jianjun	86	–	–	–	–	86
SUN Jigang	–	362	426	86	71	945
XU Wansheng	–	362	426	86	71	945
LU Zhengming	57	–	–	–	–	57
ZHANG Xu	57	–	–	–	–	57
WANG Jianhua	61	–	–	–	–	61
FU Changxiang	66	–	–	–	–	66
HU Yanjing	61	–	–	–	–	61
Total	1,397	3,613	3,948	754	430	10,142

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Name	Year ended 31 December 2014					
	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Contributions to pension schemes RMB'000	Other benefits RMB'000	Total emoluments before tax RMB'000
Executive directors						
GUO Shaoquan	–	868	848	160	64	1,940
WANG Lin	–	789	848	154	64	1,855
YANG Fengjiang	–	616	700	128	64	1,508
Non-executive directors						
YANG Mianmian	119	–	–	–	–	119
Rosario STRANO (Note (2))	–	–	–	–	–	–
WANG Jianhui	106	–	–	–	–	106
TAN Lixia	119	–	–	–	–	119
Marco MUSSITA (Note (2))	–	–	–	–	–	–
Independent non-executive directors						
WANG Jialing	163	–	–	–	–	163
WANG Jincheng (Note (3))	85	–	–	–	–	85
WANG Zhuquan	177	–	–	–	–	177
DU Wenhe	177	–	–	–	–	177
Supervisors						
ZOU Junqiu	–	616	700	128	64	1,508
LI Zhanguo	73	–	–	–	–	73
FAN Jianjun	86	–	–	–	–	86
SUN Jigang	–	355	397	99	64	915
XU Wansheng	–	356	397	99	64	916
LU Zhengming	123	–	–	–	–	123
ZHANG Xu	123	–	–	–	–	123
Total	1,351	3,600	3,890	768	384	9,993

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Notes:

- (1) In April 2015, the Bank completed the re-election of the Board of Directors and the Board of Supervisors, and convened its 2014 annual general meeting ("AGM") on 10 April 2015. Mr. ZHOU Yunjie was elected as its non-executive director ("NED"). Ms. YANG Mianmian no longer acted as its NED. Mr. WONG Tin Yau, Kelvin and Mr. CHEN Hua were elected as its independent non-executive directors ("INED"). Ms. WANG Jialing no longer acted as its INED. Mr. WANG Jianhua, Mr. FU Changxiang and Mr. HU Yanjing were elected as its supervisor. Mr. LI Zhanguo, Mr. LU Zhengming and Mr. ZHANG Xu no longer acted as its supervisors.
- (2) The director's fees of Mr. Rosario STRANO and Mr. Marco MUSSITA were waived with their authorization.
- (3) On 30 April 2014, Mr. WANG Jincheng resigned from the position as an INED of the Bank.
- (4) There were no amounts paid during the reporting period to the directors and supervisors in connection with their retirement from employment or as compensation for loss of office with the Bank or as inducement to join. There was no other arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the reporting period.
- (5) The total compensation package for certain directors and supervisors for the year ended 31 December 2015 have not yet been finalized. The difference in emoluments is not expected to have any significant impact on the Bank's financial statements for the year ended 31 December 2015.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2014 and 2015, the five individuals with the highest emoluments included three directors and one supervisor, whose emoluments are disclosed in Note 9. The emoluments before individual income tax for the rest of the five highest paid individuals for the reporting period are as follows:

	2015	2014
Salaries and other emoluments	688	680
Discretionary bonuses	700	700
Contributions to pension schemes	131	128
Total	1,519	1,508

The individual whose emoluments before individual income tax are within the following bands is set out below:

	2015	2014
HKD nil-1,000,000	–	–
HKD1,000,001-1,500,000	–	–
HKD1,500,001-2,000,000	1	1

There were no amounts paid during the reporting period to any of these individuals in connection with their retirement from employment or as compensation for loss of office with the Bank or as inducement to join.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

11 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	579,894	411,278

12 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

	Note	2015	2014
Current tax		603,765	535,265
Deferred tax	22(2)	(68,505)	(72,096)
Total		535,260	463,169

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

	2015	2014
Profit before taxation	2,349,036	1,958,521
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	587,259	489,630
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	729	35
	6,379	5,128
Tax effect of non-taxable income for tax purpose (Note (i))	(58,378)	(31,589)
Income tax	535,260	463,169

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

13 BASIC AND DILUTED EARNINGS PER SHARE

	Note	2015	2014
Net profit attributable to equity shareholders of the Bank		1,813,776	1,495,352
Weighted average number of ordinary shares (in thousands)	13(1)	3,115,125	2,555,977
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		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.

(1) Weighted average number of ordinary shares (in thousands)

	2015	2014
Number of ordinary shares as at 1 January	2,555,977	2,555,977
Increase in weighted average number of ordinary shares in current year	559,148	–
Weighted average number of ordinary shares	3,115,125	2,555,977

In February 2015, the Bank issued 556 million ordinary shares with a nominal value of RMB1.

In December 2015, the Bank issued 900 million ordinary H-shares with a nominal value of RMB1.

The detailed information is set out in Note 31.

14 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	31 December 2015	31 December 2014
Cash on hand		697,995	710,364
Deposits with central bank			
– Statutory deposit reserves	14(1)	16,322,972	18,129,477
– Surplus deposit reserves	14(2)	2,853,619	4,733,748
– Fiscal deposits		45,717	36,002
Sub-total		19,222,308	22,899,227
Total		19,920,303	23,609,591

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

14 CASH AND DEPOSITS WITH CENTRAL BANK (continued)

- (1) The Bank places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of the reporting period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	31 December 2015	31 December 2014
Reserve ratio for RMB deposits	15.0%	18.0%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The statutory deposit reserves are not available for the Bank's daily business.

- (2) The surplus deposit reserves are maintained with the PBOC mainly for the purpose of clearing.

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2015	31 December 2014
Deposits in Mainland China		
– Banks	1,220,736	1,627,150
Deposits outside Mainland China		
– Banks	2,364,531	391,677
Total	3,585,267	2,018,827

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2015	31 December 2014
Placements in Mainland China		
– Banks	1,103,912	666,971
– Other financial institutions	4,226	489,520
Total	1,108,138	1,156,491

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2015	31 December 2014
Debt securities held for trading purpose		
Issued by the following institutions in Mainland China		
– Banks and other financial institutions	145,966	–
– Corporate entities	151,629	190,195
Total	297,595	190,195
Unlisted	297,595	190,195

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2015	31 December 2014
In Mainland China		
– Banks	2,516,977	2,697,628
Total	2,516,977	2,697,628

(2) Analysed by type of security held

	31 December 2015	31 December 2014
Discounted bills	2,016,977	2,697,628
Debt securities	500,000	–
Total	2,516,977	2,697,628

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	31 December 2015	31 December 2014
Corporate loans and advances		
– Corporate loans	49,249,757	44,216,825
– Discounted bills	3,570,642	2,552,046
Sub-total	52,820,399	46,768,871
Personal loans and advances		
– Residential mortgage	11,139,443	6,351,013
– Personal business loans	6,153,375	7,692,890
– Personal consumption loans	1,606,745	1,216,767
– Others	975,556	958,688
Sub-total	19,875,119	16,219,358
Gross loans and advances to customers	72,695,518	62,988,229
Less: Provision for impairment losses		
– Individually assessed	(315,332)	(275,140)
– Collectively assessed	(1,724,965)	(1,464,748)
Total provision for impairment losses	(2,040,297)	(1,739,888)
Net loans and advances to customers	70,655,221	61,248,341

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by economic sector

	31 December 2015		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	18,516,466	25.47%	5,145,839
Wholesale and retail trade	7,553,398	10.39%	4,489,923
Construction	6,414,080	8.82%	2,281,292
Water, environment and public utility management	4,204,375	5.78%	2,169,981
Renting and business activities	4,147,063	5.70%	2,147,579
Real estate	3,354,076	4.61%	2,641,976
Production and supply of electric and heating power, gas and water	2,189,848	3.01%	577,243
Financial services	1,887,874	2.60%	694,632
Transportation, storage and postal services	1,274,605	1.75%	343,955
Others	3,278,614	4.53%	1,189,406
Sub-total of corporate loans and advances	52,820,399	72.66%	21,681,826
Personal loans and advances	19,875,119	27.34%	16,785,923
Gross loans and advances to customers	72,695,518	100.00%	38,467,749

	31 December 2014		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	18,991,889	30.15%	5,239,207
Wholesale and retail trade	7,053,321	11.20%	4,752,396
Construction	5,131,754	8.15%	2,422,354
Real estate	3,519,673	5.59%	3,174,023
Renting and business activities	3,312,626	5.26%	1,787,550
Water, environment and public utility management	2,005,947	3.18%	1,239,832
Transportation, storage and postal services	1,505,188	2.39%	300,664
Production and supply of electric and heating power, gas and water	1,598,199	2.54%	268,899
Agriculture, forestry, animal husbandry and fishery	661,700	1.05%	208,800
Others	2,988,574	4.74%	886,356
Sub-total of corporate loans and advances	46,768,871	74.25%	20,280,081
Personal loans and advances	16,219,358	25.75%	12,954,719
Gross loans and advances to customers	62,988,229	100.00%	33,234,800

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by economic sector (continued)

As at the end of the reporting period, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitutes 10% or more of gross loans and advances to customers is as follows:

	31 December 2015				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment losses charged during the year	Written-off during the year
Manufacturing	306,647	132,196	603,692	321,680	153,043
Wholesale and retail trade	235,126	129,738	216,148	9,393	25,796

	31 December 2014				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment losses charged during the year	Written-off during the year
Manufacturing	181,856	91,387	475,864	111,971	63,300
Wholesale and retail trade	306,198	151,655	210,634	187,567	27,141

(3) Analysed by type of collateral

	31 December 2015	31 December 2014
Unsecured loans	4,056,931	3,552,292
Guaranteed loans	30,170,838	26,201,135
Loans secured by tangible assets other than monetary assets	30,427,847	26,537,600
Loans secured by intangible assets or monetary assets	8,039,902	6,697,202
Gross loans and advances to customers	72,695,518	62,988,229
Less: Provision for impairment losses		
– Individually assessed	(315,332)	(275,140)
– Collectively assessed	(1,724,965)	(1,464,748)
Total provision for impairment losses	(2,040,297)	(1,739,888)
Net loans and advances to customers	70,655,221	61,248,341

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(4) Overdue loans analysed by overdue period

	31 December 2015				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	10,245	18,155	30,461	–	58,861
Guaranteed loans	830,519	323,434	145,458	–	1,299,411
Loans secured by tangible assets other than monetary assets	260,069	192,814	271,610	17,801	742,294
Total	1,100,833	534,403	447,529	17,801	2,100,566
As a percentage of gross loans and advances to customers	1.51%	0.74%	0.62%	0.02%	2.89%

	31 December 2014				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	21,799	60,963	878	–	83,640
Guaranteed loans	481,142	130,347	17,928	102,681	732,098
Loans secured by tangible assets other than monetary assets	238,203	270,809	77,399	28,082	614,493
Total	741,144	462,119	96,205	130,763	1,430,231
As a percentage of gross loans and advances to customers	1.18%	0.73%	0.15%	0.21%	2.27%

Overdue loans represent loans of which the whole or part of the principal or interest has been overdue for one day or more.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(5) Loans and advances and provision for impairment losses analysis

	31 December 2015				
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))		Total	Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	71,831,457	235,456	628,605	72,695,518	1.19%
Less: Provision for impairment losses	(1,610,118)	(114,847)	(315,332)	(2,040,297)	
Net loans and advances to customers	70,221,339	120,609	313,273	70,655,221	

	31 December 2014				
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))		Total	Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	62,270,209	171,515	546,505	62,988,229	1.14%
Less: Provision for impairment losses	(1,401,906)	(62,842)	(275,140)	(1,739,888)	
Net loans and advances to customers	60,868,303	108,673	271,365	61,248,341	

Notes:

- (i) Loans and advances collectively assessed for impairment bear relatively insignificant risk of impairment. These loans and advances include those which are graded normal or special-mention.
- (ii) Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the following methods:
 - Individually (including corporate loans and advances which are graded substandard, doubtful or loss); or
 - Collectively, representing portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).
- (iii) The definitions of the loan classifications, stated in Notes (i) and (ii) above, are set out in Note 37(1).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(6) Movements of provision for impairment losses

	2015				Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances			
		which are collectively assessed	which are individually assessed		
As at 1 January	1,401,906	62,842	275,140	1,739,888	
Charge for the year	208,212	52,005	315,991	576,208	
Release for the year	–	–	(39,334)	(39,334)	
Unwinding of discount	–	–	(25,104)	(25,104)	
Write-offs	–	–	(250,689)	(250,689)	
Recoveries of loans and advances written off and others	–	–	39,328	39,328	
As at 31 December	1,610,118	114,847	315,332	2,040,297	

	2014				Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances			
		which are collectively assessed	which are individually assessed		
As at 1 January	1,358,885	40,022	125,355	1,524,262	
Charge for the year	43,021	22,820	308,399	374,240	
Release for the year	–	–	(14,669)	(14,669)	
Unwinding of discount	–	–	(20,875)	(20,875)	
Write-offs	–	–	(165,186)	(165,186)	
Recoveries of loans and advances written off and others	–	–	42,116	42,116	
As at 31 December	1,401,906	62,842	275,140	1,739,888	

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS

	Note	31 December 2015	31 December 2014
Available-for-sale financial assets	20(1)	17,120,786	14,122,539
Held-to-maturity investments	20(2)	22,575,284	19,721,428
Investment classified as receivables	20(3)	44,786,787	27,209,059
Total		84,482,857	61,053,026

(1) Available-for-sale financial assets

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

(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
Total	16,956,326	13,538,992
Unlisted	16,956,326	13,538,992

(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).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS (continued)

(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
Carrying value	22,575,284	19,721,428
Unlisted	22,575,284	19,721,428
Fair value	23,434,562	19,846,408

(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
Gross amount	44,877,287	27,259,059
Less: provision for impairment losses	(90,500)	(50,000)
Total	44,786,787	27,209,059

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	Construction in progress	Total
Cost						
As at 1 January 2014	714,633	288,914	39,872	44,007	1,930	1,089,356
Additions	134,513	41,445	8,919	9,748	–	194,625
Disposals	(16,055)	(5,477)	(2,306)	(224)	–	(24,062)
As at 31 December 2014	833,091	324,882	46,485	53,531	1,930	1,259,919
Additions	172,196	70,840	6,830	7,173	–	257,039
Disposals	(5,668)	(17,868)	(2,936)	(793)	(1,930)	(29,195)
As at 31 December 2015	999,619	377,854	50,379	59,911	–	1,487,763
Accumulated depreciation						
As at 1 January 2014	(155,496)	(132,862)	(20,975)	(21,047)	–	(330,380)
Additions	(23,385)	(44,569)	(6,718)	(6,345)	–	(81,017)
Disposals	9,835	5,158	1,832	191	–	17,016
As at 31 December 2014	(169,046)	(172,273)	(25,861)	(27,201)	–	(394,381)
Additions	(24,668)	(55,371)	(6,611)	(7,885)	–	(94,535)
Disposals	1,567	17,599	2,789	355	–	22,310
As at 31 December 2015	(192,147)	(210,045)	(29,683)	(34,731)	–	(466,606)
Net book value						
As at 31 December 2015	807,472	167,809	20,696	25,180	–	1,021,157
As at 31 December 2014	664,045	152,609	20,624	26,330	1,930	865,538

The carrying amount of premises with incomplete title deeds as at 31 December 2015 was RMB14.80 million (31 December 2014: RMB22.05 million). The Bank is still in the progress of applying for the outstanding title deeds for the above premises. The directors of the Bank are of the opinion that there would be no significant cost for obtaining the title deeds.

The net book values of premises at the end of the reporting period are analysed by the remaining terms of the land leases as follows:

	31 December 2015	31 December 2014
Held in Mainland China		
– Long-term leases (over 50 years)	18,649	19,370
– Medium-term leases (10 – 50 years)	784,286	639,921
– Short-term leases (less than 10 years)	4,537	4,754
Total	807,472	664,045

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 DEFERRED INCOME TAX ASSETS

(1) Analysed by nature

	31 December 2015		31 December 2014	
	Deductible/ (taxable) temporary differences	Deferred Income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred Income tax assets/ (liabilities)
Provision for impairment losses	1,653,312	413,328	1,195,496	298,874
Deferred interest income from discounted bills	61,412	15,353	63,700	15,925
Change in fair value	(654,728)	(163,682)	(112,500)	(28,125)
Others	57,612	14,403	203,180	50,795
Total	1,117,608	279,402	1,349,876	337,469

(2) Analysed by movement

	Provision for Impairment losses	Deferred interest income from discounted bills Note (i)	Change in fair value	Others Note (ii)	Total
As at 1 January 2014	227,176	14,102	69,508	50,795	361,581
Recognised in profit or loss	71,698	1,823	(1,425)	–	72,096
Recognised in other comprehensive income	–	–	(96,208)	–	(96,208)
As at 31 December 2014	298,874	15,925	(28,125)	50,795	337,469
Recognised in profit or loss	114,454	(572)	(1,850)	(43,527)	68,505
Recognised in other comprehensive income	–	–	(133,707)	7,135	(126,572)
As at 31 December 2015	413,328	15,353	(163,682)	14,403	279,402

Notes:

- (i) Pursuant to the requirement issued by the local tax authority, tax obligations arise when the Bank receives interest from discounted bills. The difference between the interest received and the interest income recognised in profit or loss using the effective interest method forms deductible temporary difference.
- (ii) Others include supplementary retirement benefits accrued, which are deductible against taxable income when actual payment occurs.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 OTHER ASSETS

	Note	31 December 2015	31 December 2014
Prepayment for long-term assets		1,716,243	1,442,906
Interest receivable	23(1)	1,090,551	937,265
Intangible assets	23(2)	165,630	114,673
Long-term deferred expense		142,331	151,247
Land use rights		60,604	62,192
Deferred expense		47,598	40,062
Precious metals		16,986	17,166
Other receivables		128,960	223,803
Sub-total		3,368,903	2,989,314
Less: Provision for impairment losses		(566)	(479)
Total		3,368,337	2,988,835

(1) Interests receivable

	31 December 2015	31 December 2014
Interest receivable arising from:		
– Investments	820,124	684,236
– Loans and advances to customers	233,442	215,214
– Others	36,985	37,815
Total	1,090,551	937,265

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 OTHER ASSETS (continued)

(2) Intangible assets

	2015	2014
Cost		
As at 1 January	187,937	124,795
Additions	96,672	63,177
Decrease	(16,970)	(35)
As at 31 December	267,639	187,937
Accumulated amortisation		
As at 1 January	(73,264)	(41,208)
Additions	(45,715)	(32,091)
Decrease	16,970	35
As at 31 December	(102,009)	(73,264)
Net value		
As at 1 January	114,673	83,587
As at 31 December	165,630	114,673

Intangible assets of the Bank mainly represent software.

24 BORROWINGS FROM CENTRAL BANK

	31 December 2015	31 December 2014
Borrowings (Note (1))	487,020	917,850
Re-discounted bills	41,889	85,826
Total	528,909	1,003,676

Note:

- (1) The Borrowings are US dollar loans issued by the State Administration of Foreign Exchange.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2015	31 December 2014
In Mainland China		
– Banks	14,358,519	14,631,994
– Other financial institutions	12,977,351	5,730,595
Total	27,335,870	20,362,589

26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2015	31 December 2014
In Mainland China		
– Banks	2,922,120	1,125,896
Outside Mainland China		
– Banks	129,872	253,939
Total	3,051,992	1,379,835

27 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2015	31 December 2014
In Mainland China		
– Banks	2,000,000	9,869,144
– Other financial institutions	–	200,000
Total	2,000,000	10,069,144

(2) Analysed by types of collaterals

	31 December 2015	31 December 2014
Debt securities	2,000,000	10,069,144
Total	2,000,000	10,069,144

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 DEPOSITS FROM CUSTOMERS

	31 December 2015	31 December 2014
Demand deposits		
– Corporate deposits	40,164,726	34,586,278
– Personal deposits	9,192,474	6,552,927
Sub-total	49,357,200	41,139,205
Time deposits		
– Corporate deposits	29,763,437	29,677,837
– Personal deposits	35,763,810	30,704,276
Sub-total	65,527,247	60,382,113
Outward remittance and remittance payables	436,901	198,668
Fiscal deposits to be transferred	649	13,674
Total	115,321,997	101,733,660
Including:		
Pledged deposits:	10,992,059	12,434,610

29 DEBT SECURITIES ISSUED

	31 December 2015	31 December 2014
Debt securities issued (Note (1))	7,189,158	4,990,590
Certificates of interbank deposit issued (Note (2))	9,125,149	3,344,440
Total	16,314,307	8,335,030

Note:

- (1) Financial debts with fixed interest rates and with a total nominal amount of RMB5 billion and RMB2.2 billion were issued by the Bank in 2013 and 2015, respectively. The details are as follows:
- (i) Three-year debts were issued with an interest rate of 4.6% per annum and with a nominal amount of RMB2.1 billion in March 2013. The debts will mature on 5 March 2016 with annual interest payments. As at 31 December 2015, the fair value of the debts was RMB2.105 billion (31 December 2014: RMB2.094 billion).
 - (ii) Five-year debts were issued with an interest rate of 4.8% per annum and with a nominal amount of RMB2.9 billion in March 2013. The debts will mature on 5 March 2018 with annual interest payments. As at 31 December 2015, the fair value of the debts was RMB2.970 billion (31 December 2014: RMB2.885 billion).
 - (iii) Ten-year tier-two capital bonds were issued with an interest rate of 5.59% per annum and with a nominal amount of RMB2.2 billion in March 2015. The debts will mature on 5 March 2025 with annual interest payments. The Bank has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2015, the fair value of the debts was RMB2.288 billion.
- (2) The Bank issued a number of certificates of interbank deposit with duration between 1 month to 1 year.

As at 31 December 2015 and 2014, the outstanding balance of certificates of interbank deposit issued by the Bank was RMB9.125 billion and RMB3.344 billion respectively, and the fair value was RMB9.052 billion and RMB3.322 billion respectively.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

30 OTHER LIABILITIES

	Note	31 December 2015	31 December 2014
Interest payable	30(1)	2,134,308	1,966,274
Employee benefits payable	30(2)	908,156	727,393
Taxes payable	30(3)	69,039	62,514
Payable raising from fiduciary activities		980,107	140,003
Settlement payable		72,181	400,000
Others		1,796,978	112,231
Total		5,960,769	3,408,415

Note: As at 31 December 2015, others include funds raised for wealth management products managed by third parties amounting to RMB1.105 billion.

(1) Interest payable

	31 December 2015	31 December 2014
Interest payable arising from:		
– Deposits from customers	1,599,781	1,476,910
– Deposits and placements from banks and other financial institutions	238,378	252,356
– Debt securities issued	296,042	195,100
– Financial assets sold under repurchase agreements	107	41,908
Total	2,134,308	1,966,274

(2) Employee benefits payable

	31 December 2015	31 December 2014
Salaries, bonuses and allowances payable	813,607	493,828
Labor union expense payable	17,119	14,180
Employee education expense payable	13,524	9,909
Welfare payable	4,545	4,545
Others (Note (i))	59,361	204,931
Total	908,156	727,393

Note:

- (i) Others include the Bank's supplementary retirement benefits for its eligible employees. The obligations are accounted for in accordance with the accounting policies disclosed in Note 2(11) (ii). The Bank amended its supplementary retirement benefits plan in 2015. Please refer to Note 8 (1) for details.

The Bank's obligations in respect of the supplementary retirement benefits as at the reporting date were based on the expected cumulative unit credit method.

(3) Taxes payable

Taxes payable mainly include business tax and surcharges.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

31 SHARE CAPITAL

Authorised and issued share capital

	31 December 2015	31 December 2014
Number of shares authorised, issued and fully paid at nominal value (in thousands)	4,011,533	2,555,977

In February 2015, the Bank issued 556 million ordinary shares with a nominal value of RMB1 at RMB3.60 per share. The premium arising from the issuance of new shares amounting to RMB1.444 billion was recorded in capital reserve.

In December 2015, the Bank issued 900 million H-shares with a nominal value of RMB1 at an offering price of HKD4.75 per share (the "H-share offering"). The premium arising from the H-share offering amounting to RMB2.513 billion was recorded in capital reserve.

32 RESERVES

(1) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of nominal value.

(2) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund.

Pursuant to the Company Law of the PRC and the Article of Association, the Bank is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China (the "MOF") after offsetting prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(3) General reserve

From 1 July 2012, pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)" issued by the MOF in March 2012, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets within five years.

(4) Investment revaluation reserve

	2015	2014
As at 1 January	85,077	(203,547)
Change in fair value recognised in other comprehensive income	594,640	395,598
Transfer to profit or loss upon disposal	(59,811)	(10,766)
Less: income tax	(133,707)	(96,208)
As at 31 December	486,199	85,077

(5) Other reserve

Other reserve includes actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

33 PROFIT DISTRIBUTION

(1) Profit distribution other than cash dividends

	2015	2014
Appropriations to		
– Statutory surplus reserve fund	181,378	149,535
– General reserve	504,554	552,565
Total	685,932	702,100

In accordance with the Board of Directors' resolution on 9 March 2016, the Bank made appropriations to the above statutory surplus reserve of RMB181.38 million and general risk reserve of RMB504.55 million.

(2) Dividend distribution

	2015	2014
Dividend declared	777,883	204,478
Dividend proposed	811,743 (RMB0.20 per share)	777,883 (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 RMB3,111.53 million as at the 2014 dividend payout announcement date of the Bank, a total amount of approximately RMB777.88 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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 NOTES TO CASH FLOW STATEMENT

Cash and cash equivalents:

	31 December 2015	31 December 2014
Cash	697,995	710,364
Surplus deposit reserves with central bank	2,853,619	3,174,207
Original maturity within three months:		
– Deposits with banks and other financial institutions	2,965,267	1,518,827
– Financial assets held under resale agreements	70,000	820,000
– Placements with banks and other financial institutions	1,108,138	795,470
– Debts investments	–	300,000
Total	7,695,019	7,318,868

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above ownership.

Share percentage in the Bank:

	31 December 2015	31 December 2014
Intesa Sanpaolo S.p.A.	15.51%	20.00%
Qingdao Conson Industrial Co., Ltd.	12.64%	17.13%
Qingdao Haier Investment and Development Co., Ltd.	10.21%	16.03%
Qingdao Haier Air-Conditioning Electronic Co., Ltd.	5.45%	8.56%

(b) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 35(1)(a) or their controlling shareholders.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Related party transactions and balances

Related party transactions of the Bank mainly refer to loans, deposits and financial investments, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

	31 December 2015	31 December 2014
Balances at the end of the year:		
Loans and advances to customers	5,034	636,070
Financial investments:		
Investment classified as receivables	500,000	200,000
Available-for-sale financial assets	–	29,992
Deposits with banks and other financial institutions	1,707	6,628
Interest receivable	912	2,521
Deposits from customers	785,002	527,305
Interest payable	785	2,013
Placements from banks and other financial institutions	–	91,785

	2015	2014
Transactions during the year:		
Interest income	31,526	31,486
Interest expense	2,273	2,958

(3) Remuneration of key management personnel

The Bank's key management personnel includes people having authority and responsibility, directly or indirectly, to plan, command and control the activities of the Bank, including directors, supervisors and senior management at bank level.

	2015	2014
Remuneration of key management personnel	15,891	15,696

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 SEGMENT REPORTING

Segment reporting is disclosed in accordance with the accounting policy set out in Note 2(19).

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 SEGMENT REPORTING (continued)

	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	1,054,838	384,144	892,717	17,337	2,349,036
Other segment information					
– Depreciation and amortisation	(141,981)	(148,681)	(9,556)	–	(300,218)
– Capital expenditure	315,296	330,173	21,221	–	666,690

	31 December 2015				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	65,720,450	28,282,992	92,952,410	–	186,955,852
Deferred tax assets					279,402
Total assets					187,235,254
Segment liabilities/Total liabilities	71,338,368	47,379,550	51,903,684	–	170,621,602
Credit commitments	23,780,294	349,094	–	–	24,129,388

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 SEGMENT REPORTING (continued)

	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	1,006,538	292,290	623,172	36,521	1,958,521
Other segment information					
– Depreciation and amortisation	(113,243)	(122,477)	(5,160)	–	(240,880)
– Capital expenditure	194,634	210,504	8,868	–	414,006

	31 December 2014				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	62,591,707	25,336,430	67,900,335	–	155,828,472
Deferred tax assets					337,469
Total assets					156,165,941
Segment liabilities/Total liabilities	65,416,984	39,287,066	41,677,241	–	146,381,291
Credit commitments	25,422,952	284,469	–	–	25,707,421

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT

The Bank has exposure to the following risks from its use of financial instruments in the normal course of the Bank's operations, which mainly include: credit risk, interest rate risk, foreign currency risk, liquidity risk and operational risk. This note presents information about the Bank's exposure to each of the above risks and their sources, as well as the Bank's risk management objectives, policies and processes for measuring and managing risks.

The Bank aims to seek an appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Bank's financial performance. Based on such objectives, the Bank has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of reliable and up-to-date management information systems.

(1) Credit risk

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Bank. This category includes loan portfolio, investment portfolio, guarantees and various other on- and off-balance sheet credit risk exposures.

Credit business

The Bank's risk management procedures with respect to credit business include pre-loan investigation, credit review and approval, loan disbursement and post-disbursement management. In respect of pre-loan investigation, customer managers assess the credit risk of the borrower and the proceeds from the loan and form assessment report; in respect of credit review, all credit businesses are approved by authorized approvers; in respect of post-disbursement management, any adverse events that may significantly affect a borrower's repayment ability are reported immediately and measures are implemented to prevent and control risks. To reduce the risk, the Bank would require the borrower to provide collaterals or other credit enhancements in appropriate circumstances.

The Bank adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honor the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' abilities to service their loans are in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Bank applies a series of criteria in determining the classification of loans. The loan classification criteria focuses on a number of factors, including (i) the borrower's ability to repay the loan; (ii) the borrower's repayment history; (iii) the borrower's willingness to repay; (iv) the net realizable value of any collateral; and (v) the prospect for the support from any financially responsible guarantor. The Bank also takes into account the length of time for which payments of principal and interest on a loan are overdue.

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37 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

Financial market business

The Bank sets credit limits for financial market operations based on the credit risk inherent in the products and counterparties. The Bank uses information system to closely monitor the credit exposure on a real-time basis, and regularly reviews its credit limits and makes adjustments as appropriate.

Besides debt securities and other money market products, the Bank invests in wealth management products issued by financial institutions. Before making the investment decision, the Bank will assess the ability of the issuers to manage the investments and the credit risk of the underlying assets.

In addition, the Bank also invests in trust products and asset management products designed and sold by trust companies and securities companies. Before making the investment decision, the Bank will assess the ability of the issuers to manage the investments and the credit risk of the underlying assets.

The Bank analyses and monitors the credit risk of the investments by regular review of the financial position and operating results of the underlying borrowers who use the funds under the trust plans or asset management schemes.

The maximum exposure to credit risk is represented by the carrying amount of each type of financial assets and the contract amount of credit commitments. In addition to the Bank's credit commitments disclosed in Note 39(1), the Bank did not provide any other guarantee that might expose the Bank to credit risk. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of the reporting period is disclosed in Note 39(1).

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37 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

The Bank's loans and advances to customers, deposits and placements balances with banks and other financial institutions ("Balances with banks and other financial institutions"), financial assets held under resale agreements and investments are listed by credit quality as follows:

	31 December 2015			
	Loans and advances to customers	Balances with banks and other financial institutions	Financial assets held under resale agreements	Investments Note (ii)
Impaired (Note (i))				
Individually assessed				
Gross balance	628,605	—	—	—
Provision for impairment losses	(315,332)	—	—	—
Net balance	313,273	—	—	—
Collectively assessed				
Gross balance	235,456	—	—	—
Provision for impairment losses	(114,847)	—	—	—
Net balance	120,609	—	—	—
Overdue but not impaired (Note (i))				
Within 3 months (inclusive)	1,097,833	—	—	—
Between 3 months and 1 year (inclusive)	138,672	—	—	—
Over 1 year	—	—	—	—
Gross balance	1,236,505	—	—	—
Provision for impairment losses	(110,211)	—	—	—
Net balance	1,126,294	—	—	—
Neither overdue nor impaired				
Gross balance	70,594,952	4,693,405	2,516,977	84,847,702
Provision for impairment losses	(1,499,907)	—	—	(90,500)
Net balance	69,095,045	4,693,405	2,516,977	84,757,202
Book value	70,655,221	4,693,405	2,516,977	84,757,202

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

	31 December 2014			
	Loans and advances to customers	Balances with banks and other financial institutions	Financial assets held under resale agreements	Investments Note (ii)
Impaired (Note (i))				
Individually assessed				
Gross balance	546,505	–	–	–
Provision for impairment losses	(275,140)	–	–	–
Net balance	271,365	–	–	–
Collectively assessed				
Gross balance	171,515	–	–	–
Provision for impairment losses	(62,842)	–	–	–
Net balance	108,673	–	–	–
Overdue but not impaired (Note (i))				
Within 3 months (inclusive)				
	647,445	–	–	–
Between 3 months and 1 year (inclusive)				
	64,922	–	–	–
Over 1 year				
	–	–	–	–
Gross balance	712,367	–	–	–
Provision for impairment losses	(60,759)	–	–	–
Net balance	651,608	–	–	–
Neither overdue nor impaired				
Gross balance	61,557,842	3,175,318	2,697,628	61,269,971
Provision for impairment losses	(1,341,147)	–	–	(50,000)
Net balance	60,216,695	3,175,318	2,697,628	61,219,971
Book value	61,248,341	3,175,318	2,697,628	61,219,971

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(1) Credit risk (continued)

Notes:

- (i) As at 31 December 2015, the principal amount of the Bank's impaired loans and advances to customers subject to individual assessment was RMB629 million (31 December 2014: RMB547 million). The fair value of collaterals held against these loans and advances was RMB118 million (31 December 2014: RMB134 million).

As at 31 December 2015, the principal amount of the Bank's corporate loans and advances to customers overdue but not impaired was RMB910 million (31 December 2014: RMB630 million). The fair value of collaterals held against these loans and advances was RMB619 million (31 December 2014: RMB328 million).

The fair value of collaterals was determined by management based on the latest available external valuations adjusted by taking into account its experience in disposing of collaterals as well as current market situation.

- (ii) Investments include non-equity investments classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables.

(2) Market risk

Market risk is the risk of loss, in respect of the Bank's activities, arising from adverse movements in market rates including interest rates, exchange rates, commodity prices, stock prices and other prices.

The Bank is exposed to market risk mainly in its financial market operations. The Bank has constructed a market risk management system that formulates procedures to identify, measure, supervise and control market risks. This system aims to limit market risk to an acceptable level through examining and approving new products and quota management.

The Bank employs sensitivity analysis, interest repricing gap analysis and foreign currency gap analysis to measure and monitor market risks. The Bank classifies the transactions as banking book and trading book transactions, and applies different approaches based on the nature and characteristics of these books to monitor the risks.

Interest rate risk and currency risk are major market risks that confront the Bank.

(a) Interest rate risk

The Bank'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.

The Bank primarily uses gap analysis to assess and monitor its repricing risk and adjusts the ratio of floating and fixed rate accounts, the loan repricing cycle, as well as optimises the term structure of its deposits according to the gap status.

The Bank 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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

The following tables indicate the assets and liabilities analysis as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	31 December 2015					
	Total	Non-interest bearing	Less than Three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	19,920,303	743,712	19,176,591	–	–	–
Deposits with banks and other financial institutions	3,585,267	–	3,465,267	120,000	–	–
Placements with banks and other financial institutions	1,108,138	–	1,108,138	–	–	–
Financial assets held under resale agreements	2,516,977	–	1,552,036	964,941	–	–
Loans and advances to customers (Note (i))	70,655,221	–	12,695,002	53,825,588	3,835,745	298,886
Investments (Note (ii))	84,780,452	23,250	12,423,510	21,303,934	38,067,314	12,962,444
Others	4,668,896	4,668,896	–	–	–	–
Total assets	187,235,254	5,435,858	50,420,544	76,214,463	41,903,059	13,261,330
Liabilities						
Borrowings from central bank	528,909	–	41,889	487,020	–	–
Deposits from banks and other financial institutions	27,335,870	–	12,285,370	11,900,500	3,150,000	–
Placements from banks and other financial institutions	3,051,992	–	3,051,992	–	–	–
Financial assets sold under repurchase agreements	2,000,000	–	2,000,000	–	–	–
Deposits from customers	115,321,997	436,901	75,727,483	23,639,412	15,322,739	195,462
Debt securities issued	16,314,307	–	6,063,646	5,161,002	2,895,663	2,193,996
Others	6,068,527	4,963,827	–	147,500	957,200	–
Total liabilities	170,621,602	5,400,728	99,170,380	41,335,434	22,325,602	2,389,458
Asset-liability gap	16,613,652	35,130	(48,749,836)	34,879,029	19,577,457	10,871,872

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

	31 December 2014					
	Total	Non-interest bearing	Less than Three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	23,609,591	746,366	22,863,225	–	–	–
Deposits with banks and other financial institutions	2,018,827	–	1,518,827	–	500,000	–
Placements with banks and other financial institutions	1,156,491	–	1,125,896	30,595	–	–
Financial assets held under resale agreements	2,697,628	–	2,055,207	642,421	–	–
Loans and advances to customers (Note (i))	61,248,341	–	36,396,729	23,952,881	898,731	–
Investments (Note (ii))	61,243,221	23,250	5,441,151	17,381,569	28,775,125	9,622,126
Others	4,191,842	4,191,842	–	–	–	–
Total assets	156,165,941	4,961,458	69,401,035	42,007,466	30,173,856	9,622,126
Liabilities						
Borrowings from central bank	1,003,676	–	80,000	923,676	–	–
Deposits from banks and other financial institutions	20,362,589	–	10,897,634	8,864,955	600,000	–
Placements from banks and other financial institutions	1,379,835	–	1,379,835	–	–	–
Financial assets sold under repurchase agreements	10,069,144	–	10,069,144	–	–	–
Deposits from customers	101,733,660	198,668	66,158,539	23,209,778	12,045,153	121,522
Debt securities issued	8,335,030	–	1,387,208	1,957,232	4,990,590	–
Others	3,497,357	3,497,357	–	–	–	–
Total liabilities	146,381,291	3,696,025	89,972,360	34,955,641	17,635,743	121,522
Asset-liability gap	9,784,650	1,265,433	(20,571,325)	7,051,825	12,538,113	9,500,604

Notes:

- (i) For the Bank's loans and advances to customers, the category "Less than three months" as at 31 December 2015 includes overdue loans and advances (net of provision for impairment losses) of RMB1,560 million (31 December 2014: RMB935 million).
- (ii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(a) Interest rate risk (continued)

The Bank uses sensitivity analysis to measure the potential effect of changes in interest rates on the Bank's net interest income. The following table sets forth the results of the Bank's interest rate sensitivity analysis at the end of the reporting period.

	31 December 2015 Increase/(Decrease)	31 December 2014 Increase/(Decrease)
Increase/(Decrease) in annualized net interest income		
Interest rates increase by 100 bps	(225,906)	(152,825)
Interest rates decrease by 100 bps	225,906	152,825

This sensitivity analysis is based on a static interest rate risk profile of the Bank's assets and liabilities and certain simplified assumptions. The analysis measures only the impact of changes in the interest rates within one year, showing how annualized interest income would have been affected by the repricing of the Bank's assets and liabilities within the one-year period. The analysis is based on the following assumptions:

- (i) All assets and liabilities that are repriced or mature within three months and after three months but within one year are repriced or mature at the beginning of the respective periods (i.e., all the assets and liabilities that are repriced or mature within three months are repriced or mature immediately, and all the assets and liabilities that are repriced or mature after three months but within one year are repriced or mature immediately after three months);
- (ii) There is a parallel shift in the yield curve and in interest rates, and;
- (iii) There are no other changes to the portfolio and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Bank's net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk

The Bank's currency risk mainly arises from foreign currency loans and deposits from customers. The Bank manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Bank's currency exposures as at the end of the reporting period are as follows:

	31 December 2015			
	RMB (RMB Equivalent)	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	19,903,326	12,195	4,782	19,920,303
Deposits with banks and other financial institutions	1,115,360	2,348,401	121,506	3,585,267
Placements with banks and other financial institutions	4,226	1,103,912	–	1,108,138
Financial assets held under resale agreements	2,516,977	–	–	2,516,977
Loans and advances to customers	70,064,413	587,574	3,234	70,655,221
Investments (Note (i))	84,780,452	–	–	84,780,452
Others	4,663,385	4,589	922	4,668,896
Total assets	183,048,139	4,056,671	130,444	187,235,254
Liabilities				
Borrowings from central bank	41,889	487,020	–	528,909
Deposits from banks and other financial institutions	27,335,870	–	–	27,335,870
Placements from banks and other financial institutions	–	3,051,992	–	3,051,992
Financial assets sold under repurchase agreements	2,000,000	–	–	2,000,000
Deposits from customers	115,036,895	268,473	16,629	115,321,997
Debt securities issued	16,314,307	–	–	16,314,307
Others	6,048,521	4,191	15,815	6,068,527
Total liabilities	166,777,482	3,811,676	32,444	170,621,602
Net position	16,270,657	244,995	98,000	16,613,652
Off-balance sheet credit commitments	23,877,012	203,931	48,445	24,129,388

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk (continued)

	31 December 2014			
	RMB (RMB Equivalent)	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	23,596,695	8,258	4,638	23,609,591
Deposits with banks and other financial institutions	1,287,483	677,659	53,685	2,018,827
Placements with banks and other financial institutions	–	1,156,491	–	1,156,491
Financial assets held under resale agreements	2,697,628	–	–	2,697,628
Loans and advances to customers	60,090,389	1,156,927	1,025	61,248,341
Investments (Note (i))	61,243,221	–	–	61,243,221
Others	4,183,839	6,372	1,631	4,191,842
Total assets	153,099,255	3,005,707	60,979	156,165,941
Liabilities				
Borrowings from central bank	85,826	917,850	–	1,003,676
Deposits from banks and other financial institutions	20,331,994	30,595	–	20,362,589
Placements from banks and other financial institutions	–	1,379,835	–	1,379,835
Financial assets sold under repurchase agreements	10,069,144	–	–	10,069,144
Deposits from customers	101,268,821	415,652	49,187	101,733,660
Debt securities issued	8,335,030	–	–	8,335,030
Others	3,494,937	2,418	2	3,497,357
Total liabilities	143,585,752	2,746,350	49,189	146,381,291
Net position	9,513,503	259,357	11,790	9,784,650
Off-balance sheet credit commitments	25,464,719	238,654	4,048	25,707,421

Note:

- (i) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and investment classified as receivables.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(2) Market risk (continued)

(b) Currency risk (continued)

	31 December 2015 Increase/(Decrease)	31 December 2014 Increase/(Decrease)
Increase/(Decrease) in annualized net profit		
Foreign exchange rate increase by 100 bps	396	332
Foreign exchange rate decrease by 100 bps	(396)	(332)

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions. The analysis is based on the following assumptions:

- (i) the foreign exchange sensitivity is the gain or loss recognized as a result of 100 basis point fluctuation in the foreign currency exchange rates against RMB;
- (ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously;
- (iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Bank's net foreign exchange gain or loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

(3) Liquidity risk

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 Bank has sufficient cash flow to meet payment obligations and fund business operations on a timely basis. To achieve this, the Bank 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 bank also needs to comply with statutory requirements on liquidity ratios, and actively carry out lending and investment business. The Bank 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 Risk Management Committee in accordance with the liquidity management objectives of the Bank, and to ensure payment of the Bank's business.

The Bank 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 Bank's assets are funded by deposits from customers. As a major source of funding, customer deposits have been growing steadily in recent years and are widely diversified in terms of type and duration.

The Bank principally uses liquidity gap analysis to measure liquidity risk. Stress testing is also adopted to assess the impact of liquidity risk.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis

The following tables provide an analysis of assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	31 December 2015							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with central bank	16,368,689	3,551,614	–	–	–	–	–	19,920,303
Deposits with banks and other financial institutions	–	2,965,267	–	500,000	120,000	–	–	3,585,267
Placements with banks and other financial institutions	–	–	328,906	779,232	–	–	–	1,108,138
Financial assets held under resale agreements	–	–	569,977	982,059	964,941	–	–	2,516,977
Loans and advances to customers	1,351,143	209,033	2,658,478	6,136,282	29,623,775	14,377,677	16,298,833	70,655,221
Investments (Note (i))	23,250	–	2,314,613	10,010,812	20,767,270	38,702,063	12,962,444	84,780,452
Others	3,578,345	29,974	298,651	188,668	540,208	31,028	2,022	4,668,896
Total assets	21,321,427	6,755,888	6,170,625	18,597,053	52,016,194	53,110,768	29,263,299	187,235,254
Liabilities								
Borrowings from central bank	–	–	–	41,889	–	487,020	–	528,909
Deposits from banks and other financial institutions	–	977,370	6,121,000	5,187,000	11,900,500	3,150,000	–	27,335,870
Placements from banks and other financial institutions	–	–	2,922,120	129,872	–	–	–	3,051,992
Financial assets sold under repurchase agreements	–	–	2,000,000	–	–	–	–	2,000,000
Deposits from customers	–	50,590,286	13,651,683	11,922,415	23,639,412	15,322,739	195,462	115,321,997
Debt securities issued	–	–	1,497,076	4,566,570	5,161,002	2,895,663	2,193,996	16,314,307
Others	13,594	77,272	1,863,785	1,407,996	773,130	1,875,140	57,610	6,068,527
Total liabilities	13,594	51,644,928	28,055,664	23,255,742	41,474,044	23,730,562	2,447,068	170,621,602
Long/(short) position	21,307,833	(44,889,040)	(21,885,039)	(4,658,689)	10,542,150	29,380,206	26,816,231	16,613,652

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

	31 December 2014							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with central bank	18,165,479	5,444,112	–	–	–	–	–	23,609,591
Deposits with banks and other financial institutions	–	712,877	500,000	305,950	–	500,000	–	2,018,827
Placements with banks and other financial institutions	–	–	795,470	330,426	30,595	–	–	1,156,491
Financial assets held under resale agreements	–	–	209,918	1,845,289	642,421	–	–	2,697,628
Loans and advances to customers	706,120	323,817	3,773,230	6,720,959	29,661,963	9,278,080	10,784,172	61,248,341
Investments (Note (i))	23,250	–	745,963	4,498,695	16,391,305	29,961,882	9,622,126	61,243,221
Others	3,254,578	12,582	366,420	219,779	336,201	2,282	–	4,191,842
Total assets	22,149,427	6,493,388	6,391,001	13,921,098	47,062,485	39,742,244	20,406,298	156,165,941
Liabilities								
Borrowings from central bank	–	–	40,000	40,000	464,751	458,925	–	1,003,676
Deposits from banks and other financial institutions	–	167,894	3,375,880	5,653,860	8,864,955	2,300,000	–	20,362,589
Placements from banks and other financial institutions	–	–	1,174,848	204,987	–	–	–	1,379,835
Financial assets sold under repurchase agreements	–	–	7,423,944	2,645,200	–	–	–	10,069,144
Deposits from customers	–	42,077,362	12,521,616	11,758,229	23,209,778	12,045,153	121,522	101,733,660
Debt securities issued	–	–	–	1,387,208	1,957,232	4,990,590	–	8,335,030
Others	12,214	419,915	1,201,667	879,008	733,062	48,311	203,180	3,497,357
Total liabilities	12,214	42,665,171	25,737,955	22,568,492	35,229,778	19,842,979	324,702	146,381,291
Long/(short) position	22,137,213	(36,171,783)	(19,346,954)	(8,647,394)	11,832,707	19,899,265	20,081,596	9,784,650

Notes:

- (i) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and investment classified as receivables.
- (ii) For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers, the "indefinite" period amount represents the balance being impaired or overdue for more than one month, and the balance not impaired but overdue within one month is included in "repayable on demand".

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

(b) Analysis on contractual undiscounted cash flows of liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the liabilities at the end of the reporting period:

	31 December 2015							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow
Borrowings from central bank	-	-	-	42,000	15,073	496,807	-	553,880
Deposits from banks and other financial institutions	-	977,370	6,131,752	5,247,634	12,167,533	3,553,801	-	28,078,090
Placements from banks and other financial institutions	-	-	2,923,333	130,156	-	-	-	3,053,489
Financial assets sold under repurchase agreements	-	-	2,000,321	-	-	-	-	2,000,321
Deposits from customers	-	50,590,286	13,660,586	11,970,432	23,996,212	17,047,721	204,321	117,469,558
Debt securities issued	-	-	1,500,000	4,937,180	5,240,000	3,593,520	2,814,900	18,085,600
Other liabilities	13,594	77,272	1,863,785	1,407,996	800,308	2,186,308	57,610	6,406,873
Total liabilities	13,594	51,644,928	28,079,777	23,735,398	42,219,126	26,878,157	3,076,831	175,647,811

	31 December 2014							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow
Borrowings from central bank	-	-	40,000	40,000	484,512	478,983	-	1,043,495
Deposits from banks and other financial institutions	-	167,894	3,383,537	5,741,619	9,152,181	2,498,063	-	20,943,294
Placements from banks and other financial institutions	-	-	1,175,029	205,559	-	-	-	1,380,588
Financial assets sold under repurchase agreements	-	-	7,432,027	2,662,319	-	-	-	10,094,346
Deposits from customers	-	42,077,362	12,531,268	11,825,680	23,660,790	13,335,200	126,889	103,557,189
Debt securities issued	-	-	-	1,440,700	2,000,000	5,514,200	-	8,954,900
Other liabilities	12,214	419,915	1,201,667	879,008	733,062	48,311	203,180	3,497,357
Total liabilities	12,214	42,665,171	25,763,528	22,794,885	36,030,545	21,874,757	330,069	149,471,169

This analysis of the liabilities by contractual undiscounted cash flow might differ from actual results.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(4) Operational risk

Operational risk refers to the risk arising from inadequate or failed internal control procedures, personnel and information technology systems, or external events. The primary operational risks the Bank face include internal and external frauds, worksite safety failures, business interruptions and failure in the information technology system.

The Board of Directors is ultimately responsible for the Bank's operational risk management. The Bank's senior management leads the bank-wide operational risk management on a day-to-day basis. The Bank has established "three lines of defenses" to manage operational risk on an end-to-end basis. The business lines and functions are the first line of defense against operational risks, taking direct responsibilities for operational risk management. The legal and compliance department is the second line of defense against operational risks, responsible for the establishment of operational risk management policies and procedures and the coordination, support, and supervision of operational risk management. The audit department is the third line of defense against operational risk, responsible for evaluating the adequacy and effectiveness of operational risk management policies and procedures and assessing the Bank's internal control system and compliance.

(5) Capital management

The Bank's capital management includes capital adequacy ratio management, capital financing management and economic capital management. Among them, capital adequacy ratio management is especially important. The Bank calculates capital adequacy ratios in accordance with the guidance issued by the CBRC. The capital of the Bank is divided into three pieces: core tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the core of the capital management of the Bank. Capital adequacy ratio reflects the Bank's sound operations and risk management capability. The Bank's capital management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Bank's operating situations.

The Bank considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testing and other measures to forecast, plan and manage capital adequacy ratio. The required information is filed with the CBRC by the Bank semi-annually and quarterly.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(5) Capital management (continued)

As at 31 December 2014 and 2015, the Bank calculated the capital adequacy ratios in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the CBRC in 2012 and relevant requirements promulgated by the CBRC as follows:

	31 December 2015	31 December 2014
Total core tier-one capital	16,613,652	9,784,650
– Share capital	4,011,533	2,555,977
– Qualifying portion of capital reserve	6,708,018	2,750,177
– Surplus reserve	804,789	623,411
– General reserve	2,391,182	1,886,628
– Retained earnings	2,215,006	1,865,050
– Investment revaluation reserve and others	483,124	103,407
Core tier-one capital deductions	(165,631)	(114,721)
Net core tier-one capital	16,448,021	9,669,929
Net tier-one capital	16,448,021	9,669,929
Tier two capital	3,376,236	1,022,946
– Qualifying portions of tier-two capital instruments issued	2,200,000	–
– Surplus provision for loan impairment	1,176,236	1,022,946
Net capital base	19,824,257	10,692,875
Total risk weighted assets	131,824,697	99,449,856
Core tier-one capital adequacy ratio	12.48%	9.72%
Tier-one capital adequacy ratio	12.48%	9.72%
Capital adequacy ratio	15.04%	10.75%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 FAIR VALUE

(1) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Bank has established policies and internal controls with respect to the measurement of fair value, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

The Bank adopts the following methods and assumptions when evaluating fair value:

(a) Debt securities investments

The fair value of debt securities that are traded in an active market is based on their quoted market prices in an active market at the end of the reporting period.

(b) Receivables and other non-derivative financial assets

Fair value is estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(c) Debt securities issued and other non-derivative financial liabilities

The fair value of debt securities issued is based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair value of other non-derivative financial liabilities is evaluated at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 FAIR VALUE (continued)

(2) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	31 December 2015			
	Level 1 Note (i)	Level 2 Note (i)	Level 3 Note (i) ~ (ii)	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	297,595	–	297,595
Available-for-sale financial assets				
– Debt securities	–	16,956,326	–	16,956,326
– Trust fund plans	–	80,119	–	80,119
– Investment funds	–	61,091	–	61,091
Total	–	17,395,131	–	17,395,131

	31 December 2014			
	Level 1 Note (i)	Level 2 Note (i)	Level 3 Note (i) ~ (ii)	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	190,195	–	190,195
Available-for-sale financial assets				
– Debt securities	–	13,538,992	–	13,538,992
– Trust fund plans	–	–	300,316	300,316
– Investment funds	–	259,981	–	259,981
Total	–	13,989,168	300,316	14,289,484

(i) During the reporting period, there were no significant transfers among each level.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 FAIR VALUE (continued)

(2) Financial instruments recorded at fair value (continued)

- (ii) The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	As at 1 January	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year		Purchases, issues, disposals and settlements				As at 31 December	Total gains or losses for the year included in profit or loss for assets held at the end of the year	
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals	Settlements			
2015												
Available-for-sale financial assets												
– Trust fund plans	300,316	–	–	14,465	–	257,880	–	–	(572,661)	–	–	–
Total	300,316	–	–	14,465	–	257,880	–	–	(572,661)	–	–	–

	As at 1 January	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year		Purchases, issues, disposals and settlements				As at 31 December	Total gains or losses for the year included in profit or loss for assets held at the end of the year	
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals	Settlements			
2014												
Available-for-sale financial assets												
– Trust fund plans	–	–	–	316	–	300,000	–	–	–	300,316	316	316
Total	–	–	–	316	–	300,000	–	–	–	300,316	316	316

The total gains or losses for the year included in profit or loss in above table were shown as interest income in the statement of profit or loss and other comprehensive income.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 FAIR VALUE (continued)

(3) Fair value of financial assets and liabilities not carried at fair value

- (i) Cash and deposits with central bank, deposits and placements with/from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements, deposits from customers, loans and advances to customers and financial investments -investment classified as receivables

The fair value of the above financial assets and financial liabilities is estimated based on future cash flows expected to be received which is discounted at current market rate. Given the majority of these mature within one year or repriced at least annually to the market rate, their carrying values approximate their fair value.

- (ii) Held-to-maturity investments

The fair value for held-to-maturity investments is based on “bid” market prices or brokers’/dealers’ price quotations. If relevant market information is not available, the fair value is based on quoted price of security products with similar characteristics such as credit risk, maturities and yield.

- (iii) Debt securities issued

The fair value of debt securities issued is based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of held-to-maturity investments and debt securities issued:

	31 December 2015				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	22,575,284	23,434,562	–	23,434,562	–
Total	22,575,284	23,434,562	–	23,434,562	–
Financial liabilities					
Securities issued					
– Debt securities	7,189,158	7,363,249	–	7,363,249	–
– Certificates of interbank deposit	9,125,149	9,052,224	–	9,052,224	–
Total	16,314,307	16,415,473	–	16,415,473	–

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 FAIR VALUE (continued)

(3) Fair value of financial assets and liabilities not carried at fair value (continued)

(iii) Debt securities issued (continued)

	31 December 2014				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	19,721,428	19,846,408	–	19,846,408	–
Total	19,721,428	19,846,408	–	19,846,408	–
Financial liabilities					
Securities issued					
– Debt securities	4,990,590	4,978,604	–	4,978,604	–
– Certificates of interbank deposit	3,344,440	3,322,204	–	3,322,204	–
Total	8,335,030	8,300,808	–	8,300,808	–

39 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	24,129,388	25,707,421

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(2) Credit risk-weighted amount

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

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	584,830	722,691

(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	687,894	267,889
Total	687,894	267,889

(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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(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 MOF and the PBOC. 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	2,843,173	2,408,237

(7) Pledged assets

	31 December 2015	31 December 2014
Investment securities	4,547,229	12,739,261
Total	4,547,229	12,739,261

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 (Note 14). 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).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(1) Structured entities sponsored by third party institutions in which the Bank holds an interest

The Bank holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. The Bank does not consolidate these structured entities. Such structured entities include wealth management products issued by financial institutions, asset management plans, trust fund plans, asset-backed securities and investment funds. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following tables set out an analysis of the carrying amounts of interests held by the Bank as at 31 December 2015 and 31 December 2014 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	31 December 2015			
	Available for sale financial assets	Investment classified as receivables	Carrying amount	Maximum exposure
Asset management plans	–	22,390,780	22,390,780	22,390,780
Trust fund plans	80,119	8,633,155	8,713,274	8,713,274
Wealth management products issued by financial institutions	–	9,640,547	9,640,547	9,640,547
Asset-backed securities	742,665	–	742,665	742,665
Investment funds	61,091	–	61,091	61,091
Total	883,875	40,664,482	41,548,357	41,548,357

	31 December 2014			
	Available for sale financial assets	Investment classified as receivables	Carrying amount	Maximum exposure
Asset management plans	–	17,783,494	17,783,494	17,783,494
Trust fund plans	300,316	9,327,783	9,628,099	9,628,099
Asset-backed securities	388,228	–	388,228	388,228
Investment funds	259,981	–	259,981	259,981
Total	948,525	27,111,277	28,059,802	28,059,802

The maximum exposures to loss in the above investment products are the amortised cost or the fair value (whichever is higher) of the assets held by the Bank at the end of the reporting period in accordance with the line items of these assets recognised in the statement of financial position.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (continued)

(2) Unconsolidated structured entities sponsored by the Bank in which the Bank holds an interest

The types of unconsolidated structured entities sponsored by the Bank mainly include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Bank includes fees charged by providing management services to these structured entities. As at 31 December 2015 and 31 December 2014, the carrying amounts of the management fee receivables being recognized are not material in the statement of financial position.

As at 31 December 2015, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Bank, was RMB34.094 billion (31 December 2014: RMB21.538 billion).

In addition, the unconsolidated structured entities sponsored by the Bank also include asset-backed securities. As at 31 December 2015, the balances of these asset-backed securities was RMB0.159 billion (31 December 2014: RMB0.143 billion).

(3) Structured entities sponsored and issued by the Bank after 1 January but matured before 31 December at the end of the reporting period in which the Bank no longer holds an interest

During the year ended 31 December 2015, the amount of fee and commission income recognised from the above mentioned structured entities by the Bank was RMB80 million (2014: RMB29 million).

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Bank after 1 January 2015 but matured before 31 December 2015 was RMB83.853 billion (2014: RMB64.876 billion).

41 ASSET SECURITIZATION

The Bank enters into securitization transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

In August 2015 and October 2014, the Bank transferred a portfolio of customer loans with a book value of RMB2.543 billion and RMB2.833 billion respectively to an unconsolidated securitization vehicle managed by an independent trust company, which issued asset-backed securities to investors. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognized.

Under the servicing arrangements with the independent trust company, the Bank collects the cash flows of the transferred assets on behalf of the unconsolidated securitization vehicle. In return, the Bank receives a fee that is expected to compensate the Bank for servicing the related assets.

42 FIDUCIARY ACTIVITIES

The Bank commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in the statements of financial position as they are not the Bank's assets.

As at 31 December 2015, the entrusted loans balance of the Bank was RMB8.835 billion (31 December 2014: RMB5.677 billion).

43 SUBSEQUENT EVENTS

- (1) At 4 January 2016, the Bank partially exercised the over-allotment option and issued 47,180,000 H shares with a par value of RMB1 at an offering price of HKD4.75 per share. The respective total proceeds amount to HKD224 million.
- (2) The profit appropriation of the Bank was proposed in accordance with the resolution of the Bank's board of directors meeting as disclosed in Note 33.

Except for the above, the Bank has no other significant non-adjusted events subsequent to the end of the reporting period.

Chapter XV Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the audited financial statements, and is included herein for information purposes only.

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Bank discloses the unaudited supplementary Financial Information as follows:

1 LIQUIDITY COVERAGE RATIO/LIQUIDITY RATIOS AND LEVERAGE RATIO

(1) Liquidity coverage ratio/Liquidity ratios

The liquidity coverage ratio is calculated in accordance with the relevant regulations promulgated by the China Banking Regulatory Commission (the “CBRC”) and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People’s Republic of China (the “MOF”).

The Hong Kong Banking (Disclosure) Rules requires the disclosure of an average liquidity coverage ratio, which is the arithmetic mean of the liquidity coverage ratio for each calendar quarter. Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional) (《商業銀行流動性風險管理辦法(試行)》) issued by the CBRC effective on 1 March 2014, commercial banks with total assets below RMB200 billion are not required to comply with the regulatory requirements of liquidity coverage ratio. As such, the Bank is not required by the CBRC to calculate such liquidity coverage ratio.

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively.

The Bank began disclosing the liquidity coverage ratio after listed on the Stock Exchange of Hong Kong Limited in December 2015. Before that, the Bank used liquidity ratio and other indicators to monitor and manage liquidity risk.

	As at 31 December 2015
Qualified and high-quality current assets	36,069,181
Net cash outflows in next 30 days	27,313,363
Liquidity coverage ratio (RMB and foreign currency)	132.06%

	As at 31 December 2015	Average for the year ended 31 December 2015
RMB current assets to RMB current liabilities	60.34%	51.98%
Foreign currency current assets to foreign currency current liabilities	6.80%	45.01%

	As at 31 December 2014	Average for the year ended 31 December 2014
RMB current assets to RMB current liabilities	45.67%	41.05%
Foreign currency current assets to foreign currency current liabilities	37.04%	49.42%

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

1 LIQUIDITY COVERAGE RATIO/LIQUIDITY RATIOS AND LEVERAGE RATIO (continued)

(2) Leverage ratio

	As at 31 December 2015
Leverage ratio	7.89%

Pursuant to the Leverage Ratio Management of Commercial Banks (Amended) issued by the CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

The above liquidity ratios and leverage ratio were calculated in accordance with the formulas promulgated by the CBRC, and based on the Financial Information prepared in accordance with the Accounting Standards for Business Enterprises issued by the MOF.

2 CURRENCY CONCENTRATIONS

	31 December 2015			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	4,056,671	106,568	23,876	4,187,115
Spot liabilities	(3,811,676)	(25,832)	(6,612)	(3,844,120)
Net long position	244,995	80,736	17,264	342,995

	31 December 2014			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	3,005,707	10,334	50,645	3,066,686
Spot liabilities	(2,746,350)	(6,309)	(42,880)	(2,795,539)
Net long position	259,357	4,025	7,765	271,147

The Bank has no structural position at the reporting periods.

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Bank regards all claims on third parties outside Mainland China and claims dominated in foreign currency on third parties in Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions and investments in debt securities.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	31 December 2015			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	11,435	3,270,374	597,265	3,879,074
– of which attributed to Hong Kong	–	2,052,773	–	2,052,773
– North and South America	–	298,836	–	298,836
– Europe	–	4,609	–	4,609
	11,435	3,573,819	597,265	4,182,519

	31 December 2014			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	6,928	1,527,326	1,178,490	2,712,744
– of which attributed to Hong Kong	–	8,521	–	8,521
– North and South America	–	342,739	–	342,739
– Europe	–	17,770	–	17,770
	6,928	1,887,835	1,178,490	3,073,253

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	31 December 2015	31 December 2014
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	223,456	200,636
– between 6 months and 1 year (inclusive)	310,947	261,483
– over 1 year	465,330	226,968
Total	999,733	689,087
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.31%	0.32%
– between 6 months and 1 year (inclusive)	0.43%	0.41%
– over 1 year	0.64%	0.36%
Total	1.38%	1.09%

Definitions

Company:	Bank of Qingdao Co., Ltd.
CBRC:	China Banking Regulatory Commission
CSRC:	China Securities Regulatory Commission
Hong Kong Stock Exchange:	The Stock Exchange of Hong Kong Limited
Qingdao Regulatory Commission:	Qingdao Supervisory Commission of the China Banking Regulatory Banking Commission
Hong Kong Listing Rules:	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Articles of Association:	Articles of Association of the Bank of Qingdao Co., Ltd.
SFO:	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
IPO:	Initial Public Offering
SDR:	Special Drawing Right



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