



## **2016 Interim Report**

**Bank of Qingdao Co., Ltd.**  
**青島銀行股份有限公司**

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

(Stock code: 3866)

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## IMPORTANT NOTICE

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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 proposal on the 2016 Interim Report of Bank of Qingdao Co., Ltd. was considered and approved at the 17th meeting of the sixth session of the Board of Directors of the Company held on 19 August 2016. There were 12 Directors eligible for attending the meeting, of whom 10 Directors attended the meeting.
3. The interim financial report for the six months ended 30 June 2016 of the Company is prepared in accordance with the applicable disclosure provisions of the Hong Kong Listing Rules, including compliance with International Accounting Standard 34, Interim Financial Reporting and have been reviewed by the audit committee of the Company and by KPMG in accordance with the Hong Kong Standard on Review Engagements 2410. The interim financial report for the six months ended 30 June 2016 has not been audited.
4. Unless otherwise specified, the currency of the amounts mentioned in this 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 report.
6. No profit distribution and no transfer from capital reserve to share capital were made by the Company in 2016 during the interim period.
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., Ltd.**

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## CHAPTER I CORPORATE INFORMATION

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**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:**

Hong Kong Stock Exchange  
Stock name: BQD  
Stock code: 3866

**Unified Social Credit Code:**

91370200264609602K

**Date of first registration:** 15 November 1996

**Date of change of registration:** 6 May 2016

**Financial licence institution number:**

B0170H237020001

**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.hkexnews.hk/>)

2.1 FINANCIAL DATA

Item	January to June 2016	January to June 2015	Year-on-year change
<b>Business Performance (RMB'000)</b>			<b>Change (%)</b>
Net interest income	2,446,882	1,950,475	25.45
Net fee and commission income	473,746	393,267	20.46
Net trading gains, net gains arising from investments and other operating income, net	50,000	55,456	(9.84)
Operating income	2,970,628	2,399,198	23.82
Operating expenses	(954,192)	(750,338)	27.17
Impairment losses	(381,558)	(240,612)	58.58
Profit before taxation	1,634,878	1,408,248	16.09
Net profit	1,261,528	1,073,744	17.49
Net cash flows used in operating activities	(614,414)	(3,219,679)	(80.92)
			<b>Change</b>
Basic earnings per share (RMB)	0.31	0.36	(0.05)

2.2 FINANCIAL INDICATORS

Item	January to June 2016	January to June 2015	Year-on-year change
<b>Profitability indicators (%)</b>			<b>Change</b>
Return on average total asset (annualised)	1.28	1.32	(0.04)
Return on average equity (annualised)	14.98	19.62	(4.64)
Net interest spread (annualised)	2.17	2.13	0.04
Net interest margin (annualised)	2.36	2.34	0.02
Net fee and commission income to operating income	15.95	16.39	(0.44)
Cost-to-income ratio	28.43	25.14	3.29

## CHAPTER II FINANCIAL HIGHLIGHTS

Item	30 June 2016	31 December 2015	Change from the end of last year
<b>Scale indicators (RMB'000)</b>			<b>Change (%)</b>
Total assets	207,066,195	187,235,254	10.59
Of which: loans and advances to customers, net	78,749,221	70,655,221	11.46
Total liabilities	189,990,020	170,621,602	11.35
Of which: deposits from customers	126,299,566	115,321,997	9.52
Share capital	4,058,713	4,011,533	1.18
Total equity	17,076,175	16,613,652	2.78
			<b>Change</b>
Net assets per share attributable to shareholders of the Company (RMB)	4.21	4.14	0.07
<b>Asset quality indicators (%)</b>			<b>Change</b>
Non-performing loan ratio	1.26	1.19	0.07
Provision coverage ratio	216.05	236.13	(20.08)
Loan provision ratio	2.71	2.81	(0.10)
<b>Indicators of capital adequacy ratio (%)</b>			<b>Change</b>
Core tier-one capital adequacy ratio	11.25	12.48	(1.23)
Tier-one capital adequacy ratio	11.25	12.48	(1.23)
Capital adequacy ratio	13.49	15.04	(1.55)
Total equity to total assets	8.25	8.87	(0.62)
<b>Other indicators (%)</b>			<b>Change</b>
Loan-to-deposit ratio	59.84	59.99	(0.15)
Liquidity ratio	63.12	60.04	3.08
Percentage of loans to the single largest customer	5.79	5.55	0.24
Percentage of loans to the top ten customers	38.39	32.66	5.73

- 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) 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）》) and other relevant regulatory regulations

### 3.1 REVIEW OF THE ECONOMIC AND FINANCIAL ENVIRONMENT AND POLICIES

The slowing down of economic recovery in the United States, the expansion of economic recovery in Europe, the appreciation of Yen and the problem of deflation in Japan, coupled with the gradually recovering yet overall fragile economy of emerging economies, all contributed to the sluggish global economic performance in the first half of 2016.

In the first half of the year, China's economic growth remained stable due to factors including the policies backing, the warming up of the property market, and the streamlining of administration and the delegation of authority. Despite the latest progress achieved in overcapacity cutting, destocking, deleveraging of enterprises, China's economy still faced relatively large downside pressure due to the declining private investments and the painstaking revival of Northeast China and other regions. PBoC, therefore, maintained continuity and stability in its policies by following a prudent and optimal monetary policy, adopting flexible regulatory tools and improving the macroeconomic management framework, and further pushed forward market-oriented interest rates and the reform of the exchange rate formation mechanism to improve the efficiency of financial resource allocation. CBRC further refined the laws and regulations of the banking industry, promoted the development of inclusive finance and the reform of the governance mechanism of the industry, while avoiding credit risk in key areas to safeguard the bottom line of preventing regional and systemic financial risks.

Addressing the complex and challenging macroeconomic situation since the beginning of 2016, Shandong Province adhered to the principle of steady development and proactively addressed the pressure and challenges arising from the economic downturn by moderately expanding the overall demand, pushing forward the structural reform on the supply side, and coordinating various tasks in relation to economic and social development, hence achieving a slight bounce-back in the industrial production, consumption and export indexes and a stable economic performance in the first half of the year. Focusing on "cutting overcapacity, destocking, deleveraging, reducing cost and remedying weakness", Qingdao City implemented the strategic decisions made by the central and provincial governments by adjusting its economic structure, maintaining steady growth and accentuating execution in line with its aim to become the "three centres", namely a key innovation centre on the east coast, an important domestic regional service centre, and a world leading marine development centre. The highlights of economic development included marine economy, internet industry and "Fortune Qingdao", embodying the improvement of the quality and efficiency of economic growth and the steady economic development of the city.



### 3.2 SUMMARY OF OVERALL OPERATIONS

#### 3.2.1 Status of Key Operational Indicator Achievement

- (1) Total assets amounted to RMB207.066 billion, representing an increase of RMB19.831 billion or 10.59% compared with that at the end of the previous year;
- (2) Total deposits amounted to RMB126.300 billion, representing an increase of RMB10.978 billion or 9.52% compared with that at the end of the previous year;
- (3) Total loans amounted to RMB80.946 billion, representing an increase of RMB8.250 billion or 11.35% compared with that at the end of the previous year;
- (4) Net profit amounted to RMB1.262 billion, representing a year-on-year increase of RMB188 million or 17.49%;
- (5) Non-performing loan ratio, provision coverage ratio and capital adequacy ratio were 1.26%, 216.05% and 13.49% respectively;
- (6) Return on average total assets was 1.28%, representing a year-on-year decrease of 0.04 percentage point;
- (7) Return on average equity was 14.98%, representing a year-on-year decrease of 4.64 percentage points, mainly because the Company completed the capital and share increase in February 2015, and was listed on the Main Board of The Stock Exchange of Hong Kong Limited in December 2015 with H share proceeds raised, resulting in a significant year-on-year increase in net assets.

#### 3.2.2 Major Tasks of Operational Management

The wholesale business line firmly upheld the development concept which aimed at “strengthening the two ends and focusing on the intermediary”, and adhered to the strategy of transforming itself into an investment bank by focusing on the promotion of public sector finance projects as well as the design, development of new investment and loan linkage products such as optional loans and share pledge loans for financial institutions and non-financial corporate debt financing instruments underwriting, whereas the “three-in-one” comprehensive financial service system covering “loans, bonds and stocks” is taking shape. The Company also ventured quality and superior credit assets in a timely manner to effectively boost the growth of the liabilities business. As at the end of the Reporting Period, the balance of corporate deposit increased 10.44% compared with that at the end of last year.

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## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

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The retail business line continued to implement the “interface banking” strategy which focused on “all-in-one cards” (一卡通) and “chain E-finance” (鏈E貸), and has successfully penetrated into the healthcare, public transport sectors, local communities, as well as large enterprises and public institutions. By implementing vigorous marketing efforts for online financing business for core corporations, an initial breakthrough was achieved in balancing assets and liabilities as the Company has diversified its channels to secure a sizable number of customers and continuously enhanced its asset structure. Leveraging the advantage of its growing profile of retail products and ongoing well-aimed marketing activities, all kinds of distribution businesses developed rapidly while mid-to-high end customer base continued to grow steadily, resulting in a significant improvement in customer structure.

The financial market business actively developed various types of asset investment businesses and thereby increased the efficiency of capital utilization. As one of the few pilot banks to participate in the central bank’s green finance innovation, the Company issued the first tranche of city commercial bank Green Bonds in the amount of RMB4 billion. The Company became the only city commercial bank in Shandong Province to obtain the qualifications of B-Class lead underwriter for non-financial corporate debt financing instruments while also obtained permission to operate common derivatives trading business, demonstrating initial signs of success of its integrated license layout. As the organisational reform of business units continued to deepen, the development of cross-regional business achieved significant progress.

As to risk prevention and control, the Company continued to reduce the total lines of credit granted to industries suffering from overcapacity, carried out credit structural adjustment which led to a further decrease in credit allocation to the manufacturing industry; continued to refine credit management and prepared a list of businesses by “categories of risk”; implemented a multi-pronged approach to recover, resolve and dispose of non-performing loans to maintain the overall amount of such loans at a reasonable level, with a non-performing loans ratio significantly lower than the average of Shandong Province and of banks around of the country. the Company carried out numerous compliance tasks on internal control and prevention, and was named a “national advanced unit in legal promotion and education”.

With respect to information technology, the Company continued to step up its investment in information technology to align with the “interface banking” strategy by carrying out information technology projects and on-line operation; it also completely revamped the mobile banking interface, with the number of mobile banking users surpassing that of internet banking users for the first time; the user number and business scale of the O2O platform “Haihui Life” (海慧生活), the P2B platform “Wealth e-House” (財富e屋) and the direct banking product “Reaping Returns from the Money Market” (小胖挖寶) recorded continuous growth. The development of internet-based small loan products including “An Ju Dai” (安居貸) and “Xin Jin Dai” (薪金貸) proceeded smoothly. Initial success was achieved in the mobile financial business layout.

Regarding foundational management, the Company officially commenced the compilation of the strategic planning for 2016-2020. The number of “Weekly Inspections” (本周我巡視) has exceeded 300 in total for over 6 years in a row and the reform of integrated counter clerk system was successfully promoted. The Company continued to deepen its organisational reform, expand the scale of entity establishment and upgrade its internal control level steadily.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

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

#### 3.3.1 Financial performance summary

Unit: RMB'000

Item	January to June 2016	January to June 2015
Net interest income	2,446,882	1,950,475
Net fee and commission income	473,746	393,267
Net trading gains, net gains arising from investments and other operating income, net	50,000	55,456
Operating income	2,970,628	2,399,198
Operating expenses	(954,192)	(750,338)
Impairment losses	(381,558)	(240,612)
Profit before taxation	1,634,878	1,408,248
Income tax	(373,350)	(334,504)
<b>Net profit</b>	<b>1,261,528</b>	1,073,744

During the Reporting Period, the Company achieved a profit before taxation of RMB1.635 billion, representing a year-on-year increase of 16.09% and a net profit of RMB1.262 billion, representing a year-on-year increase of 17.49%; and the effective income tax rate was 22.84%, representing a year-on-year decrease of 0.91 percentage point. The following table sets forth the impact of changes in our significant profit or loss items on the profit before taxation during the Reporting Period.

Unit: RMB'000

Item	Amount
Profit before taxation in the first half of 2015	1,408,248
Changes in the first half of 2016	
Net interest income	496,407
Net fee and commission income	80,479
Net trading gains, net gains arising from investments and other operating income, net	(5,456)
Operating expenses	(203,854)
Impairment losses	(140,946)
Profit before taxation in the first half of 2016	1,634,878

**3.3.2 Operating income**

During the Reporting Period, the Company achieved an operating income of RMB2.971 billion, representing a year-on-year increase of 23.82%, of which net interest income accounted for 82.37%, representing a year-on-year increase of 1.07 percentage points, and net non-interest income accounted for 17.63%, representing a year-on-year decrease of 1.07 percentage points. The following table sets forth the year-on-year comparison of the composition of our operating income.

*Unit: %*

<b>Item</b>	<b>January to June 2016</b>	January to June 2015
Net interest income	<b>82.37</b>	81.30
Net fee and commission income	<b>15.95</b>	16.39
Net trading gains, net gains arising from investments and other operating income, net	<b>1.68</b>	2.31
<b>Total</b>	<b>100.00</b>	100.00

## 3.3.3 Net interest income

During the Reporting Period, the Company had net interest income of RMB2.447 billion, representing a year-on-year increase of 25.45%. 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	January to June 2016			January to June 2015		
	Average balance	Interest income/expense	Average annualised yield/cost (%)	Average balance	Interest income/expense	Average annualised yield/cost (%)
<b>Interest-earning assets</b>						
Loans and advances to customers	78,655,708	2,145,748	5.49	67,039,472	2,143,286	6.45
Financial investments	95,677,365	2,191,656	4.61	68,829,388	1,774,782	5.20
Deposits with central bank	18,734,334	143,723	1.54	19,322,472	149,615	1.56
Deposits with banks and other financial institutions	2,763,303	16,759	1.22	2,411,774	25,470	2.13
Financial assets held under resale agreements	11,852,820	127,608	2.17	8,637,389	136,805	3.19
Placements with banks and other financial institutions	813,101	4,123	1.02	1,324,941	8,458	1.29
Financial assets at fair value through profit or loss	288,669	6,774	4.72	391,827	9,085	4.68
<b>Total</b>	<b>208,785,300</b>	<b>4,636,391</b>	<b>4.47</b>	<b>167,957,263</b>	<b>4,247,501</b>	<b>5.10</b>
<b>Interest-bearing liabilities</b>						
Deposits from customers	119,631,003	1,071,310	1.80	100,859,110	1,146,650	2.29
Deposits from banks and other financial institutions	27,072,478	466,093	3.46	23,549,506	568,053	4.86
Financial assets sold under repurchase agreements	15,241,408	158,231	2.09	14,532,548	226,691	3.15
Placements from banks and other financial institutions	3,157,828	18,160	1.16	2,351,057	7,912	0.68
Debt securities issued	24,494,858	440,496	3.62	13,931,837	334,611	4.84
Others	1,635,602	35,219	4.33	988,741	13,109	2.67
<b>Total</b>	<b>191,233,177</b>	<b>2,189,509</b>	<b>2.30</b>	<b>156,212,799</b>	<b>2,297,026</b>	<b>2.97</b>
<b>Net interest income</b>		<b>2,446,882</b>			<b>1,950,475</b>	
<b>Net interest spread</b>			<b>2.17</b>			<b>2.13</b>
<b>Net interest margin</b>			<b>2.36</b>			<b>2.34</b>

During the Reporting Period, the net interest margin and net interest spread were 2.36% and 2.17% respectively, representing year-on-year increases of 0.02 percentage point and 0.04 percentage point respectively.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

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	January to June 2016 vs. January to June 2015		
	Due to volume	Due to rate	Net increase/ (decrease)
<b>Assets</b>			
Loans and advances to customers	322,493	(320,031)	2,462
Financial investments	618,811	(201,937)	416,874
Deposits with central bank	(3,970)	(1,922)	(5,892)
Deposits with banks and other financial institutions	2,203	(10,914)	(8,711)
Financial assets held under resale agreements	34,613	(43,810)	(9,197)
Placements with banks and other financial institutions	(2,556)	(1,779)	(4,335)
Financial assets at fair value through profit or loss	(2,389)	78	(2,311)
<b>Change in interest income</b>	<b>969,205</b>	<b>(580,315)</b>	<b>388,890</b>
<b>Liabilities</b>			
Deposits from customers	170,415	(245,755)	(75,340)
Deposits from banks and other financial institutions	61,986	(163,946)	(101,960)
Financial assets sold under repurchase agreements	8,142	(76,602)	(68,460)
Placements from banks and other financial institutions	4,636	5,612	10,248
Debt securities issued	190,405	(84,520)	105,885
Others	13,948	8,162	22,110
<b>Change in interest expense</b>	<b>449,532</b>	<b>(557,049)</b>	<b>(107,517)</b>
<b>Change in net interest income</b>	<b>519,673</b>	<b>(23,266)</b>	<b>496,407</b>

Notes: (1) "Due to volume" represents the daily average balance for the period minus the daily average balance for the previous period, multiplied by the average yield/cost for the period.

(2) "Due to rate" represents the average yield/cost for the period minus the average yield/cost for the previous period, multiplied by the daily average balance for the previous period.

## 3.3.4 Interest income

During the Reporting Period, the Company achieved an interest income of RMB4.636 billion, representing a year-on-year increase of 9.16%, mainly due to an increase in the volume of interest-earning assets. The interest income from financial investments constituted the largest part of the interest income of the Company.

### **Interest income of loans and advances to customers**

During the Reporting Period, the Company's interest income of the loans and advances was RMB2.146 billion, representing a year-on-year increase of RMB2.46 million or 0.11%. The following table sets forth the average balance, interest income and average yield of each component of the loans and advances of the Company for the periods indicated.

Unit: RMB'000

Item	January to June 2016			January to June 2015		
	Average balance	Interest income	Average annualised yield (%)	Average balance	Interest income	Average annualised yield (%)
Corporate loans	58,653,252	1,619,061	5.55	49,650,502	1,579,049	6.41
Personal loans	20,002,456	526,687	5.30	17,388,970	564,237	6.54
<b>Total loans to customers</b>	<b>78,655,708</b>	<b>2,145,748</b>	<b>5.49</b>	<b>67,039,472</b>	<b>2,143,286</b>	<b>6.45</b>

### **Interest income from financial investments**

During the Reporting Period, the Company's interest income from financial investments increased by RMB417 million or 23.49% year-on-year, mainly due to an increase in the volume of financial investments.

### **Interest income from deposits with banks and other financial institutions**

During the Reporting Period, the Company's interest income from deposits with banks and other financial institutions decreased by RMB8.71 million or 34.20% year-on-year, mainly due to a decrease in the yield of deposits with banks and other financial institutions.

## 3.3.5 Interest expense

During the Reporting Period, the Company's interest expense was RMB2.190 billion, representing a year-on-year decrease of RMB108 million or 4.68%, mainly due to a decrease in the cost rate of interest-bearing liabilities.

### *Interest expense on deposits from customers*

During the Reporting Period, the Company's interest expense on deposits from customers decreased by RMB75 million or 6.57% year-on-year. Although the average balance of deposits from customers increased by 18.61% year-on-year, this was offset by a year-on-year decrease of 0.49 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 the Company's corporate deposits and personal deposits for the periods indicated.

Unit: RMB'000

Item	January to June 2016			January to June 2015		
	Average balance	Interest expense	Average annualised cost rate (%)	Average balance	Interest expense	Average annualised cost rate (%)
<b>Corporate deposits from customers</b>						
Demand	39,466,899	129,403	0.66	30,102,815	106,617	0.71
Time	39,079,128	454,346	2.34	34,175,507	500,417	2.95
<b>Subtotal</b>	<b>78,546,027</b>	<b>583,749</b>	<b>1.49</b>	<b>64,278,322</b>	<b>607,034</b>	<b>1.90</b>
<b>Personal deposits from customers</b>						
Demand	9,575,680	16,898	0.35	6,370,217	12,172	0.39
Time	31,509,296	470,663	3.00	30,210,571	527,444	3.52
<b>Subtotal</b>	<b>41,084,976</b>	<b>487,561</b>	<b>2.39</b>	<b>36,580,788</b>	<b>539,616</b>	<b>2.97</b>
<b>Total deposits from customers</b>	<b>119,631,003</b>	<b>1,071,310</b>	<b>1.80</b>	<b>100,859,110</b>	<b>1,146,650</b>	<b>2.29</b>

### *Interest expense on deposits from banks and other financial institutions*

During the Reporting Period, the Company's interest expense on deposits from banks and other financial institutions decreased by 17.95% year-on-year, mainly due to a decrease in the cost rate of deposits from banks and other financial institutions.

### *Interest expense on issued debts*

During the Reporting Period, the Company's interest expense on issued debts increased by 31.64% year-on-year, mainly due to an increase in the volume of issued debts.



## 3.3.6 Net non-interest income

During the Reporting Period, the Company achieved net non-interest income of RMB524 million, representing a year-on-year increase of RMB75 million or 16.72%, of which net non-interest income of corporate banking business decreased by 0.51% to RMB157 million year-on-year, representing 30.05% of the Company's net non-interest income; the net non-interest income of retail banking business increased by 82.36% to RMB160 million year-on-year, representing 30.45% of the Company's net non-interest income; the net non-interest income of financial market business increased by 5.83% to RMB207 million year-on-year, representing 39.48% of the Company's net non-interest income; the rest was net non-interest income of other business, representing 0.02% of the Company's net non-interest income.

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

Unit: RMB'000

Item	January to June 2016	January to June 2015
Fee and commission income	500,890	406,802
Less: fee and commission expense	(27,144)	(13,535)
Net fee and commission income	473,746	393,267
Net other non-interest income	50,000	55,456
<b>Total net non-interest income</b>	<b>523,746</b>	<b>448,723</b>

### 3.3.7 Net fee and commission income

During the Reporting Period, the Company's net fee and commission income increased by RMB80 million or 20.46% year-on-year, mainly due to increase in wealth management service fees and agency service fees.

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

Unit: RMB'000

Item	January to June 2016	January to June 2015
<b>Fee and commission income</b>		
Wealth management service fees	145,448	72,383
Agency service fees	142,180	112,067
Settlement fees	129,912	142,215
Custody service fees	43,811	55,777
Bank card service fees	10,675	11,262
Others	28,864	13,098
<b>Total</b>	<b>500,890</b>	406,802
<b>Fee and commission expense</b>	<b>(27,144)</b>	(13,535)
<b>Net fee and commission income</b>	<b>473,746</b>	393,267

Wealth management service fees increased by RMB73 million or 100.94% year-on-year, mainly due to increase in the scale of wealth management products issued by the Company. Agency service fees increased by RMB30 million or 26.87% year-on-year, mainly due to increase in fees for providing asset management plans with agency service and insurance agency service by the Company. Settlement fees decreased by RMB12 million or 8.65% year-on-year, mainly due to decrease in volume of trade finance settlement business. Custody service fees decreased by RMB12 million or 21.45% year-on-year, mainly due to a decrease in the volume of trust business with the Company acting as the fund custodian. Bank card service fees decreased by RMB0.59 million or 5.21% year-on-year, mainly due to a partial fee waiver with an aim to remain competitive and to cater the needs of customers. Other fees increased by RMB16 million or 120.37% year-on-year, mainly due to increase in factoring fees.

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

During the Reporting Period, the Company's net trading gains, net gains arising from investments and net other operating income decreased by RMB5.46 million or 9.84% year-on-year, mainly due to decrease in net gains of debt securities held for trading. The following table sets forth the major components of the Company's net trading gains, net gains arising from investments and net other operating income for the periods indicated.

Unit: RMB'000

Item	January to June 2016	January to June 2015
Net trading gains		
Net (losses)/gains from debt securities	(4,566)	3,056
Net foreign exchange gains	14,519	8,723
Dividends from available-for-sale equity investments	—	—
Net gains on disposal of available-for-sale financial assets	38,120	35,909
Net gains on disposal of property and equipment	(92)	477
Rental income	1,084	533
Others	935	6,758
<b>Total</b>	<b>50,000</b>	<b>55,456</b>

## 3.3.9 Operating expenses

During the Reporting Period, the Company's operating expenses amounted to RMB954 million, representing a year-on-year increase of RMB204 million; the cost-to-income ratio was 28.43%, representing a year-on-year increase of 3.29 percentage points. The following table sets forth the major components of the Company's operating expenses for the periods indicated.

Unit: RMB'000

Item	January to June 2016	January to June 2015
Staff costs	504,711	273,009
Property and equipment expenses	181,109	192,015
Business tax and surcharges	109,601	147,095
Other general and administrative expenses	158,771	138,219
<b>Total operating expenses</b>	<b>954,192</b>	<b>750,338</b>

### 3.3.10 Impairment losses

During the Reporting Period, the Company's impairment losses amounted to RMB382 million, representing a year-on-year increase of RMB141 million. The following table sets forth the major components of the Company's impairment losses for the periods indicated.

*Unit: RMB'000*

<b>Item</b>	<b>January to June 2016</b>	January to June 2015
Loans and advances to customers	<b>350,396</b>	219,664
Financial investments	<b>30,000</b>	20,000
Others	<b>1,162</b>	948
<b>Total impairment losses</b>	<b>381,558</b>	240,612

Loan impairment losses constituted the largest component of impairment losses. During the Reporting Period, the loan impairment losses amounted to RMB350 million, representing a year-on-year increase of RMB131 million, mainly due to the slowdown in economic growth, increase in non-performing loans and increase in provisions.

## 3.4 ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF FINANCIAL POSITION

### 3.4.1 Assets

As at the end of the Reporting Period, the Company's total assets amounted to RMB207.066 billion, representing an increase of 10.59% compared with that at the end of last year. 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 the Company's total assets.

Unit: RMB'000

Item	30 June 2016		31 December 2015	
	Amount	% of total	Amount	% of total
Total loans and advances to customers	80,945,722	39.09	72,695,518	38.83
Provision for impairment on loans and advances to customers	(2,196,501)	(1.06)	(2,040,297)	(1.09)
Net loans and advances to customers	78,749,221	38.03	70,655,221	37.74
Financial investments	99,753,953	48.18	84,482,857	45.12
Cash and deposits with central bank	19,948,551	9.63	19,920,303	10.64
Deposits with banks and other financial institutions	2,122,749	1.03	3,585,267	1.91
Placements with banks and other financial institutions	1,261,695	0.61	1,108,138	0.59
Financial assets held under resale agreements	—	—	2,516,977	1.34
Financial assets at fair value through profit or loss	192,861	0.09	297,595	0.16
Property and equipment	1,001,395	0.48	1,021,157	0.55
Deferred tax assets	349,136	0.17	279,402	0.15
Other assets	3,686,634	1.78	3,368,337	1.80
<b>Total assets</b>	<b>207,066,195</b>	<b>100.00</b>	<b>187,235,254</b>	<b>100.00</b>

### 3.4.1.1 Loans and advances to customers

As at the end of the Reporting Period, the Company's loans and advances to customers amounted to RMB80.946 billion, representing an increase of 11.35% compared with that at the end of last year; the total loans and advances to customers accounted for 39.09% of the total assets, representing an increase of 0.26 percentage point compared with that at the end of last year. 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	30 June 2016		31 December 2015	
	Amount	% of total	Amount	% of total
Corporate loans	56,941,581	70.35	49,249,757	67.75
Discounted bills	2,752,417	3.40	3,570,642	4.91
Personal loans	21,251,724	26.25	19,875,119	27.34
<b>Total loans and advances to customers</b>	<b>80,945,722</b>	<b>100.00</b>	72,695,518	100.00

#### Corporate loans

As at the end of the Reporting Period, the Company's total corporate loans amounted to RMB56.942 billion, representing an increase of 15.62% compared with that at the end of last year, and accounted for 70.35% of the total loans and advances, representing an increase of 2.60 percentage points compared with that at the end of last year. During the Reporting Period, 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 and government finance.

#### Discounted bills

As at the end of the Reporting Period, the Company's total discounted bills amounted to RMB2.752 billion, representing a decrease of 22.92% compared with that at the end of last year. During the Reporting Period, the bills market contracted due to various legal cases, resulting in a decrease in existing bills.

#### Personal loans

As at the end of the Reporting Period, the Company's personal loans amounted to RMB21.252 billion, representing an increase of 6.93% compared with that at the end of last year, and accounted for 26.25% of loans and advances to customers, representing a decrease of 1.09 percentage points compared with that at the end of last year. During the Reporting Period, the Company further enhanced its personal credit asset structure, and recorded a growth in personal residential mortgage loans.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

### 3.4.1.2 Investment

The Company's 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 the Company's investment portfolio by accounting item.

Unit: RMB'000

Item	30 June 2016		31 December 2015	
	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	192,861	0.19	297,595	0.35
Available-for-sale financial assets	22,538,219	22.55	17,120,786	20.19
Held-to-maturity investments	23,375,958	23.39	22,575,284	26.63
Investment classified as receivables	53,839,776	53.87	44,786,787	52.83
<b>Total</b>	<b>99,946,814</b>	<b>100.00</b>	84,780,452	100.00

Financial assets at fair value through profit or loss

As at the end of the Reporting Period, the Company's net financial assets at fair value through profit or loss decreased by RMB105 million or 35.19% compared with that at the end of last year. During the Reporting Period, affected by market volatility, the Company reduced its financial assets held for trading as appropriate. The following table sets forth the components of the Company's financial assets at fair value through profit or loss.

Unit: RMB'000

Item	30 June 2016	31 December 2015
Debt securities issued by banks and other financial institutions	144,594	145,966
Debt securities issued by corporate issuers	48,267	151,629
<b>Total financial assets at fair value through profit or loss</b>	<b>192,861</b>	297,595

### Available-for-sale financial assets

As at the end of the Reporting Period, the Company's net available-for-sale financial assets increased by RMB5.417 billion or 31.64% compared with that at the end of last year. During the Reporting Period, the Company mainly invested in medium and long-term debt securities to meet demands for asset allocation. The following table sets forth the components of the Company's available-for-sale financial assets.

Unit: RMB'000

Item	30 June 2016	31 December 2015
Government bonds	1,460,105	—
Debt securities issued by policy banks	8,217,174	7,890,237
Debt securities issued by banks and other financial institutions	7,217,122	4,865,988
Debt securities issued by corporate issuers	2,687,578	4,200,101
Asset management plans	2,489,360	—
Trust fund plans	382,254	80,119
Investment funds	61,376	61,091
Equity investments	23,250	23,250
<b>Total available-for-sale financial assets</b>	<b>22,538,219</b>	<b>17,120,786</b>
Less: provision for impairment	—	—
<b>Net available-for-sale financial assets</b>	<b>22,538,219</b>	<b>17,120,786</b>



## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

### Held-to-maturity investments

As at the end of the Reporting Period, the Company's net held-to-maturity investments increased by RMB801 million or 3.55% compared with that at the end of last year. The Company kept the held-to-maturity investments on a long-term basis as strategic allocation. The following table sets forth the components of the Company's held-to-maturity investments.

*Unit: RMB'000*

<b>Item</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
Government bonds	<b>7,510,445</b>	7,529,720
Debt securities issued by policy banks	<b>7,673,775</b>	7,918,996
Debt securities issued by banks and other financial institutions	<b>7,122,255</b>	5,866,945
Debt securities issued by corporate issuers	<b>1,069,483</b>	1,259,623
<b>Total held-to-maturity investments</b>	<b>23,375,958</b>	22,575,284
Less: provision for impairment	—	—
<b>Net held-to-maturity investments</b>	<b>23,375,958</b>	22,575,284
Fair value of held-to-maturity investments	<b>24,157,630</b>	23,434,562

### 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 the Company underwrote, beneficiary rights in margin financing, and wealth management products issued by financial institutions.

As at the end of the Reporting Period, the Company's net investment classified as receivables amounted to RMB53.840 billion, representing an increase of RMB9.053 billion compared with that at the end of last year, 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 the Company's investment classified as receivables.

*Unit: RMB'000*

<b>Item</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
Asset management plans	<b>25,727,851</b>	22,442,547
Wealth management products issued by financial institutions	<b>15,645,531</b>	9,640,547
Trust fund plans	<b>10,527,506</b>	8,671,888
Beneficiary rights in margin financing	<b>2,000,000</b>	2,500,000
Beneficiary certificates	—	1,568,451
Others	<b>59,388</b>	53,854
<b>Total investment classified as receivables</b>	<b>53,960,276</b>	44,877,287
Less: provision for impairment	<b>(120,500)</b>	(90,500)
<b>Net investment classified as receivables</b>	<b>53,839,776</b>	44,786,787

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

### Investment in securities

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

Name of bond	Value date	Term (years)	Nominal value (RMB10 thousand)	Coupon (%)	Maturity date	Remaining years to maturity (years)
15 Interest-bearing Government Bond 22	2015-09-24	3	3,000	2.92	2018-09-24	2.24
13 Interest-bearing Government Bond 25	2013-12-09	30	50,000	5.05	2043-12-09	27.46
13 Interest-bearing Government Bond 18	2013-08-22	10	55,000	4.08	2023-08-22	7.15
13 Interest-bearing Government Bond 16	2013-08-12	20	20,000	4.32	2033-08-12	17.13
12 Interest-bearing Government Bond 15	2012-08-23	10	15,000	3.39	2022-08-23	6.15
09 Interest-bearing Government Bond 16	2009-07-23	10	5,000	3.48	2019-07-23	3.06
02 Government Bond 05	2002-05-24	30	5,000	2.90	2032-05-24	15.91
01 Government Bond 11	2001-10-23	20	8,000	3.85	2021-10-23	5.32

### 3.4.2 Liabilities

As at the end of the Reporting Period, the Company's total liabilities amounted to RMB189.990 billion, representing an increase of 11.35% compared with that at the end of last year, mainly due to the stable increase in deposits from customers and debt securities issued. The following table sets forth the components of the Company's total liabilities as at the date indicated.

Unit: RMB'000

Item	30 June 2016		31 December 2015	
	Amount	% of total	Amount	% of total
Deposits from customers	126,299,566	66.48	115,321,997	67.59
Deposits from banks and other financial institutions	25,334,412	13.33	27,335,870	16.02
Borrowings from central bank	1,148,799	0.60	528,909	0.31
Placements from banks and other financial institutions	3,879,252	2.04	3,051,992	1.79
Financial assets sold under repurchase agreements	—	—	2,000,000	1.17
Income tax payable	201,215	0.11	107,758	0.06
Debt securities issued	28,016,423	14.75	16,314,307	9.56
Other liabilities	5,110,353	2.69	5,960,769	3.50
<b>Total liabilities</b>	<b>189,990,020</b>	<b>100.00</b>	<b>170,621,602</b>	<b>100.00</b>

## 3.4.2.1 Deposits from customers

As at the end of the Reporting Period, the Company's total deposits from customers amounted to RMB126.300 billion, representing an increase of 9.52% compared with that at the end of last year, and accounted for 66.48% of the Company's total liabilities, being the Company's 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	30 June 2016		31 December 2015	
	Amount	% of total	Amount	% of total
<b>Corporate deposits</b>	<b>77,226,410</b>	<b>61.14</b>	69,928,163	60.64
Demand deposits	<b>41,707,043</b>	<b>33.02</b>	40,164,726	34.83
Time deposits	<b>35,519,367</b>	<b>28.12</b>	29,763,437	25.81
<b>Personal deposits</b>	<b>48,802,548</b>	<b>38.64</b>	44,956,284	38.98
Demand deposits	<b>11,112,644</b>	<b>8.80</b>	9,192,474	7.97
Time deposits	<b>37,689,904</b>	<b>29.84</b>	35,763,810	31.01
<b>Outward remittance and remittance payables</b>	<b>261,703</b>	<b>0.21</b>	436,901	0.38
<b>Fiscal deposits to be transferred</b>	<b>8,905</b>	<b>0.01</b>	649	–
<b>Total deposits from customers</b>	<b>126,299,566</b>	<b>100.00</b>	115,321,997	100.00

As at the end of the Reporting Period, the Company's personal deposits accounted for 38.64% of deposits from customers, representing a decrease of 0.34 percentage point compared with that at the end of last year.

As at the end of the Reporting Period, the Company's demand deposits accounted for 41.82% of deposits from customers, representing a decrease of 0.98 percentage point compared with that at the end of last year. Among those deposits, corporate demand deposits accounted for 54.01% of corporate deposits, representing a decrease of 3.43 percentage points; and personal demand deposits accounted for 22.77% of personal deposits, representing an increase of 2.32 percentage points compared with that at the end of last year.

## 3.4.2.2 Debt securities issued

As at the end of the Reporting Period, the Company's debt securities issued amounted to RMB28.016 billion, representing an increase of RMB11.702 billion or 71.73% compared with that at the end of last year. Among those debt securities, the balance of certificates of interbank deposit was RMB18.929 billion, representing an increase of RMB9.804 billion compared with that at the end of last year. In 2016, the Company issued Green Bonds with nominal amount of RMB4.0 billion. In recent years, keeping pace with innovations in the national interbank bonds market, the Company has actively promoted innovative liabilities business to diversify liabilities channels.

## 3.4.2.3 Deposits from banks and other financial institutions

As at the end of the Reporting Period, the Company's deposits from banks and other financial institutions amounted to RMB25.334 billion, representing a decrease of RMB2.001 billion or 7.32% compared with that at the end of last year.

## 3.4.3 Equity attributable to shareholders

Unit: RMB'000

Item	30 June 2016	31 December 2015
Share capital	4,058,713	4,011,533
Capital reserve	6,826,276	6,708,018
Surplus reserve	804,789	804,789
General reserve	2,391,182	2,391,182
Investment revaluation reserve	334,309	486,199
Other reserve	(3,885)	(3,075)
Retained earnings	2,664,791	2,215,006
<b>Total equity attributable to shareholders</b>	<b>17,076,175</b>	<b>16,613,652</b>

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

### 3.5 ANALYSIS OF QUALITY OF LOANS

#### 3.5.1 Distribution of loans by five categories

Unit: RMB'000

Item	30 June 2016		31 December 2015	
	Amount	% of total	Amount	% of total
Normal	76,866,340	94.96	69,526,053	95.64
Special mention	3,062,730	3.78	2,305,404	3.17
Substandard	450,599	0.56	340,105	0.47
Doubtful	534,809	0.66	500,753	0.69
Loss	31,243	0.04	23,203	0.03
Total loans to customers	80,945,721	100.00	72,695,518	100.00
Total non-performing loans	1,016,651	1.26	864,061	1.19

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 continued to strengthen basic management, made timely adjustments to its credit extension policy and credit structure, proactively pushed forward early warning and withdrawal mechanisms for clients with risk, thereby maintaining the quality of credit assets at a satisfactory level through multiple measures to collect non-performing loans. As at the end of the Reporting Period, the total amount of non-performing loans of the Company was RMB1.017 billion, representing an increase of RMB153 million compared with that at the end of last year, and the non-performing loan ratio was 1.26%, representing a slight increase of 0.07 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 0.99 percentage point as well as lower than the national average by 0.49 percentage point.

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

Unit: RMB'000

Item	30 June 2016				31 December 2015			
	Amount of loans	% of total	Amount of non- performing loans	Non- performing loan ratio %	Amount of loans	% of total	Amount of non- performing loans	Non- performing loan ratio %
<b>Corporate loans</b>	<b>59,693,998</b>	<b>73.74</b>	<b>756,610</b>	<b>1.27</b>	<b>52,820,399</b>	<b>72.66</b>	<b>628,605</b>	<b>1.19</b>
Working capital loans	42,208,453	52.14	599,285	1.42	37,714,835	51.89	450,878	1.20
Fixed asset loans	14,288,275	17.65	-	-	10,942,908	15.05	-	-
Import and export bills transactions	170,280	0.21	-	-	400,435	0.55	-	-
Discounted bills	2,752,417	3.40	-	-	3,570,642	4.91	-	-
Others	274,573	0.34	157,325	57.30	191,579	0.26	177,727	92.77
<b>Retail loans</b>	<b>21,251,724</b>	<b>26.26</b>	<b>260,041</b>	<b>1.22</b>	<b>19,875,119</b>	<b>27.34</b>	<b>235,456</b>	<b>1.18</b>
Personal housing loans	13,929,613	17.22	40,551	0.29	11,139,443	15.33	32,798	0.29
Personal business loans	5,005,457	6.18	184,393	3.68	6,153,375	8.46	173,745	2.82
Personal consumption loans	1,264,746	1.56	30,054	2.38	1,606,745	2.21	27,070	1.68
Others	1,051,908	1.30	5,043	0.48	975,556	1.34	1,843	0.19
<b>Total loans to customers</b>	<b>80,945,722</b>	<b>100.00</b>	<b>1,016,651</b>	<b>1.26</b>	<b>72,695,518</b>	<b>100.00</b>	<b>864,061</b>	<b>1.19</b>

During the Reporting Period, the Company further enhanced its personal credit asset structure and sturdily developed consumption finance with a focus on personal housing loans, and the proportion of personal housing loans increased 1.89 percentage points to 17.22%. The Company withdrew from or reduced joint guarantee personal business loans with higher risk, and the proportion of personal business loans decreased 2.28 percentage points to 6.18%. The Company also consolidated and strengthened the chief examiner system of subsidiaries, thereby further enhancing its 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 0.04 percentage point compared with that at the end of last year.

The Company continued to enhance its corporate loan structure, proactively supported the development of government finance, supply chain finance, local infrastructure construction and environmental protection industries, and strengthened its risk management in key areas on an on-going basis. As at the end of the Reporting Period, the proportion of corporate loans of the Company increased by 1.08 percentage points compared with that at the end of last year to 73.74%. Under the impact of the economic downturn, the non-performing loan ratio of corporate loans increased by 0.08 percentage point compared with that at the end of last year to 1.27%.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

### 3.5.3 Distribution of loans and non-performing loans by industry

Unit: RMB'000

Item	30 June 2016				31 December 2015			
	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 %
<b>Corporate loans</b>	<b>59,693,998</b>	<b>73.75</b>	<b>756,610</b>	<b>1.27</b>	<b>52,820,399</b>	<b>72.66</b>	<b>628,605</b>	<b>1.19</b>
Manufacturing	17,924,617	22.16	335,890	1.87	18,516,466	25.47	306,647	1.66
Wholesale and retail trade	6,532,985	8.07	317,902	4.87	7,553,398	10.39	235,126	3.11
Construction	8,628,947	10.66	57,000	0.66	6,414,080	8.82	50,000	0.78
Water, environment and public utility management	6,308,893	7.79	15,000	0.24	4,204,375	5.78	15,000	0.36
Renting and business activities	6,501,625	8.03	3,217	0.05	4,147,063	5.70	3,232	0.08
Real estate	3,487,127	4.31	–	–	3,354,076	4.61	–	–
Production and supply of electric and heating power, gas and water	3,089,344	3.82	–	–	2,189,848	3.01	–	–
Financial services	1,621,224	2.00	–	–	1,887,874	2.60	–	–
Transportation, storage and postal services	1,960,959	2.42	3,000	0.15	1,274,605	1.75	–	–
Others	3,638,277	4.49	24,601	0.68	3,278,614	4.53	18,600	0.57
<b>Retail loans</b>	<b>21,251,724</b>	<b>26.25</b>	<b>260,041</b>	<b>1.22</b>	<b>19,875,119</b>	<b>27.34</b>	<b>235,456</b>	<b>1.18</b>
<b>Total loans to customers</b>	<b>80,945,722</b>	<b>100.00</b>	<b>1,016,651</b>	<b>1.26</b>	<b>72,695,518</b>	<b>100.00</b>	<b>864,061</b>	<b>1.19</b>

During the Reporting Period, 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 reduced the total amount of credit extended to industries with overcapacity, obsolete manufacturing industries, wholesale and retail industries for production materials while strengthening its support to industries including government finance, local infrastructure construction and environmental protection and enhancing its credit resources allocation. As at the end of the Reporting Period, the proportion of the loans of the Company in manufacturing and wholesale and retail trade industries in the total loans to customers reduced from 35.86% to 30.23%.



## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

### 3.5.4 Distribution of loans and non-performing loans by region

Unit: RMB'000

Region	30 June 2016				31 December 2015			
	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	49,482,678	61.12	626,423	1.27	48,581,899	66.82	642,098	1.32
Jinan	7,917,406	9.78	146,415	1.85	7,505,911	10.33	73,377	0.98
Dongying	7,842,376	9.69	31,846	0.41	7,359,309	10.12	16,190	0.22
Weihai	6,109,896	7.55	21,500	0.35	4,208,551	5.79	4,582	0.11
Zibo	3,331,892	4.12	159,123	4.78	2,694,775	3.71	127,814	4.74
Dezhou	1,171,912	1.45	–	–	1,146,165	1.58	–	–
Zaozhuang	693,792	0.86	–	–	415,438	0.57	–	–
Yantai	1,155,257	1.43	31,344	2.71	618,664	0.85	–	–
Binzhou	1,718,655	2.12	–	–	164,806	0.23	–	–
Weifang	1,521,858	1.88	–	–	–	–	–	–
<b>Total loans to customers</b>	<b>80,945,722</b>	<b>100.00</b>	<b>1,016,651</b>	<b>1.26</b>	<b>72,695,518</b>	<b>100.00</b>	<b>864,061</b>	<b>1.19</b>

During the Reporting Period, the economy of Shandong region, where the operation institutions of the Company are located, was under a downtrend with mounting pressure from non-performing loans. 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, strengthened the management of business approval and appropriately lowered the guarantee limit for regions with higher risks.

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

Unit: RMB'000

Item	30 June 2016				31 December 2015			
	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	5,992,320	7.40	49,109	0.82	4,056,931	5.58	48,616	1.20
Guaranteed loans	33,641,837	41.57	600,200	1.78	30,170,838	41.50	461,132	1.53
Mortgage loans	32,550,868	40.21	367,342	1.13	30,427,847	41.86	354,313	1.16
Pledged loans	8,760,697	10.82	–	–	8,039,902	11.06	–	–
<b>Total loans to customers</b>	<b>80,945,722</b>	<b>100.00</b>	<b>1,016,651</b>	<b>1.26</b>	<b>72,695,518</b>	<b>100.00</b>	<b>864,061</b>	<b>1.19</b>

Under the backdrop of an economic downturn in the macro economy, the Company increased its support to government finance and local infrastructure construction projects, with some by way of unsecured loans. The proportion of unsecured loans increased by 1.82 percentage points to 7.40% compared with that at the end of last year, while the non-performing loan ratio decreased by 0.38 percentage point to 0.82%. Meanwhile, the Company also strengthened its risk protection by extending credit enhancement measures to small and medium enterprises including requiring more guarantees and collaterals.

## 3.5.6 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	Water, environment and public utility management	1,176,000	5.79	1.45
B	Manufacturing	1,100,000	5.42	1.36
C	Construction	1,000,000	4.93	1.24
D	Water, environment and public utility management	735,000	3.62	0.91
E	Renting and business activities	712,318	3.51	0.88
F	Renting and business activities	690,000	3.40	0.85
G	Renting and business activities	620,000	3.05	0.77
H	Production and supply of electric and heating power, gas and water	600,000	2.96	0.74
I	Renting and business activities	588,000	2.90	0.73
J	Renting and business activities	571,000	2.81	0.71
<b>Total</b>		<b>7,792,318</b>	<b>38.39</b>	<b>9.64</b>

As at the end of the Reporting Period, the loan balance of the largest single borrower of the Company was RMB1.176 billion, accounting for 5.79% of the net capital of the Company; and the total amount of loans of the top ten single borrowers was RMB7.792 billion, accounting for 38.39% of the net capital of the Company and representing 9.64% of the total amount of loans of the Company.

## 3.5.7 Distribution of loans by overdue period

Unit: RMB'000

Overdue period	30 June 2016		31 December 2015	
	Amount	Percentage of total loans %	Amount	Percentage of total loans %
Overdue for 3 months (inclusive) or less	2,390,449	2.95	1,100,833	1.51
Overdue for over 3 months to 1 year (inclusive)	752,074	0.93	534,403	0.74
Overdue for over 1 year to 3 years (inclusive)	496,108	0.61	447,529	0.62
Overdue for over 3 years	39,935	0.05	17,801	0.02
Total overdue loans	3,678,566	4.54	2,100,566	2.89
<b>Total loans to customers</b>	<b>80,945,722</b>	<b>100.00</b>	<b>72,695,518</b>	<b>100.00</b>

As at the end of the Reporting Period, the total amount of overdue loans of the Company was RMB3.679 billion, representing an increase of RMB1.578 billion compared with that at the end of last year; the proportion of overdue loans was 4.54%, representing an increase of 1.65 percentage points compared with that at the end of last year. Among the overdue loans, mortgage loans accounted for 23.89%, guaranteed loans accounted for 74.41% and unsecured loans accounted for 1.70%. The Company adopted a more stringent classification criterion and the ratio of loans overdue more than 90 days to non-performing loans was 1.27.

## 3.5.8 Restructured loans

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

## 3.5.9 Repossessed assets and provision for impairment

As at the end of the Reporting period, the total amount of the repossessed assets of the Company was RMB18.3289 million, since no provision for impairment was made and the net amount of repossessed assets was RMB18.3289 million.

## 3.5.10 Changes in provision for impairment of loans

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

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

Unit: RMB'000

Item	January to June 2016	2015
<b>Balance at the beginning of the period/year</b>	<b>2,040,297</b>	1,739,888
Charge for the period/year	<b>366,404</b>	576,208
Release for the period/year	<b>(16,008)</b>	(39,334)
Unwinding of discount	<b>(10,456)</b>	(25,104)
Write-offs for the period/year	<b>(187,354)</b>	(250,689)
Recoveries of loans and advances written off and others	<b>3,618</b>	39,328
<b>Balance at the end of the period/year</b>	<b>2,196,501</b>	2,040,297

As at the end of the Reporting Period, the Company's balance of provision for impairment of loans amounted to RMB2.197 billion, representing an increase of RMB156 million compared with that at the end of last year; the provision coverage ratio reached 216.05%, representing a decrease of 20.08 percentage points compared with that at the end of last year; the provision rate of loans stood at 2.71%, representing a decrease of 0.10 percentage point compared with that at the end of last year.

### 3.5.11 Counter measures taken against non-performing assets

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

Firstly, we enhanced our tracking analysis of macro economy and credit risk with strengthened counter measures against risks, adjusted credit policies and credit structures on time, narrowed the proportion of high-risk industry credit by enhancing the structures of clients, industries and products, and actively implemented warning and withdrawal mechanisms for clients with risk to control the increase of non-performing assets.

Secondly, we reinforced the clearing and disposal of non-performing loans through various measures including collection, litigation, repossessing, writing off and transferring, thus raising the disposal efficiency. For non-performing loans that were solvable, we formulated customer-tailored disposal strategies, and actively carried out risk conversion, reviving credit assets and reducing losses.

Thirdly, we held studies and training sessions regularly to improve assets maintenance capability. To enhance accountability for non-performing assets, we improved the staff's risk and responsibility awareness by analysing and learning from cases of non-performing assets.

### 3.5.12 Credit extension to group customers and risk management

In extending credit to group customers, the Company continued to uphold the principles of "implementing unified credit extension, providing an appropriate amount, employing classification management, conducting real-time monitoring and adopting a lead bank system". In the first half of 2016, the Company strictly enforced its group credit management practices, strengthened the system management and enhanced the system flow based on the characteristics of compact groups and loose groups. By monitoring the credit limits extended to group customers, the group customer service managers regulated or controlled the utilisation of credit by group customers to improve the effectiveness of system management. While enhancing the business processes, the Company also strengthened its efforts in identifying and managing existing and new group customers and setting appropriate credit limits to mitigate concentration risk, with an aim of raising its group customer management standard on an ongoing basis.

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

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

### 3.6 ANALYSIS OF CAPITAL ADEQUACY RATIO

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

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

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.

## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

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

Unit: RMB'000

Item	30 June 2016	31 December 2015
<b>Total core tier-one capital</b>		
Share capital	4,058,713	4,011,533
Qualifying portion of capital reserve	6,826,276	6,708,018
Surplus reserve and general reserve	3,195,971	3,195,971
Retained earnings	2,664,791	2,215,006
Investment revaluation reserve and others	330,424	483,124
<b>Core tier-one capital deductions</b>	<b>(156,678)</b>	<b>(165,631)</b>
<b>Net core tier-one capital</b>	<b>16,919,497</b>	<b>16,448,021</b>
<b>Net amount of other tier-one capital</b>	<b>—</b>	<b>—</b>
<b>Net tier-two capital</b>	<b>3,379,850</b>	<b>3,376,236</b>
<b>Net capital base</b>	<b>20,299,347</b>	<b>19,824,257</b>
Total credit risk-weighted assets	138,598,942	119,355,120
Total market risk-weighted assets	3,794,676	4,424,871
Total operation risk-weighted assets	8,044,706	8,044,706
<b>Total risk-weighted assets</b>	<b>150,438,324</b>	<b>131,824,697</b>
<b>Core tier-one capital adequacy ratio</b>	<b>11.25%</b>	<b>12.48%</b>
<b>Tier-one capital adequacy ratio</b>	<b>11.25%</b>	<b>12.48%</b>
<b>Capital adequacy ratio</b>	<b>13.49%</b>	<b>15.04%</b>

As at the end of the Reporting Period, the Company's capital adequacy ratio amounted to 13.49%, representing a decrease of 1.55 percentage points compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 11.25%, representing a decrease of 1.23 percentage points compared with that at the end of last year. Changes in capital adequacy ratio during the Reporting Period are mainly attributable to the rapid development of the Company's business and the expansion of the scale of risk assets.



## CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

### 3.7 SEGMENT REPORTING

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

Unit: RMB'000

Item	January to June 2016		January to June 2015	
	Segment profit before taxation	Ratio (%)	Segment profit before taxation	Ratio (%)
Corporate banking	699,106	42.76	693,618	49.25
Retail banking	312,226	19.10	273,127	19.39
Financial market business	623,443	38.13	433,812	30.81
Un-allocated items and others	103	0.01	7,691	0.55
<b>Total</b>	<b>1,634,878</b>	<b>100.00</b>	<b>1,408,248</b>	<b>100.00</b>

Unit: RMB'000

Item	January to June 2016		January to June 2015	
	Segment operating income	Ratio (%)	Segment operating income	Ratio (%)
Corporate banking	1,492,402	50.24	1,307,446	54.50
Retail banking	604,297	20.34	501,258	20.89
Financial market business	873,826	29.42	582,803	24.29
Un-allocated items and others	103	0.00	7,691	0.32
<b>Total</b>	<b>2,970,628</b>	<b>100.00</b>	<b>2,399,198</b>	<b>100.00</b>

### 3.8 OTHER FINANCIAL INFORMATION

#### 3.8.1 Analysis of off-balance sheet items

The Company's off-balance sheet items include credit commitments, operating lease commitments, capital commitments, etc. credit commitments are the most important parts and as at the end of the Reporting Period, the balance of credit commitments reached RMB25.919 billion. For details, please refer to Note 37 of the unaudited interim financial report.

#### 3.8.2 Overdue and outstanding debts

As at the end of the first half of 2016, the Company had no overdue or outstanding debts.

### 3.9 BUSINESS DEVELOPMENT STRATEGY

In the next three to five years, fully leveraging advantages of adequate capital, regulated operations and enhanced brand image resulting from its listing, sticking to the basic operating guideline of "accelerating innovation, inspiring momentum, controlling risks and increasing market cap", 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 cap, striving to build an "enhanced version of Bank of Qingdao". To achieve this goal, the Company will implement the following business development strategies:

1. Continuously enhancing the distinct "interface banking" 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 "Belt and Road Initiative" Financial Alliance and enriching the "interface banking" 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, personal consumption loans and online financing business for core corporations 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 and direct banking.
3. Fostering professionalism as the core competitiveness of corporate banking business. Leveraging Qingdao City’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, modern service industries and emerging industries, particularly enterprises with new business model and technology, and the industries that are positioned to benefit from the regional economic development, the Company will build on the experience of the technology sub-branch and port sub-branch to develop expertise in selected sectors. The Company will also explore the development opportunities and profit models of innovative businesses such as cross-border finance while expanding the customer base and scale of international settlement business and other traditional businesses.
4. Improving comprehensive service capability through innovations in the financial market. By establishing a foothold in both domestic and overseas financial markets, the financial market business of the Company will set up customer marketing and promotion pivots to serve customers, expand markets and attract talents, thus leveraging financing, intelligence and credit. Meanwhile, the Company will continue to expand its regular services and strengthen its features, focus on three business sectors, namely asset management, interbank finance and investment banking, to establish channels of assets, liabilities and income for its branches and sub-branches, and improve comprehensive financial innovation capability by providing customer-based and market-oriented services, aiming to build up the brand of the Company in the financial market business.

### 3.10 OVERVIEW OF BUSINESS DEVELOPMENT

#### 3.10.1 Retail banking

In the first half of 2016, the Company accelerated the implementation of the “interface banking” strategy, making substantial breakthroughs in the three platforms of healthcare, IC cards and cloud payment system, further enhancing the capability to acquire a massive number of customers. At the same time, the proportion of VIP customer groups significantly expanded on the back of major events such as Kai Men Hong (開門紅), a marketing activity held at the beginning of this year, and Hai Rong Li Cai Jie (海融理財節), as well as the use of data analysis 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 14.66% compared with that at the end of the previous year to RMB90.725 billion. The operating income contribution<sup>1</sup> of retail business during the Reporting Period decreased by 0.55 percentage points year-on-year to 20.34%. During the Reporting Period, the net non-interest income of retail banking business reached RMB160 million, representing a year-on-year increase of 82.36%, and accounting for 30.45% of the net non-interest income of the Company as a whole, representing a year-on-year increase of 10.96 percentage points.

##### 1. Retail deposits

As at the end of the Reporting Period, the amount of retail deposits of the Company reached RMB48.803 billion, an increase of RMB3.846 billion or 8.56% compared with that at the end of the previous year; and retail deposits accounted for 38.64% of the deposits of the Company as a whole, almost unchanged compared with that at the end of the previous year. The balance of retail deposits ranked sixth in Qingdao City with a market share of 8.09%, unchanged from that at the end of the previous year. Retail deposits ranked sixth in Qingdao in terms of the amount of increase.

During the Reporting Period, by aligning closely to the targets set at the beginning of the year, the Company succeeded in achieving the objective of growing the total personal financial assets of its customers by attracting new customers and upgrading existing customers through product marketing. Under well-aimed marketing activities, the Company improved its marketing success rate, completed the optimised allocation of customer's assets and increased the proportion of customer's deposit, thereby achieving the target of deposit growth. During the Reporting Period, the amount of insurance agency reached RMB666 million, representing a year-on-year increase of 400.7%; the accumulated sales of funds amounted to RMB557 million, surpassing the annual sales of RMB490 million recorded in 2015.

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<sup>1</sup> The income contribution refers to the proportion of various business lines' operating income to the Company's operating income (same hereinafter).

By leveraging the advantages of the “interface banking” strategy, the Company stepped up its effort in issuing debit cards with subway fare payment function while sparing no effort in propelling the implementation of the business of “three platforms”, namely all-in-one cards, cloud payment and “Bank Hospital Pass” (銀醫通) and proactively facilitating cooperation between different industries as well as developing fee collection services to enhance convenience of citizens, thereby comprehensively upgrading customer experience. 30 new projects were obtained for the cloud payment business. For “Bank Hospital Pass” business, 2 hospitals had operated their business via the platform and over 10 hospitals had signed their contracts for cooperation. For the co-payment cooperation, 6 industry parks, 5 campuses and 10 communities entered into the cooperation agreements. Such efforts boosted the number of new cards issued by the Company during the Reporting Period to 500,900 while the total number of cards issued accumulated to 3.049 million, among which a total of 805,000 “Co-Branded Metro Card” was issued.

As at the end of the Reporting Period, the balance of wealth management products of the retail banking reached RMB43.093 billion, representing an increase of 23.93% compared with that at the end of the previous year and a steady growth when comparing with the corresponding balance of RMB9.166 billion, RMB21.427 billion and RMB34.773 billion recorded at the end of 2013, 2014 and 2015, respectively.

During the Reporting Period, the sales of wealth management products of the retail banking was RMB71.829 billion, representing a year-on-year increase of 55.87% and a steady growth when comparing with the corresponding sales of RMB35.056 billion, RMB76.592 billion and RMB105.417 billion recorded in 2013, 2014 and 2015, respectively.

### **2. Retail loans**

As at the end of the Reporting Period, the balance of retail loans of the Company was RMB21.252 billion, an increase of RMB1.377 billion or 6.93% compared with that at the end of the previous year, accounting for 26.25% of the Company's credit assets, representing a decrease of 1.09 percentage point compared with that at the end of the previous year. The balance of retail loans ranked sixth in Qingdao City with a market share of 5.65%, representing a decrease of 0.36 percentage point compared with that at the end of the previous year, and the growth of retail loans ranked ninth in Qingdao City.

During the Reporting Period, the Company further enhanced the personal credit asset structure according to the development strategy for personal credit loan business, and continued to expand the consumption finance business focusing on housing loans. As at the end of the Reporting Period, the balance of personal housing loans of the Company increased by RMB2.790 billion from that at the end of the previous year to RMB13.930 billion.

In the area of online financing business for core corporations, the Company and five conglomerates including Coca-Cola, as a successful case of the “interface banking” strategy, entered into cooperation relationship in providing supply chain financing services via “chain E-finance”, an online platform, to their distributors. During the Reporting Period, the business extended loans of RMB56.82 million. The accumulated loans extended since the launching of the business had exceeded RMB100 million.

As for consumption finance business, the Company kept on building the consumption finance platform of “Blissful Family Scheme”, spent more effort in promoting personal consumption loan products under the “Blissful Family Scheme”, including express vehicle loans, marriage loans and taxis loans. During the Reporting Period, the scheme extended loans of RMB4.066 billion, with RMB585 million from personal loans for renovation and vehicle purchase.

In addition, the Company founded the Micro-Loan Finance Centre in the personal loan department of the head office in May 2016. The Micro-Loan Finance Centre, as an independent business accounting and self-financing entity, has been exploring to establish an operating and managing model for micro-loan financing business.

### **3. Retail customers**

As at the end of the Reporting Period, the number of retail customers of the Company reached 3.0691 million, an increase of 281,500 compared with that at the end of the previous year, including 112,400 customers with financial assets of RMB200,000 or above, an increase of 14,400 compared with that at the end of the previous year, with a total of RMB71.876 billion assets maintained at the Company, representing a share of 79.22% and an increase of 1.42 percentage points compared with that at the end of the previous year. While retail customers remained growing in absolute number, customer structure was also continuously enhanced with an increasing proportion of mid and high-end customers.

### **4. Retail products**

During the Reporting Period, the Company made significant progress in “all-in-one cards”, building up the convenient services framework consisting of medical service system, transportation system, cloud payment and cultural and sports system through the “all-in-one cards”. While enhancing its capability of finding eligible customers in batches, the Company further improved the service experience of its customers, creating favourable conditions for tapping the potential of client resources.

During the Reporting Period, the Company completed the “Bank Hospital Pass” platform, thus facilitating the use of medical all-in-one cards. The “Bank Hospital Pass” has been put into operation among Qingdao City’s public hospitals, and the system development of the “Bank Hospital Pass” for Qingdao Fuwai Cardiovascular Hospital has been finished. The cooperation with public transportation companies in Qingdao City, Zhangqiu City, Tengzhou City and Rongcheng City has brought the “all-in-one cards” into the public transportation sector for the first time. The Company proactively promoted its partnership with governments and public-sector enterprises, and steadily pushed forward the construction of cloud community and cloud payment platform by successfully issuing cards in Haier Dongcheng International, the First Mansion and other neighbourhoods in Qingdao City.

### **5. *Wealth management and private banking business***

The Company continued to enhance its professional capability in wealth management and private banking, improve wealth management and private banking business models, and enhance its financial services for high-end customers based on strengthened business risk control during the Reporting Period. The Company intensified the sales of funds to make up for the lack of products caused by quality assets shortage, and continued to offer asset allocation-based dynamic wealth management consultancy financial services, facilitating the wealth management and private banking business to scale new heights.

As at the end of the Reporting Period, there were 4,677 customers with assets of RMB2 million or more, with total assets of RMB21.172 billion, representing a year-on-year growth of 42.98% and 46.47% respectively. During the Reporting Period, the total sales of wealth management and private banking financial solutions and asset management solutions amounted to RMB17.547 billion, representing a year-on-year increase of 154.59%.

### **6. *Customer service management***

During the Reporting Period, the Company made every effort to offer warm and scenario-oriented customer service experience. Focused on “strengthening foundation, enhancing mechanism, innovating experience, and creating interaction”, the Company carried out in-depth reforms in relation to execution capability, incentive mechanism, experience development and research, and customer interaction, so as to improve the service capability for “internal customers” and the service experience of “external customers”, thus promoting “value-added, interactive and tailored” services.

Concentrating on product business during the Reporting Period, the Company analysed its customer-oriented system implementation, flow design and deficiency management based on the financial and emotional needs of customers to improve service capability. Meanwhile, the Company improved the systems of customer enquiry and complaint management by establishing a customer enquiry framework and a complaint handling structure across the front-desk, middle-desk and back-desk to achieve three goals: firstly, to ensure an effective channel for timely communication of enquiries and complaints; secondly, to strengthen the timeliness and effectiveness of handling customer complaints and requests to enhance the efficiency of the middle-desk; thirdly, to explore and analyse the complaint data and information data received and handled by the front-desk and middle-desk to draw attention to risks of adverse public opinion among consumers and stakeholders. The Company accorded priority to protection of consumer rights, listened to the views of customers through “The Voice of Customers” service review, and strengthened the efficiency control on complaint handling and the implementation of remedial measures, thus enhancing the quality and effectiveness of the complaint management of the Company and improving customer experience and satisfaction.

### 3.10.2 Corporate banking

In the first half of 2016, the Company continued to reinforce its advantages in corporate banking by driving business through product innovation, concentrating on high-quality and qualified credit assets, and making breakthrough in PPP Projects and city development funds to further facilitate the development of government finance business. The Company also leveraged its advantages in win-win innovative financing, financial leasing and factoring business and other portfolio business to further strengthen its foundation for the development of corporate banking business.

#### 1. **Corporate deposits**

During the Reporting Period, corporate deposits maintained a steady growth driven by new business segments such as government fund, PPP projects and financial leasing and factoring. As at the end of the Reporting Period, the balance of corporate deposits reached RMB77.226 billion, representing 61.14% of the balance of various deposits and an increase of RMB7.298 billion or 10.44% compared with that at the end of the previous year.

#### 2. **Corporate loans**

During the Reporting Period, the Company adjusted the development strategy of its corporate banking business in line with the changing macro economy, focused its credit use on financing for the government and people's livelihood as well as quality enterprises to benefit the real economy, and tightened customer selection while backing up the reasonable credit requirements of projects under construction and extension projects as well as the credit requirements arising from the structural adjustment of the real economy and industrial transformation and upgrade. During the Reporting Period, trade finance business maintained stability in asset quality while achieving substantial breakthroughs in new businesses including financial leasing and factoring; the business of re-discounted bills developed rapidly, with the amount of re-discounted bills reaching RMB718 million, a significant growth from last year's RMB200 million as a whole; small business financing developed steadily and the small business financing product "Ke Yi Dai" (科易贷) was awarded the "Top 50 financial products for small and micro enterprises for national services" by China Banking Association. As at the end of the Reporting Period, the total corporate loans including discounted bills reached RMB59.694 billion, accounting for 73.75% of the total loans, representing an increase of RMB6.874 billion or 13.01% compared with that at the end of the previous year.



### 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.

During the Reporting Period, the Company highlighted the principal status of government customers in its corporate banking business and made every effort to expand and enhance its government finance business. For public sector finance, the Company focused on future growth potential and sought cooperation opportunities by targeting on corporate customers such as listed companies, “NEEQ” companies and companies seeking to be listed. To explore major customers by means of comprehensive strategic cooperation, the Company has signed comprehensive strategic cooperation agreements with more than 20 major customers to further the cooperation between the Company and its strategic customers.

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**

During the Reporting Period, the Company launched the option loan product featuring investment linked loans by capturing the trend of incorporating investment banking business into corporate banking business, innovated equity investment business of city development funds by proactively conducting research on relevant policies to diversify financing models of government projects, and explored the establishment of a venture capital centre to effectively connect credit business and investment business. To promote green credit business, the Company selected qualified enterprises and used the proceeds raised from the Green Bond to strengthen the support of branch institutions for credit business of green credit enterprises.

### 3.10.3 Financial market business

Addressing the complex macroeconomic situation and the challenges in the financial market in the first half of 2016, the financial market business of the Company leveraged its advantages to tap business potential, enhance efficiency and achieve breakthroughs, making significant progress in various business areas. As at the end of the Reporting Period, the assets under management of the financial market business reached RMB143.202 billion, an increase of 13.58% compared with that at the end of the previous year. Operating income contribution of the financial market business during the Reporting Period was 29.42%, representing a year-on-year increase of 5.13 percentage points. During the Reporting Period, the net non-interest income of the financial market business was RMB207 million, a year-on-year increase of 5.83% and accounting for 39.48% of the net non-interest income of the Company as a whole, representing a year-on-year decrease of 4.06 percentage points.

#### 1. *Proprietary investment*

In the context of the acceleration of marked-oriented interest rates and financial disintermediation, the Company established business channels and platforms in the financial market, developed innovative cross-industry, cross-market and cross-product financial services and products, and addressed the operation pressure arising from scarcity of assets through the setup of asset business, endeavouring to increase post-listing return on assets and return on capital.

As at the end of the Reporting Period, the Company's investment size was RMB99.947 billion, an increase of RMB15.166 billion or 17.89% compared with that at the end of the previous year, of which bond investment recorded a balance of RMB43.210 billion, an increase of RMB3.327 billion or 8.34% compared with that at the end of the previous year, mainly due to increased investment in highly liquid assets including local government bonds and policy financial bonds. The balance of non-standard assets investment was RMB56.713 billion, an increase of RMB11.839 billion or 26.38% compared with that at the end of the previous year, mainly due to the offsetting of increased non-standard assets including low-risk wealth management products issued by financial institutions and asset management plans against the decrease in assets such as beneficiary rights in margin financing business, beneficiary certificates and trust fund plans.

In June 2016, the Company was approved by the CBRC Qingdao Office to engage in the basic derivative transactions business, further promoting its product and business innovation and satisfying customers' needs for hedging exchange rate risk and interest rate risk by giving full play to the risk aversion feature of derivatives.

### 2. *Interbank business*

Firstly, the financing capability of the Company was further improved by promoting sales in branch institutions and expanding active liabilities business to provide a stable and consistent source of funds for the Company. At the end of the Reporting Period, the interbank deposits of the Company dropped to RMB25.334 billion, a decrease of RMB2.001 billion or 7.32% compared with that at the end of the previous year; the certificates of deposit amounted to RMB18.929 billion, representing an increase of RMB9.804 billion or 107.44% compared with that at the end of the previous year. The interbank deposit business decreased slightly, relatively increased the proportion of financing in the certificates of deposit business.

Secondly, the national interbank market transactions remained active. During the Reporting Period, our transaction volume in the national interbank bond market was RMB3,249.3 billion, representing a year-on-year increase of RMB1,203.4 billion or 58.82%, ranking 32th among national financial institutions and 10th among city commercial banks.

### 3. *Asset management*

Based on its prudent compliance management, the asset management of the Company adhered to innovation-driven development to expand its business, establishing a multi-dimensional wealth management product system. At the end of the Reporting Period, the scale of wealth management products was RMB46.203 billion, representing a year-on-year increase of RMB15.456 billion or 50.27%; the accumulated amount of wealth management product launched during the Reporting Period reached RMB101.541 billion. Riding on the “Hai Rong Wealth” (海融财富) brand of retail wealth management products, the “Su Jue Su Sheng” (速决速胜) brand of corporate wealth management products and the “Hai Ying” (海赢) brand of interbank wealth management products, the Company launched the “Qing Xin Gong Xiang” (青鑫共享) brand of wealth management products distributed by financial institutions and the “Zi Guan Bao” (资管宝) brand of wealth management products issued by financial institutions but entrusted to the Company, vigorously promoting the development of asset management “interface banking” business and expanding the sales channels and customer base of the Company’s wealth management products. During the Reporting Period, the sales value of the 18 issues of “Qing Xin Gong Xiang” products and the 25 issues of “Zi Guan Bao” products amounted to RMB75.11 million and RMB454 million with the number of contracted cooperation institutions reaching 4 and 9, respectively.

Its outstanding investment management capability and the diversified wealth management products have earned the Company’s asset management business high market recognition and reputation. The Company ranked the fifth nationwide and the first in Shandong Province consecutively in the quarterly regional financial institution reports issued by CnBenefit in 2016. In the selection campaign for the “2015 Gold Bull Wealth Management Product Award” held by China Securities Journal and jnlc.com in May 2016, the Company won the “Gold Bull Wealth Management Bank Award” and the “Gold Bull Bank Wealth Management Product Award”.

### **4. *Investment banking***

The investment banking business can not only facilitate the sales and customer relationship management of the branches and sub-branches through the expansion of financing channels, but also significantly increase fee and commission income by enhancing the assets and income of the Company and diversifying high-yield assets. In addition to traditional structured financing, the Company carried out business of government-led funds during the Reporting Period to support regional economic development, contributing to the transformation and innovation of government finance business. To expand its sources of profit, the Company explored and pushed forward innovative business such as debt financing plans, merger and acquisition funds and private placement funds as well as overseas asset allocation business such as overseas issuance of preference shares by Chinese financial institutions, USD denominated bonds and the entrusted investment of overseas assets.

Taking the initiative to engage in innovative business, the Company became the only city commercial bank among the first batch of pilot banks to issue Green Bonds approved by the PBoC. In March 2016, the Company completed the first tranche of 2016 Bank of Qingdao Green Bond in the national interbank bond market with an issue size of RMB4 billion.

In May 2016, the Company became the only city commercial bank in Shandong Province to obtain the qualifications of B-Class lead underwriter for non-financial corporate debt financing instruments. With qualifications for carrying out lead underwriting business in Shandong Province, the Company can issue commercial papers, medium term notes and other debt financing instruments for enterprises so as to explore cooperation models with the enterprises and bring in extra income from derivative deposits and intermediary business.

### **3.10.4 Distribution channels**

#### **3.10.4.1 *Physical distribution channels***

The business outlets of the Company are based in Qingdao with a footprint extending to other regions of Shandong Province. As at the end of the Reporting Period, the Company had a total of 105 business outlets in 10 cities in Shandong Province, namely Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou and Weifang, with a head office, a branch, and 68 sub-branches in Qingdao.

#### **3.10.4.2 *Self-service banking channels***

The Company provided safe and convenient banking services to its clients through self-service banks and devices. As at the end of the Reporting Period, the Company had 4 off-bank self-service banks, 87 in-bank self-service banks, 438 self-service devices, including 116 self-service ATMs, 214 self-service CRSs, and 108 self-service terminals, providing services such as withdrawal, deposit, transfer, account enquiry, and payment. As at the end of the Reporting Period, the Company had 2,787,600 self-service bank transactions with a transaction amount of RMB8.929 billion.

### 3.10.4.3 *Electronic banking channels*

To follow the trend of the rapid development of the mobile internet, the Company speeded up the development and promotion of mobile finance during the Reporting Period. Mobile banking users continued to register a high rate of growth, and regarding the three areas of society, life and finance which attracted the most attention among mobile terminal users, the Company built three mobile finance applications including WeChat Banking, Haihui Life and mobile banking, and achieved all-round development.

During the Reporting Period, the mobile banking of the Company was awarded “The Most Popular Mobile Finance Product” in the 13th China Finance Board; the personal online banking and mobile banking of the Company were awarded “The Best and Most Innovative Customer Experience” by the 7th Online Banking Congress; the WeChat interactive marketing activity “Shake it Every Day” developed by the Company was awarded “Top 10 Social Marketing Cases in the Finance Sector” by China Financial Certification Authority.

1. Rapid growth of mobile finance users. After the number of mobile banking users achieved a breakthrough of 500,000 at the end of the previous year, the figure surpassed 650,000 and reached 654,227 at the end of the first half of 2016, up by 29.68% compared with that at the end of the previous year.
2. Continued strengthening of mobile finance products layout. In April 2016, the Company started revising its mobile banking interface. During the relaunch, the Company started all-round adjustments to the mobile banking interface, redesigned the desktop icon of mobile banking, improved the recognition of the mobile banking logo, strived to deliver an easy and secure customer experience by using a light-coloured, light-hearted and flattening design style, enhanced and reinforced the performance and security of mobile banking to provide more secured and convenient user experience.

Besides, the following projects of the Company have entered the technical development stage: mobile finance products enhancement projects targeting at mobile channels such as mobile banking, WeChat banking and Haihui Life, mobile medical projects with hospital registration, treatment and payment services, and e-channel security and anti-fraud projects.

3. Continued growth in e-channel transactions. During the Reporting Period, the transaction volume of online and mobile banking of the Company reached 70.1005 million, up by 31.02% year-on-year, with a transaction amount of RMB631.286 billion, up by 26.62% year-on-year.

4. Expansion of the range of online financing products and expedition of the development and implementation of Internet finance. During the Reporting Period, the Company launched the direct online financing system for mobile banking personal customers, improved the supply chain financing platform for supply chain businesses, and met the demand of both personal customers and supply chain corporate customers for instant online loans.

Since its launch on 25 December 2015, the direct banking line has been delivering featured investment and financial services to Internet users across the country, and is continuously optimising the service platform to expand the customer base to compensate for the geographic limitations of physical outlets. As at the end of the Reporting Period, 5,705 customers were signed up effectively through the direct banking system, and RMB362.675 million of financial products were sold under “Reaping Returns from the Money Market”.

#### **3.10.4.4 Information technology**

In the first half of 2016, the Company actively grasped the development opportunity brought by emerging technologies such as big data, cloud computing and mobile network, adhered to the strategy of comprehensively implementing scientific and technological innovation, elevated “excellence in technology” to a bank-wide strategy and made significant investments in information technology systems and teams. To keep in line with the “interface banking” strategy, the Company completed the development and implementation of a series of key projects including the financing gateway platform and the cloud payment platform, and at the same time continued to enhance the application structures and systems, improve the capability of preventing and controlling information technology risks and reinforce the management system of information technology and internal control, therefore successfully achieving the strategic business goals for the Reporting Period and promoting the improvement of the core competence of the whole bank.

To support the business development of the whole bank, the technology department of the Company established a project quality control mechanism based on process management and control with reference to the international software development capability maturity model (CMMI). The Company completed the enhancement of its information technology framework, implemented the pilot “Demand-embedded Service Mode” and “Project-oriented” project management mode, improved the reaction speed and project development quality, reduced development cost, and established multi-dimensional assessment and incentive mechanisms for information technology personnel. The Company continued to perfect its information system operation and maintenance management, and strengthened its information technology risk prevention system overseeing business continuity, operation and management as well as information security. The Company improved specific emergency plans, held various simulation drills, started third party security assessment for Internet-related business systems, and successfully renewed its ISO27001 certification on its information security management systems.

During the Reporting Period, the Company completed the development and implementation of key projects including online financing of the supply chain and mobile finance, secured in-depth cooperation with a number of key local enterprises, and invested heavily in building up the “Huimin Card” (惠民銀行卡) integrating commuting convenience (the metro, buses, etc.), medical convenience (diagnosis and treatment card), and consumption convenience and the intelligent cloud payment platform to provide customers with a comprehensive convenience service platform and to improve customer experience steadily. In terms of back-desk management, the Company built a multi-media customer service centre using mobile connectivity technology, which would enable seamless connection with the in-bank marketing management system, thus achieving well-targeted marketing, improving customer service quality and effectively supporting the implementation of the featured strategy of “interface banking”.

### 3.11 RISK MANAGEMENT

#### 3.11.1 Credit risk management

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

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

1. Continued adjustments to and enhancement of credit structure. By meticulous researching on, analysing, and assessing the macro economic conditions and the industry development trend, the Company refined its annual credit policy, adjusted the structure based on the overall credit strategy of “adjusting structure and controlling risks”, improved the industry layout, adjusted the proportion of traditional industries such as the manufacturing industry, raised the share of emerging industries and continued to shrink the share of loans in high-risk industries such as those with over capacity.
2. Strengthened identification and management of risks. The Company conducted dynamic monitoring of changes in risks and asset quality, identified and managed risks without delay, monitored past due loans and loans with overdue interests on a daily basis, filtered and checked various warnings, timely reacted to major risks and worked out solutions.
3. Strengthened management in key risk areas. The Company continued to strengthen its credit management for client groups and business types including zombie companies with overcapacity, micro and small businesses, commodity financing and loans for transformation of scientific and technological achievements; the Company strengthened its unified credit management for group customers, and improved the management and control functions of the credit management system; the Company strengthened its quota management for the real estate sector, improved the proportion of consumer personal loans and enhanced the product structure; the Company adjusted and enhanced the credit guarantee structure, controlled and shrank the proportion of loans made by general financing guarantee institutions and by joint guarantee; and the Company continued to conduct risk checks to understand the base risks of key areas.
4. Continued strengthening of basic management. The Company improved the quality of credit granting investigations, strengthened post-lending management, and refined flexible authorisation. The Company also strengthened its risk prevention culture and compliance awareness, and continued to hold business training and risk education with warnings cases.



### 3.11.2 Liquidity risk management

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business even if a bank's solvency remains strong.

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

Adhering to the principle of separating the functions of formulation, implementation and supervision of liquidity risk management policies, the Company has established a liquidity risk management and governance structure, specified the roles, responsibilities and reporting procedures of the Board of Directors, the Board of Supervisors, the senior management, special committees and related banking departments in liquidity risk management to improve the effectiveness of liquidity risk management. The Company adheres to a prudent liquidity risk management philosophy well-suited for the current development stage of the Company. The current liquidity risk management policy and system are in line with the regulatory requirements and the needs for the Company's own management.

The Company manages liquidity risk by adopting a mode of coordination by the head office and cooperation by sub-branches. The Financial Planning Department of the head office is responsible for daily liquidity risk management, it manages liquidity based on the regulatory requirements and principle of prudence, and conducts unified management for liquidity through quota management, plan adjustments, active liability and internal fund transfer pricing (FTP).

The Company measures, monitors and identifies liquidity risks through two dimensions including short-term provision, and structural and emergency provision, closely monitors various quota indicators at a fixed frequency and conducts stress tests on a regular basis to decide whether the Company is able to meet the liquidity requirements in emergency. In addition, the Company has formulated a liquidity emergency plan, and examines and reviews the emergency plan regularly.

The Company holds an appropriate amount of assets with liquidity (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 can be met. The Company's assets are mainly funded by deposits from customers. As a major source of funding, deposits from customers have been growing rapidly in the first half of 2016, and are widely diversified in terms of type and duration.

In the first half of 2016, the Company adopted various measures to respond to liquidity risks and ensured the steady liquidity flow of the whole bank: firstly, the Company made good use of the adjustment mechanism of FTP to guide branches on the maturity and amount of liabilities and balance the capital inflows and outflows; secondly, the Company strengthened the asset and liability matching management of businesses such as the bills business to solve the maturity mismatching problem; thirdly, the Company flexibly developed short-term and mid- and long-term active liability including issuing certificates of interbank deposit and certificates of deposit in large denominations for financing. By coordinating and considering liquidity and liability costs, the Company ensured its capital inflows; fourthly the Company conducted active risk management proactively and deployed its investment and financing strategy by dynamically predicting the future cash flow gap to lower costs and improve profitability.

### **3.11.3 Market risk management**

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

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

#### **3.11.3.1 Analysis of interest rate risk**

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

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

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

In the first half of 2016, the Company made rational use of the FTP system, perfected interest rate pricing management, promptly adjusted the pricing of funds, effectively controlled fluctuations in loan interest rates and interest-bearing costs and improved forward-looking interest rate risk management to guarantee the continued increase in the Company's revenues.

### 3.11.3.2 Analysis of interest rate sensitivity

The Company assesses the potential impact of movements in interest rates on the Company's net interest income via sensitivity analysis. The following table sets forth the results of the interest rate sensitivity analysis based on the assets and liabilities as at 30 June 2016 and 31 December 2015.

*Unit: RMB'000*

Item	30 June 2016 Increase/ (Decrease)	31 December 2015 Increase/ (Decrease)
Change in annualised net interest income		
Interest rates increase by 100 bps	(346,724)	(225,906)
Interest rates decrease by 100 bps	346,724	225,906

### 3.11.3.3 Analysis of exchange rate sensitivity

The following table sets forth the results of the exchange rate sensitivity analysis based on the assets and liabilities as at 30 June 2016 and 31 December 2015.

*Unit: RMB'000*

Item	30 June 2016 Increase/ (Decrease)	31 December 2015 Increase/ (Decrease)
Increase/(Decrease) in annualised net profit		
Foreign exchange rates increase by 100 bps	605	396
Foreign exchange rates decrease by 100 bps	(605)	(396)

### 3.11.4 Operational risk management

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

During the Reporting Period, the Company actively improved the operational risk management system commensurate with its business nature, scale and complexity, explored the operational risk management mode to match with the requirements for risk management after listing, and effectively identified, assessed, monitored, controlled and mitigated operational risk, thus promoting the improvement of the operational risk management capacity of the Company. The whole bank enjoyed good operational risk management without any major operational risk events or related losses. During the Reporting Period, the Company strengthened operational risk management in the following areas:

1. With a focus on new trends and new businesses, the Company identified and eliminated potential risks. During the Reporting Period, the Company focused on heated issues in the industry and conducted specific checks on bills as appropriate; the Company followed up with its emerging businesses and conducted specific checks on its financial market businesses as appropriate; the Company also conducted specific checks on personal loans as appropriate. These checks all played a positive role in actively preventing and controlling risks, improving first-line internal control management, and assisting the business departments to step up management.
2. The Company strictly prevented and controlled operational risks based on comprehensive business checks. During the Reporting Period, based on the regular business checks, the business departments of the Company conducted prevention beforehand and subsequent supervision, and leveraged the “triple defence lines” functions of the business operation, risk management and compliance, and audit and discipline inspection and supervision departments. Through checking and identifying operational risk hazards and implementing solutions for problems identified, the business departments issued case warnings and risk cautions to warn against potential operational risks, eliminate repetitive occurrence, and intercept operational risk incidents, which have shown positive results.
3. The Company built up its system security assurance based on advanced information technology systems. In constructing the information technology security management system, the Company expanded its professional information security management team continuously, expedited the implementation of the security assurance projects for the Internet application system, expanded the application of various security products and technologies and completed the third party security review and information security risk review for Internet-related systems. The graded protection of information system security began to bear fruit and passed the annual review of ISO27001, effectively improving information security management.

4. The Company strictly avoided case risks based on a sound case prevention mechanism. During the Reporting Period, facing the challenging circumstances regarding case prevention, the Company adhered to the guidance offered by regulatory requirements, and continued to conduct case checks to achieve self-assessment of case prevention, build up an examination question pool for case prevention and promote the establishment of an effective long-term mechanism for case prevention.
5. The Company strictly avoided operational risks caused by human factors through focusing on the checks on abnormal behaviours of the staff. By reaffirming managerial measures such as the management of abnormal staff behaviours, special checks on misconduct of the staff, enhanced job rotation and shift arrangements, and mandatory leave, the Company guided the staff to observe operational compliance to avoid operational risks.
6. The Company improved outsourcing and business continuity management to expand the scope of operational risk prevention. During the Reporting Period, the Company strengthened its business continuity management and emergency prevention by making emergency plans for related business emergencies. To improve outsourcing management, the Company streamlined the management system, flow, and supervision of contractors, conducted risk inspection of outsourcing management, and prevented system failure and leakage of business secrets.

### 3.12 SOCIAL RESPONSIBILITY

1. In terms of economic responsibility, the Company put into practice the concept of serving the people and supporting economic development by stepping up support for infrastructure, key projects, public sectors, emerging industries, small and medium enterprises; accelerating innovation in inclusive finance, science and technology finance and service enhancement; and making effective attempts in new businesses and new products such as PPP projects, urban development funds, investment and loan linkage as well as equity pledge loans for financial institutions.

As to the establishment of entities, the West Coast New Area Branch, the first tier one branch, was set up in Qingdao West Coast New Area, in support of the economic and financial development of the new area. A total of 11 community sub-branches were also established with functions enhanced to serve the communities better. In respect of public sector finance, a breakthrough was achieved on the Bank Hospital Pass platform through the launching of “all-in-one” medical cards in collaboration with Qingdao Municipal Hospital. Under this system, residents holding social security cards can enjoy self-service registration, convenient consultation, self-service payment and self-service receipt printing services at Qingdao Municipal Hospital. The Company also collaborated with nationwide fast retailing enterprises in launching the online financing business for core corporations for online lending and repayment which offered immediate lending and repayment services to effectively solve the financing problem faced by distributors. In the first half of 2016, loan balance increased by RMB8.250 billion compared with that at the end of last year, of which the balance of personal loans increased by RMB1.377 billion, while the aggregate tax paid was RMB584 million.

2. In terms of social responsibility, the Company carried out charitable activities on an on-going basis. In the first half of 2016, we continued to work with the Ocean University of China to support the education sector by setting up scholarships using the “Ocean University of China-Bank of Qingdao Education Fund”. The Company continued to implement the public benefit policy and focused on the service concept of “offering real benefits to the public”. The Company is the first bank in Qingdao to offer free services for reporting the loss of personal accounts, debit cards, government credit cards, online banking credentials and public seals, as well as for opening personal deposit accounts and verification accounts. The Company promoted the popularisation of financial knowledge on a regular basis through convenient ways such as WeChat and websites. By means of an array of roadshows such as “Universalising Financial Knowledge” (金融知識萬里行) “Popularising Financial Knowledge into Every Household” (金融知識進萬家) and public lectures, the Company vigorously promoted financial knowledge for the protection of consumer rights and interests. To show our care to the community, the Company carried out charitable activities and volunteer services in various forms such as book donations, “Heart with Yiyuan Red Apples” (心繫沂源紅) (a campaign to help farmers), “Lit the World of Stars with Love” (用愛點亮星星的世界) and “Hand in Hand in a Red Sunset to Give Warmth to the Elderly” (牽手夕陽紅·溫暖老人心).
3. In terms of environmental responsibility, the Company aimed to build itself into a “green credit bank” by vigorously developing green finance. Being one of the first banks in the nationwide banking industry and the first city commercial bank to issue Green Bonds, the Company adopted practical measures in the first half of 2016 to support the development of regional green industries and pushed forward regional economic restructuring and upgrading as well as transformation of the mode of economic development. The proceeds from the first tranche of RMB4 billion Green Bonds issued in 2016 were used in six aspects covering energy conservation, pollution control and prevention, resources conservation and recycling, clean transport, clean energy, ecological protection and adaptation to climate change. Moreover, at the “Sino-British Regional Economic and Trade Cooperation Forum” held in Qingdao, the Company, as a business representative of Qingdao, signed a framework cooperation memorandum of understanding with London Stock Exchange on the issuance of Green Bonds, which laid a solid foundation for bilateral cooperation in green finance.

In addition, the Company raised the environmental awareness of staff during the Reporting Period by staging various activities, such as “Happy Environmental Protection Starts with Me – Bank of Qingdao Charity Walk for the Environment” (快樂環保·從我做起—青島銀行隨手公益環保行), “Be a Master of the City; Enjoy Green Finance”(做城市主人享綠色金融) and tree planting, as a way to extend our concrete support to the green industry.

### 3.13 PROTECTION OF CONSUMER RIGHTS

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. Overall planning to consolidate the foundation of the consumer rights protection mechanism

By formulating the annual work plan for consumer rights protection, the Company gave full play to the institutional advantage of the consumer rights protection committee of the head office, coordinated and deployed consumer rights protection work, identified work duties, refined work targets, innovated on work methods, continued to enhance the framework, refined process reengineering and improved the work system to further improve the planning and development of the consumer rights protection system and consolidate the foundation of the consumer rights protection mechanism.

2. Building up a consumer rights protection mechanism

The Company implemented the regulatory requirements for the establishment of a systematic and standard consumer rights protection mechanism. Focused on building a system “guided by the consumer rights protection principle, centred on various specific business operation systems, and matched with internal assessment and audit management”, the Company, based on the actual circumstances, established a basic consumer rights protection mechanism commensurate with the structural framework, operation scale and business nature of the Company, encompassing specific business operation systems including customer complaints management, customer information protection, financial knowledge promotion and education, employee behaviour management, and product and service management.

3. Expanding publicity channels, guiding the public and fulfilling the social responsibility of the banking sector to protect consumer rights

By strengthening the promotion of financial knowledge to the public on a regular basis, the Company continued to host various activities including “March 15 Consumer Protection Promotion” and “Universalising Financial Knowledge Popularisation” to extensively guide the wider public to use banking products and services scientifically and reasonably, strengthen the promotion of personal financial information protection for consumers, and improve the safety awareness of consumers against telemarketing fraud and illegal fundraising so as to fulfil the social responsibility of the banking sector to protect consumer rights.

### 3.14 DEVELOPMENT PLAN FOR THE SECOND HALF OF 2016

#### 3.14.1 Operating situation analysis for the second half of the year

The sluggish growth and differentiated monetary policies of major economies have given rise to the increased volatility of the financial market. The domestic economic growth suffered from a downslope “L” shape trend, remaining in a complicated stage of transformation, upgrading and momentum changes while showing signs of short-term stability. The Company is faced with major challenges as follows: first, continued regional risks; second, sluggish credit demand in the real economy; third, continued narrowing of interest spread; and fourth, changes in policies of the industry.

Nevertheless, the Company is presented with both challenges and opportunities. Generally speaking, the Company still enjoys a number of development opportunities: first, steady development opportunity brought by the stability in economic growth; second, major project reserve opportunity incubated by the “13th Five-year Plan”; third, livelihood finance opportunity powered by the local government financial investment; fourth, financial market opportunity generated from the easing monetary policy; and fifth, retail finance opportunity brought by household wealth accumulation.

#### 3.14.2 Development guidance for the second half of the year

In the second half of 2016, adhering to its operations philosophy of “gathering momentum, stabilising development, controlling risks, and increasing market cap”, the Company will effectively consolidate its existing businesses and customer base, vigorously explore the method and path of transformation, improve the head office’s standards in devising policy and speediness in giving response, and boost the branches’ average outlet efficiency and per capita output, promoting the whole bank to share responsibilities, managing risks together and learning from each other’s strengths to ensure the completion of the annual work plan.



### 3.14.3 Measures to be adopted for the second half of the year

- (1) “Strengthening the two ends and focusing on the intermediary” in the wholesale business to expedite transformation towards investment banking businesses;
- (2) Dedicating itself to retail business with multi-dimensional promotions to consolidate and further expand the retail customer base;
- (3) Promoting “full-licensed integrated” operations for financial market businesses to expedite the reforms of the business departments;
- (4) Controlling misconduct and promoting compliance in risk control and management to strictly monitor the situation and manage wisely to consolidate the foundation;
- (5) Refining the “interface banking” model by business lines to make it a regular strategy to continuously improve the capability of acquiring customers in bulk;
- (6) Adhering to integrated “online” and “offline” development in channel construction to enhance the accessibility and convenience of services;
- (7) Attaching importance to the research and development of new products and businesses in the whole bank to continue to provide new engines for development;
- (8) Continuing to improve the support and protection functions of overall management to ensure the smooth transformation and upgrading of the whole bank.

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## CHAPTER IV SIGNIFICANT EVENTS

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### 4.1 EARNINGS AND DIVIDENDS

The revenue of the Company for the first six months ended 30 June 2016 and the financial position of the Company on the same date are set out in the financial statements of this report.

Pursuant to the resolutions passed at the annual general meeting of 2015 of the Company on 10 May 2016, the Company had distributed dividends in cash in an aggregate amount of RMB811,742,549.80 (tax inclusive) on 8 July 2016 to shareholders of domestic shares and H shares whose names appeared on the share register of the Company on 19 May 2016, in accordance with the profit distribution plan to distribute a dividend of RMB0.20 per share (tax inclusive).

No profit distribution and no transfer from capital reserve to share capital were made by the Company in 2016 during the Reporting Period.

### 4.2 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.

### 4.3 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 procedures. There was no negative impact on the operating results and financial condition of the Company as the amount of all the loans was recovered with no non-performing loans.

During the Reporting Period, there was one proposal on significant related party transactions of the Company that required consideration by the Board of Directors, which were the credits granted to Qingdao Haier Real Estate Group Co., Ltd.. As at the end of the Reporting Period, the balance of significant related party transactions of the Company amounted to RMB2,200.2441 million, and the net amount was RMB2,199.9948 million after deducting deposits, with the related parties being Qingdao Haier Real Estate Group Co., Ltd and Qingdao Haier Home Integration Limited. The details are as follows:

*Unit: RMB'0,000*

Name of related party	Business category	Manner of guarantee	Balance of credits granted	Net credits granted after deducting deposits	Percentage of net capital
Qingdao Haier Real Estate Group Co., Ltd.	Non-standard debt assets	Suretyship	180,000.00	180,000.00	8.53%
Qingdao Haier Home Integration Limited	Letter of guarantee	Pledge, deposit	40,024.41	39,999.48	1.90%

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. In accordance with Rule 14A.87(1) of the Hong Kong Listing Rules, those transactions were fully exempted from disclosure requirement.

#### 4.4 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.

#### 4.5 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 all the Company's Directors, Supervisors and senior management.

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## CHAPTER IV SIGNIFICANT EVENTS

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### 4.6 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. 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.
3. 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.

### 4.7 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.

### 4.8 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 guarantee, commitments and entrusted asset management requiring disclosure.

### 4.9 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.

### 4.10 PUBLISHING OF INTERIM REPORT

This interim report prepared both in Chinese and English in accordance with the International Financial Reporting Standards and Hong Kong Listing Rules is available at the HKEXnews 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. The report has been reviewed by the audit Committee of the Company and by KPMG in accordance with the Hong Kong Standard on Review Engagements 2410.

### 4.11 EVENTS AFTER THE REPORTING PERIOD

According to the "Approval of China Banking Regulatory Commission on Establishing Qingdao Qingyin Financial Leasing Company Limited" issued by the CBRC, the Bank was approved to establish Qingdao Qingyin Financial Leasing Company Limited. For details, please refer to the voluntary announcement published on 1 August 2016 on the website of the Hong Kong Stock Exchange and the website of the Company.

## CHAPTER V CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

### 5.1 STATEMENT OF SHARE CAPITAL STRUCTURE

Unit: share

Type of shareholder	31 December 2015		Changes during the Reporting Period	30 June 2016	
	Number of shares	Percentage of total share capital		Number of shares	Percentage of total share capital
Domestic legal persons	2,248,545,010	56.05%	-4,718,000	<b>2,243,827,010</b>	<b>55.28%</b>
Domestic natural persons	51,850,759	1.29%	0	<b>51,850,759</b>	<b>1.28%</b>
H shares	1,711,136,980	42.66%	51,898,000	<b>1,763,034,980</b>	<b>43.44%</b>
Total	4,011,532,749	100.00%	47,180,000	<b>4,058,712,749</b>	<b>100.00%</b>

### 5.2 STATEMENT OF CHANGES IN TOTAL SHARE CAPITAL

On 24 December 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 exercise of the over-allotment option.

## CHAPTER V CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

### 5.3 PARTICULARS OF SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF THE COMPANY

Unit: share

No.	Name of shareholder	Total number of shares held at end of period	Shareholding percentage	Number of shares pledged	Number of shares frozen
1	Hong Kong Securities Clearing Company Nominees Limited (香港中央結算(代理人)有限公司)	1,140,050,980	28.09%	unknown	unknown
2	Intesa Sanpaolo S.p.A. (意大利聯合聖保羅銀行)	622,306,980	15.33%	unknown	unknown
3	Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	503,556,341	12.41%	–	–
4	Qingdao Haier Investment and Development Co. Ltd. (青島海爾投資發展有限公司)	409,693,339	10.09%	–	–
5	Qingdao Haier Air Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	218,692,010	5.39%	–	–
6	Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	152,170,000	3.75%	143,100,000	–
7	Qingdao Haier Co., Ltd. (青島海爾股份有限公司)	139,663,690	3.44%	–	–
8	Qingdao Hairan Investment Co., Ltd. (青島海仁投資有限責任公司)	133,910,000	3.30%	–	–
9	Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司)	90,936,164	2.24%	–	–
10	Shanghai Jiacheng Investment Management Co., Ltd. (上海嘉誠投資管理有限公司)	77,276,328	1.90%	77,276,328	–

- Note: (1) Share held by Hong Kong Securities Clearing Company Nominees Limited are the total number of H shares of the Company held by shareholders which are traded on the trading platform of Hong Kong Securities Clearing Company Nominees Limited on behalf of shareholders;
- (2) For the above 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.

## CHAPTER V CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

### 5.4 INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, 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 <sup>(1)</sup>	Approximate percentage of the total number of domestic shares <sup>(1)</sup>	Approximate percentage of the total number of H shares <sup>(1)</sup>	Long/short position
Haier Group Corporation (海爾集團公司) <sup>(2)</sup>	Domestic Shares	Interest of controlled corporation	812,214,572	20.01	35.38	–	Long
Qingdao Haier Investment and Development Co., Ltd. (青島海爾投資發展有限公司) <sup>(3)</sup>	Domestic Shares	Beneficial owner	409,693,339	10.09	17.85	–	Long
		Interest of controlled corporation	5,633,715	0.14	0.25	–	Long
		Other interest	396,887,518	9.78	17.29	–	Long
Qingdao Haier Co., Ltd. (青島海爾股份有限公司) <sup>(4)</sup>	Domestic Shares	Beneficial owner	139,663,690	3.44	6.08	–	Long
		Interest of controlled corporation	244,680,795	6.03	10.66	–	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	5.39	9.53	–	Long
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限公司) <sup>(5)</sup>	Domestic Shares	Interest of controlled corporation	503,556,341	12.41	21.93	–	Long
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司) <sup>(5)</sup>	Domestic Shares	Beneficial owner	503,556,341	12.41	21.93	–	Long
Ge Shoujiao (葛守蛟) <sup>(6)</sup>	Domestic Shares	Interest of controlled corporation	152,170,000	3.75	6.63	–	Long
Leng Qiyuan (冷啟媛) <sup>(6)</sup>	Domestic Shares	Interest of controlled corporation	152,170,000	3.75	6.63	–	Long
Shandong Sanliyuan Trading Co., Ltd. (山東三利源經貿有限公司) <sup>(6)</sup>	Domestic Shares	Beneficial owner	152,170,000	3.75	6.63	–	Long
Han Huiru (韓匯如) <sup>(7)</sup>	Domestic Shares	Interest of controlled corporation	133,910,000	3.30	5.83	–	Long
Wang Yunyun (王芸芸) <sup>(7)</sup>	Domestic Shares	Interest of spouse	133,910,000	3.30	5.83	–	Long
Qingdao East Steel Tower Stock Co., Ltd. (青島東方鐵塔股份有限公司) <sup>(7)</sup>	Domestic Shares	Interest of controlled corporation	133,910,000	3.30	5.83	–	Long
Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司) <sup>(7)</sup>	Domestic Shares	Beneficial owner	133,910,000	3.30	5.83	–	Long
Intesa Sanpaolo S.p.A.	H Shares	Beneficial owner	622,306,980	15.33	–	35.30	Long



## CHAPTER V CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of shareholder	Type of shares	Capacity	Number of shares held	Approximate percentage of the total share capital <sup>(1)</sup>	Approximate percentage of the total number of domestic shares <sup>(1)</sup>	Approximate percentage of the total number of H shares <sup>(1)</sup>	Long/short position
Chan Mei Ching <sup>(8)</sup>	H Shares	Interest of controlled corporation	200,000,000	4.93	–	11.34	Long
Chan Min Chi <sup>(8)</sup>	H Shares	Interest of controlled corporation	200,000,000	4.93	–	11.34	Long
LRC: Strategic (Global) Investment Group Limited <sup>(8)</sup>	H Shares	Interest of controlled corporation	200,000,000	4.93	–	11.34	Long
LRC: Belt and Road Investment Limited <sup>(8)</sup>	H Shares	Beneficial owner	200,000,000	4.93	–	11.34	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	4.93	–	11.34	Long
Ouyang Xinxiang (歐陽新香) <sup>(9)</sup>	H Shares	Interest of controlled corporation	110,000,000	2.71	–	6.24	Long
Keystone Group Ltd. <sup>(9)</sup>	H Shares	Beneficial owner	110,000,000	2.71	–	6.24	Long
Yan Lei (閔磊) <sup>(10)</sup>	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
Yue Jingfeng (岳敬峰) <sup>(10)</sup>	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
Rizhao Huaheng Materials Trade Co., Ltd. (日照市華亨物資貿易有限公司) <sup>(10)</sup>	H Shares	Beneficial owner	100,000,000	2.46	–	5.67	Long
Rothschilds Continuation Holdings AG <sup>(11)</sup>	H Shares	Beneficial owner	98,830,000	2.44	–	5.61	Long
Rothschild & Co SCA <sup>(11)</sup>	H Shares	Interest of controlled corporation	98,830,000	2.44	–	5.61	Long
Haitong International Financial Solutions Limited <sup>(12)</sup>	H Shares	Holder of security interests	110,000,000	2.71	–	6.24	Long
Haitong International Holdings Limited <sup>(12)</sup>	H Shares	Interest of controlled corporation	110,000,000	2.71	–	6.24	Long
Haitong International Securities Group Limited <sup>(12)</sup>	H Shares	Interest of controlled corporation	110,000,000	2.71	–	6.24	Long
Haitong Securities Co., Ltd. <sup>(12)</sup>	H Shares	Interest of controlled corporation	110,000,000	2.71	–	6.24	Long

### Notes:

- (1) As at 30 June 2016, 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.

## CHAPTER V CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

- (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.
- (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.
- (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) Haitong International Financial Solutions Limited holds security interests in 110,000,000 shares of the Company. Haitong International Financial Solutions Limited is 100% owned by Haitong International Financial Company Limited which is in turn 100% owned by Haitong International (BVI) Limited, a wholly-owned subsidiary of Haitong International Securities Group Limited. Haitong International Holdings Limited holds 60.1% interest in Haitong International Securities Group Limited, and Haitong Securities Co., Ltd holds 100% interest in Haitong International Securities Group Limited, therefore, Haitong Securities Co., Ltd, Haitong International Holdings Limited, Haitong International Securities Group Limited, Haitong International (BVI) Limited and Haitong International Financial Company Limited are deemed or taken to be interested in all the shares in which Haitong International Financial Solutions Limited holds security interests.

As at 30 June 2016, save as disclosed above, in so far as the Directors, Supervisors and chief executives 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.

### 5.5 SHAREHOLDERS HOLDING 5% OR MORE OF THE TOTAL SHARE CAPITAL

#### (I) Intesa Sanpaolo SpA

Intesa Sanpaolo SpA 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 SpA 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 SpA'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 SpA owns 1,083 subsidiaries and 7.9 million customers in the above regions. In addition, Intesa Sanpaolo SpA has set up subsidiaries in 29 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 Huang 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 a wholly-owned subsidiary of Qingdao Conson Development (Group) Co., Ltd. engaging in industry investment and operation, such company is an investing holding enterprise with investment focus on various sectors, such as energy and power, hotel and tourism, modern urban transportation, finance and real estates.

#### (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 corporate investment and financial consultancy within the group; consultancy and services of home appliances, electronic products, communication equipment, computers and accessories, general machinery, kitchen appliances and production of industrial robots; economic technology consultancy; research, development and transfer of technological achievements.

### **(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 for air conditioner, cooling equipment and related products; production, sales and after-sales services for total heat exchanger, air purifiers and heat pumps; installation and repair services for air-conditioners; solution design, construction and installation and technical services for air-conditioning, heating and ventilation equipment, building control equipment, smart equipment and ancillary facilities; sales, installation, maintenance services and sales of smart home software and hardware; contracted energy management for air-conditioners, cooling equipment and smart home.

### **5.6 PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

On 24 December 2015, the Company partially exercised the over-allotment option to sell 51,898,000 H Shares (including 4,781,000 sale shares sold by shareholders of state-owned shares of the Company) at HK\$4.75 per H Share (being the offer price per offer share under the global offering, exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The over-allotment shares were listed on the Main Board of the Hong Kong Stock Exchange on 4 January 2016.

Save as disclosed above, during the Reporting Period, the Company had not purchased, sold or redeemed any listed securities of the Company.

## CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS, EMPLOYEES AND INSTITUTIONS

### 6.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

#### 1. Basic information of Directors

Name	Gender	Date of Birth	Position	Term	Shareholding at the beginning of the Reporting Period (shares)	Shareholding at the end of the Reporting Period (shares)
GUO Shaoquan	Male	1962.08	Executive Director, Chairman	2015.4-2018.4	500,000	500,000
WANG Lin	Male	1963.09	Executive Director, President	2015.4-2018.4	500,000	500,000
YANG Fengjiang	Male	1964.07	Executive Director, Vice President	2015.4-2018.4	500,000	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	Term	Shareholding at the beginning of the Reporting Period (shares)	Shareholding at the end of the Reporting Period (shares)
ZOU Junqiu	Female	1956.10	Employee Supervisor, Chairlady of the Board of Supervisors	2015.4-2018.4	500,000	500,000
SUN Guoliang	Male	1957.04	Shareholder Supervisor	2016.5-2018.4	–	–
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	–	–

## CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS, EMPLOYEES AND INSTITUTIONS

### 3. Basic information of senior management

Name	Gender	Date of Birth	Position	Commencement of the Term	Opening shareholding (shares)	Shareholding at the end of the Reporting Period (shares)
WANG Lin	Male	1963.09	President	2012.03	500,000	500,000
CHEN Qing	Female	1959.06	Vice President	2004.12	500,000	500,000
YANG Fengjiang	Male	1964.07	Vice President	2007.06	500,000	500,000
WANG Yu	Female	1968.01	Vice President	2007.06	500,000	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

### 6.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

During the Reporting Period, according to the resolution at the 2015 Shareholders Meeting of the Company, Mr. Sun Guoliang was elected as shareholder supervisor of the sixth session of the Board of Supervisors with a term the same as that of other supervisors of the sixth session of the Board of Supervisors, and Mr. Fan Jianjun ceased to be supervisor of the Company. Save as disclosed above, during the Reporting Period, there was no other change in the Directors, Supervisors and senior management of the Company.

### 6.3 CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS DURING THE REPORTING PERIOD

1. Mr. Wong Tin Yau, Kelvin, an Independent Non-executive Director of the Company, ceased to be independent non-executive director of AAG Energy Holdings Limited (Stock code: 02686.HK) and Xinjiang Goldwind Science & Technology Co., Ltd. (Stock Code: 02208.HK).
2. Mr. Sun Guoliang, a shareholder supervisor of the Company, ceased to be a director of Qingdao Shipyard Co., Ltd and Qingdao Yangfan Shipbuilding Co., Ltd.

## CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS, EMPLOYEES AND INSTITUTIONS

### 6.4 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 30 June 2016, 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 SFO, 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 <sup>(1)</sup>	Approximate percentage of the total number of domestic shares <sup>(1)</sup>	Long position/ Short position
Mr. Guo Shaoquan	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
Ms. Zou Junqiu	Domestic share	Beneficial owner	500,000	0.01	0.02	Long position
Mr. Sun Jigang	Domestic share	Beneficial owner	272,822	0.01	0.01	Long position
Mr. Xu Wansheng	Domestic share	Beneficial owner	196,021	0.005	0.01	Long position

*Note:* As at 30 June 2016, the total number of the share capital and the number of domestic shares of the Company issued 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 chief executives of the Company are aware, as at 30 June 2016, 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 SFO, 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.

### 6.5 EMPLOYEES AND HUMAN RESOURCES MANAGEMENT

#### 6.5.1 Details of employees

##### 1. *Composition of employees*

As at the end of the Reporting Period, the Company had 3,023 employees, including 559 at the head office, accounting for 18.49%; 1,397 at branches and sub-branches in Qingdao, accounting for 46.21%; and 1,067 at branches and sub-branches in other cities, accounting for 35.30%.

##### 2. *Composition by age*

The average age of the employees of the Company was 34, of which 1,303 were aged 20 or above to below 30, accounting for 43.10%; 870 were aged 30 or above to below 40, accounting for 28.78%; 686 were aged 40 or above to below 50, accounting for 22.69%; and 164 were aged 50 or above, accounting for 5.43%.

##### 3. *Composition by education*

There were 478 employees of the Company with a master's degree or above, accounting for 15.81%, of which 9 were doctoral degree holders; 1,922 were bachelor's degree holders, accounting for 63.58%; and 623 were college graduates or below, accounting for 20.61%.

##### 4. *Composition by gender*

There were 1,397 male employees, accounting for 46.21%; and 1,626 female employees, accounting for 53.79%.

#### 6.5.2 Human resources overview

In the first half of 2016, the Company placed efforts on its human resources management in accordance with the development strategies planning requirements as well as business development needs. By aligning closely with its operation philosophy, the Company continued to aim at "serving business operation, core tasks and every sector", while kept on consolidating the foundation of human resources management, reinforcing talent pool building, improving its remuneration and benefits mechanism and innovating talents nurturing and development. Achieving upgrades in terms of management, system and efficiency offers strong human resources support for the Company's rapid and solid development.

#### 6.5.3 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 position and the results of performance appraisal. Under this remuneration system, remuneration is limited to the position 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.

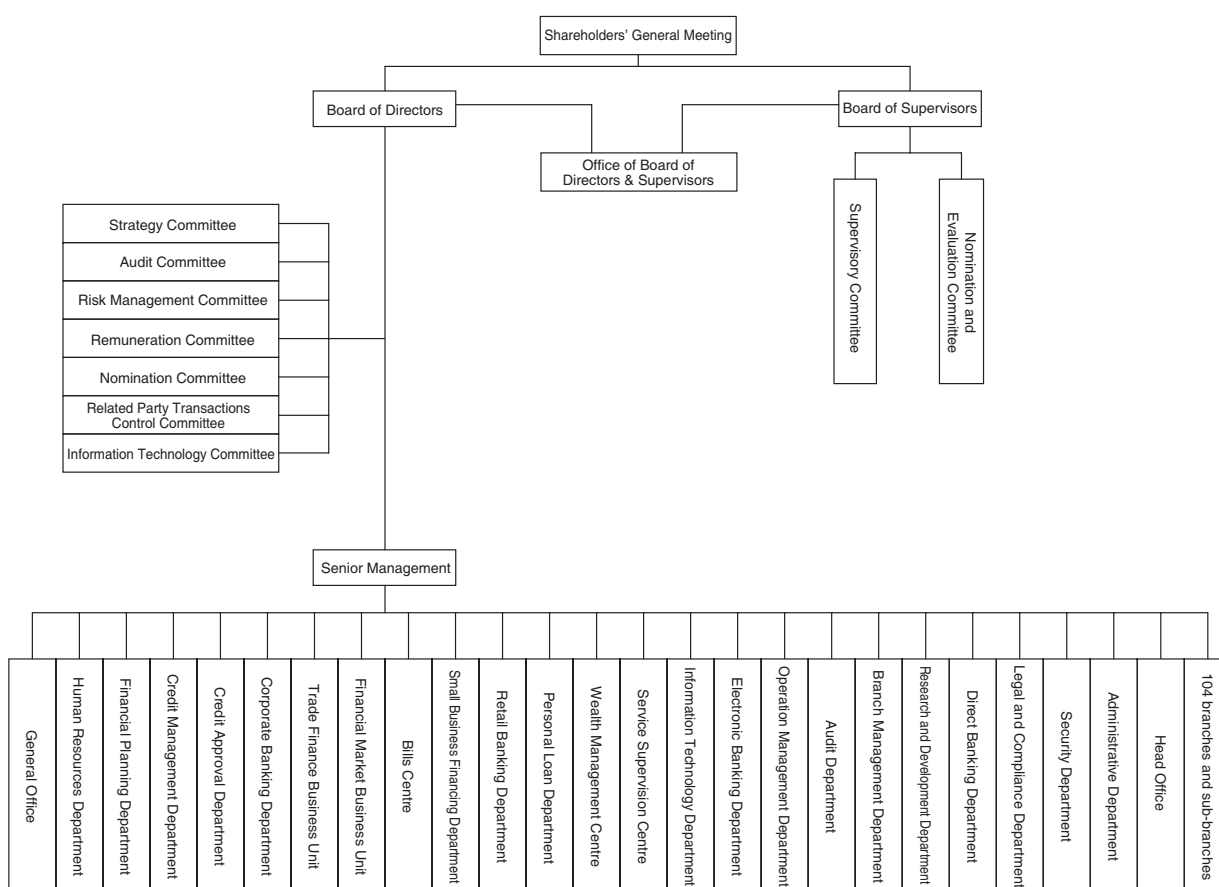


## CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS, EMPLOYEES AND INSTITUTIONS

### 6.5.4 Training for employees

During the Reporting Period, the Company formulated its training plan for 2016 based on its strategic planning and training outline, pursuant to which various kinds of training were carried out. The Company started to work on the development of the training management module of the human resources management system. Efforts were not only put on the continuous refinement of training management measures and further enhancement of training course catalogues, but also on the offer of training for basic level and middle and senior management personnel as well as the improvement of the overall quality of all staff. During the Reporting Period, the aggregate number of participants of various staff training activities reached 19,377, with an average of 6.41 training sessions for each employee.

### 6.6 ORGANISATION CHART



## CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS, EMPLOYEES AND INSTITUTIONS

### 6.7 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 Floors, 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 District Sub-branch, Dongying	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	Dongying Lijin Sub-branch	No. 486, Jiner Road, Lijin County, Dongying
22	Weihai Branch	No. 112, No. 3-4 Shichang Avenue, Weihai
23	Weihai Rongcheng Sub-branch	No. 389 Chengshan Avenue Middle, Rongcheng
24	Weihai Economic and Technological Development Zone Sub-branch	No. 106-1 Daqing Road, Weihai Economic and Technological Development Zone

## CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS, EMPLOYEES AND INSTITUTIONS

No.	Name of branch/ sub-branch	Address
25	Weihai Shidao Sub-branch	No. 99 Huanghai Middle Road, Shidao, Rongcheng
26	Weihai Wendeng Sub-branch	No. 93, Wenshan Road, Wendeng, Weihai
27	Zibo Branch	No. 266 Liantong Road, Zhangdian District, Zibo
28	Zibo Linzi Sub-branch	No. 772, Linzi Avenue, Linzi District, Zibo
29	Zibo Zhangdian Sub-branch	No. 126 Huaguang Road, Zhangdian District, Zibo
30	Dezhou Branch	No. 717, Dexing Middle Avenue, Decheng District, Dezhou
31	Dezhou Technology Sub-branch	No. 101, Building S6, Zhongjian Huaifu Community, Sanba East Road, Dezhou
32	Zaozhuang Branch	No. 215 Qingtan North Road, Shizhong District, Zaozhuang
33	Zaozhuang Tengzhou Sub-branch	No. 1601, Building 16, Jiuzhou Qingyan Community, Shanguo Middle Road, Tengzhou
34	Yantai Branch	No. 454 Shengli Road, Zhifu District, Yantai
35	Binzhou Branch	No. 471 Huanghe 8th Road, Binzhou
36	Weifang Branch	124 No. 7 Building, No. 6636, Fushou East Street, Kuiwen District, Weifang
37	West Coast Branch	Shuangzhu Road, Huangdao District, Qingdao (Formerly No. 286 Zhuhai East Road, Jiaonan)
38	Jiaonan Sub-branch	Shuangzhu Road, Huangdao District, Qingdao (Formerly No. 49 Zhuhai Road, Jiaonan, Qingdao)
39	Economic and Technological Development Zone Sub-branch	Jianguo Building, No. 519-2 Changjiang Middle Road, Qingdao Economic and Technological Development Zone
40	Jinggangshan Road Sub-branch	No. 541 Jinggangshan Road, Qingdao Economic and Technological Development Zone
41	Chongmingdao Road Sub-branch	No. 17 Chongmingdao West Road, Qingdao Economic and Technological Development Zone
42	Dongjiakou Sub-branch	No. 2 Muguandao Road, Residence Area of Poli Town, Huangdao District, Qingdao
43	Wuyishan Road Sub-branch	No. 364 Wuyishan Road, Qingdao Economic and Technological Development Zone
44	Shandong University of Science and Technology Sub-branch	No. 594 Qianwangang Road, Qingdao Economic and Technological Development Zone
45	Dongjiakou No. 2 Sub-branch	Building 3, Complex Building, Dongjiakou Port Area, Qingdao Port, Qingdao
46	Shibei Sub-branch	No. 172-1 Dunhua Road, Qingdao
47	Dunhua Road Sub-branch	No. 50-D Dunhua Road, Qingdao
48	Chongqing Road Sub-branch	No. 298 Chongqing South Road, Qingdao
49	Nanjing Road Sub-branch	No. 308 Nanjing Road, Qingdao
50	Renmin Road No. 1 Sub-branch	No. 102, Renmin Road, Qingdao
51	Maidao Sub-branch	Shop 45-1, Maidao Jin'an, No. 1 Donghai East Road, Qingdao
52	Shazikou Sub-branch	No. 94 Laoshan Road, Qingdao
53	Jiaozhou Sub-branch	No. 333 Aomen Road, Jiaozhou

## CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS, EMPLOYEES AND INSTITUTIONS

No.	Name of branch/ sub-branch	Address
54	Jiaozhou Fuzhou South Road Sub-branch	No. 17 Fuzhou South Road, Jiaozhou
55	Jiaozhou Jiaodong Community Sub-branch	Shop 107, 1st Floor, Building 10, Pinshuo Huanian Community, No. 7 Heping Road, Jiaodong Office, Jiaozhou
56	Jiaozhou Ligezhuang Community Sub-branch	No. 182 Lianyi Avenue, Ligezhuang Town, Jiaozhou
57	May Fourth Square Sub-branch	No. 31 Donghai West Road, Shinan District, Qingdao
58	Chengyang Sub-branch	No. 220 Zhengyang Road, Chengyang District, Qingdao
59	Zhengyang Road Sub-branch	No. 179-1 Zhengyang Road, Chengyang District, Qingdao
60	Xianggang Middle Road No. 1 Sub-branch	Qingdao Yamai International Centre, No. 7-A Xianggang Middle Road, Qingdao
61	Minjiang Road Sub-branch	No. 18 Minjiang Road, Qingdao
62	Xiangyang Road Sub-branch	No. 90 Xiangyang Road, Qingdao
63	Jiushui East Road Sub-branch	Nos. 189-1 and 189-2 Jiushui East Road, Qingdao
64	Jufeng Road Sub-branch	Nos. 3011-3014, No. 178 Jufeng Road, Qingdao
65	Jimo Sub-branch	No. 848 Lan'ao Road, Jimo City, Qingdao
66	Jimo Economic Development Zone Sub-branch	No. 38-8 Heshan Road, Jimo Economic Development Zone
67	Jimo Yanqing Sub-branch	No. 42 Jianmin Street, Jimo City, Shandong Province
68	Xianggang Middle Road No. 2 Sub-branch	No. 169 Xianggang Middle Road, Qingdao
69	Qingdao University Sub-branch	Outlet located at the library of Qingdao University, No. 308, Ningxia Road, Qingdao
70	Laoshan Sub-branch	Jinling Shangjie Outlet, No. 17-10 Xianxialing Road, Qingdao
71	Nanjing Road No. 2 Sub-branch	No. 8 Nanjing Road, Qingdao
72	Pingdu Sub-branch	No. 23 Hongqi Road, Pingdu
73	Pingdu No. 2 Sub-branch	No. 30 Hangzhou Road, Pingdu
74	Taidong 6th Road Sub-branch	No. 60 Taidong 6th Road, Qingdao
75	Taidong 3rd Road Sub-branch	No. 120 Taidong 3rd Road, Qingdao
76	Laixi Sub-branch	No. 118 Yantai Road, Laixi City, Qingdao
77	Laixi Wenhua East Road Sub-branch	Unit 1, Building 2, No. 13 Wenhua East Road, Laixi City
78	Guangxi Road Sub-branch	No. 28 Guangxi Road, Qingdao
79	Technology Sub-branch	Outlet located at Tower C, Chuangye Building, No. 1 Zhilidao Road, Qingdao Hi-Tech Industrial Development Zone
80	Hongdao Community Sub-branch	No. 88 Aodong South Road, Hongdao Street, Qingdao Hongdao Economic Zone
81	Jiangxi Road Sub-branch	No. 100 Nanjing Road, Qingdao
82	Liaoyang Road Sub-branch	Outlet located at Nos. 16-10 and 16-11 Liaoyang East Road, Qingdao

## CHAPTER VI DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS, EMPLOYEES AND INSTITUTIONS

No.	Name of branch/ sub-branch	Address
83	Yan'an 2nd Road Sub-branch	Nos. 1-3, 1st Floor, Unit A-10, No. 142 Yan'an Road, Qingdao
84	Metro Building Sub-branch	No. 6 Changning Road, Qingdao
85	Liaoning Road Sub-branch	No. 129 Liaoning Road, Qingdao
86	Ningxia Road Sub-branch	No. 129-C Ningxia Road, Qingdao
87	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
88	Tong'an Road Sub-branch	No. 809 Tong'an Road, Qingdao
89	Xianggang Garden Sub-branch	Outlet located at No. 75-A Xianggang Middle Road, Qingdao
90	Zhejiang Road Sub-branch	No. 17 Hubei Road, Qingdao
91	Yan'an 3rd Road Sub-branch	No. 129, Yan'an 3rd Road, Qingdao
92	Qidong Road Community Sub-branch	No. 27-A Laiwu 2nd Road, Qingdao
93	Yinchuan Road Sub-branch	Outlet located at No. 1 Zhonghai Yinhai, No. 7 Yinchuan West Road, Qingdao
94	Yanji Road Community Sub-branch	No. 155 Yanji Road, Qingdao
95	Donghai West Road No. 1 Sub-branch	Outlet located at Building 2, No. 41 Donghai West Road, Qingdao
96	Beizhong Road Community Sub-branch	No. 30 Beizhong Road, Qingdao
97	Ruichang Road Sub-branch	No. 122 Ruichang Road, Qingdao
98	Taiwan Road Sub-branch	No. 6 Taiwan Road, Qingdao
99	Hefei Road Community Sub-branch	No. 668-23 Hefei Road, Qingdao
100	Fuzhou Road Sub-branch	No. 97-A Fuzhou South Road, Qingdao
101	Guantao Road Sub-branch	No. 1 Guantao Road, Qingdao
102	Minjiang Road No. 1 Sub-branch	Outlet located at No. 169-C and D Minjiang Road, Qingdao
103	Port Sub-branch	No. 7 Ganghua Road, Qingdao
104	Qianwan Port Sub-branch	No. 12 Fenjin North Road, Qianwan Port, Huangdao District, Qingdao
105	Donghai West Road Sub-branch	No. 52-B Donghai West Road, Qingdao

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## CHAPTER VII CORPORATE GOVERNANCE REPORT

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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 Board of 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 Hong Kong Listing Rules and the “Guidelines on Corporate Governance of Commercial Banks”, the Company continued to enhance the professional guidance of the special committees under the Board of Directors, through appropriate arrangement of meeting schedule and the frequency of physical meetings and enhancing the efficiency of performing duties; through periodic physical meetings, research and investigation and being in-attendance at important meetings of the Company to continuously enhance supervision of the Board of Supervisors. During the Reporting Period, by benchmarking with laws, regulations and regulatory opinions, we self-checked and enhanced our corporate governance pushed forward the mechanisms of transmission and feedback from the execution of the decisions of the Board of Directors and Board of Supervisors, and promoted the sound operation of the Board of Directors and Board of Supervisors and efficient execution of their decisions. We continuously enhanced the standardisation and efficiency of our corporate governance by incessantly improving its systems and work mechanisms.

### 7.1 CONVENING OF SHAREHOLDERS’ GENERAL MEETING

During the Reporting Period, the Company convened 2 shareholders’ general meetings, namely the 2016 first extraordinary general meeting and the 2015 annual general meeting convened in the conference room on the fourth floor of the head office on 16 February 2016 and 10 May 2016, respectively. The notices, convening and voting procedures of the meetings were all in compliance with the relevant requirements of the Company Law, the Articles of Association and the Hong Kong Listing Rules. For details of the meetings, please refer to the voting results announcements published on the Company’s website on the date of convening the meetings.

### 7.2 CONVENING OF MEETINGS OF THE BOARD AND SPECIAL COMMITTEES

During the Reporting Period, the Board of Directors of the Company convened 6 meetings, of which 2 were on-site meetings and 4 were conference meetings, considering 21 resolutions and receiving 9 reports in total. Special committees of the Board of Directors convened 14 meetings, including 2 meetings of the strategy committee, 3 meetings of the risk management committee, 1 meeting of the audit committee, 2 meetings of the remuneration committee, 1 meeting of the nomination committee, 3 meetings of the related party transactions control committee and 2 meetings of the information technology committee, considering 11 resolutions and receiving 21 reports in total.

### 7.3 CONVENING OF MEETINGS OF THE BOARD OF SUPERVISORS AND SPECIAL COMMITTEE

During the Reporting Period, the Board of Supervisors of the Company convened 4 meetings, of which 2 were on-site meetings and 2 were conference meetings, considering 17 resolutions, receiving 24 reports as well as conducting 1 investigation in total. The special committee of the Board of Supervisors convened 3 meetings, including 2 meetings of the supervisory committee and 1 meeting of the nomination and evaluation committee, considering 13 resolutions and receiving 20 reports in total.

The supervisors were in-attendance at 2 on-site meetings of the Board of Directors and attended 2 shareholders' general meetings.

### 7.4 INTERNAL CONTROL

The Board of Directors of the Company is responsible for ensuring the establishment and implementation of an adequate and effective internal control system and the Company's prudential operation under the framework set by laws and policies. The Board of Directors is also responsible for clearly determining the acceptable risk level, ensuring the senior management to adopt necessary risk control measures, and supervising the senior management on their monitoring and assessment of the adequacy and effectiveness of the internal control system.

The Board of Directors of the Company has established the audit committee to be responsible for the supervision of the effective implementation of the Company's internal control and the self-assessment of internal control, the co-ordination of audit on internal control and other relevant matters.

The Board of Supervisors of the Company is responsible for supervising the Board of Directors and senior management in improving the internal control system and implementing effective internal control as well as the supervision on the performance of internal control duties by the Board of Directors, senior management and their members.

The senior management of the Company is responsible for implementing the decisions of the Board of Directors, formulating systematic systems, procedures and methods based on the acceptable risk control level as determined by the Board of Directors and adopting the corresponding risk control measures, establishing and improving the internal structure and institutions, ensuring the effective implementation of various internal control functions as well as conducting supervision and assessment of the adequacy and effectiveness of the internal control system.

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 Company has formulated the objectives and principles of internal control and established its internal control system. The Company takes control over the entire process of various operation and management activities, and continuously enhances the completeness, reasonableness and effectiveness of its internal control system through practice.

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 to formulate smooth and useful systems and structures. The Company has established a sound internal control evaluation and post-evaluation mechanism, conducted annual regular audits, responsibility audits, departure audits and special audits, created an innovative audit model named “virtual branch” by temporarily substituting regular staff by ad hoc staff, and established a new operational risk assessment and rectification mechanism with sustained effectiveness. Through convening quarterly “internal control assessment meetings”, the Company has enhanced the awareness of risk prevention and control at all levels, which in turn ensures the early identification and timely rectification of risks as well as edges up the standards of its risk management and control.

### 7.5 REPRESENTATION ON COMPLIANCE WITH THE HONG KONG LISTING RULES

The Company has adopted the required standard set by the Model Code 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 during the Reporting Period.

During the Reporting Period, the Company had strictly complied with the code provisions sets out in the Code on Corporate Governance Practices contained in Appendix 14 of the Hong Kong Listing Rules, and adopted the suggested best practices as set out therein as appropriate.



**To the board of directors of Bank of Qingdao Co., Ltd.**

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

### INTRODUCTION

We have reviewed the interim financial report set out on pages 88 to 150 which comprises the statement of financial position of Bank of Qingdao Co., Ltd. (the “Bank”) as of 30 June 2016 and the related statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

KPMG  
Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

19 August 2016

## CHAPTER IX UNAUDITED INTERIM FINANCIAL REPORT

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016 – unaudited  
(Expressed in thousands of Renminbi, unless otherwise stated)

		Six months ended 30 June	
	Note	2016	2015
Interest income		4,636,391	4,247,501
Interest expense		(2,189,509)	(2,297,026)
<b>Net interest income</b>	3	<b>2,446,882</b>	1,950,475
Fee and commission income		500,890	406,802
Fee and commission expense		(27,144)	(13,535)
<b>Net fee and commission income</b>	4	<b>473,746</b>	393,267
Net trading gains	5	9,953	11,779
Net gains arising from investments	6	38,120	35,909
Other operating income, net	7	1,927	7,768
<b>Operating income</b>		<b>2,970,628</b>	2,399,198
Operating expenses	8	(954,192)	(750,338)
Impairment losses	9	(381,558)	(240,612)
<b>Profit before taxation</b>		<b>1,634,878</b>	1,408,248
Income tax expense	10	(373,350)	(334,504)
<b>Net profit for the period</b>		<b>1,261,528</b>	1,073,744
<b>Other comprehensive income:</b>			
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability		(810)	(20,303)
Items that may be reclassified subsequently to profit or loss			
– Net movement in the investment revaluation reserve of available-for-sale financial assets	30(4)	(151,890)	54,768
<b>Other comprehensive income, net of tax</b>		<b>(152,700)</b>	34,465
<b>Total comprehensive income</b>		<b>1,108,828</b>	1,108,209
Basic and diluted earnings per share (in RMB)	11	0.31	0.36

The notes on pages 95 to 150 form part of this interim financial report.

## STATEMENT OF FINANCIAL POSITION

*As at 30 June 2016 – unaudited*  
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2016	31 December 2015
<b>Assets</b>			
Cash and deposits with central bank	12	19,948,551	19,920,303
Deposits with banks and other financial institutions	13	2,122,749	3,585,267
Placements with banks and other financial institutions	14	1,261,695	1,108,138
Financial assets at fair value through profit or loss	15	192,861	297,595
Financial assets held under resale agreements	16	–	2,516,977
Loans and advances to customers	17	78,749,221	70,655,221
Financial investments:			
Available-for-sale financial assets	18	22,538,219	17,120,786
Held-to-maturity investments	18	23,375,958	22,575,284
Investment classified as receivables	18	53,839,776	44,786,787
Property and equipment	19	1,001,395	1,021,157
Deferred tax assets	20	349,136	279,402
Other assets	21	3,686,634	3,368,337
<b>Total assets</b>		<b>207,066,195</b>	<b>187,235,254</b>
<b>Liabilities</b>			
Borrowings from central bank	22	1,148,799	528,909
Deposits from banks and other financial institutions	23	25,334,412	27,335,870
Placements from banks and other financial institutions	24	3,879,252	3,051,992
Financial assets sold under repurchase agreements	25	–	2,000,000
Deposits from customers	26	126,299,566	115,321,997
Income tax payable		201,215	107,758
Debt securities issued	27	28,016,423	16,314,307
Other liabilities	28	5,110,353	5,960,769
<b>Total liabilities</b>		<b>189,990,020</b>	<b>170,621,602</b>

The notes on pages 95 to 150 form part of this interim financial report.

## STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2016 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2016	31 December 2015
<b>Equity</b>			
Share capital	29	4,058,713	4,011,533
Reserves	30	13,017,462	12,602,119
<b>Total equity</b>		<b>17,076,175</b>	16,613,652
<b>Total liabilities and equity</b>		<b>207,066,195</b>	187,235,254

Approved and authorised for issue by the board of directors on 19 August 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 95 to 150 form part of this interim financial report.

**STATEMENT OF CHANGES IN EQUITY**  
*For the six months ended 30 June 2016 – unaudited*  
*(Expressed in thousands of Renminbi, unless otherwise stated)*

	Note	Share capital	Capital reserve Note 30(1)	Surplus reserve Note 30(2)	General reserve Note 30(3)	Investment revaluation reserve Note 30(4)	Other reserve Note 30(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 period		-	-	-	-	-	-	1,073,744	1,073,744
Other comprehensive income		-	-	-	-	54,768	(20,303)	-	34,465
Total comprehensive income		-	-	-	-	54,768	(20,303)	1,073,744	1,108,209
Contribution by owners	29	555,556	1,444,444	-	-	-	-	-	2,000,000
Appropriation of profit:									
– Cash dividends	31	-	-	-	-	-	-	(777,888)	(777,888)
Balance at 30 June 2015		3,111,533	4,194,621	623,411	1,886,628	139,845	(1,973)	2,160,906	12,114,971
Balance at 1 July 2015		3,111,533	4,194,621	623,411	1,886,628	139,845	(1,973)	2,160,906	12,114,971
Profit for the period		-	-	-	-	-	-	740,032	740,032
Other comprehensive income		-	-	-	-	346,354	(1,102)	-	345,252
Total comprehensive income		-	-	-	-	346,354	(1,102)	740,032	1,085,284
Contribution by owners	29	900,000	2,513,397	-	-	-	-	-	3,413,397
Appropriation of profit:									
– Appropriation to surplus reserve	31	-	-	181,378	-	-	-	(181,378)	-
– Appropriation to general reserve	31	-	-	-	504,554	-	-	(504,554)	-
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 2016		<b>4,011,533</b>	<b>6,708,018</b>	<b>804,789</b>	<b>2,391,182</b>	<b>486,199</b>	<b>(3,075)</b>	<b>2,215,006</b>	<b>16,613,652</b>
Profit for the period		-	-	-	-	-	-	<b>1,261,528</b>	<b>1,261,528</b>
Other comprehensive income		-	-	-	-	<b>(151,890)</b>	<b>(810)</b>	-	<b>(152,700)</b>
Total comprehensive income		-	-	-	-	<b>(151,890)</b>	<b>(810)</b>	<b>1,261,528</b>	<b>1,108,828</b>
Contribution by owners	29	<b>47,180</b>	<b>118,258</b>	-	-	-	-	-	<b>165,438</b>
Appropriation of profit:									
– Cash dividends	31	-	-	-	-	-	-	<b>(811,743)</b>	<b>(811,743)</b>
Balance at 30 June 2016		<b>4,058,713</b>	<b>6,826,276</b>	<b>804,789</b>	<b>2,391,182</b>	<b>334,309</b>	<b>(3,885)</b>	<b>2,664,791</b>	<b>17,076,175</b>

The notes on pages 95 to 150 form part of this interim financial report.

## CASH FLOW STATEMENT

For the six months ended 30 June 2016 – unaudited  
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2016	2015
<b>Cash flows from operating activities</b>		
Profit before taxation	<b>1,634,878</b>	1,408,248
<i>Adjustments for:</i>		
Impairment losses	<b>381,558</b>	240,612
Depreciation and amortisation	<b>143,057</b>	139,927
Un-winding of interest	<b>(10,456)</b>	(13,433)
Unrealised foreign exchange (gains)/losses	<b>(4,510)</b>	412
Net losses/(gains) on disposal of long-term assets	<b>92</b>	(477)
Revaluation losses/(gains) on investments	<b>1,759</b>	(2,848)
Net gains on disposal of available-for-sale financial assets	<b>(38,120)</b>	(35,909)
Interest expense on debt securities issued	<b>440,496</b>	334,611
Interest income on financial investments	<b>(2,191,656)</b>	(1,774,782)
Defined benefit cost	<b>1,610</b>	(178,030)
	<b>358,708</b>	118,331
<i>Changes in operating assets</i>		
Net (increase)/decrease in deposits with central bank	<b>(497,652)</b>	2,308,919
Net increase in deposits with banks and other financial institutions	<b>(374,680)</b>	(120,000)
Net increase in placements with banks and other financial institutions	<b>(663,120)</b>	(739,247)
Net increase in loans and advances to customers	<b>(8,419,321)</b>	(7,093,555)
Net decrease in financial assets held under resale agreements	<b>2,446,977</b>	862,127
Net decrease/(increase) in financial assets at fair value through profit or loss	<b>102,976</b>	(100,000)
Net increase in other operating assets	<b>(228,687)</b>	(97,762)
	<b>(7,633,507)</b>	(4,979,518)

The notes on pages 95 to 150 form part of this interim financial report.

**CASH FLOW STATEMENT (CONTINUED)**  
*For the six months ended 30 June 2016 – unaudited*  
*(Expressed in thousands of Renminbi, unless otherwise stated)*

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
<b>Cash flows from operating activities (continued)</b>		
<i>Changes in operating liabilities</i>		
Net increase in borrowings from central bank	<b>619,890</b>	38,729
Net decrease in deposits from banks and other financial institutions	<b>(2,001,458)</b>	(319,025)
Net increase in placements from banks and other financial institutions	<b>827,260</b>	1,352,497
Net decrease in financial assets sold under repurchase agreements	<b>(2,000,000)</b>	(1,120,344)
Net increase in deposits from customers	<b>10,977,569</b>	237,250
Income tax paid	<b>(298,728)</b>	(252,760)
Net (decrease)/increase in other operating liabilities	<b>(1,464,148)</b>	1,705,161
	<b>6,660,385</b>	1,641,508
<b>Net cash flows used in operating activities</b>	<b>(614,414)</b>	(3,219,679)
<b>Cash flows from investing activities</b>		
Proceeds from disposal and redemption of investments	<b>22,416,671</b>	16,780,035
Net cash received from investment gains and interest	<b>2,022,854</b>	1,689,596
Proceeds from disposal of property and equipment, intangible assets and other assets	<b>72,803</b>	3,255
Payments on acquisition of investments	<b>(37,726,547)</b>	(25,616,343)
Payments on acquisition of property and equipment, intangible assets and other assets	<b>(228,859)</b>	(152,667)
<b>Net cash flows used in investing activities</b>	<b>(13,443,078)</b>	(7,296,124)

The notes on pages 95 to 150 form part of this interim financial report.

## CASH FLOW STATEMENT (CONTINUED)

For the six months ended 30 June 2016 – unaudited  
(Expressed in thousands of Renminbi, unless otherwise stated)

		Six months ended 30 June	
	Note	2016	2015
<b>Cash flows from financing activities</b>			
Proceeds from issuance of new shares		165,438	2,000,000
Net proceeds from debt securities issued		25,169,677	16,294,467
Repayment of debt securities issued		(13,720,000)	(7,300,000)
Interest paid on debt securities issued		(358,780)	(235,800)
Dividends paid		(35,386)	(776,787)
<b>Net cash flows generated from financing activities</b>		<b>11,220,949</b>	<b>9,981,880</b>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>9,917</b>	<b>(412)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(2,826,626)</b>	<b>(534,335)</b>
<b>Cash and cash equivalents as at 1 January</b>		<b>7,695,019</b>	<b>7,318,868</b>
<b>Cash and cash equivalents as at 30 June</b>	32	<b>4,868,393</b>	<b>6,784,533</b>
<b>Net cash flows generated from operating activities include:</b>			
Interest received		2,404,062	2,442,273
Interest paid		(1,658,190)	(1,892,263)

The notes on pages 95 to 150 form part of this interim financial report.



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# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

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## 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 with a unified social credit code 91370200264609602K 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 People’s Republic of China (the “PRC”). The share capital of the Bank is RMB4.059 billion as at 30 June 2016. 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 10 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang and Qingdao Westcoast as at 30 June 2016. 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 Administrative Region of the PRC (“Hong Kong”), the Macau Special Administrative Region of the PRC (“Macau”) and Taiwan.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

### (1) Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 19 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 2(2).

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Bank since the 2015 annual financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as comparative information does not constitute the Bank's statutory annual financial statements for that financial year but is derived from those financial statements.

### (2) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Bank. Of these, the following amendments are relevant to the Bank:

- *Annual Improvements to IFRSs 2012-2014 Cycle*
- *Amendments to IAS 1, Presentation of financial statements: Disclosure initiative*

The Bank has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### **Annual Improvements to IFRSs 2012-2014 Cycle**

This cycle of annual improvements contains amendments to four standards. Among them, IAS 34, *Interim Financial Reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by across-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Bank's interim financial report as the Bank does not present the relevant required disclosures outside the interim financial statements.

#### **Amendments to IAS 1, Presentation of financial statements: Disclosure initiative**

The amendments to IAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Bank's interim financial report.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3 NET INTEREST INCOME

	Six months ended 30 June	
	2016	2015
<b>Interest income arising from</b>		
Deposits with central bank	143,723	149,615
Deposits with banks and other financial institutions	16,759	25,470
Placements with banks and other financial institutions	4,123	8,458
Financial assets at fair value through profit or loss	6,774	9,085
Loans and advances to customers		
– Corporate loans and advances	1,571,248	1,516,190
– Personal loans and advances	526,687	564,237
– Discounted bills	47,813	62,859
Financial assets held under resale agreements	127,608	136,805
Financial investments	2,191,656	1,774,782
Sub-total	4,636,391	4,247,501
<b>Interest expense arising from</b>		
Deposits from banks and other financial institutions	(466,093)	(568,053)
Placements from banks and other financial institutions	(18,160)	(7,912)
Deposits from customers	(1,071,310)	(1,146,650)
Financial assets sold under repurchase agreements	(158,231)	(226,691)
Debt securities issued	(440,496)	(334,611)
Others	(35,219)	(13,109)
Sub-total	(2,189,509)	(2,297,026)
<b>Net interest income</b>	<b>2,446,882</b>	<b>1,950,475</b>
Of which:		
Interest income arising from impaired financial assets identified	10,456	13,433

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 six months ended 30 June 2016 amounted to RMB4,630 million (six months ended 30 June 2015: RMB4,238 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the six months ended 30 June 2016 amounted to RMB2,190 million (six months ended 30 June 2015: RMB2,297 million).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 4 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2016	2015
<b>Fee and commission income</b>		
Wealth management service fees	145,448	72,383
Agency service fees	142,180	112,067
Settlement fees	129,912	142,215
Custody service fees	43,811	55,777
Bank card service fees	10,675	11,262
Others	28,864	13,098
Sub-total	500,890	406,802
<b>Fee and commission expense</b>	(27,144)	(13,535)
<b>Net fee and commission income</b>	<b>473,746</b>	<b>393,267</b>

### 5 NET TRADING GAINS

	Six months ended 30 June	
	2016	2015
Net (losses)/gains from debt securities	(4,566)	3,056
Net foreign exchange gains	14,519	8,723
Total	9,953	11,779

Net (losses)/gains from debt securities include (losses)/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 net gains from the purchase and sale of foreign currency spot.

### 6 NET GAINS ARISING FROM INVESTMENTS

	Six months ended 30 June	
	2016	2015
Net gains on disposal of available-for-sale financial assets	38,120	35,909
Total	38,120	35,909

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 7 OTHER OPERATING INCOME, NET

	Six months ended 30 June	
	2016	2015
Rental income	1,084	533
Net (losses)/gains on disposal of property and equipment	(92)	477
Others	935	6,758
<b>Total</b>	<b>1,927</b>	<b>7,768</b>

### 8 OPERATING EXPENSES

	Six months ended 30 June	
	2016	2015
Staff costs		
– Salaries, bonuses and allowances	367,231	331,123
– Social insurance and housing allowances	63,145	56,049
– Staff welfare expenses	20,626	18,338
– Staff education expenses	9,164	8,240
– Labor union expenses	7,341	6,592
– Contribution to annuity funds	35,177	28,776
– Others (Note (i))	2,027	(176,109)
<b>Sub-total</b>	<b>504,711</b>	<b>273,009</b>
Property and equipment expenses		
– Depreciation and amortization	143,057	139,927
– Electronic equipment operating expenses	18,004	33,454
– Maintenance	20,048	18,634
<b>Sub-total</b>	<b>181,109</b>	<b>192,015</b>
Business tax and surcharges	109,601	147,095
Other general and administrative expenses	158,771	138,219
<b>Total</b>	<b>954,192</b>	<b>750,338</b>

Note:

- (i) 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 9 IMPAIRMENT LOSSES

	Six months ended 30 June	
	2016	2015
Loans and advances to customers	350,396	219,664
Financial investments:		
Investment classified as receivables	30,000	20,000
Others	1,162	948
Total	381,558	240,612

### 10 INCOME TAX EXPENSE

#### (1) Income tax for the reporting period:

	Note	Six months ended 30 June	
		2016	2015
Current tax		392,184	328,131
Deferred tax	20(2)	(18,834)	6,373
Total		373,350	334,504

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

	Six months ended 30 June	
	2016	2015
Profit before taxation	1,634,878	1,408,248
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	408,720	352,062
Tax effect of non-deductible expenses for tax purpose		
– Entertainment expenses	1,038	1,080
– Annuity	3,966	2,981
– Others	100	697
	5,104	4,758
Tax effect of non-taxable income for tax purpose (Note (i))	(40,474)	(22,316)
Income tax	373,350	334,504

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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 11 BASIC AND DILUTED EARNINGS PER SHARE

	Note	Six months ended 30 June	
		2016	2015
Net profit attributable to equity shareholders of the Bank		<b>1,261,528</b>	1,073,744
Weighted average number of ordinary shares (in thousands)	11(1)	<b>4,057,935</b>	2,979,550
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		<b>0.31</b>	0.36

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)

	Six months ended 30 June	
	2016	2015
Number of ordinary shares as at 1 January	<b>4,011,533</b>	2,555,977
Increase in weighted average number of ordinary shares in current period	<b>46,402</b>	423,573
Weighted average number of ordinary shares	<b>4,057,935</b>	2,979,550

Movements of share capital are disclosed in Note 29 to this interim financial report.

## 12 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	30 June 2016	31 December 2015
Cash on hand		<b>444,416</b>	697,995
Deposits with central bank			
– Statutory deposit reserves	12(1)	<b>16,760,783</b>	16,322,972
– Surplus deposit reserves	12(2)	<b>2,637,794</b>	2,853,619
– Fiscal deposits		<b>105,558</b>	45,717
Sub-total		<b>19,504,135</b>	19,222,308
Total		<b>19,948,551</b>	19,920,303

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 12 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:*

	30 June 2016	31 December 2015
Reserve ratio for RMB deposits	13.5%	15.0%
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.*

## 13 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2016	31 December 2015
Deposits in Mainland China		
– Banks	1,820,266	1,220,736
Deposits outside Mainland China		
– Banks	302,483	2,364,531
Total	2,122,749	3,585,267

## 14 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2016	31 December 2015
Placements in Mainland China		
– Banks	1,259,928	1,103,912
– Other financial institutions	1,767	4,226
Total	1,261,695	1,108,138



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2016	31 December 2015
Debt securities held for trading purpose		
Issued by the following institutions in Mainland China		
– Banks and other financial institutions	144,594	145,966
– Corporate entities	48,267	151,629
Total	192,861	297,595
Unlisted	192,861	297,595

### 16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

#### (1) Analysed by type and location of counterparty

	30 June 2016	31 December 2015
In Mainland China		
– Banks	–	2,516,977
Total	–	2,516,977

#### (2) Analysed by type of security held

	30 June 2016	31 December 2015
Discounted bills	–	2,016,977
Debt securities	–	500,000
Total	–	2,516,977

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 17 LOANS AND ADVANCES TO CUSTOMERS

### (1) Analysed by nature

	30 June 2016	31 December 2015
Corporate loans and advances		
– Corporate loans	56,941,581	49,249,757
– Discounted bills	2,752,417	3,570,642
Sub-total	59,693,998	52,820,399
Personal loans and advances		
– Residential mortgage	13,929,613	11,139,443
– Personal business loans	5,005,457	6,153,375
– Personal consumption loans	1,264,746	1,606,745
– Others	1,051,908	975,556
Sub-total	21,251,724	19,875,119
Gross loans and advances to customers	80,945,722	72,695,518
Less: Provision for impairment losses		
– Individually assessed	(348,843)	(315,332)
– Collectively assessed	(1,847,658)	(1,724,965)
Total provision for impairment losses	(2,196,501)	(2,040,297)
Net loans and advances to customers	78,749,221	70,655,221

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

### (2) Analysed by economic sector

	30 June 2016		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	17,924,617	22.16%	4,425,318
Construction	8,628,947	10.66%	2,651,544
Wholesale and retail trade	6,532,985	8.07%	3,860,301
Renting and business activities	6,501,625	8.03%	3,497,781
Water, environment and public utility management	6,308,893	7.79%	2,999,082
Real estate	3,487,127	4.31%	2,649,527
Production and supply of electric and heating power, gas and water	3,089,344	3.82%	408,500
Transportation, storage and postal services	1,960,959	2.42%	313,656
Financial services	1,621,224	2.00%	863,413
Others	3,638,277	4.49%	1,026,202
Sub-total of corporate loans and advances	59,693,998	73.75%	22,695,324
Personal loans and advances	21,251,724	26.25%	18,616,241
Gross loans and advances to customers	80,945,722	100.00%	41,311,565

	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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17 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:

	30 June 2016				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment losses charged during the period	Written-off during the period
Manufacturing	335,890	130,647	630,682	143,757	118,316
Construction	57,000	41,126	172,571	64,588	–

	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

#### (3) Analysed by type of collateral

	30 June 2016	31 December 2015
Unsecured loans	5,992,320	4,056,931
Guaranteed loans	33,641,837	30,170,838
Loans secured by tangible assets other than monetary assets	32,550,868	30,427,847
Loans secured by intangible assets or monetary assets	8,760,697	8,039,902
Gross loans and advances to customers	80,945,722	72,695,518
Less: Provision for impairment losses		
– Individually assessed	(348,843)	(315,332)
– Collectively assessed	(1,847,658)	(1,724,965)
Total provision for impairment losses	(2,196,501)	(2,040,297)
Net loans and advances to customers	78,749,221	70,655,221

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

### (4) Overdue loans analysed by overdue period

	30 June 2016				
	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	12,372	2,474	47,634	–	62,480
Guaranteed loans	2,003,109	498,624	225,660	10,000	2,737,393
Loans secured by tangible assets other than monetary assets	374,968	250,976	222,814	29,935	878,693
<b>Total</b>	<b>2,390,449</b>	<b>752,074</b>	<b>496,108</b>	<b>39,935</b>	<b>3,678,566</b>
As a percentage of gross loans and advances to customers	2.95%	0.93%	0.61%	0.05%	4.54%

	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
<b>Total</b>	<b>1,100,833</b>	<b>534,403</b>	<b>447,529</b>	<b>17,801</b>	<b>2,100,566</b>
As a percentage of gross loans and advances to customers	1.51%	0.74%	0.62%	0.02%	2.89%

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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	30 June 2016				Gross impaired loans and advances as a percentage of gross loans and advances
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	79,929,071	260,041	756,610	80,945,722	1.26%
Less: Provision for impairment losses	(1,708,465)	(139,193)	(348,843)	(2,196,501)	
Net loans and advances to customers	78,220,606	120,848	407,767	78,749,221	

	31 December 2015				Gross impaired loans and advances as a percentage of gross loans and advances
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))		Total	
		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	

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 35(1).

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

### (6) Movements of provision for impairment losses

	Six months ended 30 June 2016			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		which are collectively assessed	which are individually assessed	
As at 1 January	1,610,118	114,847	315,332	2,040,297
Charge for the period	98,347	72,051	196,006	366,404
Release for the period	–	–	(16,008)	(16,008)
Unwinding of discount	–	–	(10,456)	(10,456)
Write-offs and transfer out	–	(48,719)	(138,635)	(187,354)
Recoveries of loans and advances written off and others	–	1,014	2,604	3,618
As at 30 June	1,708,465	139,193	348,843	2,196,501

	2015			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		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	119,356	248,640	576,208
Release for the year	–	–	(39,334)	(39,334)
Unwinding of discount	–	–	(25,104)	(25,104)
Write-offs and transfer out	–	(71,851)	(178,838)	(250,689)
Recoveries of loans and advances written off and others	–	4,500	34,828	39,328
As at 31 December	1,610,118	114,847	315,332	2,040,297

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 18 FINANCIAL INVESTMENTS

	Note	30 June 2016	31 December 2015
Available-for-sale financial assets	18(1)	22,538,219	17,120,786
Held-to-maturity investments	18(2)	23,375,958	22,575,284
Investment classified as receivables	18(3)	53,839,776	44,786,787
Total		99,753,953	84,482,857

#### (1) Available-for-sale financial assets

	Note	30 June 2016	31 December 2015
Debt securities	(i)	19,581,979	16,956,326
Asset management plans	(ii)	2,489,360	–
Trust fund plans	(ii)	382,254	80,119
Investment funds	(ii)	61,376	61,091
Equity investment	(iii)	23,250	23,250
Total		22,538,219	17,120,786

(i) Debt securities issued by the following institutions:

	30 June 2016	31 December 2015
In Mainland China		
– Government	1,460,105	–
– Policy banks	8,217,174	7,890,237
– Banks and other financial institutions	7,217,122	4,865,988
– Corporate entities	2,687,578	4,200,101
Total	19,581,979	16,956,326
Unlisted	19,581,979	16,956,326

(ii) The asset management plans, 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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 18 FINANCIAL INVESTMENTS (continued)

### (2) Held-to-maturity investments

	30 June 2016	31 December 2015
In Mainland China		
– Government	7,510,445	7,529,720
– Policy banks	7,673,775	7,918,996
– Banks and other financial institutions	7,122,255	5,866,945
– Corporate entities	1,069,483	1,259,623
Carrying value	23,375,958	22,575,284
Unlisted	23,375,958	22,575,284
Fair value	24,157,630	23,434,562

### (3) Investment classified as receivables

	30 June 2016	31 December 2015
Asset management plans	25,727,851	22,442,547
Wealth management products issued by financial institutions	15,645,531	9,640,547
Trust fund plans	10,527,506	8,671,888
Beneficiary rights in margin financing	2,000,000	2,500,000
Beneficiary certificates	–	1,568,451
Others	59,388	53,854
Gross amount	53,960,276	44,877,287
Less: provision for impairment losses	(120,500)	(90,500)
Total	53,839,776	44,786,787

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 19 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	CIP	Total
<b>Cost</b>						
As at 1 January 2015	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
Additions	1,859	16,990	761	2,440	–	22,050
Disposals	–	(2,133)	(1,389)	(87)	–	(3,609)
As at 30 June 2016	1,001,478	392,711	49,751	62,264	–	1,506,204
<b>Accumulated depreciation</b>						
As at 1 January 2015	(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)
Additions	(10,747)	(23,508)	(3,113)	(4,291)	–	(41,659)
Disposals	–	2,026	1,347	83	–	3,456
As at 30 June 2016	(202,894)	(231,527)	(31,449)	(38,939)	–	(504,809)
<b>Net book value</b>						
As at 30 June 2016	798,584	161,184	18,302	23,325	–	1,001,395
As at 31 December 2015	807,472	167,809	20,696	25,180	–	1,021,157

The carrying amount of premises with incomplete title deeds as at 30 June 2016 was RMB11.81 million (31 December 2015: RMB14.80 million). The Bank is still in the progress of applying for the outstanding title deeds for the above premises. The management 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:

	30 June 2016	31 December 2015
Held in Mainland China		
– Long-term leases (over 50 years)	77,638	18,649
– Medium-term leases (10 – 50 years)	716,503	784,286
– Short-term leases (less than 10 years)	4,443	4,537
<b>Total</b>	<b>798,584</b>	<b>807,472</b>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 20 DEFERRED INCOME TAX ASSETS

### (1) Analysed by nature

	30 June 2016		31 December 2015	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Provision for impairment losses	1,755,008	438,752	1,653,312	413,328
Deferred interest income from discounted bills	31,684	7,921	61,412	15,353
Change in fair value	(450,448)	(112,612)	(654,728)	(163,682)
Others	60,300	15,075	57,612	14,403
<b>Total</b>	<b>1,396,544</b>	<b>349,136</b>	<b>1,117,608</b>	<b>279,402</b>

### (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 2015	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
Recognised in profit or loss	25,424	(7,432)	440	402	18,834
Recognised in other comprehensive income	–	–	50,630	270	50,900
As at 30 June 2016	438,752	7,921	(112,612)	15,075	349,136

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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 21 OTHER ASSETS

	Note	30 June 2016	31 December 2015
Prepayment for long-term assets		<b>1,830,410</b>	1,716,243
Interest receivable	21(1)	<b>1,178,869</b>	1,090,551
Long-term deferred expense		<b>185,887</b>	142,331
Intangible assets	21(2)	<b>156,678</b>	165,630
Land use rights		–	60,604
Deferred expense		<b>39,718</b>	47,598
Repossessed assets		<b>18,329</b>	–
Precious metals		<b>16,877</b>	16,986
Other receivables		<b>260,438</b>	128,960
Sub-total		<b>3,687,206</b>	3,368,903
Less: Provision for impairment losses		<b>(572)</b>	(566)
Total		<b>3,686,634</b>	3,368,337

### (1) Interests receivable

	30 June 2016	31 December 2015
Interest receivable arising from:		
– Investments	<b>891,288</b>	820,124
– Loans and advances to customers	<b>279,830</b>	233,442
– Others	<b>7,751</b>	36,985
Total	<b>1,178,869</b>	1,090,551

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 21 OTHER ASSETS (continued)

#### (2) Intangible assets

	Six months ended 30 June 2016	2015
<b>Cost</b>		
As at 1 January	267,639	187,937
Additions	32,387	96,672
Decrease	(16,000)	(16,970)
As at 30 June/31 December	284,026	267,639
<b>Accumulated amortisation</b>		
As at 1 January	(102,009)	(73,264)
Additions	(28,539)	(45,715)
Decrease	3,200	16,970
As at 30 June/31 December	(127,348)	(102,009)
<b>Net value</b>		
As at 1 January	165,630	114,673
As at 30 June/31 December	156,678	165,630

Intangible assets of the Bank mainly represent software.

### 22 BORROWINGS FROM CENTRAL BANK

	30 June 2016	31 December 2015
Borrowings (Note (i))	497,340	487,020
Re-discounted bills	651,459	41,889
Total	1,148,799	528,909

Note:

(i) The Borrowings are US dollar loans borrowed from the State Administration of Foreign Exchange.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 23 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2016	31 December 2015
In Mainland China		
– Banks	12,786,460	14,358,519
– Other financial institutions	12,547,952	12,977,351
Total	25,334,412	27,335,870

## 24 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2016	31 December 2015
In Mainland China		
– Banks	3,680,316	2,922,120
Outside Mainland China		
– Banks	198,936	129,872
Total	3,879,252	3,051,992

## 25 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

### (1) Analysed by type and location of counterparty

	30 June 2016	31 December 2015
In Mainland China		
– Banks	–	2,000,000
Total	–	2,000,000

### (2) Analysed by types of collaterals

	30 June 2016	31 December 2015
Debt securities	–	2,000,000
Total	–	2,000,000

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 26 DEPOSITS FROM CUSTOMERS

	30 June 2016	31 December 2015
Demand deposits		
– Corporate deposits	41,707,043	40,164,726
– Personal deposits	11,112,644	9,192,474
Sub-total	52,819,687	49,357,200
Time deposits		
– Corporate deposits	35,519,367	29,763,437
– Personal deposits	37,689,904	35,763,810
Sub-total	73,209,271	65,527,247
Outward remittance and remittance payables	261,703	436,901
Fiscal deposits to be transferred	8,905	649
Total	126,299,566	115,321,997
Including:		
Pledged deposits	10,460,499	10,992,059

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 27 DEBT SECURITIES ISSUED

	30 June 2016	31 December 2015
Debt securities (Note (1))	9,086,994	7,189,158
Certificates of interbank deposit (Note (2))	18,929,429	9,125,149
Total	28,016,423	16,314,307

Notes:

(1) The details of debt securities issued by the Bank but not yet matured as at 30 June 2016 are as follows:

- (i) Five-year debts were issued with an interest rate of 4.8% per annum and with a nominal amount of RMB2,900 million in March 2013. The debts will mature on 5 March 2018 with annual interest payments. As at 30 June 2016, the fair value of the debts was RMB2,962 million (31 December 2015: RMB2,970 million).
- (ii) Ten-year tier-two capital bonds were issued with an interest rate of 5.59% per annum and with a nominal amount of RMB2,200 million 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. As at 30 June 2016, the fair value of the debts was RMB2,297 million (31 December 2015: RMB2,288 million).
- (iii) Three-year Green Bonds were issued with an interest rate of 3.25% per annum and with a nominal amount of RMB3,500 million in March 2016. The debts will mature on 14 March 2019 with annual interest payments. As at 30 June 2016, the fair value of the debts was RMB3,471 million.
- (iv) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB500 million in March 2016. The debts will mature on 14 March 2021 with annual interest payments. As at 30 June 2016, the fair value of the debts was RMB490 million.

(2) The Bank issued a number of certificates of interbank deposit with durations between 1 month to 1 year.

As at 30 June 2016 and 31 December 2015, the outstanding balance of certificates of interbank deposit issued by the Bank was RMB18.929 billion and RMB9.125 billion respectively, and the fair value was RMB18.739 billion and RMB9.052 billion respectively.



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 28 OTHER LIABILITIES

	Note	30 June 2016	31 December 2015
Interest payable	28(1)	2,054,408	2,134,308
Employee benefits payable	28(2)	941,557	908,156
Taxes payable	28(3)	81,517	69,039
Dividend payable		791,675	15,319
Payable raising from fiduciary activities		427,849	980,107
Settlement payable		287,272	72,181
Others		526,075	1,781,659
Total		5,110,353	5,960,769

### (1) Interest payable

	30 June 2016	31 December 2015
Interest payable arising from:		
– Deposits from customers	1,705,380	1,599,781
– Deposits and placements from banks and other financial institutions	225,222	238,378
– Debt securities issued	123,806	296,042
– Financial assets sold under repurchase agreements	–	107
Total	2,054,408	2,134,308

### (2) Employee benefits payable

	30 June 2016	31 December 2015
Salaries, bonuses and allowances payable	837,851	813,607
Labor union expense payable	15,569	17,119
Employee education expense payable	21,539	13,524
Welfare payable	4,545	4,545
Others	62,053	59,361
Total	941,557	908,156

### (3) Taxes payable

Taxes payable as at 30 June 2016 mainly include value-added tax payable.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 29 SHARE CAPITAL

#### *Authorised and issued share capital*

	30 June 2016	31 December 2015
Number of shares authorised, issued and fully paid at nominal value (in thousands)	4,058,713	4,011,533

In January 2016, the Bank issued 47.18 million H-shares with a nominal value of RMB1 at an offering price of HKD4.75 per share. The premium arising from the H-share offering amounting to RMB118 million 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 premium arising from the H-share offering amounting to RMB2.513 billion was recorded in capital reserve.

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.

### 30 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.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 30 RESERVES (continued)

### (4) Investment revaluation reserve

	Six months ended 30 June 2016	2015
As at 1 January	486,199	85,077
Change in fair value recognised in other comprehensive income	(164,400)	594,640
Transfer to profit or loss upon disposal	(38,120)	(59,811)
Less: income tax	50,630	(133,707)
As at 30 June/31 December	334,309	486,199

### (5) Other reserve

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

## 31 PROFIT APPROPRIATION

### (1) At the Annual General Meeting of Shareholders held on 10 May 2016, the shareholders approved the following profit appropriation for the year ended 31 December 2015:

- Appropriated RMB181 million to surplus reserve;
- Appropriated RMB505 million to general reserve; and
- Declared cash dividends to all shareholders of RMB812 million representing RMB0.20 per share (before tax).

### (2) At the Annual General Meeting of Shareholders held on 10 April 2015, the shareholders approved the following profit appropriation for the year ended 31 December 2014:

- Appropriated RMB149 million to surplus reserve;
- Appropriated RMB553 million to general reserve; and
- Declared cash dividends to all shareholders of RMB778 million representing RMB0.25 per share (before tax).

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 32 NOTES TO CASH FLOW STATEMENT

### Cash and cash equivalents:

	30 June 2016	30 June 2015
Cash	444,416	802,212
Surplus deposit reserves with central bank	2,637,794	3,333,240
Original maturity within three months:		
– Deposits with banks and other financial institutions	1,128,069	2,392,289
– Placements with banks and other financial institutions	598,575	256,792
– Debts investments	59,539	–
Total	4,868,393	6,784,533

## 33 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:

	30 June 2016	31 December 2015
Intesa Sanpaolo S.p.A.	15.33%	15.51%
Qingdao Conson Industrial Co., Ltd.	12.41%	12.64%
Qingdao Haier Investment and Development Co., Ltd.	10.09%	10.21%
Qingdao Haier Air-Conditioning Electronic Co., Ltd.	5.39%	5.45%

#### (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 33(1)(a) or their controlling shareholders.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 33 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.

	30 June 2016	31 December 2015
Balances at the end of the period/year:		
On-balance sheet items:		
Loans and advances to customers	19,881	5,034
Investment classified as receivables	2,000,000	500,000
Deposits with banks and other financial institutions	7,687	1,707
Interest receivable	2,958	912
Deposits from customers	622,403	785,002
Deposits from banks and other financial institutions	8,559	–
Interest payable	920	785
Off-balance sheet items:		
Letters of guarantees	400,244	–

	Six months ended 30 June 2016	2015
Transactions during the period:		
Interest income	34,487	22,635
Interest expense	1,266	879

#### (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.

	Six months ended 30 June 2016	2015
Remuneration of key management personnel	7,383	7,253

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

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### 34 SEGMENT REPORTING

The Bank manages its business by segment of business lines. 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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 34 SEGMENT REPORTING (continued)

	Six months ended 30 June 2016				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income/(expense)	1,225,966	(17,478)	1,238,394	–	2,446,882
Internal net interest income/(expense)	109,047	462,272	(571,319)	–	–
Net interest income	1,335,013	444,794	667,075	–	2,446,882
Net fee and commission income	156,565	158,548	158,633	–	473,746
Net trading gains	–	–	9,953	–	9,953
Net gains arising from investments	–	–	38,120	–	38,120
Other operating income, net	824	955	45	103	1,927
Operating income	1,492,402	604,297	873,826	103	2,970,628
Operating expenses	(484,103)	(249,706)	(220,383)	–	(954,192)
Impairment losses	(309,193)	(42,365)	(30,000)	–	(381,558)
Profit before taxation	699,106	312,226	623,443	103	1,634,878
Other segment information					
– Depreciation and amortisation	(64,604)	(74,948)	(3,505)	–	(143,057)
– Capital expenditure	103,352	119,900	5,607	–	228,859
	30 June 2016				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	72,878,150	29,523,080	104,315,829	–	206,717,059
Deferred tax assets					349,136
Total assets					207,066,195
Segment liabilities/Total liabilities	78,858,543	51,593,548	59,537,929	–	189,990,020
Credit commitments	25,571,620	347,768	–	–	25,919,388

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 34 SEGMENT REPORTING (continued)

	Six months ended 30 June 2015				Total
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	
External net interest income	1,115,976	28,447	806,052	–	1,950,475
Internal net interest income/(expense)	33,273	385,346	(418,619)	–	–
Net interest income	1,149,249	413,793	387,433	–	1,950,475
Net fee and commission income	158,161	87,427	147,679	–	393,267
Net trading gains	–	–	11,779	–	11,779
Net gains arising from investments	–	–	35,909	–	35,909
Other operating income, net	36	38	3	7,691	7,768
Operating income	1,307,446	501,258	582,803	7,691	2,399,198
Operating expenses	(418,347)	(203,000)	(128,991)	–	(750,338)
Impairment losses	(195,481)	(25,131)	(20,000)	–	(240,612)
Profit before taxation	693,618	273,127	433,812	7,691	1,408,248
Other segment information					
– Depreciation and amortisation	(66,175)	(69,298)	(4,454)	–	(139,927)
– Capital expenditure	72,200	75,607	4,860	–	152,667
	30 June 2015				Total
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	
Segment assets	65,066,184	27,746,277	76,277,250	–	169,089,711
Deferred tax assets					319,608
Total assets					169,409,319
Segment liabilities/Total liabilities	62,637,528	43,642,067	51,014,753	–	157,294,348
Credit commitments	25,584,825	319,913	–	–	25,904,738



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 35 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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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

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### 35 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 37 (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 37 (1).

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 35 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:

	30 June 2016			
	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	756,610	—	—	—
Provision for impairment losses	(348,843)	—	—	—
Net balance	407,767	—	—	—
Collectively assessed				
Gross balance	260,041	—	—	—
Provision for impairment losses	(139,193)	—	—	—
Net balance	120,848	—	—	—
Overdue but not impaired (Note (i))				
Within 3 months (inclusive)	2,381,891	—	—	—
Between 3 months and 1 year (inclusive)	280,300	—	—	—
Over 1 year	—	—	—	—
Gross balance	2,662,191	—	—	—
Provision for impairment losses	(169,217)	—	—	—
Net balance	2,492,974	—	—	—
Neither overdue nor impaired				
Gross balance	77,266,880	3,384,444	—	100,044,064
Provision for impairment losses	(1,539,248)	—	—	(120,500)
Net balance	75,727,632	3,384,444	—	99,923,564
Book value	78,749,221	3,384,444	—	99,923,564

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 35 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

	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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 35 RISK MANAGEMENT (continued)

#### (1) Credit risk (continued)

Notes:

- (i) As at 30 June 2016, the principal amount of the Bank's impaired loans and advances to customers subject to individual assessment was RMB757 million (31 December 2015: RMB629 million). The fair value of collaterals held against these loans and advances was RMB124 million (31 December 2015: RMB118 million).

As at 30 June 2016, the principal amount of the Bank's corporate loans and advances to customers overdue but not impaired was RMB2,349 million (31 December 2015: RMB910 million). The fair value of collaterals held against these loans and advances was RMB1,174 million (31 December 2015: RMB619 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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 35 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:

	30 June 2016					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>						
Cash and deposits with central bank	19,948,551	549,974	19,398,577	–	–	–
Deposits with banks and other financial institutions	2,122,749	–	1,128,069	994,680	–	–
Placements with banks and other financial institutions	1,261,695	–	1,261,695	–	–	–
Loans and advances to customers (Note (i))	78,749,221	–	14,185,470	51,242,682	11,735,357	1,585,712
Investments (Note (ii))	99,946,814	23,250	11,520,805	27,905,962	41,116,488	19,380,309
Others	5,037,165	5,037,165	–	–	–	–
<b>Total assets</b>	<b>207,066,195</b>	<b>5,610,389</b>	<b>47,494,616</b>	<b>80,143,324</b>	<b>52,851,845</b>	<b>20,966,021</b>
<b>Liabilities</b>						
Borrowings from central bank	1,148,799	–	466,621	682,178	–	–
Deposits from banks and other financial institutions	25,334,412	–	9,882,412	13,602,000	1,850,000	–
Placements from banks and other financial institutions	3,879,252	–	2,022,516	1,856,736	–	–
Deposits from customers	126,299,566	261,703	85,102,103	21,845,547	18,872,397	217,816
Debt securities issued	28,016,423	–	8,455,662	10,473,767	6,893,246	2,193,748
Others	5,311,568	4,969,168	–	–	342,400	–
<b>Total liabilities</b>	<b>189,990,020</b>	<b>5,230,871</b>	<b>105,929,314</b>	<b>48,460,228</b>	<b>27,958,043</b>	<b>2,411,564</b>
<b>Asset-liability gap</b>	<b>17,076,175</b>	<b>379,518</b>	<b>(58,434,698)</b>	<b>31,683,096</b>	<b>24,893,802</b>	<b>18,554,457</b>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 35 RISK MANAGEMENT (continued)

### (2) Market risk (continued)

#### (a) Interest rate risk (continued)

	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
<b>Assets</b>						
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	–	–	–	–
<b>Total assets</b>	<b>187,235,254</b>	<b>5,435,858</b>	<b>50,420,544</b>	<b>76,214,463</b>	<b>41,903,059</b>	<b>13,261,330</b>
<b>Liabilities</b>						
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	–
<b>Total liabilities</b>	<b>170,621,602</b>	<b>5,400,728</b>	<b>99,170,380</b>	<b>41,335,434</b>	<b>22,325,602</b>	<b>2,389,458</b>
<b>Asset-liability gap</b>	<b>16,613,652</b>	<b>35,130</b>	<b>(48,749,836)</b>	<b>34,879,029</b>	<b>19,577,457</b>	<b>10,871,872</b>

Notes:

- (i) For the Bank's loans and advances to customers, the category "Less than three months" as at 30 June 2016 includes overdue loans and advances (net of provision for impairment losses) of RMB3,021 million (31 December 2015: RMB1,560 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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 35 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.

	<b>30 June 2016 Increase/ (Decrease)</b>	31 December 2015 Increase/ (Decrease)
Increase/(Decrease) in annualized net interest income		
Interest rates increase by 100 bps	<b>(346,724)</b>	(225,906)
Interest rates decrease by 100 bps	<b>346,724</b>	225,906

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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 35 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:

	30 June 2016			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
<b>Assets</b>				
Cash and deposits with central bank	19,930,420	13,565	4,566	19,948,551
Deposits with banks and other financial institutions	731,592	1,352,119	39,038	2,122,749
Placements with banks and other financial institutions	1,767	1,259,928	–	1,261,695
Loans and advances to customers	78,162,590	586,631	–	78,749,221
Investments (Note (i))	97,957,454	1,989,360	–	99,946,814
Others	5,027,190	8,371	1,604	5,037,165
<b>Total assets</b>	<b>201,811,013</b>	<b>5,209,974</b>	<b>45,208</b>	<b>207,066,195</b>
<b>Liabilities</b>				
Borrowings from central bank	651,459	497,340	–	1,148,799
Deposits from banks and other financial institutions	25,334,412	–	–	25,334,412
Placements from banks and other financial institutions	–	3,879,252	–	3,879,252
Deposits from customers	125,968,553	313,123	17,890	126,299,566
Debt securities issued	28,016,423	–	–	28,016,423
Others	5,298,972	10,789	1,807	5,311,568
<b>Total liabilities</b>	<b>185,269,819</b>	<b>4,700,504</b>	<b>19,697</b>	<b>189,990,020</b>
<b>Net position</b>	<b>16,541,194</b>	<b>509,470</b>	<b>25,511</b>	<b>17,076,175</b>
<b>Off-balance sheet credit commitments</b>	<b>25,662,843</b>	<b>248,999</b>	<b>7,546</b>	<b>25,919,388</b>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 35 RISK MANAGEMENT (continued)

### (2) Market risk (continued)

#### (b) Currency risk (continued)

	31 December 2015			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
<b>Assets</b>				
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
<b>Total assets</b>	<b>183,048,139</b>	<b>4,056,671</b>	<b>130,444</b>	<b>187,235,254</b>
<b>Liabilities</b>				
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
<b>Total liabilities</b>	<b>166,777,482</b>	<b>3,811,676</b>	<b>32,444</b>	<b>170,621,602</b>
<b>Net position</b>	<b>16,270,657</b>	<b>244,995</b>	<b>98,000</b>	<b>16,613,652</b>
<b>Off-balance sheet credit commitments</b>	<b>23,877,012</b>	<b>203,931</b>	<b>48,445</b>	<b>24,129,388</b>

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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 35 RISK MANAGEMENT (continued)

### (2) Market risk (continued)

#### (b) Currency risk (continued)

	30 June 2016 Increase/ (Decrease)	31 December 2015 Increase/ (Decrease)
Increase/(Decrease) in annualized net profit		
Foreign exchange rate increase by 100 bps	605	396
Foreign exchange rate decrease by 100 bps	(605)	(396)

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 Asset and Liability 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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 35 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:

	30 June 2016							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	
<b>Assets</b>								
Cash and deposits with central bank	16,866,341	3,082,210	-	-	-	-	-	19,948,551
Deposits with banks and other financial institutions	-	1,128,069	-	-	994,680	-	-	2,122,749
Placements with banks and other financial institutions	-	-	598,575	663,120	-	-	-	1,261,695
Loans and advances to customers	2,282,785	737,776	2,621,104	6,952,839	24,049,433	21,334,452	20,770,832	78,749,221
Investments (Note (i))	23,250	-	1,904,245	8,947,819	26,600,265	43,090,926	19,380,309	99,946,814
Others	3,858,295	4,061	386,816	418,480	355,481	14,032	-	5,037,165
<b>Total assets</b>	<b>23,030,671</b>	<b>4,952,116</b>	<b>5,510,740</b>	<b>16,982,258</b>	<b>51,999,859</b>	<b>64,439,410</b>	<b>40,151,141</b>	<b>207,066,195</b>
<b>Liabilities</b>								
Borrowings from central bank	-	-	459,287	7,334	184,838	497,340	-	1,148,799
Deposits from banks and other financial institutions	-	1,491,912	3,940,000	4,450,500	13,602,000	1,850,000	-	25,334,412
Placements from banks and other financial institutions	-	-	1,359,396	663,120	1,856,736	-	-	3,879,252
Deposits from customers	-	54,009,453	17,188,663	14,165,690	21,845,547	18,872,397	217,816	126,299,566
Debt securities issued	-	-	3,845,196	4,610,466	10,473,767	6,893,246	2,193,748	28,016,423
Others	13,589	252,220	2,217,477	417,103	1,035,709	1,315,170	60,300	5,311,568
<b>Total liabilities</b>	<b>13,589</b>	<b>55,753,585</b>	<b>29,010,019</b>	<b>24,314,213</b>	<b>48,998,597</b>	<b>29,428,153</b>	<b>2,471,864</b>	<b>189,990,020</b>
<b>Long/(short) position</b>	<b>23,017,082</b>	<b>(50,801,469)</b>	<b>(23,499,279)</b>	<b>(7,331,955)</b>	<b>3,001,262</b>	<b>35,011,257</b>	<b>37,679,277</b>	<b>17,076,175</b>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 35 RISK MANAGEMENT (continued)

### (3) Liquidity risk (continued)

#### (a) Maturity analysis (continued)

		31 December 2015						
		Indefinite	Repayable	Within	Between	Between	Between	
		(Note (ii))	on demand	one	one month	three	one year	
			(Note (ii))	month	and three	months	and	More than
					months	and	five years	five years
						one year		
								Total
<b>Assets</b>								
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
<b>Total assets</b>	<b>21,321,427</b>	<b>6,755,888</b>	<b>6,170,625</b>	<b>18,597,053</b>	<b>52,016,194</b>	<b>53,110,768</b>	<b>29,263,299</b>	<b>187,235,254</b>
<b>Liabilities</b>								
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
<b>Total liabilities</b>	<b>13,594</b>	<b>51,644,928</b>	<b>28,055,664</b>	<b>23,255,742</b>	<b>41,474,044</b>	<b>23,730,562</b>	<b>2,447,068</b>	<b>170,621,602</b>
<b>Long/(short) position</b>	<b>21,307,833</b>	<b>(44,889,040)</b>	<b>(21,885,039)</b>	<b>(4,658,689)</b>	<b>10,542,150</b>	<b>29,380,206</b>	<b>26,816,231</b>	<b>16,613,652</b>

#### 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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 35 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:

	30 June 2016							
	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
<b>Borrowings from central bank</b>	-	-	459,287	7,334	202,393	499,617	-	1,168,631
Deposits from banks and other financial institutions	-	1,491,912	3,946,670	4,501,188	13,900,763	1,910,848	-	25,751,381
Placements from banks and other financial institutions	-	-	1,360,029	664,944	1,878,903	-	-	3,903,876
Deposits from customers	-	54,009,453	17,198,409	14,220,597	22,131,188	20,877,864	229,705	128,667,216
Debt securities issued	-	-	3,850,000	4,630,000	11,052,930	7,826,620	2,691,920	30,051,470
Other liabilities	13,589	252,220	2,217,476	417,103	1,035,709	1,434,656	60,300	5,431,053
<b>Total liabilities</b>	<b>13,589</b>	<b>55,753,585</b>	<b>29,031,871</b>	<b>24,441,166</b>	<b>50,201,886</b>	<b>32,549,605</b>	<b>2,981,925</b>	<b>194,973,627</b>

	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
<b>Borrowings from central bank</b>	-	-	-	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
<b>Total liabilities</b>	<b>13,594</b>	<b>51,644,928</b>	<b>28,079,777</b>	<b>23,735,398</b>	<b>42,219,126</b>	<b>26,878,157</b>	<b>3,076,831</b>	<b>175,647,811</b>

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

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*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 35 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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 35 RISK MANAGEMENT (continued)

### (5) Capital management (continued)

As at 30 June 2016 and 31 December 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:

	30 June 2016	31 December 2015
Total core tier-one capital	<b>17,076,175</b>	16,613,652
– Share capital	<b>4,058,713</b>	4,011,533
– Qualifying portion of capital reserve	<b>6,826,276</b>	6,708,018
– Surplus reserve	<b>804,789</b>	804,789
– General reserve	<b>2,391,182</b>	2,391,182
– Retained earnings	<b>2,664,791</b>	2,215,006
– Investment revaluation reserve and others	<b>330,424</b>	483,124
Core tier-one capital deductions	<b>(156,678)</b>	(165,631)
Net core tier-one capital	<b>16,919,497</b>	16,448,021
Net tier-one capital	<b>16,919,497</b>	16,448,021
Tier two capital	<b>3,379,850</b>	3,376,236
– Qualifying portions of tier-two capital instruments issued	<b>2,200,000</b>	2,200,000
– Surplus provision for loan impairment	<b>1,179,850</b>	1,176,236
Net capital base	<b>20,299,347</b>	19,824,257
Total risk weighted assets	<b>150,438,324</b>	131,824,697
Core tier-one capital adequacy ratio	<b>11.25%</b>	12.48%
Tier-one capital adequacy ratio	<b>11.25%</b>	12.48%
Capital adequacy ratio	<b>13.49%</b>	15.04%



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 36 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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 36 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:

	30 June 2016			
	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	–	192,861	–	192,861
Available-for-sale financial assets				
– Debt securities	–	19,581,979	–	19,581,979
– Trust fund plans	–	382,254	–	382,254
– Investment funds	–	61,376	–	61,376
– Asset management plan	–	2,489,360	–	2,489,360
Total	–	22,707,830	–	22,707,830

	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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 36 FAIR VALUE (continued)

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

Notes:

- (i) During the reporting period, there were no significant transfers among each level.
- (ii) During the six months ended 30 June 2016, there were no changes for Level 3 of the fair value hierarchy. The following table shows the movement from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy during the six months ended 30 June 2015:

Six months ended 30 June 2015	As at 1 January	Transfer into level 3	Transfer out of level 3	Total gains or losses for the period		Purchases, issues, disposals and settlements				As at 30 June	Total gains or losses for the period included in profit or loss for assets held at the end of the period
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals	Settlements		
Available-for-sale financial assets											
- Trust fund plans	300,316	-	-	9,521	-	-	-	-	-	309,837	-
Total	300,316	-	-	9,521	-	-	-	-	-	309,837	-

### (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 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.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 36 FAIR VALUE (continued)

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

#### (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:

	30 June 2016				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Held-to-maturity investments	23,375,958	24,157,630	–	24,157,630	–
<b>Total</b>	<b>23,375,958</b>	<b>24,157,630</b>	<b>–</b>	<b>24,157,630</b>	<b>–</b>
<b>Financial liabilities</b>					
Debt securities issued					
– Debt securities	9,086,994	9,219,090	–	9,219,090	–
– Certificates of interbank deposit	18,929,429	18,739,343	–	18,739,343	–
<b>Total</b>	<b>28,016,423</b>	<b>27,958,433</b>	<b>–</b>	<b>27,958,433</b>	<b>–</b>

	31 December 2015				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Held-to-maturity investments	22,575,284	23,434,562	–	23,434,562	–
<b>Total</b>	<b>22,575,284</b>	<b>23,434,562</b>	<b>–</b>	<b>23,434,562</b>	<b>–</b>
<b>Financial liabilities</b>					
Debt 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	–
<b>Total</b>	<b>16,314,307</b>	<b>16,415,473</b>	<b>–</b>	<b>16,415,473</b>	<b>–</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 37 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.

	30 June 2016	31 December 2015
Bank acceptances	18,849,762	18,776,982
Letters of credit	3,785,661	3,498,936
Letters of guarantees	2,706,197	1,359,376
Loan commitments	230,000	145,000
Unused credit card commitments	347,768	349,094
<b>Total</b>	<b>25,919,388</b>	<b>24,129,388</b>

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

#### (2) Credit risk-weighted amount

	30 June 2016	31 December 2015
Credit risk-weighted amount of contingent liabilities and commitments	8,995,278	8,415,863

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:

	30 June 2016	31 December 2015
Within one year (inclusive)	98,149	96,069
After one year but within five years (inclusive)	290,534	294,144
After five years	106,052	194,617
<b>Total</b>	<b>494,735</b>	<b>584,830</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 37 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

#### (4) Capital commitments

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

	30 June 2016	31 December 2015
Contracted but not paid for	631,375	687,894
Total	631,375	687,894

#### (5) Outstanding litigations and disputes

As at 30 June 2016 and 31 December 2015, there were no significant legal proceedings outstanding against the Bank. Management is in the opinion that it is not necessary to provide any contingent liabilities as at the reporting period.

#### (6) Bonds redemption obligations

As an underwriting agent of PRC government bonds, the Bank has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the 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:

	30 June 2016	31 December 2015
Bonds redemption obligations	3,064,094	2,843,173

#### (7) Pledged assets

	30 June 2016	31 December 2015
Investment securities	3,069,794	4,547,229
Total	3,069,794	4,547,229

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 12). 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 bank did not hold such pledged assets as at 30 June 2016 (the fair value of such pledged assets as at 31 December 2015 was RMB2,017 million). As at 30 June 2016, the Bank did not sell or repledge any pledged assets which it has an obligation to repurchase when they are due (31 December 2015: nil).

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 38 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 30 June 2016 and 31 December 2015 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:

	30 June 2016			
	Available for sale financial assets	Investment classified as receivables	Carrying amount	Maximum exposure
Asset management plans	2,489,360	25,645,564	28,134,924	28,134,924
Trust fund plans	382,254	10,489,293	10,871,547	10,871,547
Wealth management products issued by financial institutions	–	15,645,531	15,645,531	15,645,531
Asset-backed securities	1,424,232	–	1,424,232	1,424,232
Investment funds	61,376	–	61,376	61,376
<b>Total</b>	<b>4,357,222</b>	<b>51,780,388</b>	<b>56,137,610</b>	<b>56,137,610</b>

	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
<b>Total</b>	<b>883,875</b>	<b>40,664,482</b>	<b>41,548,357</b>	<b>41,548,357</b>

The maximum exposures to loss in the above investment products are the amortised cost or the fair value 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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 38 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 30 June 2016 and 31 December 2015, the carrying amounts of the management fee receivables being recognized are not material.

As at 30 June 2016, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Bank, was RMB39.870 billion (31 December 2015: RMB34.094 billion).

In addition, the unconsolidated structured entities sponsored by the Bank also include asset-backed securities. As at 30 June 2016, the balances of these asset-backed securities was RMB76 million (31 December 2015: RMB159 million).

#### (3) *Structured entities sponsored and issued by the Bank after 1 January but matured before 30 June in which the Bank no longer holds an interest*

During the six months ended 30 June 2016, the amount of fee and commission income recognised from the above mentioned structured entities by the Bank was RMB37 million (six months ended 30 June 2015: RMB34 million).

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Bank after 1 January 2016 but matured before 30 June 2016 was RMB45.600 billion (six months ended 30 June 2015: RMB27.749 billion).

### 39 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 30 June 2016, the entrusted loans balance of the Bank was RMB7.836 billion (31 December 2015: RMB8.835 billion).

### 40 SUBSEQUENT EVENTS

The Bank, Qingdao Hanhe Cable Co., Ltd., Qingdao Port International Co., Ltd. and Qingdao Qianwan Container Terminal Co., Ltd. planned to jointly establish Qingdao Qingyin Financial Leasing Co., Ltd.. The registered capital of Qingdao Qingyin Financial Leasing Co., Ltd. shall be RMB1 billion, among which the Bank agreed to contribute as to 51%. The application of establishment of Qingdao Qingyin Financial Leasing Co., Ltd. was approved by the CBRC in July 2016.



## CHAPTER X UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

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

In accordance with the Hong Kong Listing Rules and Banking (Disclosure) Rules, the Bank discloses the unaudited supplementary financial information as follows:

### 1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO

#### (1) Liquidity coverage ratio

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").

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.

	As at 30 June 2016	As at 31 December 2015
Qualified and high-quality current assets	41,018,066	36,069,181
Net cash outflows in next 30 days	33,358,512	27,313,363
Liquidity coverage ratio (RMB and foreign currency)	122.96%	132.06%

#### (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 Bank's leverage ratio is 7.32%, which is higher than the regulatory requirements of the CBRC.

The following table sets out the Bank'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 30 June 2016
1	Total consolidated assets as per published financial statements	207,066,195
2	Consolidated adjustments for accounting purposes but outside the scope of regulatory consolidation	—
3	Adjustments for fiduciary assets	—
4	Adjustments for derivative financial instruments	—
5	Adjustment for securities financing transactions	—
6	Adjustment for off-balance sheet items	24,257,999
7	Other adjustments	(156,678)
8	Balance of adjusted on-balance and off-balance sheet assets	231,167,516

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

### 1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO (continued)

#### (2) Leverage ratio (continued)

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

Unit: RMB'000

No.	Item	Balance as at 30 June 2016
1	On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	207,066,195
2	Less: asset amounts deducted in determining Basel III tier-one capital	(156,678)
3	Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)	206,909,517
4	Off-balance sheet exposure at gross notional amount	24,257,999
5	Less: adjustments for conversion to credit equivalent amounts	—
6	Balance of adjusted off-balance sheet assets	24,257,999
7	Net tier-one capital	16,919,497
8	Balance of adjusted on-balance and off-balance sheet assets	231,167,516
9	Leverage ratio	7.32%

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 CURRENCY CONCENTRATIONS

	30 June 2016			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	5,209,974	13,661	31,547	5,255,182
Spot liabilities	(4,700,504)	(6,941)	(12,756)	(4,720,201)
Net long position	509,470	6,720	18,791	534,981

	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

The Bank has no structural position during 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 denominated 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.

	30 June 2016			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	12,209	4,360,249	598,416	4,970,874
– of which attributed to Hong Kong	–	2,001,148	–	2,001,148
– North and South America	–	270,083	–	270,083
– Europe	–	10,113	–	10,113
	12,209	4,640,445	598,416	5,251,070

	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

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

### 4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	30 June 2016	31 December 2015
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	242,324	223,456
– between 6 months and 1 year (inclusive)	509,750	310,947
– over 1 year	536,043	465,330
Total	1,288,117	999,733
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.30%	0.31%
– between 6 months and 1 year (inclusive)	0.63%	0.43%
– over 1 year	0.66%	0.64%
Total	1.59%	1.38%

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## DEFINITIONS

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Company:	Bank of Qingdao Co., Ltd.
CBRC:	China Banking Regulatory Commission
PBoC:	People's Bank of China
Hong Kong Stock Exchange:	The Stock Exchange of Hong Kong Limited
CBRC Qingdao Office:	Qingdao Office of the China Banking Regulatory Commission
Hong Kong Listing Rules:	Rules Governing the Listing of Securities on Hong Kong Stock Exchange
Company Law:	Company Law of the People's Republic of China
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)
Reporting Period:	for the six months ended 30 June 2016
RMB:	the lawful currency of the PRC
Model Code:	Model Code of Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Hong Kong Listing Rules
Director(s):	director(s) of the Company
Supervisor(s):	supervisor(s) of the Company
Board:	the board of Directors
Board of Supervisors:	the board of Supervisors
Hong Kong:	The Hong Kong Special Administrative Region of the PRC
PPP Project(s):	public-private partnership projects