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BQD  **青島銀行**

Bank of Qingdao Co., Ltd.*

青島銀行股份有限公司*

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

(Stock Code: 3866)

Annual Results for the year ended 31 December 2016

The board of directors (the “**Board**”) of Bank of Qingdao Co., Ltd.* (the “**Company**” or “**Bank of Qingdao**”) is pleased to announce the audited annual results (the “**Annual Results**”) of the Company for the year ended 31 December 2016 (the “**Reporting Period**”) prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board. The Board and its audit committee have reviewed and confirmed the Annual Results.

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

1. BASIC INFORMATION OF THE COMPANY

1.1 Corporate Basic Information

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

1.2 Contact Persons and Contact Details

Secretary to the Board:	Lu Lan
Joint company secretaries:	Lu Lan, Lai Siu Kuen
Registered and office address:	No. 68, Hong Kong Middle Road, Shinan District, Qingdao, Shandong Province, PRC Postal code: 266071
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Company website:	http://www.qdccb.com/

2. FINANCIAL HIGHLIGHTS

2.1 Financial Data

Item	2016	2015	Year-on-year change	<i>Unit: RMB'000</i>		
				2014	2013	2012
Business Performance			Change (%)			
Net interest income	5,007,955	4,114,054	21.73	3,596,336	3,087,784	2,607,371
Net fee and commission income	888,133	749,627	18.48	688,751	425,330	235,498
Net trading gains, net gains arising from investments and other operating (losses)/income	100,057	141,827	(29.45)	79,965	43,178	44,091
Operating income	5,996,145	5,005,508	19.79	4,365,052	3,556,292	2,886,960
Operating expenses	(2,213,521)	(2,076,578)	6.59	(1,995,253)	(1,688,944)	(1,380,363)
Impairment losses	(1,108,874)	(579,894)	91.22	(411,278)	(348,702)	(283,532)
Profit before taxation	2,673,750	2,349,036	13.82	1,958,521	1,518,646	1,223,065
Net profit	2,088,605	1,813,776	15.15	1,495,352	1,141,914	920,028
Net cash flows generated from operating activities	44,160,567	8,513,108	418.74	11,196,260	10,374,213	9,818,168
Per Share (RMB)			Change			
Net assets per share attributable to shareholders of the Company	4.35	4.14	0.21	3.83	3.21	2.91
Basic earnings per share	0.51	0.58	(0.07)	0.59	0.45	0.36
Dividend per share	0.20	0.20	-	0.25	0.08	0.07

2.2 Financial Indicators

Item	2016	2015	Year-on-year change	2014	2013	2012
Scale indicators (RMB'000)			Change (%)			
Total assets	277,988,106	187,235,254	48.47	156,165,941	135,689,371	101,658,224
Of which: loans and advances to customers, net	84,864,849	70,655,221	20.11	61,248,341	54,105,925	44,495,597
Total liabilities	260,352,133	170,621,602	52.59	146,381,291	127,484,219	94,221,589
Of which: deposits from customers	141,604,761	115,321,997	22.79	101,733,660	96,283,907	75,647,869
Share capital	4,058,713	4,011,533	1.18	2,555,977	2,555,977	2,555,977
Total equity	17,635,973	16,613,652	6.15	9,784,650	8,205,152	7,436,635
Profitability indicators (%)			Change			
Return on average total assets	0.90	1.06	(0.16)	1.02	0.96	1.03
Return on average equity	12.20	13.74	(1.54)	16.62	14.60	12.78
Net interest spread	2.05	2.23	(0.18)	2.25	2.38	2.86
Net interest margin	2.23	2.36	(0.13)	2.43	2.54	3.04
Net fee and commission income to operating income	14.81	14.98	(0.17)	15.78	11.96	8.16
Cost-to-income ratio	34.71	35.80	(1.09)	39.61	41.04	41.57
Asset quality indicators (%)			Change			
Non-performing loan ratio	1.36	1.19	0.17	1.14	0.75	0.76
Provision coverage ratio	194.01	236.13	(42.12)	242.32	365.24	352.35
Loan provision ratio	2.64	2.81	(0.17)	2.76	2.74	2.68
Indicators of capital adequacy ratio (%)			Change			
Core tier-one capital adequacy ratio	10.08	12.48	(2.40)	9.72	9.75	N/A
Tier-one capital adequacy ratio	10.08	12.48	(2.40)	9.72	9.75	N/A
Capital adequacy ratio	12.00	15.04	(3.04)	10.75	10.88	13.70
Total equity to total assets	6.34	8.87	(2.53)	6.27	6.05	7.32
Other indicators (%)			Change			
Loan-to-deposit ratio	58.24	59.99	(1.75)	55.54	56.79	59.57
Liquidity ratio	53.48	60.04	(6.56)	45.57	41.16	49.75
Percentage of loans to the single largest customer	5.29	5.55	(0.26)	6.13	5.84	5.09
Percentage of loans to the top ten customers	36.99	32.66	4.33	47.04	46.46	41.65

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

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Review of the Economic Finance and Policy Environment

In 2016, the world economy was still in a vulnerable state of a moderate recovery, and demand from developed economies remained weak, making a prolonged slump in global trade. Faced with downward pressure caused by complex external development environment and internal economic restructuring, the Chinese Government used a proactive fiscal policy, continued to implement a prudent monetary policy, used monetary policy tools and innovation in a comprehensive way, guided finance to support the real economy, and optimized credit structure and financial allocation in order to make the economy of China continue to operate in an appropriate range.

In 2016, Shandong province achieved a good start of the “Thirteenth Five-Year Plan” with economy in an overall stable operation by actively promoting the supply-side structural reform, optimizing economic structure and facilitating the constant conversion of the momentum of economic development. Qingdao steadily promoted the building of “Three Centers with One Base”¹, and led the development by innovation through activities of “Innovation, Entrepreneurship, Maker”. The fundamentals of economic development kept getting better, with economy in a steadily rising trend for the whole year, and the base and support for the long-term and healthy development were growing increasingly solid.

1. “Three Centers with One Base” refers to a key innovation centre on the east coast of the country, an important domestic regional service centre, a world leading marine development centre, and an internationally competitive and advanced manufacturing base.

3.2 Summary of Overall Operations

1. Status of Key Operational Indicator Achievements

- (1) Total assets amounted to RMB277.988 billion, representing a year-on-year increase of RMB90.753 billion or 48.47%;
- (2) Total deposits amounted to RMB141.605 billion, representing a year-on-year increase of RMB26.283 billion or 22.79%;
- (3) Total loans amounted to RMB87.168 billion, representing a year-on-year increase of RMB14.473 billion or 19.91%;
- (4) Net profit amounted to RMB2.089 billion, representing a year-on-year increase of RMB275 million or 15.15%;
- (5) Non-performing loan ratio, provision coverage ratio and capital adequacy ratio were 1.36%, 194.01% and 12.00% respectively;
- (6) Return on average total assets was 0.90%, representing a year-on-year decrease of 0.16 percentage point, mainly due to the significant increase of total assets of the Company for 2016, resulting in the significant increase in average total assets;
- (7) Return on average equity was 12.20%, representing a year-on-year decrease of 1.54 percentage points, mainly because the Company completed the capital and share increase in 2015, and was listed on the main board of The Stock Exchange of Hong Kong Limited (“**Hong Kong Stock Exchange**”) in December 2015 with H-share proceeds raised, resulting in a significant increase in net assets at the beginning of 2016 and average net assets in 2016.

2. Major Tasks of Operational Management

- (1) *The wholesale business line transformed to an integrated financial services provider*

Focusing on the market trend, the Company grasped the marketing of high quality assets to boost the all-around growth of debt business. Firstly, focus on core customers and continue to increase the credit extension to the key areas such as public sector finance. Secondly, expedite innovative products and business, successively launch new businesses such as option loan product featuring investment linked 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” of the Company is taking shape; launch electronic management system for financial payment in provincial and municipal level and “Qi Cai Tong” (企財通) project, the upgrade of Wealth e-House (財富e屋).

(2) *The retail business line transformed to a provider offering the best customer experience*

Adhere to developing the market and optimizing the customer structure. Firstly, accelerate the implementation of “interface banking” strategy. In 2016, more than 26 “all-in-one cards” (一卡通) projects in a number of key areas such as healthcare and transportation have been signed and issued. Secondly, mobile finance continued to develop. Personal mobile banking customers of the Company amounted to 774,969 in total as at the end of the Reporting Period. Thirdly, further enhance consumption finance with a focus on personal residential mortgage. As at the end of the Reporting Period, the balances of personal residential mortgage and consumption loans were RMB19.313 billion, the proportion of the balance of personal loans increased to 78.17%, credit assets structure being further adjusted and improved. Supply chain finance business with its featured product, “chain E-finance” (鏈E貸), covering 24 provinces throughout the country, has achieved initial success. And cooperation agreements have been signed with 9 well-known leading fast retailing enterprises such as Coca-Cola, Pechoin, and Mengniu.

(3) *The financial market line played an important role*

In 2016, financial market business achieved further development through actively developing various types of asset investment businesses. Firstly, continue to expand the wealth management and assets management. The “interface banking” interbank sales model achieved radical development. Secondly, continue to improve the activeness of interbank market transactions on the basis of developing liquidity management. During the Reporting Period, transaction volume in the national interbank bond market was RMB8,908.0 billion, representing an increase of 84.76%, ranking 27th among national financial institutions and 7th among city commercial banks. Thirdly, continue to increase the market business licence, and the financial innovation stay head of our competitors. Two tranches of green bonds were successfully issued with RMB8.0 billion raised funds. The first national social impact bonds was mainly underwritten by us. We obtained the qualifications of B-Class lead underwriter for non-financial corporate debt financing instruments, and a RMB600 million debt financing plan was issued. The direct financing projects of a few quality issuers were reserved. We also obtained permission for operating common derivatives trading business to operate the first hedging structural deposits business, which diversified our liabilities channels and categories of products.

(4) *Overall risk and internal control management was improved*

Facing the increasingly severe risk environment, the Company strictly implemented flexible authorisation management, took various measures to reduce such non-performing loans by daily monitoring, monthly adjustment of the overdue and non-performing loans. As at the end of the Reporting Period, the non-performing loan ratio of the Company was 1.36% and continued to maintain the lower level of the industry. The Company

proactively implemented various measures of the country, including cutting overcapacity and adjusting structure, to proactively restructure its credit structure. In the meantime, we continued to strengthen the compliance management for our employees and reinforce the supervision in important business segment.

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

3.3.1 Financial performance summary

Item	Unit: RMB'000	
	2016	2015
Net interest income	5,007,955	4,114,054
Net fee and commission income	888,133	749,627
Net trading gains, net gains arising from investments and other operating (losses)/income	100,057	141,827
Operating expenses	(2,213,521)	(2,076,578)
Impairment losses	(1,108,874)	(579,894)
Profit before taxation	2,673,750	2,349,036
Income tax expense	(585,145)	(535,260)
Net profit	2,088,605	1,813,776

In 2016, our profit before taxation was RMB2.674 billion, representing a year-on-year increase of RMB325 million or 13.82% and a net profit of RMB2.089 billion, representing a year-on-year increase of RMB275 million or 15.15%; and the effective income tax rate was 21.88%, 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 in 2016.

Item	Unit: RMB'000
	Amount
Profit before taxation in 2015	2,349,036
Changes in 2016	
Net interest income	893,901
Net fee and commission income	138,506
Net trading gains, net gains arising from investments and other operating (losses)/income	(41,770)
Operating expenses	(136,943)
Impairment losses	(528,980)
Profit before taxation in 2016	2,673,750

3.3.2 Operating income

In 2016, our operating income was RMB5.996 billion, representing a year-on-year increase of RMB991 million or 19.79%, of which the net interest income accounted for 83.52%, representing a year-on-year increase of 1.33 percentage points, and the net non-interest income accounted for 16.48%, representing a year-on-year decrease of 1.33 percentage points. The following table sets forth the comparison of composition of our operating income for corresponding periods in the recent five years.

Item	2016	2015	2014	2013	Unit: %
					2012
Net interest income	83.52	82.19	82.39	86.83	90.32
Net fee and commission income	14.81	14.98	15.78	11.96	8.16
Net trading gains, net gains arising from investments and other operating (losses)/income	<u>1.67</u>	<u>2.83</u>	<u>1.83</u>	<u>1.21</u>	<u>1.52</u>
Total	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

3.3.3 Net interest income

In 2016, our net interest income was RMB5.008 billion, representing a year-on-year increase of RMB894 million or 21.73%. The following table sets forth the average balance, interest income/expense and average yield rate/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.

Item	31 December 2016			31 December 2015		
	Average balance	Interest income/expense	Average yield/cost	Average balance	Interest income/expense	Average yield/cost
<i>Unit: RMB'000</i>						
Interest-earning assets						
Loans and advances to customers	81,467,154	4,243,148	5.21%	68,418,779	4,174,747	6.10%
Financial investments	104,422,091	4,739,188	4.54%	74,084,373	3,796,311	5.12%
Deposits with central bank	19,537,132	299,027	1.53%	19,194,302	298,028	1.55%
Deposits with banks and other financial institutions	3,192,604	39,367	1.23%	2,777,640	56,724	2.04%
Financial assets held under resale agreements	14,814,173	318,217	2.15%	8,879,306	233,525	2.63%
Placements with banks and other financial institutions	841,650	11,674	1.39%	970,698	12,188	1.26%
Financial assets at fair value through profit or loss	357,262	13,853	3.88%	343,052	16,186	4.72%
Total	224,632,066	9,664,474	4.30%	174,668,150	8,587,709	4.92%
Interest-bearing liabilities						
Deposits from customers	127,231,668	2,226,519	1.75%	109,514,182	2,269,307	2.07%
Deposits from banks and other financial institutions	28,359,565	938,553	3.31%	23,017,573	1,032,734	4.49%
Financial assets sold under repurchase agreements	18,017,118	387,376	2.15%	14,738,220	368,151	2.50%
Placements from banks and other financial institutions	3,770,354	57,891	1.54%	1,895,648	12,484	0.66%
Debt securities issued	28,130,242	989,802	3.52%	15,571,933	705,470	4.53%
Others	1,545,820	56,378	3.65%	1,782,983	85,509	4.80%
Total	207,054,767	4,656,519	2.25%	166,520,539	4,473,655	2.69%
Net interest income	/	5,007,955	/	/	4,114,054	/
Net interest spread	/	/	2.05%	/	/	2.23%
Net interest margin	/	/	2.23%	/	/	2.36%

In 2016, the average balance of interest-earning assets was RMB224.632 billion, representing a year-on-year increase of RMB49.964 billion or 28.61%, mainly because the increase in loans and advances to customers and financial investments. The net interest margin and net interest spread were 2.23% and 2.05% respectively, representing a year-on-year decrease of 0.13 percentage point and 0.18 percentage point respectively, mainly due to the decrease in the yield on loans and advances to customers and financial investments. The decrease in yield rate was offset by the increase in size, achieving the rapid growth of net interest income.

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; 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.

	<i>Unit: RMB'000</i>		
	2016 vs. 2015		
Item	Due to volume	Due to rate	Net increase/ (decrease)
Assets			
Loans and advances to customers	677,328	(608,927)	68,401
Financial investments	1,372,566	(429,689)	942,877
Deposits with central bank	4,838	(3,839)	999
Deposits with banks and other financial institutions	5,142	(22,499)	(17,357)
Financial assets held under resale agreements	127,313	(42,621)	84,692
Placements with banks and other financial institutions	(1,776)	1,262	(514)
Financial assets at fair value through profit or loss	549	(2,882)	(2,333)
Change in interest income	<u>2,185,960</u>	<u>(1,109,195)</u>	<u>1,076,765</u>
Liabilities			
Deposits from customers	307,657	(350,445)	(42,788)
Deposits from banks and other financial institutions	177,426	(271,607)	(94,181)
Financial assets sold under repurchase agreements	70,809	(51,584)	19,225
Placements from banks and other financial institutions	28,725	16,682	45,407
Debt securities issued	441,609	(157,277)	284,332
Others	(8,627)	(20,504)	(29,131)
Change in interest expense	<u>1,017,599</u>	<u>(834,735)</u>	<u>182,864</u>
Change in net interest income	<u>1,168,361</u>	<u>(274,460)</u>	<u>893,901</u>

3.3.4 Interest income

In 2016, our interest income was RMB9.664 billion, representing a year-on-year increase of RMB1.077 billion or 12.54%, mainly due to an increase in the volume of interest-earning assets. The interest income of loans and advances to customers and the interest income from financial investments formed the major components of our interest income.

Interest income of loans and advances to customers

In 2016, the interest income of our loans and advances was RMB4.243 billion, representing a year-on-year increase of RMB68 million or 1.64%. The following table sets forth the average balance, interest income and average yield of each component of our loans and advances for the periods indicated.

Item	Unit: RMB'000					
	Average balance	2016 Interest income	Average yield	Average balance	2015 Interest income	Average yield
Corporate loans	60,146,467	3,180,354	5.29%	50,328,293	3,039,772	6.04%
Personal loans	21,320,687	1,062,794	4.98%	18,090,486	1,134,976	6.27%
Total loans to customers	81,467,154	4,243,148	5.21%	68,418,779	4,174,748	6.10%

Interest income from financial investments

In 2016, our interest income from financial investments was RMB4.739 billion, representing a year-on-year increase of RMB943 million or 24.84%, mainly due to increases in investments.

Interest income from deposits with banks and other financial institutions

In 2016, our interest income from deposits with banks and other financial institutions was RMB39 million, representing a year-on-year decrease of RMB17 million or 30.60%, mainly due to a decrease in the yield of the interbank funds.

Interest income from financial assets held under resale agreements

In 2016, our interest income from financial assets held under resale agreements was RMB318 million, representing a year-on-year increase of RMB85 million or 36.27%, mainly due to an increase in financial assets held under resale agreements.

3.3.5 Interest expense

In 2016, our interest expense was RMB4.657 billion, representing a year-on-year increase of RMB183 million or 4.09%, mainly due to an increase in the volume of interest-bearing liabilities. Interest expense on deposits from customers, interest expense on debt securities issued and interest expense on deposits from banks and other financial institutions formed the major components of our interest expense.

Interest expense on deposits from customers

In 2016, our interest expense on deposits from customers was RMB2.227 billion, representing a year-on-year decrease of RMB43 million or 1.89%. The following table sets forth the average balance, interest expense and average cost rate of our each component of deposits from customers for the periods indicated.

Item	2016		2015			
	Average balance	Interest expense	Average cost rate	Average balance	Interest expense	Average cost rate
<i>Unit: RMB'000</i>						
Corporate deposits from customers						
Demand	44,272,742	296,253	0.67%	32,108,631	222,763	0.69%
Time	35,982,197	763,474	2.12%	39,574,846	981,517	2.48%
Sub-total	80,254,939	1,059,727	1.32%	71,683,477	1,204,280	1.68%
Personal deposits from customers						
Demand	9,942,905	35,295	0.35%	7,376,420	27,093	0.37%
Time	37,033,824	1,131,497	3.06%	30,454,285	1,037,934	3.41%
Sub-total	46,976,729	1,166,792	2.48%	37,830,705	1,065,027	2.82%
Total deposits from customers	127,231,668	2,226,519	1.75%	109,514,182	2,269,307	2.07%

Interest expense on deposits from banks and other financial institutions

In 2016, our interest expense on deposits from banks and other financial institutions was RMB939 million, representing a year-on-year decrease of RMB94 million or 9.12%, mainly due to a decrease in the yield rate of deposits from banks.

Interest expense on financial assets sold under repurchase agreements

In 2016, our interest expense on financial assets sold under repurchase agreements was RMB387 million, representing a year-on-year increase of RMB19 million or 5.22%, mainly due to an increase in the volume of financial assets sold under repurchase agreements.

Interest expense on debt securities issued

In 2016, our interest expense on debt securities issued was RMB990 million, representing a year-on-year increase of RMB284 million or 40.30%, mainly due to an increase in volume of debt securities issued.

3.3.6 Net non-interest income

In 2016, our net non-interest income was RMB988 million, representing a year-on-year increase of RMB97 million or 10.85%, of which the net non-interest income of retail banking business increased by RMB159 million or 87.77%; the net non-interest income of corporate banking business decreased by RMB17 million or 6.68%; the net non-interest income of financial market business decreased by RMB24 million or 5.47%; the net non-interest income of other business decreased by RMB21 million or 119.11% year-on-year.

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

Item	<i>Unit: RMB'000</i>	
	2016	2015
Fee and commission income	952,124	787,427
Less: fee and commission expense	(63,991)	(37,800)
Net fee and commission income	888,133	749,627
Net trading gains, net gains arising from investments and other operating (losses)/income	100,057	141,827
Total net non-interest income	988,190	891,454

3.3.7 Net fee and commission income

In 2016, our net fee and commission income was RMB888 million, representing a year-on-year increase of RMB139 million or 18.48%, mainly due to increase in income of agency service fees and wealth management service fees.

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

Item	Unit: RMB'000	
	2016	2015
Fee and commission income		
Agency service fees	314,543	249,617
Wealth management service fees	311,613	155,911
Settlement fees	202,467	230,151
Custody service fees	70,461	106,544
Bank card service fees	20,526	22,308
Others	32,514	22,896
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Total	952,124	787,427
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Fee and commission expense	(63,991)	(37,800)
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Net fee and commission income	888,133	749,627
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In 2016, our income from agency service fees was RMB315 million, representing a year-on-year increase of RMB65 million or 26.01%, mainly due to increase in fees of our providing agency service to asset management plans. Income from wealth management service fees was RMB312 million, representing a year-on-year increase of RMB156 million or 99.87%, mainly due to increase in the scale of wealth management products issued by the Company. Income from settlement fees was RMB202 million, representing a year-on-year decrease of RMB28 million or 12.03%, mainly due to decrease in income from trade finance settlement fees. Income from custody service fees was RMB70 million, representing a year-on-year decrease of RMB36 million or 33.87%, mainly due to the decrease of fees income from custody service as a result of our adjustment of product structure.

3.3.8 Net trading gains, net gains arising from investments and other operating (losses)/income

In 2016, our net trading gains, net gains arising from investments and other operating (losses)/income was RMB100 million, representing a year-on-year decrease of RMB42 million or 29.45%, mainly due to a decrease in net gains of debt securities held for trading and other net operating income. The following table sets forth the major components of our net trading gains, net gains arising from investments and other operating (losses)/income for the periods indicated.

Item	<i>Unit: RMB'000</i>	
	2016	2015
Net trading gains		
Net (losses)/gains from debt securities	(7,380)	7,609
Net foreign exchange gains	54,974	59,045
Dividends from available-for-sale equity investments	650	550
Net gains on disposal of available-for-sale financial assets	53,399	59,811
Net (losses)/gains on disposal of property and equipment	(126)	4,434
Rental income	1,506	975
Others	(2,966)	9,403
Total	<u>100,057</u>	<u>141,827</u>

3.3.9 Operating expenses

In 2016, our operating expenses amounted to RMB2.214 billion, representing a year-on-year increase of RMB137 million or 6.59%; the cost-to-income ratio was 34.71%, representing a year-on-year decrease of 1.09 percentage points. Among those expenses, staff costs increased by RMB265 million or 27.14% year-on-year, mainly due to the increase in headcounts and the relative low cardinal number during the comparing period as a result of adjustment to supplementary retirement benefits plan in last year; property and equipment expenses decreased by RMB2 million or 0.42% year-on-year; tax and surcharges decreased by RMB152 million or 53.46% year-on-year, mainly due to replacing business tax with value-added tax after “BT-to-VAT” in 2016, and value-added tax was not reflected in tax on operating expenses; and other general and administrative expenses increased by RMB26 million or 6.78% year-on-year. The amount of operating expenses increased steadily, which was less than the increase in operating income. The following table sets forth the major components of our operating expenses for the periods indicated.

Item	Unit: RMB'000	
	2016	2015
Staff costs	1,241,745	976,653
Property and equipment expenses	431,791	433,622
Tax and surcharges	132,498	284,682
Other general and administrative expenses	407,487	381,621
Total operating expenses	2,213,521	2,076,578

3.3.10 Impairment losses

In 2016, our impairment losses amounted to RMB1.109 billion, representing a year-on-year increase of RMB529 million or 91.22%. The following table sets forth the major components of our impairment losses for the periods indicated.

Item	Unit: RMB'000	
	2016	2015
Loans and advances to customers	1,000,481	536,874
Financial investments	105,500	40,500
Others	2,893	2,520
Total impairment losses	1,108,874	579,894

Loan impairment losses were the largest component of impairment losses. In 2016, the loan impairment losses amounted to RMB1.000 billion, representing a year-on-year increase of RMB464 million or 86.35%, mainly in order to match with loan risks.

3.4 Analysis of Major Items of the Statement of Financial Position

3.4.1 Assets

As at the end of 2016, our total assets amounted to RMB277.988 billion, representing a year-on-year increase of RMB90.753 billion or 48.47%, mainly due to increase in loans and advances to customers and financial investments of the Company. The following table sets forth, as at the date indicated, the components of our total assets.

Item	31 December 2016		31 December 2015	
	Amount	% of	Amount	% of
		total amount		total amount
Total loans and advances to customers	87,168,295	31.36	72,695,518	38.83
Provision for impairment on loans and advances to customers	(2,303,446)	(0.83)	(2,040,297)	(1.09)
Net loans and advances to customers	84,864,849	30.53	70,655,221	37.74
Financial investments	152,607,313	54.90	84,482,857	45.12
Cash and deposits with central bank	22,697,997	8.17	19,920,303	10.64
Deposits with banks and other financial institutions	6,421,827	2.31	3,585,267	1.91
Placements with banks and other financial institutions	619,210	0.22	1,108,138	0.59
Financial assets held under resale agreements	3,957,206	1.42	2,516,977	1.34
Financial assets at fair value through profit or loss	320,315	0.12	297,595	0.16
Property and equipment	1,221,493	0.44	1,021,157	0.55
Deferred tax assets	602,519	0.22	279,402	0.15
Other assets	4,675,377	1.67	3,368,337	1.80
Total assets	277,988,106	100.00	187,235,254	100.00

Unit: RMB'000

3.4.1.1 Loans and advances to customers

As at the end of 2016, our loans and advances to customers amounted to RMB87.168 billion, increased by RMB14.473 billion or 19.91% compared with the end of last year; the net loans and advances to customers was RMB84.865 billion, increased by RMB14.210 billion or 20.11% compared with 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.

Item	<i>Unit: RMB'000</i>			
	31 December 2016		31 December 2015	
	Amount	% of total amount	Amount	% of total amount
Corporate loans	58,589,447	67.22	49,249,757	67.75
Discounted bills	3,874,462	4.44	3,570,642	4.91
Personal loans	24,704,386	28.34	19,875,119	27.34
Total loans and advances to customers	87,168,295	100.00	72,695,518	100.00

Corporate loans

As at the end of 2016, our total corporate loans amounted to RMB58.589 billion, increased by RMB9.340 billion or 18.96% compared with the end of last year, accounting for 67.22% of the total loans and advances, representing a decrease of 0.53 percentage point compared with the end of last year. In 2016, the Company continuously adjusted and enhanced the customer structures, timely adjusted the orientation of business development of the whole Company, and focused the credit assets on supporting the development of real economy, local infrastructure construction projects and technology enterprises. Furthermore, the branches were set up, which increased the credit extension to the local enterprises.

Discounted bills

As at the end of 2016, our total discounted bills amounted to RMB3.874 billion, increased by RMB304 million or 8.51% compared with the end of last year, accounting for 4.44% of the total loans and advances, representing a decrease of 0.47 percentage point compared with the end of last year. In 2016, as the risk of bill financing business was increased and market price was declined, the Company strengthened internal compliance reviews and limited partial high-risk bill financing business, putting forth effort on developing low-risk and low-capital-consumption bill financing business, ensuring the steady development of bill financing business.

Personal loans

As at the end of 2016, our personal loans amounted to RMB24.704 billion, increased by RMB4.829 billion or 24.30% compared with the end of last year, accounting for 28.34% of the total loans and advances, representing an increase of 1.00 percentage point compared with the end of last year. In 2016, the Company put forth effort on developing personal residential mortgage, and captured the excellent mortgage properties which resulted in a rapid growth in personal residential mortgage scale.

3.4.1.2 Investment

As at the end of 2016, our carrying value of investment amounted to RMB152.928 billion, increased by RMB68.147 billion or 80.38% compared with the end of last year. Our investments consist of financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and receivables. The following table sets forth, as at the date indicated, the components of our investment portfolio.

Item	<i>Unit: RMB'000</i>			
	31 December 2016		31 December 2015	
	Amount	% of total amount	Amount	% of total amount
Financial assets at fair value				
through profit or loss	320,315	0.21	297,595	0.35
Available-for-sale financial assets	58,410,672	38.20	17,120,786	20.19
Held-to-maturity investments	31,324,703	20.48	22,575,284	26.63
Receivables	62,871,938	41.11	44,786,787	52.83
Total	152,927,628	100.00	84,780,452	100.00

Financial assets at fair value through profit or loss

As at the end of 2016, our total financial assets at fair value through profit or loss amounted to RMB320 million, increased by RMB23 million or 7.63% compared with the end of last year. The following table sets forth, as at the date indicated, the components of our financial assets at fair value through profit or loss.

Item	<i>Unit: RMB'000</i>	
	31 December 2016	31 December 2015
Debt securities issued by policy banks	129,600	–
Debt securities issued by banks and other financial institutions	141,756	145,966
Debt securities issued by corporate issuers	48,959	151,629
Total financial assets at fair value through profit or loss	<u>320,315</u>	<u>297,595</u>

Available-for-sale financial assets

As at the end of 2016, our total available-for-sale financial assets amounted to RMB58.411 billion, increased by RMB41.290 billion or 241.17% compared with the end of last year. In 2016, the Company increased its investment in money market fund, interbank deposit and policy financial bonds to meet demands for asset allocation and increase the proportion of liquid assets. The following table sets forth, as at the date indicated, the components of our available-for-sale financial assets.

Item	<i>Unit: RMB'000</i>	
	31 December 2016	31 December 2015
Investment funds	20,314,636	61,091
Debt securities issued by banks and other financial institutions	15,199,065	4,865,988
Debt securities issued by policy banks	9,379,448	7,890,237
Debt securities issued by corporate issuers	4,558,363	4,200,101
Asset management plans	4,595,499	–
Wealth management products issued by financial institutions	1,502,025	–
Debt securities issued by government	1,447,726	–
Trust fund plans	1,390,660	80,119
Equity investments	23,250	23,250
Total available-for-sale financial assets	<u>58,410,672</u>	<u>17,120,786</u>

Held-to-maturity investments

As at the end of 2016, the Company's total held-to-maturity investments was RMB31.325 billion, representing a year-on-year increase of RMB8.749 billion or 38.76%. The Company kept the held-to-maturity investments on a long-term basis as strategic allocation. In 2016, the Company increased investments in local government bonds and policy financial bonds. The following table sets forth the components of our held-to-maturity investments as at the date indicated.

Item	<i>Unit: RMB'000</i>	
	31 December 2016	31 December 2015
Government bonds	10,042,362	7,529,720
Debt securities issued by policy banks	11,792,171	7,918,996
Debt securities issued by banks and other financial institutions	8,070,558	5,866,945
Debt securities issued by corporate issuers	1,419,612	1,259,623
Total held-to-maturity investments	<u>31,324,703</u>	<u>22,575,284</u>
Fair value of held-to-maturity investments	<u>31,299,756</u>	<u>23,434,562</u>

Receivables

Receivables consist of asset management plans, wealth management products issued by financial institutions, trust fund plans, beneficiary certificates and beneficiary rights in margin financing.

As at the end of 2016, our net receivables amounted to RMB62.872 billion, representing a year-on year increase of RMB18.085 billion or 40.38%, mainly due to increase in investments in asset management plans and wealth management products issued by financial institutions. The following table sets forth the components of our receivables as at the date indicated.

Item	<i>Unit: RMB'000</i>	
	31 December 2016	31 December 2015
Asset management plans	31,240,341	22,442,547
Wealth management products issued by financial institutions	18,855,505	9,640,547
Trust fund plans	10,911,401	8,671,888
Beneficiary certificates	1,500,000	1,568,451
Beneficiary rights in margin financing	500,000	2,500,000
Others	60,691	53,854
Total receivables	<u>63,067,938</u>	<u>44,877,287</u>
Less: provision for impairment	<u>(196,000)</u>	<u>(90,500)</u>
Net receivables	<u>62,871,938</u>	<u>44,786,787</u>

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	1.73
13 Interest-bearing Government Bond 25	2013-12-09	30	50,000	5.05	2043-12-09	26.96
13 Interest-bearing Government Bond 18	2013-08-22	10	55,000	4.08	2023-08-22	6.64
13 Interest-bearing Government Bond 16	2013-08-12	20	20,000	4.32	2033-08-12	16.62
12 Interest-bearing Government Bond 15	2012-08-23	10	15,000	3.39	2022-08-23	5.65
09 Interest-bearing Government Bond 16	2009-07-23	10	5,000	3.48	2019-07-23	2.56
02 Government Bond 05	2002-05-24	30	5,000	2.90	2032-05-24	15.41
01 Government Bond 11	2001-10-23	20	8,000	3.85	2021-10-23	4.81

3.4.2 Liabilities

As at the end of 2016, our total liabilities amounted to RMB260.352 billion, representing a year-on-year increase of RMB89.731 billion or 52.59%, mainly due to the stable increase in deposits from customers, deposits from banks and other financial institutions and debt securities issued. The following table sets forth the components of our total liabilities as at the date indicated.

Item	31 December 2016		31 December 2015	
	Amount	% of total amount	Amount	% of total amount
Deposits from customers	141,604,761	54.39	115,321,997	67.59
Deposits from banks and other financial institutions	45,018,569	17.29	27,335,870	16.02
Borrowings from central bank	3,432,407	1.32	528,909	0.31
Placements from banks and other financial institutions	6,925,270	2.66	3,051,992	1.79
Financial assets sold under repurchase agreements	17,043,065	6.55	2,000,000	1.17
Income tax payable	211,940	0.08	107,758	0.06
Debt securities issued	41,786,221	16.05	16,314,307	9.56
Other liabilities	4,329,900	1.66	5,960,769	3.50
Total liabilities	260,352,133	100.00	170,621,602	100.00

3.4.2.1 Deposits from customers

As at the end of 2016, our total deposits from customers amounted to RMB141.605 billion, representing an increase of RMB26.283 billion or 22.79% compared with the end of last year, and accounted for 54.39% of our total liabilities, being our primary source of funding. The following table sets forth, as at the date indicated, deposits from customers by product type and customer type.

Item	31 December 2016		31 December 2015	
	Amount	% of	Amount	% of
		total amount		total amount
Corporate deposits	92,649,142	65.43	69,928,163	60.64
Demand deposits	54,911,942	38.78	40,164,726	34.83
Time deposits	37,737,200	26.65	29,763,437	25.81
Personal deposits	48,665,671	34.37	44,956,284	38.98
Demand deposits	10,093,140	7.13	9,192,474	7.97
Time deposits	38,572,531	27.24	35,763,810	31.01
Outward remittance and remittance payables	268,881	0.19	436,901	0.38
Fiscal deposits to be transferred	21,067	0.01	649	0.00
Total deposits from customers	<u>141,604,761</u>	<u>100.00</u>	<u>115,321,997</u>	<u>100.00</u>

As at the end of 2016, our demand deposits accounted for 45.91% of total deposits from customers, representing an increase of 3.11 percentage points compared with the end of last year. Among those deposits, corporate demand deposits accounted for 59.27% of corporate deposits, representing an increase of 1.83 percentage points compared with the end of last year; and personal demand deposits accounted for 20.74% of personal deposits, representing an increase of 0.29 percentage point compared with the end of last year.

3.4.2.2 Deposits from banks and other financial institutions

As at the end of 2016, our deposits from banks and other financial institutions amounted to RMB45.019 billion, representing an increase of RMB17.683 billion or 64.69% compared with the end of last year, mainly due to positive expansion of interbank customer base and the development of offline initiative debt business in 2016.

3.4.2.3 Debt securities issued

As at the end of 2016, our debt securities issued amounted to RMB41.786 billion, representing an increase of RMB25.472 billion or 156.13% compared with the end of last year, of which the balance of certificates of interbank deposit issued increased by RMB19.574 billion or 214.51% compared with last year, and the balance of debt securities issued increased by RMB5.898 billion or 82.04% compared with last year. As one of the first pilot commercial banks for green financial bonds, the Company issued green financial bonds of RMB8.0 billion in total through two phases in 2016. In addition, the Company continued to improve the structure of initiative debt, increase the issue size of certificates of interbank deposit, and build market-financing channel.

3.4.3 Equity attributable to shareholders

Item	Unit: RMB'000	
	31 December 2016	31 December 2015
Share capital	4,058,713	4,011,533
Capital reserve	6,826,276	6,708,018
Surplus reserve	1,013,649	804,789
General reserve	3,696,090	2,391,182
Investment revaluation reserve	66,617	486,199
Other reserve	(3,473)	(3,075)
Retained earnings	1,978,101	2,215,006
Total equity attributable to shareholders	17,635,973	16,613,652

3.5 Analysis of Quality of Loans

3.5.1 Distribution of loans by five categories

Item	31 December 2016		Unit: RMB'000 31 December 2015	
	Amount	% of	Amount	% of
		total amount		total amount
Normal	82,513,800	94.66	69,526,053	95.64
Special mention	3,467,216	3.98	2,305,404	3.17
Substandard	539,426	0.62	340,105	0.47
Doubtful	589,156	0.67	500,753	0.69
Loss	58,697	0.07	23,203	0.03
Total loans to customers	87,168,295	100.00	72,695,518	100.00
Total non-performing loans	1,187,279	1.36	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, adjusted credit policies and credit structure in time, continued to strengthen risk management in key areas, and took various measures to clean up and recover non-performing loans, thereby maintaining the quality of credit assets at a satisfactory level. As at the end of the Reporting Period, the total amount of non-performing loans of the Company was RMB1,187 million, representing a year-on-year increase of RMB323 million, and the non-performing loan ratio was 1.36%, representing an increase of 0.17 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 0.78 percentage point as well as lower than the national average by 0.38 percentage point.

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

Unit: RMB'000

Item	31 December 2016				31 December 2015			
	Amount of loans	% of total amount	Amount of non- performing loans	Non- performing loan ratio %	Amount of loans	% of total amount	Amount of non- performing loans	Non- performing loan ratio %
Corporate loans	62,463,909	71.66	917,247	1.47	52,820,399	72.66	628,605	1.19
Working capital loans	43,391,254	49.79	685,428	1.58	37,714,835	51.89	450,878	1.20
Fixed asset loans	14,883,451	17.07	115,733	0.78	10,942,908	15.05	-	-
Import and export bills transactions	142,824	0.16	-	-	400,435	0.55	-	-
Discounted bills	3,874,462	4.44	-	-	3,570,642	4.91	-	-
Others	171,918	0.20	116,086	67.52	191,579	0.26	177,727	92.77
Retail loans	24,704,386	28.34	270,032	1.09	19,875,119	27.34	235,456	1.18
Personal residential mortgage	18,264,561	20.96	42,149	0.23	11,139,443	15.33	32,798	0.29
Personal business loans	4,196,778	4.81	183,981	4.38	6,153,375	8.46	173,745	2.82
Personal consumption loans	1,048,217	1.20	28,454	2.71	1,606,745	2.21	27,070	1.68
Others	1,194,830	1.37	15,448	1.29	975,556	1.34	1,843	0.19
Total loans to customers	87,168,295	100.00	1,187,279	1.36	72,695,518	100.00	864,061	1.19

In 2016, the Company further enhanced its personal credit asset structure and put forth effort on investing in personal residential mortgage, which resulted in a rapid increase of personal residential mortgage scale, and the proportion increased 5.63 percentage points to 20.96%. The Company withdrew from or reduced joint guarantee personal business loans with higher risk, and the proportion of personal business loans decreased 3.65 percentage points to 4.81%. The Company also consolidated and strengthened the chief examiner system of branches, thereby further enhancing its risk control mechanism. The non-performing loan ratio of retail loans decreased by 0.09 percentage point compared with that at the end of last year to 1.09%.

The Company continued to enhance its corporate loan structure, proactively supported the development of public sector finance, supply chain finance, emerging industry finance and energy conservation and environmental protection industries, and it also reduced the total amount of credit extended to industries with overcapacity, obsolete manufacturing industries, wholesale and retail industries for production materials. As at the end of the Reporting Period, the proportion of corporate loans of the Company decreased by 1.00 percentage point compared to that of the end of last year to 71.66%. Under the impact of the economic downturn, the non-performing loan ratio of corporate loans increased by 0.28 percentage point compared with that at the end of last year to 1.47%.

3.5.3 Distribution of loans and non-performing loans by industry

Unit: RMB'000

Item	31 December 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 %
Corporate loans	62,463,909	71.66	917,247	1.47	52,820,399	72.66	628,605	1.19
Manufacturing	18,825,857	21.60	411,518	2.19	18,516,466	25.47	306,647	1.66
Construction	9,169,167	10.52	106,970	1.17	6,414,080	8.82	50,000	0.78
Renting and business activities	6,799,075	7.80	12,000	0.18	4,147,063	5.70	3,232	0.08
Water, environment and public utility management	6,416,683	7.36	-	-	4,204,375	5.78	15,000	0.36
Wholesale and retail trade	6,254,015	7.17	265,159	4.24	7,553,398	10.39	235,126	3.11
Production and supply of electric and heating power, gas and water	3,567,969	4.09	-	-	2,189,848	3.01	-	-
Real estate	3,549,132	4.07	100,000	2.82	3,354,076	4.61	-	-
Financial services	2,420,730	2.78	-	-	1,887,874	2.60	-	-
Transportation, storage and postal services	2,237,931	2.57	3,000	0.13	1,274,605	1.75	-	-
Others	3,223,350	3.70	18,600	0.58	3,278,614	4.53	18,600	0.57
Retail loans	24,704,386	28.34	270,032	1.09	19,875,119	27.34	235,456	1.18
Total loans to customers	87,168,295	100.00	1,187,279	1.36	72,695,518	100.00	864,061	1.19

In 2016, the Company continued to support the development of the real economy, kept on to review and adjust the key areas of credit extension by combining the macro-economic control policies and gradually achieved active withdrawal of credit extension, enhancing of credit resources allocation and comprehensive balance of risk, revenue and cost by adopting measures of quota management and list approval. As at the end of the Reporting Period, 74% of the non-performing loans of the Company concentrated in manufacturing and wholesale and retail trade industries, the proportion of which in the total loans reduced from 35.86% to 28.77%.

3.5.4 Distribution of loans and non-performing loans by region

Unit: RMB'000

Region	31 December 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	51,722,696	59.34	742,937	1.44	48,581,899	66.82	642,098	1.32
Dongying	8,334,824	9.56	44,923	0.54	7,359,309	10.12	16,190	0.22
Jinan	6,669,238	7.65	124,383	1.87	7,505,911	10.33	73,377	0.98
Weihai	6,517,455	7.48	16,770	0.26	4,208,551	5.79	4,582	0.11
Zibo	3,774,447	4.33	100,117	2.65	2,694,775	3.71	127,814	4.74
Binzhou	3,618,887	4.15	124,694	3.45	164,806	0.23	-	-
Yantai	2,036,698	2.34	33,444	1.64	618,664	0.85	-	-
Weifang	2,035,122	2.33	-	-	-	-	-	-
Dezhou	1,589,169	1.82	11	-	1,146,165	1.58	-	-
Zaozhuang	864,468	0.99	-	-	415,438	0.57	-	-
Laiwu	5,291	0.01	-	-	-	-	-	-
Total loans to customers	87,168,295	100.00	1,187,279	1.36	72,695,518	100.00	864,061	1.19

In 2016, 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	31 December 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	6,569,160	7.54	49,751	0.76	4,056,931	5.58	48,616	1.20
Guaranteed loans	34,549,877	39.64	595,653	1.72	30,170,838	41.50	461,132	1.53
Mortgage loans	35,149,440	40.32	541,875	1.54	30,427,847	41.86	354,313	1.16
Pledged loans	10,899,818	12.50	-	-	8,039,902	11.06	-	-
Total loans to customers	87,168,295	100.00	1,187,279	1.36	72,695,518	100.00	864,061	1.19

Under the backdrop of an economic downturn in the macro economy, the Company increased its support to public sector finance and key construction projects, with some by way of unsecured loans. The proportion of unsecured loans increased by 1.96 percentage points to 7.54% compared with that at the end of last year, while the non-performing credit loan ratio decreased by 0.44 percentage point to 0.76%. 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	Manufacturing	1,100,000	5.29	1.26
B	Water, environment and public utility management	1,000,000	4.80	1.15
C	Water, environment and public utility management	920,000	4.43	1.06
D	Renting and business activities	804,318	3.87	0.92
E	Water, environment and public utility management	710,000	3.42	0.81
F	Renting and business activities	680,000	3.27	0.78
G	Renting and business activities	639,257	3.08	0.73
H	Renting and business activities	620,000	2.98	0.71
I	Financial services	615,106	2.96	0.71
J	Production and supply of electric and heating power, gas and water	600,000	2.89	0.69
Total		7,688,681	36.99	8.82

As at the end of the Reporting Period, the loan balance of the largest single borrower of the Company was RMB1.100 billion, accounting for 5.29% of the net capital of the Company; and the total amount of loans of the top ten single borrowers was RMB7.689 billion, accounting for 36.99% of the net capital of the Company and representing 8.82% of the total amount of loans of the Company.

3.5.7 Distribution of loans by overdue period

Unit: RMB'000

Overdue period	31 December 2016		31 December 2015	
	Amount	Percentage of total loans %	Amount	Percentage of total loans %
Overdue for 3 months (inclusive) or less	2,042,735	2.35	1,100,833	1.51
Overdue for over 3 months to 1 year (inclusive)	849,391	0.97	534,403	0.74
Overdue for over 1 year to 3 years (inclusive)	582,928	0.67	447,529	0.62
Overdue for over 3 years	52,487	0.06	17,801	0.02
Total overdue loans	<u>3,527,541</u>	<u>4.05</u>	<u>2,100,566</u>	<u>2.89</u>
Total loans to customers	<u>87,168,295</u>	<u>100.00</u>	<u>72,695,518</u>	<u>100.00</u>

As at the end of the Reporting Period, the total amount of overdue loans of the Company was RMB3.528 billion, representing an increase of RMB1.427 billion compared with that at the end of last year; the proportion of overdue loans was 4.05%, representing an increase of 1.16 percentage points compared with that at the end of last year. Among the overdue loans, mortgage loans accounted for 18.87%, guaranteed loans accounted for 79.41% and unsecured loans accounted for 1.72%. The Company adopted a more stringent classification criterion and the ratio of loans overdue more than 90 days to non-performing loans was 1.25.

3.5.8 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 RMB22.1507 million, since no provision for impairment was made and the net amount of repossessed assets was RMB22.1507 million.

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

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

Item	Unit: RMB'000	
	2016	2015
Opening balance	2,040,297	1,739,888
Charge for the year	1,064,268	576,208
Release for the year	(63,787)	(39,334)
Unwinding of discount	(22,504)	(25,104)
Write-offs for the year and transfer out	(745,878)	(250,689)
Recoveries of loans and advances written off and others	31,050	39,328
Closing balance	2,303,446	2,040,297

The Company adheres to sound and prudent provision policy. As at the end of the Reporting Period, the Company's balance of provision for impairment of loans amounted to RMB2.303 billion, representing a year-on-year increase of RMB263 million or 12.90%; the provision coverage ratio reached 194.01%, and the loan provision ratio stood at 2.64%.

3.5.10 Counter measures taken against non-performing assets

The Company mainly adopted the following policies and measures to manage and control the asset quality and ensure its stability:

Firstly, we were ready to counter measures against risks, adjusted credit policies in time, narrowed the proportion of high-risk industry credit, 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 of non-performing loans. 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 strengthened the management on asset preservation, and enhanced our ability in asset preservation and collection through litigation by organizing regular learning and training sessions, strengthening guidance on businesses, and improving the team building. We improved the staff's risk and responsibility awareness by analysing and learning from cases of non-performing loans.

3.5.11 Credit extension to group customers and risk management

The Company adhered to the principles of “implementing unified credit extension, providing an appropriate amount, employing classified management, conducting real-time monitoring and adopting a leading bank system” in extending credit to group customers. In 2016, we continued to improve the management system in respect of credit extension to group customers, improved the functions related with the management and control of credit limits extended to group customers in credit risk management system, and improved system procedures based on the features of group customers. By monitoring and managing the credit limits extended to group customers, we regulated and 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 the information of customer's actual controller strictly, sorting and updating the 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.

3.5.12 Soft loans representing 20% (inclusive) or more of the total loans as at the end of the Reporting Period

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

3.6 Analysis of Capital Adequacy Ratio

The capital management of the Company is targeted to satisfy regulatory requirements, 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.

For internal capital management, the Company strengthened the management functions of economic capital allocation, coordinated capital business development and capital saving and enhanced the awareness of capital saving in business institutions. The Company has taken into account the capital consumption and gains of the business institutions in the performance appraisal scheme, enhanced the risk-adjusted performance appraisal scheme step by step 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.

3.6.1 Capital adequacy ratio

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

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

Item	<i>Unit: RMB'000</i>	
	31 December 2016	31 December 2015
Total core tier-one capital		
Share capital	4,058,713	4,011,533
Qualifying portion of capital reserve	6,826,276	6,708,018
Surplus reserve and general reserve	4,709,739	3,195,971
Retained earnings	1,978,101	2,215,006
Investment revaluation reserve and others	63,144	483,124
Core tier-one capital deductions	<u>(171,661)</u>	<u>(165,631)</u>
Net core tier-one capital	<u>17,464,312</u>	<u>16,448,021</u>
Net amount of other tier-one capital	-	-
Net tier-two capital	<u>3,319,322</u>	<u>3,376,236</u>
Net capital base	<u>20,783,634</u>	<u>19,824,257</u>
Total credit risk-weighted assets	158,615,965	119,355,120
Total market risk-weighted assets	5,060,653	4,424,871
Total operation risk-weighted assets	<u>9,591,315</u>	<u>8,044,706</u>
Total risk-weighted assets	<u>173,267,933</u>	<u>131,824,697</u>
Core tier-one capital adequacy ratio	<u>10.08%</u>	<u>12.48%</u>
Tier-one capital adequacy ratio	<u>10.08%</u>	<u>12.48%</u>
Capital adequacy ratio	<u>12.00%</u>	<u>15.04%</u>

As at the end of the Reporting Period, the Company's capital adequacy ratio stood at 12.00%, representing a decrease of 3.04 percentage points compared with that at the end of the previous year; the core tier-one capital adequacy ratio stood at 10.08%, representing a decrease of 2.40 percentage points compared with that at the end of the previous year. Changes in capital adequacy ratio during the Reporting Period are mainly attributable to the continuous expansion of the scale of assets of the Company and the increase of corresponding loans and investments, resulting in the increase of total risk-weighted assets. Therefore, there is a decrease in capital adequacy ratio compared with that in the previous year.

3.6.2 Leverage Ratio

The leverage ratio of commercial banks shall not be less than 4% in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision) promulgated by the CBRC and taking effect from 1 April 2015. As at the end of the Reporting Period, the Company's leverage ratio stood at 5.82%, higher than the regulatory requirements of the CBRC.

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

		<i>Unit: RMB'000</i>
		Balance as at
		31 December
No.	Item	2016
1	Total consolidated assets	275,986,287
2	Consolidated adjustments	–
3	Customer assets adjustments	–
4	Derivative adjustments	–
5	Securities financing transactions adjustments	2,001,819
6	Off-balance sheet items adjustments	22,117,282
7	Other adjustments	(171,661)
8	Balance of assets on-balance and off-balance sheet after adjustments	299,933,727

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

Unit: RMB'000

No.	Item	Balance as at 31 December 2016
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	275,986,287
2	Less: tier-one capital deductions	(171,661)
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	275,814,626
4	Replacement cost of various types of derivatives (net of qualified margins)	-
5	Potential risk exposure in various derivatives	-
6	The sum of collaterals deducted from the balance sheet	-
7	Less: assets receivables formed due to qualified margins	-
8	Less: the balance of derivative assets formed due to transactions with central counterparties for providing clearing service for the customers	-
9	Notional principal for sold credit derivatives	-
10	Less: the balance of sold credit derivatives assets which can be deducted	-
11	The balance of derivatives assets	-
12	The balance of accounting assets for securities financing transactions	2,001,819
13	Less: the balance of securities financing transactions assets which can be deducted	-
14	Counterparty credit risk exposure to securities financing transactions	-
15	The balance of securities financing transactions assets formed due to securities financing transactions by proxy	-
16	The balance of securities financing transactions assets	2,001,819
17	The balance of items off balance sheet	22,117,282
18	Less: the balance of items off balance sheet reduced due to credit conversion	-
19	The balance of items off balance sheet after adjustments	22,117,282
20	Net tier-one capital	17,464,312
21	The balance of assets on and off balance sheet after adjustments	299,933,727
22	Leverage ratio	5.82%

3.7 Segment reporting

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

Item	2016		Unit: RMB'000 2015	
	Segment profit before taxation	Ratio (%)	Segment profit before taxation	Ratio (%)
	Corporate banking	1,121,316	41.93	1,054,838
Retail banking	451,879	16.90	384,144	16.35
Financial market business	1,103,868	41.29	892,717	38.00
Un-allocated items and others	(3,313)	(0.12)	17,337	0.74
Total	2,673,750	100.00	2,349,036	100.00

Item	2016		Unit: RMB'000 2015	
	Segment operating income	Ratio (%)	Segment operating income	Ratio (%)
	Corporate banking	3,039,614	50.69	2,652,291
Retail banking	1,234,945	20.60	1,023,139	20.44
Financial market business	1,724,899	28.77	1,312,741	26.23
Un-allocated items and others	(3,313)	(0.06)	17,337	0.35
Total	5,996,145	100.00	5,005,508	100.00

3.8 Other Financial Information

3.8.1 Analysis of off-balance sheet items

The Company's off-balance sheet items include credit commitments, operating lease commitments, capital commitments, etc. Credit commitments are the most important parts and as at the end of the Reporting Period, the balance of credit commitments reached RMB22.726 billion. For details, please refer to Note 14 of the financial statements in this results announcement.

3.8.2 Overdue and outstanding debts

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

3.9 Business Development Strategy

The Company takes full advantage of abundant capital, regulated operation and brand improvement formed from listing, calmly responses to the slowdown of economic by strengthening the ability to identify risk and manage its operation, and realizes a steady growth of market value. In order to achieve this goal, the Company will take below strategic measures for business development:

Characterize "Interface Bank" and continuously build its updated version; expand from system and technology interface to platform interface; deepen resource integration; and promote cross-selling and comprehensive financial service surrounding customers. Integrating retail businesses to become the most convenient retail bank. The Company improves the value of full life cycle of customers and their families through "Interface Bank" model for customer acquisition, "Warm Services" for customer staying and enriching our product types. Fostering professionalism as the core competitiveness of corporate banking business. The Company focuses on featured finance (including people's livelihood, supply chain and new economics) to create the comprehensive service capability of "loans, bonds and stocks". Improving comprehensive service capability through innovations in the financial market. The Company adheres to "pan-asset management" and takes the multi-division structural reforms as an opportunity so as to improve the capacity of investment and asset allocation, creating the asset management platform to meet the future trend of finance and regulation.

3.10 Overview of Business Development

3.10.1 Retail banking

During the Reporting Period, the Company's retail banking business continued to implement the "Interface Bank" strategy, with interface banking projects progressing, "all-in-one cards" business developing rapidly, Bank Hospital Pass (銀醫通) business emerging, and convenient bill payment services for communities growing constantly. Meanwhile, the Company's effort in developing consumer finance and supply chain finance started to yield results, and the Company actively innovated internet small-amount consumption loans. As at the end of the Reporting Period, the scale of existing assets held at the Company by retail customers increased by 23.63% year-on-year to RMB97.822 billion. The income contribution¹ of retail business in 2016 increased by 0.16 percentage point year-on-year to 20.60%. During the Reporting Period, the net non-interest income of retail banking business reached RMB339 million, representing a year-on-year increase of 87.77%, and accounting for 34.29% of the net non-interest income of the Company as a whole, representing a year-on-year increase of 14.05 percentage points.

1. Retail deposits

As at the end of the Reporting Period, the amount of retail deposits of the Company reached RMB48.666 billion, representing an increase of RMB3.709 billion or 8.25% over that at the beginning of the year, accounting for 34.37% of the deposits of the Company. The balance of retail deposits ranked sixth in Qingdao with a market share of 8.10%, representing a year-on-year increase of 0.01 percentage point. The growth of retail deposits ranked the fourth in Qingdao in terms of the amount of increase.

"All-in-one cards" business is developing. During the Reporting Period, 26 "all-in-one cards" projects were signed and put online. The number of newly-issued financial IC cards was 702,800, effectively acquiring a massive number of customers. Among which, in the cooperation projects with Qingdao Port Group, Jimo Government Offices Administration (即墨機關事務管理局) and Qingdao University, around 100,000 cards were issued, with over 1.6 million transactions and more than RMB10 million in amount.

Bank Hospital Pass business has made some progress. During the Reporting Period, the Company signed Bank Hospital Pass projects with nine hospitals, some of which were not located in the Qingdao area but in the district of our branches. Systems of two projects have been put online, five are estimated to put online in the first half of 2017, while others are progressing on schedule. During the Reporting Period, the activated Bank Hospital Pass projects brought daily deposit of RMB168 million to the Company, involving monthly payroll service of RMB59 million. Exclusive financial products were issued to some hospital employees, achieving the common development of public and private business.

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

Bill payment services convenient for communities have been widely carried out. During the Reporting Period, there were 76 new such projects in total. For the cooperation with Shandong E-Business Comprehensive Operations and Management Co., Ltd., with its advantage in public utilities billing in Shandong Province, the Company completed the connection of bill collection business of 30 billing projects in different cities across the province, pioneering the cooperation of the Company with convenient service platforms. At the same time, cloud payment business grew continuously, including the collection of management fee, tuition fee and others, solving the fee collection problem faced by the institutions with no fee collection systems. During the Reporting Period, 29 cloud payment projects were signed or put online, with 4,317 transactions and amount of RMB3.17 million.

In addition, thanks to the events such as Kai Men Hong (開門紅), Li Cai Jie (理財節), precision marketing, communities marketing and 20th anniversary celebration, the Company tapped into existing customers, especially through precision marketing to continuously tap into large number of long-term customers, in order to increase the contribution of customers.

2. *Retail loans*

As at the end of the Reporting Period, the balance of retail loans was RMB24.704 billion, representing an increase of RMB4.829 billion over that at the beginning of the year or 24.30%, accounting for 28.34% of the Company's credit assets, representing an increase of 1.00 percentage point as compared to the beginning of the year. The balance of retail loans ranked seventh in Qingdao with a market share of 5.54%, representing a year-on-year decrease of 0.47 percentage point, and the growth of retail loans ranked ninth in Qingdao.

The Company has put great effort in developing personal residential mortgage and actively promoting personal consumption loans. As at the end of the Reporting Period, the balance of personal residential mortgage and consumption loans amounted to RMB19.313 billion, accounting for 78.17% of all, representing an increase of 14.04 percentage points over the beginning of the year, withdrawing and reducing joint guarantee personal loans of RMB523 million. Personal credit asset structure was further adjusted and optimized, paving the way for the healthy development of personal credit business in future.

Supply chain financing business started to bear fruit. During the Reporting Period, the Company granted loans aggregating to RMB366 million to approximately 400 dealers, including leading companies such as Coca-Cola, Pechoin, Huiyuan, Luhua, Yihai Kerry, Mengniu. As at the end of the Reporting Period, the loan balance was RMB242 million. Supply chain financing business was a successful attempt of the Company to build the Interface Banking model. With the increase of the number of cooperative enterprises and the expansion of the scale, the Company's customers of the supply chain financing business have been all over the 24 provinces and cities across the country, the business extending nationwide and the brand influence of the Company further increasing.

The Company proactively develops internet small-amount consumption loan products. The Company launched “An Ju Dai (安居貸)” online bulk granting project in December 2016, and extended “An Ju Dai (安居貸)” pre-approved credits online to over 3,000 mortgage customers through estimating pre-approved credit limits by big data analysis. At the same time, the Company actively cooperates with third parties to grant small amount consumption loans and have reached cooperation intent with third parties like Ping An Puhui, Shanghai VCredit and Huan Bei (還唄) to carry out small amount consumption loan business.

3. *Retail customers*

In 2016, the number of retail customers of the Company reached 3.1302 million, representing a year-on-year increase of 342,600, including 122,100 customers with financial assets of RMB200,000 or above, representing a year-on-year increase of 24,100 customers. Assets reached RMB78.88 billion, representing a share of 80.66% and a year-on-year increase of 2.86 percentage points, and the average increase in assets per customer was RMB17,800. While retail customers grew substantially in absolute number, customer structure was also gradually optimized with an increasing proportion of mid and high-end customers, making a greater contribution to the Company.

4. *Wealth management and private banking business*

In 2016, the Company continued to optimize the operational system of wealth management and private banking business, strictly control business risks and gradually enrich privileged product lines while striving to enhance its comprehensive professional capacity and capability to provide financial services for high-end customers. With such measures, the Company positioned its asset allocation-based “dynamic wealth management consultancy services” as its core business. Meanwhile, to explore ways of innovation and meeting the needs of customer segmentation, “Wealth Management Consultancy Services of Private Banking 360° for Entrepreneur of Medium and Small Enterprises” was launched. This innovative plan was awarded “Top Ten Innovative Wealth Management Award” in the selection campaign of 2016 Financial Innovation Award organized by a magazine, the Banker.

As at the end of the Reporting Period, there were 5,019 customers with assets of RMB2 million or more, with total assets of RMB22.871 billion, representing a growth of 20.65% and 25.93% respectively. During the Reporting Period, the total sales of wealth management and privileged products of private banking amounted to RMB35.625 billion, representing a year-on-year increase of 48.74%.

5. *Customer service management*

For customer service management, the Company is creating a warm service procedure in a “scenario-oriented” way that may overturn the traditional and customary service model and reshape a service model with a “scenario-oriented focus” for developing “Customer experience”. Under the said service management model, a new environment of warm service evolved in the business department, facilitating many warm service cases where a variety of services was used to attract customers, increase customer loyalty and create value-added service for customers. Through these measures, the Company’s “Qing Xin (青馨) Service” brand not only won the good reputation from customers but was awarded 2016 “the tenth Five Star Diamond Award”, the most honorable title of international service industry, by the “World Brand Lab”, an authoritative organization.

In addition, the Company successfully launched the Multimedia Interactive Customer Centre. During the Reporting Period, the first stage project of Multimedia Interactive Customer Centre’s platform system was completed for establishing a newer generation of online customer service centre with features of the Company. Such centre is to craft a brand-new service image on “Customer Experience, Smart Service and Value Creation”.

3.10.2 *Corporate banking*

In 2016, facing a difficult environment of greater downside pressure on domestic economy, the Company actively pursued business expansion and overcome headwind for corporate banking business. Meanwhile, adhering to its development philosophy of “targeting the middle after capturing both-end market”, the Company consistently implemented a transformation strategy of transferring corporate banking to investment banking, competed for good creditability customers, ventured the Company’s credit assets rapidly with focus on public sector finance, boosted the growth of the liabilities business and profits and promoted rapid and stable development of corporate banking business.

1. *Corporate deposits*

By fully leveraging the advantages of local bank expertise and the synergy effect of the head office, branches and sub-branches, the Company drove the rapid growth of corporate deposits through full expansion of corporate banking business. During the Reporting Period, on the basis of strengthened traditional advantages of corporate banking business, the Company strived to expand public sector finance, fin-tech, green finance, etc, while fully developing important business products including loan, fund, structured finance, financial leasing and factoring. On regional development, provided that huge efforts will be made to develop the Qingdao market, two branches were opened outside Qingdao during the Reporting Period, to further enhance the capacity of corporate banking business in Shandong Province. A significant growth of business was recorded as a result of continuous efforts by all branches, which becomes the driving force of the development of corporate banking business of the Company. In addition, various types of entrusted collection and payment business recorded sustainable development and the qualification of agency was optimized. As at the end of the Reporting Period, the balance of corporate deposits reached RMB92.649 billion, representing 65.43% of the balance of various deposits and a year-on-year increase of RMB22.721 billion or 32.49%.

2. *Corporate loans*

During the Reporting Period, with loan exposure in line with the State's macroeconomic policy of "adjusting the economic methods and structure", the Company conducted reasonable allocation on credit resources through internal structure adjustment, mainly by adjusting inventories and optimizing incremental inventories to curb industries with excess capacity such as coal, steel, cement, nonferrous metal smelting and control the total loan facility to substandard and duplicating construction projects. The Company also strived to support the development of cultural industries and environmental protection sectors with promising development prospect, fully capitalized the financing capacity of green bonds of the Company, invested in high-technology environmental protection projects including energy conservation, pollution control and prevention, resources conservation and recycling, clean transport, clean energy, ecological protection and adaptation to climate change, promoted the upgrade of green economic development of Shandong Province. As at the end of the Reporting Period, the total corporate loans including discounted bills reached RMB62.464 billion, accounting for 71.66% of the total loans, representing a year-on-year increase of RMB9.644 billion or 18.26%.

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, highlighting local features to serve local economy and 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 exploration to fully tap potentials for cooperation. For new customers, the Company has carried out targeted marketing to provide effective differentiated services through product introduction and proposal design. The Company focused on future growth potential and sought cooperation opportunities with corporate customers such as listed companies, companies seeking to be listed and companies traded on the National Equities Exchange and Quotations. 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 built up a backbone customer base. For small and micro enterprises, the Company has placed emphasis on its featured finance offerings and innovative products and services to raise the standards and efficiency of services for small micro enterprises on the back of government and social efforts.

4. *Corporate products*

The Company promoted product innovation by adopting a market-driven and customer-focused strategy and a mindset of development through transformation and innovation, according to hotspots in the market, customer needs and experience. “Fin-tech” is an innovative measure that the Company took to serve real economic development and for transformation and upgrade of local industries. It also reflects the internal requirements of the Company for adjustment on internal structure, change in development modes, establishment of professional brand name and creation of new growth drivers. The Company established a first-mover advantage in Fin-tech business while innovative financial products such as “Ke Yi Dai” and “Zhi Yi Dai”, “Patented insurance and loans through pledge” and “Ji Gai Dai” are able to effectively support the development of new and high-technology enterprises, including new energy, new materials and energy conservation and environmental protection. In addition, the Company underwent innovation of investment linked loans business and proactively conducted study of relevant policies; innovated equity investment business of city development funds by developing financing modes of government projects; streamlined business modes and procedures by integrating conclusion of PPP project financing and conducted training and promotion throughout the Company. To promote green credit business, the Company formulated a series of policies and measures and built a new philosophy of developing green finance in the Company through external training and internal supervision and selected qualified enterprises to strengthen the support for credit business of green credit enterprises. All such measures therefore laid a solid foundation for the development of banking business of the Company.

3.10.3 Financial market business

In 2016, the Company proactively adapted to the changes under the new norm of the national economy while the financial market business strived to support the development of real economy, achieving a breakthrough in the development of proprietary investment, interbank business, asset management, investment banking, etc. As at the end of the Reporting Period, the assets under management of the financial market business reached RMB214.719 billion, representing an increase of 70.30% compared with that at the end of the previous year. Operating income contribution of the financial market business in 2016 was 28.77%, representing a year-on-year increase of 2.54 percentage points. During the Reporting Period, the net non-interest income of the financial market business was 417 million, representing a year-on-year decrease of 5.47% and accounting for 42.21% of the net non-interest income of the Company as a whole, representing a year-on-year decrease of 7.29 percentage points.

1. Proprietary investment

During the Reporting Period, the Company proactively invested and pursued asset creation by leveraging advantages in inter-bank market channels and brands and striking a balance between liquidity and yields, to establish a comprehensive investment product mix. As at the end of the Reporting Period, the scale of investment was RMB153.124 billion, representing a year-on-year increase of RMB68.253 billion or 80.42%, of which bond investment maintained a steady growth with a balance of RMB62.290 billion as at the end of the Reporting Period, representing a year-on-year increase of RMB22.407 billion or 56.18%, mainly due to increased investment in highly liquid assets including policy financial bonds, local government bonds and certificates of deposit. The balance of receivables was RMB63.068 billion, representing a year-on-year increase of RMB18.191 billion or 40.53%, mainly due to increased non-standard debt investment business.

2. *Interbank business*

- (1) The Company established three major businesses in interbank liabilities including interbank deposits, the certificates of deposit and issue and repurchase of bonds, through use of interbank platform and financial tools. Such measures formed an interbank liabilities system featuring integration of online and offline businesses, diversification of counterparties and high level of marketization, while effectively enhancing liquidity management standard and fund efficiency. As at the end of the Reporting Period, the balance of interbank deposits of the Company amounted to RMB45.019 billion, representing an increase of 64.69% compared with that at the end of the previous year; the certificates of deposit amounted to RMB28.699 billion, representing an increase of 214.51% compared with that at the end of the previous year.
- (2) In June 2016, the Company obtained permission to operate common derivatives trading business, newly commenced structured deposit business and enriched types and classes of deposit products. During the Reporting Period, our transaction volume in the national interbank bond market was RMB8,908.0 billion, representing a year-on-year increase of RMB4,086.7 billion or 84.76%, ranking 27th among national financial institutions and 7th among city commercial banks, becoming one of the most active institutions in terms of national interbank market transactions and we were awarded the title of 2016 Outstanding Dealer in the Chinese Bond Market.

3. *Asset management*

The Company actively promoted the establishment of wealth management assets and sales channels, strengthening the brand name effect of asset management business. As at the end of the Reporting Period, the balance of wealth management product was RMB59.274 billion, representing a year-on-year increase of RMB19.001 billion or 47.18%, of which non-principal-guaranteed wealth management products recorded a balance of RMB50.8 billion and principal-guaranteed wealth management products recorded a balance of RMB8.5 billion. During the Reporting Period, in innovatively developing sales channels of the “Interface Bank” for wealth management products, the Company signed agreements with 7 contracted institutions for sales of wealth management products under the “Qing Xin Gong Xiang”(青鑫共享) in 2016, with 30 issues of wealth management products at a total amount of RMB153.13 million. Agreements were signed with 13 contracted institutions under business of the “Zi Guan Bao”(资管寶), with 35 issues of wealth management products at a cumulative amount of RMB540.07 million.

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 2015 “Gold Bull Wealth Management Bank Award (Integrated)” and the “Gold Bull Bank Wealth Management Product Award (Bank of Qingdao-Hairong Wealth Guarantee Series)”. During the Reporting Period, a total value of RMB317.762 billion was raised by various wealth management products, representing a year-on-year increase of RMB104.414 billion or 48.94%. All payments in respect of wealth management products were paid when due, without any case of default and failure to meet expected goals.

4. *Investment banking*

The development of the investment banking business of the Company plays an important role in driving business transformation and product innovation as well as serving the real economy, giving strong support to the marketing efforts of branch institutions and promoting the adjustment and enhancement of the asset structure and business income of the Company. In May 2016, the Company obtained the qualifications of B-Class lead underwriter for non-financial corporate debt financing instruments, launching debt financing plans and exploring direct financing channels for enterprises. In December 2016, the first national social impact bond underwritten by the Company as the lead underwriter was publicly launched in national interbank bond market, with the issuer of Yinan County Rural Construction and Development Co., Ltd. (沂南縣城鄉建設發展有限公司). The scale of issue was RMB500 million, all proceeds of which would be applied to poverty alleviation of Yinan County in Shandong Province. The issue marked a successful case of accurate linkage between social impact bond and poverty alleviation.

During the Reporting Period, the Company participated in the central bank's green bond innovation as the first batch of pilot commercial banks and the only city commercial bank to issue green bond. The Company issued two tranches of green bonds in the total amount of RMB8 billion in March and November 2016 respectively, demonstrating a role model of a bank issuing green bonds.

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 set up 11 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Qingdao West Coast and Laiwu in Shandong Province. As at the end of the Reporting Period, the Company had a total of 111 business outlets with a head office, a branch and 71 sub-branches in Qingdao regions.

As at the end of the Reporting Period, the Company had 4 off-bank self-service banks, 94 in-bank self-service banks, 468 self-service devices, including 117 self-service ATMs, 235 self-service CRSs, and 116 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 5,561,800 self-service bank transactions with a total transaction amount of RMB18.005 billion.

3.10.4.2 *Electronic banking channels*

Facing unfavorable factors including continuous slowdown in economic growth, narrowing of interest rate spread and financial disintermediation, the Company persistently facilitated the overall strategic layout of internet finance by adhering to market demands and customer core needs, and placed emphasis on acceleration of establishment and innovation of mobile finance. The Company gradually optimized the framework of mobile financial products mainly composed of mobile banking, Haihui Life and WeChat Banking to speed up expansion of market scale at a lower cost.

(1) Internet banking

The Company continuously explored the innovation and application of internet technology and customer service model. In respect of corporate customer service, the Company optimized the supply chain financing platform and the functions of electronic bills of exchange and added various functions of electronic transaction market and corporate wealth management during the Reporting Period. The aim of such measures are to gradually meet the multi-dimensional service needs of enterprises in payment settlement, guarantee transaction and financing and wealth management in internet area for enhancing comprehensive financial capability to serve corporate customers. For retail customers, in vigorously promoting mobile finance, the Company continued to optimize retail online banking and improve its functions. New functions of online electronic purchase of government bonds and business of certificates of deposit in big amount were added, facilitating the further movement of offline business to online operation. The Company accelerated the implementation of personalized marketing strategies while continuing the transition to accurate data-driven marketing and service platform, and moving closer to the establishment of an open, interactive internet finance ecosystem.

As at the end of the Reporting Period, the Company had 59,358 online corporate banking customers, representing a year-on-year increase of 14.76%, with accumulated number of transactions of 11.7641 million, representing a year-on-year increase of 4.64%, while total transaction amounted to RMB695.079 billion, representing a year-on-year increase of 26.82%. The Company had 645,811 online retail banking customers, representing a year-on-year increase of 11.02%, with accumulated number of transactions of 81.769 million, representing a year-on-year increase of 21.42%, while total transaction amounted to RMB480.107 billion, representing a year-on-year increase of 24.64%.

(2) Mobile finance

The Company treats mobile finance construction as core development, with construction of mobile payment in active progress and payment environment optimized. During the Reporting Period, new version of mobile banking was launched and customer experience, product functions, transaction performance and marketing service were effectively enhanced. As the Company continued to explore ways to optimize the O2O (online to offline) platform “Haihui Life”’s mode of attracting customers, the new mode of “attracting customer through online and conducting marketing offline” achieved preliminary success. External resources were actively introduced with innovative and diversified marketing activities of WeChat, which further strengthened the link among mobile channels and achieved synergy effect and customer sharing of channels. Through data-based marketing management measures, the Company tapped the potential value of customers and actively created a socialized, mobile, customized and personalized financial mode.

As at the end of the Reporting Period, the Company had 774,969 personal mobile banking customers, representing a year-on-year increase of 53.61%, with accumulated number of transactions of 48.2445 million, representing a year-on-year increase of 57.66%, while total transaction amounted to RMB106.5 billion, representing a year-on-year increase of 65.44%.

3.10.4.3 *Information technology*

During the Reporting Period, 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 systems construction and science and technology 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, improved the capability of preventing and controlling information technology risks and reinforced the construction of 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 maintenance 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 successful launch of the new customer service system after three and a half years of construction laid a solid foundation for deepening the mode of business transformation, strengthening featured service and upgrading regional influence. 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, public transports, 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”. During the Reporting Period, the Company won a second class research award granted by CBRC in information technology risk management of banking industry in 2016 again, marking the fifth consecutive year since 2012 to obtain this award.

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.

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 the managing institutions and confirmed by the credit management department of branches or the head office. Personal loans and interest payments of credit card are classified and confirmed by the system in accordance with the number of overdue days.

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 on risk management. During the Reporting Period, aiming to become a bank “featuring rigorous risk management”, the credit risk management of the Company focused on the prevention and mitigation of credit risks, improved the management mechanism, enhanced credit procedures and structure, and strengthened post-disbursement management and asset quality, thus achieving the credit risk management goals of overall controllable risk and continuous management enhancement. During the Reporting Period, the Company took the following measures to strengthen credit risk management:

1. Strengthening research study on policies and improving the annual credit policies and fine-tuning the improvement timely according to the actual work requirements. The Company continuously optimised the credit structure from the perspectives of customer structure, industry structure and product structure pursuant to the credit policy, enhanced the industrial layout, adjusted the proportion of the traditional industries, increased the share of the emerging industries and continued to curb risky industry loans with excess capacity.
2. Carrying out risk identification on a regular basis and enhancing the identification and handling of risks. The Company strictly monitored the change in asset quality and conducted daily monitoring of overdue loan interest with an aim to promptly identify and address risks, quickly filter and confirm all kinds of alert messages and address significant risks in a timely manner in order to formulate response plans accordingly.

3. Strengthening the management in critical areas of risks, especially the credit extension management of customer segments and business types including industries with oversupply problems, zombie enterprises, bulk trade finance, credit extension to small- and micro-sized enterprises (SMEs) and convertible loans. The Company reinforced the unified credit extension, improved the management and control capabilities of the credit limits of the credit management system, adhered to the implementation of quota management on the loans for real estate development and optimised the product structure; reduced and controlled the proportion of loans of the general financing guarantors and joint guarantors and adjusted and improved the structure of credit extension and guarantee.
4. Enhancing the fundamental management in a persistent manner, upgrading the quality of credit extension investigation, strengthening in-disbursement and post-disbursement control and allowing flexible authorisation. The Group reinforced the training to employees who are responsible for credit issues and continued to conduct business counselling to enhance management level of branch institutions of its own credit risks.
5. Bolstering the cultivation of risk-awaring culture and compliance awareness and conducting training and education about risks on cases of alerts.

3.11.2 Liquidity risk management

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

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

The Company has established a governance structure on liquidity risk management according to the principle of separation of implementation, execution and supervision of its liquidity risk management policies, specifying the roles, responsibilities and reporting lines of the Board, the board of supervisors, the senior management, special committees and the relevant departments of the Bank on liquidity risk management in order to enhance the efficiency thereof. The Company has established a prudent risk appetite on liquidity risks, which better suits the current development stage of the Company. On the whole, the current policies and system on liquidity risk management meet the regulation requirements and the own management needs of the Company.

The liquidity risk management of the Company is under the central planning of the head office and the cooperation of each branch and sub-branch. The Financial Planning Department performs concrete daily management of liquidity risks and manages the liquidity profile in a prudent manner according to the regulation requirements. The central management of liquidity is conducted by means of quota management, planned adjustments, active liability, internal funds transfer pricing and other management methods.

The Company measures, monitors, and identifies liquidity risks from the perspectives of short-term provision and structure and emergency, closely monitors every indicator of the quota under fixed frequency and conducts regular stress tests to evaluate the ability of the Company to meet liquidity requirements under extreme conditions. In addition, the Company has enacted an emergency plan on liquidity and would conduct tests and evaluations thereon on a regular basis.

The Company holds an appropriate amount of liquid assets to ensure the satisfaction of the liquidity needs of the Company and at the same time has sufficient capital to meet the unexpected payment needs that may arise from daily operation. A substantial portion of the Company's assets are funded by deposits from customers. During the Reporting Period, the deposits from customers of the Company were a stable source of assets as they had been growing steadily and were widely diversified in terms of type and duration.

During the Reporting Period, the Company enhanced the liquidity risk management of the various areas below: 1) used Fund Transfer Pricing (FTP) system flexibly to guide the business development, balance the sources and usage of capital, guide the duration and the total amount of deposits from customers of each branch and sub-branch and enhance the management of matching assets with liabilities; 2) strengthened the management of active liability and flexibly undertook short-term and mid to long-term active liability (including the issuance of certificates of interbank deposit and certificates of deposits with huge sums and financing by standing lending facility and other means) with liquidity and the cost of liability taken into consideration during the coordination process to ensure the security of the source of capital; 3) further consolidated the foundation of the deposit-taking business and boosted the steady and balanced growth of all kinds of deposits in order to enhance the stability of the source of capital in a continuous manner. The Company conducted stricter monitoring and reporting of critical capital flow and improved the arrangement of daily capital for the continuous boost in the capability of liquidity risk prevention; 4) reasonably measure and evaluate the future cash flow of specific points of time on the basis of the dynamic estimation of the gaps in the future cash flow through forward active risk management with an aim to make relevant provisions and investing and financing arrangements in advance, reducing the costs and increasing the revenues.

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 and stock 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 establishes 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 2016, by adhering to the principle of stability and prudence, the Company proactively adjusted the asset and liability structure to undertake interest rate risks in a reasonable degree with controllable risks. The Company made rational use of the Fund Transfer Pricing (FTP) system, perfected interest rate pricing management, promptly adjusted the pricing of funds and the repricing frequency when needed, effectively controlled fluctuations in loan interest rates and interest-bearing costs and improved forward-looking interest rate risk management to guarantee the continued increase in the Company's revenues.

3.11.3.2 Analysis of interest rate sensitivity

The Company uses sensitivity analysis to measure the potential effect of changes in interest rates to the Company's net interest income. The following table sets forth the results of the interest rate sensitivity analysis based on the current assets and liabilities on 31 December 2016 and 31 December 2015.

Unit: RMB'000

Item	31 December 2016 Increase/ (Decrease)	31 December 2015 Increase/ (Decrease)
Change in annualized net interest income		
Interest rates increase by 100 bps	(539,852)	(209,830)
Interest rates decrease by 100 bps	539,852	209,830

3.11.3.3 Analysis of exchange rate sensitivity

The following table presents the results of the analysis of exchange rate sensitivity based on the current assets and liabilities on 31 December 2016 and 31 December 2015.

Unit: RMB'000

Item	31 December 2016 Increase/ (Decrease)	31 December 2015 Increase/ (Decrease)
Increase/(Decrease) in annualised net profit		
Foreign exchange rate increase by 100 bps	999	396
Foreign exchange rate decrease by 100 bps	(999)	(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, adhering to its operations philosophy of “gathering momentum, stabilising development, controlling risks, and increasing market value” and guided by the idea of establishing a operation risk management system in alignment with the risk management requirements after listing, the Company explored potential risks in depth, effectively identified, evaluated, monitored, controlled and mitigated the operation risks for the significant enhancement of the level of operation risk management. During the Reporting Period, the Company enhanced the risk prevention management of the various areas below:

1. Conducting specific inspection of potential risks centring on hotspots of risks and cases of industry

During the Reporting Period, the Company paid close attention to the hotspots of case prevention of the banking industry, sorting out the key areas and points for control of case prevention. In 2016, the Company increased the times of specific inspection on notes, specific audit in the financial market and specific inspection of irregularities of our employees in a timely manner and conducted in-depth specific audit on personal loans in respect of the risk-prone personal loan business. Such inspections facilitate the active prevention of potential risks, enhance the internal control management at the frontline and the reinforcement of management of our business lines.

2. Systematically preventing the risks of cases by focusing on the case prevention management system

During the Reporting Period, in face of the new characteristics of case prevention after listing, the Company implemented the accountability system of case prevention, strengthened the training of various business lines, proactively organised tests on case prevention, reinforced the construction of a risk prevention system by combining the inspection of the regulatory authorities, self-inspection of each business line, supervision of the compliance management department and internal audit with an aim to safeguard strictly the line of defense of risk management and control to prevent internal and external systemic risks.

3. Continuing the construction of the information security management systems to enhance the capability of preventing operational risks by technical means

In terms of the construction of the information security management systems, the Company meticulously adhered to the requirements on information technology risk management systems of the CBRC, strengthened the information security management team and sped up the implementation of projects on the safeguarding of Internet application system. During the Reporting Period, the third party assessment and evaluation of the systems of online banking and mobile banking and our official website were completed. Meanwhile, the Company passed the annual review of the ISO27001 certification on its information security management systems; conducted specific self-inspection, risk inspection and remediation in respect of the safeguarding of the Internet and systemic optimisation; continued to push forward the operation and maintenance of the construction of operational management platform project. The Company strived to minimise the losses arising from information security risks to the fullest extent in order to ensure the effective operation of the information security management systems and enhance the overall capability of safeguarding information security in a gradual manner.

4. Strictly preventing operational risks on the basis of comprehensive business inspection

During the Reporting Period, on the basis of ordinary business inspection, the business lines of our Company conducted thorough pre-event prevention, risk control during the event and post-event supervision to adopt a two-pronged approach of on-site and off-site inspections. Inspections were conducted to identify potential operational risks in order to remedy any risks identified in a timely manner. By means of announcing cases of alert and business guidance, our business lines offered early warnings to potential operational risks to avoid repeated misconducts after repeated inspections and prevent the happening of events with operational risks with satisfactory results.

5. Strengthening the management and control of employees' behaviour for effective prevention of various potential operational risks

During the Reporting Period, the Company published the Notice on the Reinforcement of the Compliance Management of List of Misbehaviours of Employees (關於加強合規管理落實員工行為負面清單的通知) as the "Number 1 article". With 246 prohibitive requirements on 18 positions targeting on the key areas of risk prevention of various business lines, the Notice highlighted the self-discipline of the employees. By fully leveraging on-site and off-site audit and systemic technical means, the Company conducted comprehensive inspection on the irregularities of employees. The Company reinforced management measures such as job rotation on a regular basis and compulsory leave, and conducted employee education on compliance and operations, so as to prevent operational risk.

6. Continuing to improve outsourcing management to enhance the level of business continuity management

During the Reporting Period, the Company continued to improve the management framework of outsourcing and relevant systems, included the outsourcing business into the comprehensive risk management system and established an effective risk regulation process to strictly prevent risks of systemic failure and information disclosure. The Company conducted constant comprehensive optimisation and improvement of the platform of business continuity management for its better satisfaction of the actual needs of business continuity management and the increase in the capability of our operation and management teams to handle emergencies.

3.12 Social Responsibility

1. In terms of economic responsibility, in 2016, the Company increased its support to the supply-side structural reform and the implement of “cutting over-capacity, destocking, deleveraging, reducing cost and remedying weakness”. The Company increased the credit extension of marine economy, strategic emerging industries, green credit project and key construction project, and helped traditional enterprises and the enterprises which met with temporary difficulties to realize the transformation and upgrading of industry in a variety of ways. The Company made great efforts to expand and consolidate the local characteristic enterprises in Shandong Province and penetrated into the people’s livelihood finance, technology finance, inclusive finance, port finance, subway finance and culture finance in Shandong regions. The Company launched the pledge loan business for beneficiary rights in leasing machinery and equipment of technology enterprises, pledge loan business for software copyright, loan business guaranteed by government, insurance company and bank, and developed an optimal repayment method of “Xu Yi Dai” (續易貸), to ease the funding pressure of small and micro enterprises. The Company positively responded to a general direction of national supporting the development of “three agricultural” policy. The Company mainly invested the loans to the transformation of farmland and water conservancy, rural road, rural water supply, shantytowns transformation, sludge harmless treatment, to support and accelerate the development of modern agriculture, to help rural residents improve production and living.
2. In terms of social responsibility, firstly, the Company continued to improve customer service. The Company vigorously promoted small secured loans and proactively promoted employment and business starting work. In 2016, we accumulatively granted 1,590 units of small secured loans with amounts of RMB313 million, which drove employment for over 4,000 people. In response to the plan of “Financial Service Entering into Villages and Communities” of CBRC, we totally set up 13 community branches and 2 small- and micro- branches as of the end of the Reporting Period. Firmly establishing the service idea of “We Work Harder to Make You Warm and Relieved”, we regarded service etiquette, sign language and English skills as our daily training work and set up humanized facilities (such as baby chair, wheelchair, love seat, love notebook and call for help for special customer) to service special customers. Secondly, we protected consumer rights through multiple channels: we proactively organized activities such as “March 15 Consumer Protection Promotion” and “Popularising Financial Knowledge into Every Household” to popularize financial knowledge; we highly valued the customer complaint handling and ensured an effective channel for complaints. Thirdly, the Company proactively helped to alleviate poverty charitably. The Company proactively participated in love activities and volunteer services such as helping the elderly, the physically challenged and the poor and maintained conducting activities such as providing financial assistance, assisting small- and micro- enterprises and caring special group. In 2016, a donation of RMB700 thousand was made to Anshun No. 1 Middle School and Anshun No. 2 Middle School in Guizhou through the “Dream Fund of Bank of Qingdao” for the third consecutive year and a donation was made to Ocean University of China, Qingdao University and Shandong University of Science and Technology through the fund for the seventh consecutive year. Fourthly, the Company proactively protected employee benefits. The Company conducted employee caring schemes and host Youth Forum, Glad to Read and Share and multi-level training activities to improve employee quality through multiple channels. To assist needy employees and improve its medical care and mutual assistance system, the Company totally visited more than 180 needy employees and their families.

3. In terms of environmental responsibility, firstly, the Company actively developed green finance. The Company has been committed to integrating the concept of green credit into the industry policy, to improve the green credit system; committed to achieving the sustainable development of economy, society and environment. In March and November 2016, as one of the first pilot commercial banks, the Company issued the first tranche and the second tranche of Green Bond, with total proceeds of RMB8 billion. Secondly, the Company promoted green services. In 2016, the Company completely revamped the mobile banking interface with continuous optimization of the mobile payment environment. There were more than 30 thousand new users in the O2O platform “Haihui Life” (海慧生活). “Qi Cai Tong” (企財通), the upgraded version of “Wealth E-House” (財富E屋) was officially launched. The development of internet-based small loan products including “Xin Jin Dai” (薪金貸) were being developed. Initial success was achieved in the mobile financial business layout. Thirdly, the Company insisted on green operation. With the concept of low-carbon environmental protection running through the daily operation, the Company improved the proportion of paperless and electronic office. In 2016, the Company launched a new customer service system, to achieve a centralized operation of business, simplify the front operation, improve staff efficiency, and enhance customer’s experience.

3.13 Protection of Consumer Rights

During the Reporting Period, the Company was committed to the protection of the legitimate rights of consumers. Through consolidation of the systems, enhancement of the efforts in promotion and education, the Group commenced works on protecting consumer rights effectively by stressing the leading philosophy, raising the awareness of responsibilities and fully performing the obligation to protect consumer rights.

1. Enhancing the construction of mechanisms and consolidating the systems

Centring on the construction of a system “basing its foundation on protecting consumer rights, working on the cluster of the specific systems of various business operations along with internal appraisals and internal audit management” in the year, we established a basic system for the protection of consumer rights that aligned with the organisational structure, business scale and business nature of the Company in a pragmatic manner, which fully covered customer complaint management, customer information protection, promotion and education of financial knowledge, employee conduct management, product and service management and other specific systems of business operations.

2. Innovating new promotion channels to reinforce promotion and education

The Company integrated online and offline tools to innovate new ways of promotion and popularise education. The Company continued to organise promotional activities such as “March 15 Consumer Protection Promotion”, “Universalising Financial Knowledge”, and “Popularising Financial Knowledge into Every Household”. By taking full consideration of the needs for financial knowledge of the SMEs, migrant workers, lower income groups in cities and towns, the less-privileged, the physically challenged, the elderly and other special groups, these activities guided the wider general public to use banking products and services in a scientific and reasonable manner. The Company focused on the promotion of the protection of personal financial information of consumers and placed great efforts to enhance the safety awareness of the financial consumers to protect themselves against telemarketing fraud and illegal fund-raising and to illustrate financial knowledge to the public in a constant and normalised manner.

3. Performing obligations in full by highlighting the leading philosophy

The Company reinforced the awareness of consumer protection during the stages of product research and development, sales, and after-sales by disclosing product information in full and constantly normalising products and services. Basing its roots on local economy, the Company implemented inclusive finance to serve SMEs in order to fulfil social responsibilities; to guarantee the effectiveness of the mechanism for consumer rights protection, the Company established the customer complaint handling system to enhance the complaint handling process. 2016 marked the launch of the platform system of the Multimedia Interactive Customer Centre, which is an online customer service centre with features of the Company. Such centre is to craft a brand-new service image on “Customer Experience, Smart Service and Value Creation” to improve consumer service experience.

3.14 Development Plan for 2017

3.14.1 Operating situation analysis for 2017

In 2017, there are great uncertainties as to the global economy and finance which may lead to macro patterns of “low growth, high differentiation; weak economy, hard risk; despised currency, highlighted finance”. In connection with our Company, environment development in this year needs to focus on five broad aspects including the more stringent regulatory environment, the public sector finance upon the transition of the Chinese government leadership, the stringent risk tendency, the fast changing market environment and the ever-changing financial technology. In general, the Company still has many development opportunities: firstly, concentrating on high-quality assets, the Company should successfully achieve economy of scale with adequate and good quality assets. Secondly, the Company should safeguard the bottom line of risks control, focus on deployment and prevent comprehensively to control the risks within the target. Thirdly, the Company should lay a foundation for sustainable development through tapping on the new point of growth, cultivating and creating new modes.

3.14.2 Development guidance for 2017

In 2017, adhering to its operations philosophy of “riding on trend, deepening management, controlling risks, and stabilizing development”, the Company will quicken the pace of transformation, proactively foster three business lines, namely wholesale business line, retail business line and financial market business line to develop new momentum, adhere to putting risks control in priority, focusing on preventing risks mainly involved credit risk, operational risk and internal control cases to take the lead in implementation of new development strategy.

3.14.3 Main measures to be adopted for 2017

- (1) transforming and upgrading, to promote the development of wholesale line business;
- (2) developing innovation, to promote the fast development of retail business line;
- (3) enhancing efficiency, to promote the organic growth of financial market business;
- (4) strictly monitoring the situation and managing wisely, to ensure the stable development of various business of the Company;
- (5) continually increasing information technology capability, to promote the deep integration of technology and financial business;
- (6) developing in a steady and orderly manner, to expedite the network construction in branches of the Company;
- (7) decreasing cost and increasing effectiveness, to fully enhance comprehensive operational management ability;
- (8) serving for the overall situation, to solidly improve the development of the party committee and corporate culture.

4. OTHER EVENTS

4.1 Use of Proceeds Raised from Initial Public Offering

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

4.2 Corporate Governance Code

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

4.3 Securities Transactions by Directors and Supervisors

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

4.4 Changes in Directors, Supervisors and Senior Management

During the Reporting Period, pursuant to the resolutions of the 2016 second extraordinary general meeting of the Company, Mr. Choi Chi Kin was newly appointed as a non-executive director of the Company; Ms. Lu Lan was newly appointed as an executive director of the Company; Ms. Dai Shuping was newly appointed as an independent non-executive director of the Company; and the qualifications of Mr. Choi Chi Kin, Ms. Lu Lan and Ms. Dai Shuping as directors were approved by Qingdao Bureau of CBRC in December 2016.

During the Reporting Period, pursuant to the resolutions of the 2015 shareholders meeting of the Company, Mr. Sun Guoliang was newly appointed as a shareholder supervisor of the Company; pursuant to the resolutions of the fourth session of the fourth employee representative meeting, Ms. Chen Qing was newly appointed as an employee supervisor of the Company; pursuant to the resolutions of the tenth meeting of the sixth board of supervisors meeting, Ms. Chen Qing was newly appointed as the chairlady of the board of supervisors of the Company, no longer served as the vice president of the Company. Mr. Fan Jianjun, no longer served as a shareholder supervisor of the Company from May 2016. Ms. Zou Junqiu had resigned from the positions of chairlady of the board of supervisors, employee supervisor since December 2016 because she had reached retirement age.

Save as disclosed above, no other changes occurred to the directors, supervisors and senior management of the Company during the Reporting Period.

4.5 Profits and Dividends

The Company's profit for the year ended 31 December 2016 and the Company's financial position as at the same date are set out in the section headed "Financial Statements" of this results announcement.

1. Pursuant to the relevant resolutions considered and passed at the annual general meeting of 2015 of the Company on 10 May 2016, the Company distributed to holders of domestic shares and holders of H shares, whose names appeared on the share register of the Company on 19 May 2016, dividends in cash in an aggregate amount of RMB811,742,549.80 (tax inclusive), according to the profit distribution plan to distribute a dividend of RMB0.20 per share (tax inclusive) on 8 July 2016.
2. The Board has proposed a final dividend of RMB0.20 per share (tax inclusive) for the year ended 31 December 2016 in an aggregate amount of RMB811,742,549.80 (tax inclusive) to all shareholders of the Company. The dividend distribution proposal will be submitted to the 2016 annual general meeting for consideration and approval.

If the proposal is approved by the 2016 annual general meeting, the dividend will be distributed to holders of domestic shares and holders of H shares whose names appear on the register of members on 22 May 2017. The proposed dividend will be denominated in RMB. Dividends to holders of domestic shares shall be paid in RMB, and dividends to holders of H shares shall be paid in Hong Kong dollars. The exchange rate of RMB to Hong Kong dollars to be adopted shall be the average of the central parity rates in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends on the shareholders' general meeting in 2016 (including the day the annual general meeting to be held) as announced by the People's Bank of China. The register of members of the Company will be closed from Wednesday, 17 May 2017 to Monday, 22 May 2017 (both days inclusive), during such period no transfer of domestic shares or H shares will be registered. In order to be entitled to the 2016 final dividend payment, holders of H shares of the Company who have not registered the related transfer documents are required to lodge the transfer documents together with the relevant share certificates with the Company's H-share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Tuesday, 16 May 2017.

The Board is set to distribute the final dividends of 2016 on Thursday, 6 July 2017. If there are any changes to the dividend payment date, an announcement will be published regarding such changes.

4.6 Tax relief (holders of H shares)

Non-resident enterprise shareholders

In accordance with the Enterprise Income Tax Law of the People's Republic of China and the related implementation provisions effective from 1 January 2008, the Company shall withhold and pay enterprise income tax at the rate of 10% for non-resident enterprise shareholders whose names appear on the H-share register on 22 May 2017.

Non-resident individual shareholders

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

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

4.7 Annual General Meeting of 2016 and Closure of Register of Members

The Company's 2016 annual general meeting is scheduled to be held on Thursday, 11 May 2017. In order to determine the list of shareholders who are entitled to attend and vote at the 2016 annual general meeting, the H-share register of members of the Company will be closed from Tuesday, 11 April 2017 to Thursday, 11 May 2017 (both days inclusive), during which period no share transfer will be registered. Holders of H shares of the Company who intend to attend and vote at the annual general meeting must lodge all the transfer documents accompanied by the relevant share certificates with the Company's H-share registrar, Computershare Hong Kong Investor Services Limited (address: Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) no later than 4:30 p.m. on Monday, 10 April 2017.

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

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

4.9 Changes in Accounting Policies and Accounting Estimates or Correction of Significant Accounting Errors

During the Reporting Period, there was no change in accounting policies, accounting estimates or correction of significant accounting errors that has a significant effect on the financial statements.

4.10 Review of Annual Results

KPMG Huazhen LLP and KPMG respectively audited the 2016 annual financial statements prepared by the Company in accordance with PRC Accounting Standards and International Financial Reporting Standards, and respectively issued unqualified audit reports. The audit committee of the Company has reviewed the annual results and the financial statements of the Company for the year ended 31 December 2016.

4.11 Subsequent Events

1. Qingdao Qingyin Financial Leasing Co., Ltd., with a registered capital of RMB1.00 billion, was co-established by the Company, Qingdao Hanhe Cable Co., Ltd., Qingdao Port International Co., Ltd. and Qingdao Qianwan Container Terminal Co., Ltd. The Company contributed RMB510 million, representing a shareholding of 51%. The operation approval for Qingdao Qingyin Financial Leasing Co., Ltd. has been granted by the Qingdao branch of the CBRC in January 2017. The company registration of Qingdao Qingyin Financial Leasing Co., Ltd. has been completed in February 2017.

2. The Company proposed an issuance of tier-two capital bonds, the total issue size of which not exceeding RMB6.5 billion with maturity not exceeding 15 years; and a non-public issuance of no more than 80,000,000 offshore preference shares to raise proceeds not exceeding RMB8 billion or its equivalent. Above resolutions have been approved on 15 March 2017 at the 2017 first extraordinary general meeting of the Company. The preference shares related resolutions have also been approved on 15 March 2017 at the 2017 first domestic shareholder class meeting and 2017 first H shareholder class meeting of the Company. Up to the publication date of this results announcement, the relevant regulatory authorities have yet to approve such issuances.

5. FINANCIAL STATEMENTS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	2016	2015
Interest income	9,664,474	8,587,709
Interest expense	<u>(4,656,519)</u>	<u>(4,473,655)</u>
Net interest income	5,007,955	4,114,054
Fee and commission income	952,124	787,427
Fee and commission expense	<u>(63,991)</u>	<u>(37,800)</u>
Net fee and commission income	888,133	749,627
Net trading gains	47,594	66,654
Net gains arising from investments	52,860	60,361
Other operating (losses)/income	<u>(397)</u>	<u>14,812</u>
Operating income	5,996,145	5,005,508
Operating expenses	(2,213,521)	(2,076,578)
Impairment losses	<u>(1,108,874)</u>	<u>(579,894)</u>

	2016	2015
Profit before taxation	2,673,750	2,349,036
Income tax expense	<u>(585,145)</u>	<u>(535,260)</u>
Net profit	<u>2,088,605</u>	<u>1,813,776</u>
Net profit	<u>2,088,605</u>	<u>1,813,776</u>
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss		
– Remeasurement of net defined benefit liability	(398)	(21,405)
Items that may be reclassified subsequently to profit or loss		
– Available-for-sale financial assets:		
– Net movement in the investment revaluation reserve	<u>(419,582)</u>	<u>401,122</u>
Other comprehensive income, net of tax	<u>(419,980)</u>	<u>379,717</u>
Total comprehensive income	<u>1,668,625</u>	<u>2,193,493</u>
Basic and diluted earnings per share (in RMB)	<u>0.51</u>	<u>0.58</u>

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	31 December 2016	31 December 2015
Assets		
Cash and deposits with central bank	22,697,997	19,920,303
Deposits with banks and other financial institutions	6,421,827	3,585,267
Placements with banks and other financial institutions	619,210	1,108,138
Financial assets at fair value through profit or loss	320,315	297,595
Financial assets held under resale agreements	3,957,206	2,516,977
Loans and advances to customers	84,864,849	70,655,221
Financial investments:		
Available-for-sale financial assets	58,410,672	17,120,786
Held-to-maturity investments	31,324,703	22,575,284
Receivables	62,871,938	44,786,787
Property and equipment	1,221,493	1,021,157
Deferred tax assets	602,519	279,402
Other assets	4,675,377	3,368,337
Total assets	277,988,106	187,235,254
Liabilities		
Borrowings from central bank	3,432,407	528,909
Deposits from banks and other financial institutions	45,018,569	27,335,870
Placements from banks and other financial institutions	6,925,270	3,051,992
Financial assets sold under repurchase agreements	17,043,065	2,000,000
Deposits from customers	141,604,761	115,321,997
Income tax payable	211,940	107,758
Debt securities issued	41,786,221	16,314,307
Other liabilities	4,329,900	5,960,769
Total liabilities	260,352,133	170,621,602
Equity		
Share capital	4,058,713	4,011,533
Reserves	13,577,260	12,602,119
Total equity	17,635,973	16,613,652
Total liabilities and equity	277,988,106	187,235,254

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserve	Retained earnings	Total
Balance at 1 January 2016	4,011,533	6,708,018	804,789	2,391,182	486,199	(3,075)	2,215,006	16,613,652
Profit for the year	-	-	-	-	-	-	2,088,605	2,088,605
Other comprehensive income	-	-	-	-	(419,582)	(398)	-	(419,980)
Total comprehensive income	-	-	-	-	(419,582)	(398)	2,088,605	1,668,625
Owners' contributions								
- Contribution by owners	47,180	118,258	-	-	-	-	-	165,438
Appropriation of profit:								
- Appropriation to surplus reserve	-	-	208,860	-	-	-	(208,860)	-
- Appropriation to general reserve	-	-	-	1,304,908	-	-	(1,304,908)	-
- Cash dividends	-	-	-	-	-	-	(811,742)	(811,742)
Balance at 31 December 2016	<u>4,058,713</u>	<u>6,826,276</u>	<u>1,013,649</u>	<u>3,696,090</u>	<u>66,617</u>	<u>(3,473)</u>	<u>1,978,101</u>	<u>17,635,973</u>
Balance at 1 January 2015	2,555,977	2,750,177	623,411	1,886,628	85,077	18,330	1,865,050	9,784,650
Profit for the year	-	-	-	-	-	-	1,813,776	1,813,776
Other comprehensive income	-	-	-	-	401,122	(21,405)	-	379,717
Total comprehensive income	-	-	-	-	401,122	(21,405)	1,813,776	2,193,493
Owners' contributions								
- Contribution by owners	1,455,556	3,957,841	-	-	-	-	-	5,413,397
Appropriation of profit:								
- Appropriation to surplus reserve	-	-	181,378	-	-	-	(181,378)	-
- Appropriation to general reserve	-	-	-	504,554	-	-	(504,554)	-
- Cash dividends	-	-	-	-	-	-	(777,888)	(777,888)
Balance at 31 December 2015	<u>4,011,533</u>	<u>6,708,018</u>	<u>804,789</u>	<u>2,391,182</u>	<u>486,199</u>	<u>(3,075)</u>	<u>2,215,006</u>	<u>16,613,652</u>

CASH FLOW STATEMENT

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	2016	2015
Cash flows from operating activities		
Profit before taxation	2,673,750	2,349,036
<i>Adjustments for:</i>		
Impairment losses	1,108,874	579,894
Depreciation and amortisation	299,671	300,218
Unwinding of discount	(22,504)	(25,104)
Unrealised foreign exchange gains	(23,331)	(13,657)
Net losses/(gains) on disposal of long-term assets	2,292	(4,434)
Revaluation losses/(gains) on investments	4,376	(7,400)
Dividends from available-for-sale equity investments	(650)	(550)
Net gains arising from security investment	(52,210)	(59,811)
Interest expense on debt securities issued	989,802	705,470
Interest income on financial investments	(4,739,188)	(3,796,311)
	240,882	27,351
<i>Changes in operating assets</i>		
Net (increase)/decrease in deposits with central bank	(2,240,253)	3,356,331
Net increase in deposits with banks and other financial institutions	(1,530,470)	(120,000)
Net (increase)/decrease in placements with banks and other financial institutions	(200,000)	361,021
Net increase in loans and advances to customers	(15,192,194)	(9,917,425)
Net decrease/(increase) in financial assets held under resale agreements	74,940	(569,349)
Net increase in financial assets at fair value through profit or loss	–	(100,000)
Net increase in other operating assets	(399,792)	(42,874)
	(19,487,769)	(7,032,296)

	2016	2015
<i>Changes in operating liabilities</i>		
Net increase/(decrease) in borrowings from central bank	2,903,498	(474,767)
Net increase in deposits from banks and other financial institutions	17,682,699	6,973,281
Net increase in placements from banks and other financial institutions	3,873,278	1,672,157
Net increase/(decrease) in financial assets sold under repurchase agreements	15,043,065	(8,069,144)
Net increase in deposits from customers	26,282,764	13,588,337
Income tax paid	(664,086)	(584,949)
Net (decrease)/increase in other operating liabilities	(1,713,764)	2,413,138
	63,407,454	15,518,053
Net cash flows generated from operating activities	44,160,567	8,513,108
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	43,084,926	25,273,475
Net cash received from investment gains and interest	4,097,319	3,624,234
Proceeds from disposal of property and equipment, intangible assets and other assets	72,290	11,320
Payments on acquisition of investments	(89,555,697)	(48,412,945)
Cash prepaid for establishment of a subsidiary	(510,000)	–
Payments on acquisition of property and equipment, intangible assets and other assets	(564,209)	(666,690)
Net cash flows used in investing activities	(43,375,371)	(20,170,606)

	2016	2015
Cash flows from financing activities		
Proceeds from issuance of new shares	165,438	5,413,397
Net proceeds from debt securities issued	54,606,739	29,231,868
Repayment of debt securities issued	(29,730,000)	(21,620,000)
Interest paid on debt securities issued	(358,780)	(235,800)
Dividends paid	(809,879)	(779,724)
	<u>23,873,518</u>	<u>12,009,741</u>
Net cash flows generated from financing activities	<u>23,873,518</u>	<u>12,009,741</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>44,714</u>	<u>23,908</u>
Net increase in cash and cash equivalents	<u>24,703,428</u>	<u>376,151</u>
Cash and cash equivalents as at 1 January	<u>7,695,019</u>	<u>7,318,868</u>
Cash and cash equivalents as at 31 December	<u><u>32,398,447</u></u>	<u><u>7,695,019</u></u>
Net cash flows generated from operating activities include:		
Interest received	<u>5,027,984</u>	<u>4,748,186</u>
Interest paid	<u>(3,288,499)</u>	<u>(3,702,412)</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

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

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

The Bank obtained its financial institution licence No. B0170H237020001 from the Qingdao branch of the CBRC. The Bank obtained its business license 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 PRC. The share capital of the Bank is RMB4.059 billion as at 31 December 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 11 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Qingdao Westcoast and Laiwu as at 31 December 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 Administration Region of the PRC (“Hong Kong”), the Macau Special Administration Region of the PRC (“Macau”) and Taiwan.

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

3 NET INTEREST INCOME

	2016	2015
Interest income arising from		
Deposits with central bank	299,027	298,028
Deposits with banks and other financial institutions	39,367	56,723
Placements with banks and other financial institutions	11,674	12,188
Financial assets at fair value through profit or loss	13,853	16,186
Loans and advances to customers		
– Corporate loans and advances	3,073,933	2,901,166
– Personal loans and advances	1,062,794	1,134,976
– Discounted bills	106,421	138,606
Financial assets held under resale agreements	318,217	233,525
Financial investments	4,739,188	3,796,311
	<u>9,664,474</u>	<u>8,587,709</u>
Sub-total	----- 9,664,474	----- 8,587,709
Interest expense arising from		
Deposits from banks and other financial institutions	(938,553)	(1,032,734)
Placements from banks and other financial institutions	(57,891)	(12,484)
Deposits from customers	(2,226,519)	(2,269,307)
Financial assets sold under repurchase agreements	(387,376)	(368,151)
Debt securities issued	(989,802)	(705,470)
Others	(56,378)	(85,509)
	<u>(4,656,519)</u>	<u>(4,473,655)</u>
Sub-total	----- (4,656,519)	----- (4,473,655)
Net interest income	<u>5,007,955</u>	<u>4,114,054</u>
Of which:		
Interest income arising from impaired financial assets identified	<u>22,504</u>	<u>25,104</u>

Notes:

- (1) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on tier-two capital bonds issued.
- (2) Total interest income arising from financial assets that are not at fair value through profit or loss for the year ended 31 December 2016 amounted to RMB9,651 million (2015: RMB8,572 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the year ended 31 December 2016 amounted to RMB4,657 million (2015: RMB4,474 million).

4 NET FEE AND COMMISSION INCOME

	2016	2015
Fee and commission income		
Agency service fees	314,543	249,617
Wealth management service fees	311,613	155,911
Settlement fees	202,467	230,151
Custody service fees	70,461	106,544
Bank card service fees	20,526	22,308
Others	32,514	22,896
	<hr/>	<hr/>
Sub-total	952,124	787,427
Fee and commission expense	(63,991)	(37,800)
	<hr/>	<hr/>
Net fee and commission income	888,133	749,627
	<hr/> <hr/>	<hr/> <hr/>

5 NET TRADING GAINS

	<i>Notes</i>	2016	2015
Net (losses)/gains from debt securities	<i>(i)</i>	(7,380)	7,609
Net foreign exchange gains	<i>(ii)</i>	54,974	59,045
		<hr/>	<hr/>
Total		47,594	66,654
		<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) Net (losses)/gains from debt securities include gains arising from the buying and selling of, and changes in the fair value of financial assets at fair value through profit or loss.
- (ii) Net foreign exchange gains mainly include gains or losses from the purchase and sale of foreign currency spot.

6 OTHER OPERATING (LOSSES)/INCOME

	2016	2015
Net (losses)/gains on disposal of property and equipment	(126)	4,434
Rental income	1,506	975
Others	(1,777)	9,403
	<hr/>	<hr/>
Total	(397)	14,812
	<hr/> <hr/>	<hr/> <hr/>

7 OPERATING EXPENSES

	2016	2015
Staff costs		
– Salaries, bonuses and allowances	844,577	834,759
– Social insurance and housing allowances	115,456	73,318
– Staff welfare expenses	104,157	89,099
– Staff education expenses	21,831	20,629
– Labor union expenses	17,475	16,500
– Post-employment benefits – defined contribution plans	126,409	106,648
– Supplementary retirement benefits (<i>Note (i)</i>)	11,840	(164,300)
	<hr/>	<hr/>
Sub-total	1,241,745	976,653
Property and equipment expenses		
– Depreciation and amortization	299,671	300,218
– Electronic equipment operating expenses	60,061	72,532
– Maintenance	72,059	60,872
	<hr/>	<hr/>
Sub-total	431,791	433,622
Tax and surcharges	132,498	284,682
Other general and administrative expenses (<i>Note (ii)</i>)	407,487	381,621
	<hr/>	<hr/>
Total	<u>2,213,521</u>	<u>2,076,578</u>

Notes:

- (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 was recognized in profit or loss.
- (ii) Other general and administrative expenses include audit remunerations for auditors which amounted to RMB3.02 million for 2016 (2015: RMB2.40 million).

8 IMPAIRMENT LOSSES

	2016	2015
Loans and advances to customers	1,000,481	536,874
Financial investments:		
Receivables	105,500	40,500
Others	2,893	2,520
	<hr/>	<hr/>
Total	<u>1,108,874</u>	<u>579,894</u>

9 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

	2016	2015
Current tax	768,268	603,765
Deferred tax	(183,123)	(68,505)
Total	<u>585,145</u>	<u>535,260</u>

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

	2016	2015
Profit before taxation	<u>2,673,750</u>	<u>2,349,036</u>
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	<u>668,438</u>	<u>587,259</u>
Tax effect of non-deductible expenses for tax purpose		
– Entertainment expenses	2,699	2,533
– Annuity	4,393	3,117
– Others	137	729
	<u>7,229</u>	<u>6,379</u>
Tax effect of non-taxable income for tax purpose (<i>Note (i)</i>)	<u>(90,522)</u>	<u>(58,378)</u>
Income tax	<u>585,145</u>	<u>535,260</u>

Note:

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

10 BASIC AND DILUTED EARNINGS PER SHARE

	2016	2015
Net profit attributable to equity shareholders of the Bank	2,088,605	1,813,776
Weighted average number of ordinary shares (<i>in thousands</i>)	4,058,197	3,115,125
Basic and diluted earnings per share attributable to equity shareholders of the Bank (<i>in RMB</i>)	0.51	0.58

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

11 FINANCIAL INVESTMENTS

	31 December 2016	31 December 2015
Available-for-sale financial assets	58,410,672	17,120,786
Held-to-maturity investments	31,324,703	22,575,284
Receivables	62,871,938	44,786,787
Total	<u>152,607,313</u>	<u>84,482,857</u>

(1) Available-for-sale financial assets

	<i>Notes</i>	31 December 2016	31 December 2015
Debt securities	<i>(i)</i>	30,584,602	16,956,326
Investment funds	<i>(ii)</i>	20,314,636	61,091
Asset management plans	<i>(ii)</i>	4,595,499	–
Trust fund plans	<i>(ii)</i>	1,390,660	80,119
Wealth management products issued by financial institutions	<i>(ii)</i>	1,502,025	–
Equity investment	<i>(iii)</i>	23,250	23,250
Total		<u>58,410,672</u>	<u>17,120,786</u>

(i) Available-for-sale investment of debt securities issued by the following institutions:

	31 December 2016	31 December 2015
In Mainland China		
– Government	1,447,726	–
– Policy banks	9,379,448	7,890,237
– Banks and other financial institutions	15,199,065	4,865,988
– Corporate entities	4,558,363	4,200,101
Total	<u>30,584,602</u>	<u>16,956,326</u>
Unlisted	<u>30,584,602</u>	<u>16,956,326</u>

(ii) The investment funds, asset management plans, trust fund plans and wealth management products issued by financial institutions are unlisted investments.

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

(2) Held-to-maturity investments

	31 December 2016	31 December 2015
In Mainland China		
– Government	10,042,362	7,529,720
– Policy banks	11,792,171	7,918,996
– Banks and other financial institutions	8,070,558	5,866,945
– Corporate entities	1,419,612	1,259,623
	<hr/>	<hr/>
Carrying value	31,324,703	22,575,284
	<hr/> <hr/>	<hr/> <hr/>
Unlisted	31,324,703	22,575,284
	<hr/> <hr/>	<hr/> <hr/>

(3) Receivables

	31 December 2016	31 December 2015
Asset management plans	31,240,341	22,442,547
Wealth management products issued by financial institutions	18,855,505	9,640,547
Trust fund plans	10,911,401	8,671,888
Beneficiary certificates	1,500,000	1,568,451
Beneficiary rights in margin financing	500,000	2,500,000
Others	60,691	53,854
	<hr/>	<hr/>
Gross amount	63,067,938	44,877,287
	<hr/>	<hr/>
Less: provision for impairment losses	(196,000)	(90,500)
	<hr/>	<hr/>
Total	62,871,938	44,786,787
	<hr/> <hr/>	<hr/> <hr/>

12 PROFIT APPROPRIATION

(1) At the Bank's board of directors meeting held on 24 March 2017, the directors approved the following profit appropriation for the year ended 31 December 2016:

- Appropriated RMB209 million to statutory surplus reserve;
- Appropriated RMB1,305 million to general reserve;
- Declared cash dividends to all shareholders of RMB812 million representing RMB0.20 per share (tax inclusive).

The profit appropriation resolution mentioned above has yet to be approved by the annual general meeting.

(2) At the 2015 annual general meeting held on 10 May 2016, the shareholders approved the following profit appropriation for the year ended 31 December 2015:

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

(3) At the 2014 annual general meeting held on 10 April 2015, the shareholders approved the following profit appropriation for the year ended 31 December 2014:

- Appropriated RMB150 million to statutory surplus reserve;
- Appropriated RMB553 million to general reserve;
- Declared cash dividends to all shareholders of RMB778 million representing RMB0.25 per share (tax inclusive).

13 SEGMENT REPORTING

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

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

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

Corporate banking

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

Retail banking

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

Financial market business

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

Un-allocated items and others

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

	Year ended 31 December 2016				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	2,315,378	279	2,692,298	–	5,007,955
Internal net interest income/(expense)	488,712	895,800	(1,384,512)	–	–
Net interest income	2,804,090	896,079	1,307,786	–	5,007,955
Net fee and commission income	234,308	337,265	316,560	–	888,133
Net trading gains	–	–	47,594	–	47,594
Net gains arising from investments	–	–	52,860	–	52,860
Other operating income/(losses)	1,216	1,601	99	(3,313)	(397)
Operating income	3,039,614	1,234,945	1,724,899	(3,313)	5,996,145
Operating expenses	(1,104,564)	(593,426)	(515,531)	–	(2,213,521)
Impairment losses	(813,734)	(189,640)	(105,500)	–	(1,108,874)
Profit before taxation	<u>1,121,316</u>	<u>451,879</u>	<u>1,103,868</u>	<u>(3,313)</u>	<u>2,673,750</u>
Other segment information					
– Depreciation and amortisation	<u>(125,018)</u>	<u>(164,514)</u>	<u>(10,139)</u>	<u>–</u>	<u>(299,671)</u>
– Capital expenditure	<u>235,379</u>	<u>309,741</u>	<u>19,089</u>	<u>–</u>	<u>564,209</u>
	31 December 2016				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	<u>77,416,754</u>	<u>34,620,377</u>	<u>165,348,456</u>	<u>–</u>	<u>277,385,587</u>
Deferred tax assets					<u>602,519</u>
Total assets					<u>277,988,106</u>
Segment liabilities/Total liabilities	<u>93,973,719</u>	<u>51,085,550</u>	<u>115,292,864</u>	<u>–</u>	<u>260,352,133</u>
Credit commitments	<u>22,354,190</u>	<u>371,657</u>	<u>–</u>	<u>–</u>	<u>22,725,847</u>

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

14 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

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

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

	31 December 2016	31 December 2015
Bank acceptances	17,084,672	18,776,982
Letters of credit	2,750,188	3,498,936
Letters of guarantees	2,324,330	1,359,376
Unused credit card commitments	371,657	349,094
Loan commitments	195,000	145,000
Total	<u>22,725,847</u>	<u>24,129,388</u>

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

(2) Credit risk-weighted amount

	31 December 2016	31 December 2015
Credit risk-weighted amount of contingent liabilities and commitments	<u>9,328,680</u>	<u>8,415,863</u>

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

(3) Operating lease commitments

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

	31 December 2016	31 December 2015
Within one year (inclusive)	109,494	96,069
After one year but within five years (inclusive)	277,007	294,144
After five years	109,968	194,617
Total	496,469	584,830

(4) Capital commitments

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

	31 December 2016	31 December 2015
Contracted but not paid for	476,479	687,894
Total	476,479	687,894

(5) Outstanding litigations and disputes

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

(6) Bonds redemption obligations

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

	31 December 2016	31 December 2015
Bonds redemption obligations	3,390,234	2,843,173

(7) **Pledged assets**

	31 December 2016	31 December 2015
Investment securities	22,704,450	4,547,229
Discounted bills	510,925	–
Total	<u>23,215,375</u>	<u>4,547,229</u>

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

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

The Bank's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. The fair value of such pledged assets was RMB1,955 million as at 31 December 2016 (31 December 2015: RMB2,017 million). As at 31 December 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).

6. RELEASE OF RESULTS ANNOUNCEMENT AND 2016 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This results announcement will be published on the HKEXnews website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Company (www.qdccb.com). The 2016 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders and released on the website of the Hong Kong Stock Exchange and the website of the Company in due course.

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

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

Shandong, China, 24 March 2017

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

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