

BANK OF QINGDAO CO., LTD.

2016 ANNUAL REPORT

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



BQD  青岛银行

BANK OF QINGDAO CO., LTD.

2016 Annual Report

BQD  **青岛银行**

Important Notice

1. The Board of Directors, Board of Supervisors, directors, supervisors and senior management of the Company assure that the information in this report contains no false records, misleading statements or material omissions, and shall be liable jointly and severally for the authenticity, accuracy and completeness of the information in this report.
2. The proposals on the 2016 Annual Report of Bank of Qingdao Co., Ltd. and the 2016 Financial Statements were considered and approved at the 24th meeting of the sixth session of the Board of Directors of the Company held on 24 March 2017. There were 15 directors eligible for attending the meeting, of whom 15 directors attended the meeting.
3. The overseas auditor of the Company for 2016 was KPMG. The 2016 financial report of the Company prepared in accordance with International Financial Reporting Standards has been audited by KPMG, with unqualified auditor's report issued.
4. Unless otherwise specified, the currency of the amounts mentioned in this annual report is RMB.
5. The Company's chairman Mr. GUO Shaoquan, president Mr. WANG Lin, vice president in charge of financial work Mr. YANG Fengjiang and head of planning and finance Mr. Wang Bo assure the authenticity and completeness of this annual report.
6. Profit distribution plan: the Board of Directors of the Company has proposed a final dividend of RMB0.20 per share (tax inclusive) in cash for the year ended 31 December 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 approval.
7. This report contains certain forward-looking statements about the financial conditions, operating results and business developments of the Company. The report uses the words "will", "may", "strive", "plan" and similar wording to express forward-looking statements. These statements are made based on current plans, estimates and projections, and although the Company believes that the expectations reflected in these forward-looking statements are reasonable, the Company cannot assure that these expectations will be attained or confirmed to be correct and therefore they do not constitute substantive undertakings of the Company. Investors should not unduly rely on such statements, and should be aware of investment risks. Please note that these forward-looking statements are related to future events or future financial, business or other performance of the Company, and are subject to certain uncertainties which may cause the actual results to differ substantially.

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

Contents

Chapter I	Corporate Information	2
Chapter II	Financial Highlights	4
Chapter III	Chairman’s Statement	6
Chapter IV	President’s Statement	8
Chapter V	Management Discussion and Analysis	11
Chapter VI	Significant Events	53
Chapter VII	Changes in Share Capital and Information on Shareholders	55
Chapter VIII	Directors, Supervisors, Senior Management, Employees and Institutions	60
Chapter IX	Corporate Governance Report	75
Chapter X	Report of the Board of Directors	92
Chapter XI	Report of the Board of Supervisors	99
Chapter XII	Internal Control	100
Chapter XIII	Independent Auditor’s Report	102
Chapter XIV	Financial Statements and Notes	107
Chapter XV	Unaudited Supplementary Financial Information	190
	Definitions	194

Chapter I Corporate Information

1.1 BASIC INFORMATION OF THE COMPANY

Legal name in Chinese:

青島銀行股份有限公司
(Abbreviation: 青島銀行)

Legal name in English:

BANK OF QINGDAO CO., LTD.
(Abbreviation: BANK OF QINGDAO)

Legal representative: GUO Shaoquan

Authorised representatives: GUO Shaoquan, Lu Lan

Secretary to the Board: Lu Lan

Joint company secretaries: Lu Lan, Lai Siu Kuen

Registered and office address:

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

Office of Board of Directors & Supervisors

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

Postal code: 266071

Telephone: +86 (532) 85709728

Fax: +86 (532) 85709725

Email: ir@qdbankchina.com

Principal place of business in Hong Kong:

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

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

Stock exchange on which H shares are listed:

The Stock Exchange of Hong Kong Limited

Stock name: BQD

Stock code: 3866

Unified Social Credit Code: 91370200264609602K

Date of first registration: 15 November 1996

Date of change of registration: 6 May 2016

Financial licence institution number:

B0170H237020001

Overseas auditor:

KPMG

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

Domestic auditor:

KPMG Huazhen LLP

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

Legal adviser as to PRC law:

King & Wood Mallesons Beijing

Legal adviser as to Hong Kong law:

Clifford Chance

Compliance Adviser:

Somerley Capital Limited

Registrar for H shares:

Computershare Hong Kong Investor Services Limited

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

Registrar for domestic shares:

China Securities Depository and Clearing Co., Ltd.

No. 17 Taipingqiao Avenue, Xicheng District, Beijing

Newspapers designated by the Company for information disclosure:

China Securities Journal

Website for information disclosure by the Company:

Website of the Company

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

HKExnews Website of the Hong Kong Stock Exchange

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

1.2 HONORS AND AWARDS

In May 2016, the Company won the award of “National Advanced Organization in Legal Advocacy and Education (全國法治宣傳教育先進單位)” in the Eighth Session of the National Legal Publicity And Education Work Conference organized by Central Propaganda Department, the Ministry of Justice and the National Organization for Law Popularization.

In May 2016, the Company won two awards of “2015 Annual Taurus Finance and Banking Award (Comprehensive Award) (金牛理財銀行獎(綜合獎))” and “2015 Annual Taurus Bank Financial Products Award (Qingdao Bank – Hairongcaifu Gain-guaranteed Series) (金牛銀行理財產品獎(青島銀行—海融財富穩贏系列))” at 2015 Annual Taurus Financial Product Award Contest held by Chinese Securities Journal (中國證券報) & Taurus Financial Network (金牛理財網).

In June 2016, the Company was awarded the “2015 Top 50 Financial Products targeted to Small and Micro Enterprise (2015年服務小微五十佳金融產品)” by the China Banking Association (中國銀行業協會).

In June 2016, the Company was awarded the “Public Service Honor Award (公益榮譽獎)” by the Community Chest of Hong Kong (香港公益金).

In July 2016, the Company ranked 353rd in terms of the core tier one capital in the World Bank Top 1000 list (世界銀行1000強榜單) released by UK Bankers (《銀行家》) magazine, ranking increased by 130 compared to 2015.

In July 2016, the Company was awarded the title of “Advanced Organization of Social Poverty Alleviation in Guizhou Province (貴州省社會扶貧先進集體)” by the Guizhou Provincial Poverty Alleviation and Development Leading Group (貴州省扶貧開發領導小組).

In July 2016, the papers submitted by the Company won the first, second and third-award of 2016 China Banking Development Research Outstanding Achievements (2016年中國銀行業發展研究優秀成果一、二、三等獎) in 2016 China Banking Development Research Outstanding Achievement Award Contest held by China Banking Association (中國銀行業協會).

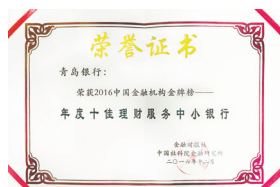
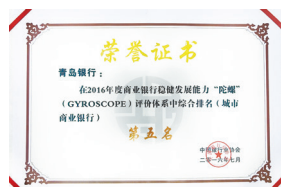
In July 2016, the Company ranked No. 5 in terms of steady development capability of commercial banks in 2016 evaluated by the “Gyro (陀螺)” evaluation system of commercial banks issued by the China Banking Association. In term of the core tier one net capital, the Bank ranked 51st in China banking industry.

In December 2016, the Company’s “Application of Data Science and Technology in the Operation and Management of Small and Medium-sized Banks (數據科學技術在中小銀行運維管理中的應用研究)” was awarded the Second Category Of Achievement of 2016 Annual Banking Information Technology Risk Management Project (2016年度銀行業信息科技風險管理課題二類成果) by China Banking Regulatory Commission.

In December 2016, the Company won two awards of “Top 10 City Commercial Bank (十佳城市商業銀行)” and “Top 10 Small And Medium-Sized Banks in area of Financial Services (十佳理財服務中小銀行)” at the “China Financial Institutions Gold Medal – Golden Dragon Award Contest (中國金融機構金牌榜—金龍獎)” jointly organized by the “Financial Times (金融時報)” and Chinese Academy of Social Sciences Institute of Finance (中國社科院金融研究所). We won eight Golden Dragon trophies in the past six years.

In December 2016, the Company won the “2016 (the tenth session) Five-Star Diamond Award (2016年(第十屆)五星鑽石獎)” awarded by World Brand Laboratory (世界品牌實驗室).

In December, 2016, the Company was awarded the “2016 Best Trade Finance City Commercial Bank (2016最佳貿易金融城商銀行)” in the Sixth Session Contest of Most Trusted Financial Service Providers for Economic and Trade Enterprises in China (2016) (第六屆(2016年度)中國經貿企業最信賴的金融服務商) organized by the “Trade Finance (《貿易金融》)” magazine, China Trade Finance Network and the Organizing Committee of China Trading Bank Annual Meeting.



Chapter II Financial Highlights

2.1 FINANCIAL DATA

Unit: RMB'000

Item	2016	2015	Year-on-year change	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

Item	2016	2015	Year-on-year change	2014	2013	2012
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 ratio	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. Return on average total assets = net profit/average balance of total assets at the beginning and at the end of the period
3. Return on average equity = net profit/average balance of equity attributable to shareholders at the beginning and at the end of the period
4. Net interest spread = average yield on interest-earning assets – average cost of interest-bearing liabilities
5. Net interest margin = net interest income/average interest-earning assets
6. Net fee and commission income to operating income ratio = net fee and commission income/operating income
7. Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income
8. Since 1 January 2013, the capital adequacy ratio and other relevant indicators listed in the above chart were calculated in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) (Decree of the China Banking Regulatory Commission 2012 No. 1) and other relevant regulatory regulations; The capital adequacy ratios as at the end of other periods were calculated in accordance with the Regulation Governing Capital Adequacy Ratios of Commercial Banks (《商業銀行資本充足率管理辦法》).

Chapter III Chairman's Statement



GUO
Shaoquan
Chairman

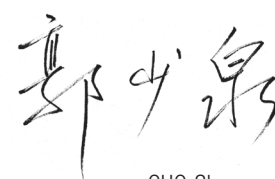
Chapter III Chairman's Statement

2016 is the Company's first year of operation after the listing of its H shares. In this year, shouldering new development responsibilities and strategic missions, the Company, on the basis of maintaining steady operation, seized the opportunity in the transformation and upgrade of the Chinese economy to enhance its business characteristics and service competitiveness, thus recording the results satisfactorily to the investors who trusted and favoured the Company and to all sectors of society which showed care and support to the Company.

As at the end of the reporting period, the Company's total assets were RMB278.0 billion, representing a year-on-year increase of 48%; the accumulative net profit amounted to RMB2.1 billion, representing a year-on-year increase of 15%; and non-performing loan ratio was 1.36%, significantly lower than that in the industry average. In light of the in-depth adjustment to economic structure and slowed-down development of bank industry, the good operating results of the Company were attributable to the understanding and support of investors, customers, government and regulators. On behalf of the Board, senior management and all staff of the Company, I would like to express our sincere gratitude to all sectors of society for their support to the Company.

As a public bank in the capital market, the Company knows well that, apart from financial performance, the construction of characteristic, differentiated and refined sustainable development capacity are also very important. Therefore, in this year, the Company exerted great efforts on corporate governance, management transformation, technical research and development, and product innovation: the new generation of customer system was successfully put into operation to improve the stability of operation and efficiency; the upgrade of "interface banking" was advanced to achieve "multi-interface" linkage with internet e-commerce platforms; "Qing Xin (青馨) Service" brand was further promoted to upgrade the standard service to warm service, and the high quality service was granted the "Five Star Diamond Award" by the World Brand Laboratory; and the Company also vigorously developed port finance, green finance, scientific and technological finance and other characteristic finance. All these efforts laid a solid foundation for the sustainable development and market value appreciation in the long run of the Company.

2016 is also the 20th anniversary of the establishment of the Company. The Company witnessed the spectacular development history of Chinese economy and banking industry in its development from an urban credit cooperative into the only listed local bank serving local corporates with the largest size of assets in Shandong Province. Looking into 2017 at a new starting point for development, despite of the changes in domestic and overseas economy, nearly 3,300 staff of Company will forge ahead with a firm determination and the Company's original intent to achieve market value appreciation for investors and create value for customers will remain unchanged. Therefore, we have reason to believe that, after 20 years of development through thick and thin, the Bank of Qingdao will have more prominent and steadier performance on the new journey.



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

Chapter IV President's Statement



WANG Lin
President

Chapter IV President's Statement

In 2016, under the correct leadership of the Board of Directors of the Company and by adhering to the guidance of “gathering momentum, stabilising development, controlling risks, and increasing market value”, the Bank constantly accelerated innovation of products and services, and persisted in characteristic and differentiated development, which led to the stable development of the largest three business lines, not only successfully completing all the business plans for the year, but also enhancing the Company's profitability.

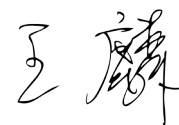
As at the end of 2016, the Company's total deposit balance reached RMB141.605 billion, up 22.79% year-on-year; outstanding loans totaled RMB87.168 billion, up 19.91% year-on-year; and non-performing loan ratio was 1.36% while the annual net profit grew by 15.15% year-on-year to RMB2.089 billion, offering a great gift for the 20th anniversary of the Bank of Qingdao with sound results.

In 2016, the Company adhered to implementing “interface banking” strategy and consistently implemented a transformation strategy of transferring corporate banking to investment banking, deep plowing the local market, and continuously made investment to public sector finance, consumer finance, green finance and other key areas of lending. The number of “metro card” issued by the Bank has exceeded 1 million during the year. As one of the first national green finance issuers, the Bank has successfully issued two tranches of green financial bonds totalling RMB8 billion and underwritten the first national social impact bonds, achieving coordinated development of scale, efficiency and quality while well performing the corporate social responsibility.

In 2016, the Bank continued to increase investment in infrastructure, and successfully launched a new customer service system, which led to the significant improvement of the capability of scientific and technological support. The employee internal training system has developed and the talent pool and the echelon building have improved. Two cross-region branches have been established in Weifang and Laiwu, and the number of institutions totaled 111. Meanwhile, Qingdao Qingyin Financial Leasing Company Limited led and promoted by the Bank has been also approved, which marked the first step towards integrated operation of the Bank.

Looking back to 2016, we achieve fruitful results by utilizing our intelligence and sweats. Successful listing is not the top target of our Bank, but a new beginning. Sustainable and healthy development is our common anticipation. On behalf of senior management of the Company, I would like to express our sincere gratitude to people from all walks of life for their cares and supports to the Bank of Qingdao.

Looking to 2017, we will endeavour to ride on the current favourable momentum and grasp opportunities from challenges, in an effort to create value and work together to write a new chapter for our Bank.



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

Chief Supervisor



CHEN Qing
Chief Supervisor

Chapter V Management Discussion and Analysis

5.1 REVIEW OF THE ECONOMIC FINANCE AND POLICY ENVIRONMENT

In 2016, the world economy was still in a vulnerable state of 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 applied 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 its 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.

5.2 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 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.

Note 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.

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; successively launch electronic management system for financial payment in provincial and municipal level and “Qi Cai Tong” (企財通) project, the upgraded version 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, 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.



On 12 October 2016, Chinese Economy Leading Person High-End Interview, a large interview program built jointly by People's Daily Online, Sky News Australia, Weldon International Media Group and Qingdao Publishing Group visited the Company and interviewed Mr. GUO Shaoquan, our Chairman. The interview aims to demonstrate the world the significant economic achievements made by China under the strategic background of “the Belt and Road”.

(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.

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

5.3.1 Financial performance summary

Unit: RMB'000

Item	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.

Unit: RMB'000

Item	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

5.3.2 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.

Unit: %

Item	2016	2015	2014	2013	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	1.67	2.83	1.83	1.21	1.52
Total	100.00	100.00	100.00	100.00	100.00



On 22 February 2016, the Company held a press conference to announce the issuance of Green Bonds and signing contracts between banks and enterprises to support the development of green industry, and published the issuance plan for Green Bonds of RMB8 billion, thereby, in terms of issuance of Green Bonds, the Company became the first batch of banks among national banks and the 1st among city commercial banks. The picture shows that President WANG Lin hosted the press conference.

5.3.3 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.

Unit: RMB'000

Item	31 December 2016			31 December 2015		
	Average balance	Interest income/expense	Average yield/cost	Average balance	Interest income/expense	Average yield/cost
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.

Unit: RMB'000

Item	2016 vs. 2015		Net increase/ (decrease)
	Due to volume	Due to rate	
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	2,185,960	(1,109,195)	1,076,765
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	1,017,599	(834,735)	182,864
Change in net interest income	1,168,361	(274,460)	893,901



On 10 March 2016, the Company held a conference to announce 2015 annual results in Hong Kong, and took the lead in disclosing 2015 main operating results, and became the first H-share Chinese-funded commercial bank to announce annual results of the whole year of 2015.

5.3.4 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.

Unit: RMB'000

Item	2016			2015		
	Average balance	Interest income	Average yield	Average balance	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.

5.3.5 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.

Unit: RMB'000

Item	2016			2015		
	Average balance	Interest expense	Average cost rate	Average balance	Interest expense	Average cost rate
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.

5.3.6 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.

Unit: RMB'000

Item	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

5.3.7 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.

Unit: RMB'000

Item	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
Total	952,124	787,427
Fee and commission expense	(63,991)	(37,800)
Net fee and commission income	888,133	749,627

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.

5.3.8 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.

Unit: RMB'000

Item	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	100,057	141,827

5.3.9 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.

Unit: RMB'000

Item	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

5.3.10 Asset Impairment losses

In 2016, our asset 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 asset impairment losses for the periods indicated.

Unit: RMB'000

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

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

5.4 ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF FINANCIAL POSITION

5.4.1 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.

Unit: RMB'000

Item	31 December 2016		31 December 2015	
	Amount	% of total amount	Amount	% of 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

5.4.1.1 Loans and advances to customers

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

Unit: RMB'000

Item	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, representing an increase of 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, representing an increase of 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 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, representing an increase of 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.

5.4.1.2 Investment

As at the end of 2016, our carrying value of investment amounted to RMB152.928 billion, representing an increase of 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.

Unit: RMB'000

Item	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
Investment classified as 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, representing an increase of 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.

Unit: RMB'000

Item	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	320,315	297,595

Available-for-sale financial assets

As at the end of 2016, our total available-for-sale financial assets amounted to RMB58.411 billion, representing an increase of 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.

Unit: RMB'000

Item	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	58,410,672	17,120,786

Held-to-maturity investments

As at the end of 2016, the Company's total held-to-maturity investments was RMB31.325 billion, representing an increase of RMB8.749 billion or 38.76% compared with the end of last year. 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.

Unit: RMB'000

Item	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	31,324,703	22,575,284
Fair value of held-to-maturity investments	31,299,756	23,434,562

Investment classified as receivables

Investment classified as receivables consists 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 investment classified as receivables amounted to RMB62.872 billion, representing an increase of RMB18.085 billion or 40.38% compared with the end of last year, mainly due to increase in investments in asset management plans and wealth management products issued by financial institutions. The following table sets forth the components of our investment classified as receivables as at the date indicated.

Unit: RMB'000

Item	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 investment classified as receivables	63,067,938	44,877,287
Less: provision for impairment	(196,000)	(90,500)
Net investment classified as receivables	62,871,938	44,786,787

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

5.4.2 Liabilities

As at the end of 2016, our total liabilities amounted to RMB260.352 billion, representing an increase of RMB89.731 billion or 52.59% compared with the end of last year, 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.

Unit: RMB'000

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

5.4.2.1 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.

Unit: RMB'000

Item	31 December 2016		31 December 2015	
	Amount	% of total amount	Amount	% of 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	141,604,761	100.00	115,321,997	100.00

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.

5.4.2.2 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.

5.4.2.3 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.

5.4.3 Equity attributable to shareholders

Unit: RMB'000

Item	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

5.5 ANALYSIS OF QUALITY OF LOANS

5.5.1 Distribution of loans by five categories

Unit: RMB'000

Item	31 December 2016		31 December 2015	
	Amount	% of total amount	Amount	% of total amount
Normal loans	82,513,800	94.66	69,526,053	95.64
Special mention loans	3,467,216	3.98	2,305,404	3.17
Substandard loans	539,426	0.62	340,105	0.47
Doubtful loans	589,156	0.67	500,753	0.69
Loss loans	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.

5.5.2 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 at the end of last year to 71.66%. Under the impact of the economic downturn, the non-performing loan ratio of the Company increased by 0.28 percentage point compared with that at the end of last year to 1.47%.

5.5.3 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%.

5.5.4 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.

5.5.5 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.

5.5.6 Loans to the top ten single borrowers

Unit: RMB'000

Top ten borrowers	Industry	Amount of loans as at the end of the reporting period	Percentage of net capital %	Percentage of total loans %
A	Manufacturing	1,100,000	5.29	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 RMB1.1 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.

5.5.7 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	3,527,541	4.05	2,100,566	2.89
Total loans to customers	87,168,295	100.00	72,695,518	100.00

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.

5.5.8 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.

5.5.9 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.

Unit: RMB'000

Item	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 an increase of RMB263 million or 12.90% compared with the end of last year; the provision coverage ratio reached 194.01%, and the loan provision ratio stood at 2.64%.

5.5.10 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.

5.5.11 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.

5.5.12 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.

5.6 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.

5.6.1 Capital adequacy ratio

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

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

Unit: RMB'000

Item	31 December 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	(171,661)	(165,631)
Net core tier-one capital	17,464,312	16,448,021
Net amount of other tier-one capital	–	–
Net tier-two capital	3,319,322	3,376,236
Net capital base	20,783,634	19,824,257
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	9,591,315	8,044,706
Total risk-weighted assets	173,267,933	131,824,697
Core tier-one capital adequacy ratio	10.08%	12.48%
Tier-one capital adequacy ratio	10.08%	12.48%
Capital adequacy ratio	12.00%	15.04%

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 last 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 last 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 investment business, resulting in the increase of total risk-weighted assets. Therefore, there is a decrease in capital adequacy ratio compared with that in last year.

5.6.2 Leverage Ratio

The leverage ratio of commercial banks shall not be less than 4% in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision) promulgated by the CBRC and taking effect from 1 April 2015. As at the end of the reporting period, the Company's leverage ratio calculated based on the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision) 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:

Unit: RMB'000

No.	Item	Balance as at 31 December 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%

5.7 SEGMENT REPORTING

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

Unit: RMB'000

Item	2016		2015	
	Segment profit before taxation	Ratio (%)	Segment profit before taxation	Ratio (%)
Corporate banking	1,121,316	41.93	1,054,838	44.91
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

Unit: RMB'000

Item	2016		2015	
	Segment operating income	Ratio (%)	Segment operating income	Ratio (%)
Corporate banking	3,039,614	50.69	2,652,291	52.98
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

5.8 OTHER FINANCIAL INFORMATION

5.8.1 Analysis of off-balance sheet items

The Company's off-balance sheet items include credit commitments, operating lease commitments, capital commitments, etc. Credit commitments are the most important 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.

5.8.2 Overdue and outstanding debts

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

5.9 BUSINESS DEVELOPMENT STRATEGY

The Company takes full advantage of abundant capital, regulated operation and brand improvement formed from listing, calmly responds 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.

5.10 OVERVIEW OF BUSINESS DEVELOPMENT

5.10.1 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 1: 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 an 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”.



In July 2016, the famous Italian football star Roberto Baggio (first from right) was invited to participate in the series of activities of “Bank of Qingdao – AC Milan Teenager Football Summer Camp”. The picture shows that Roberto Baggio signed autographs during the activities.

5.10.2 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.

5.10.3 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 last 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 RMB417 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

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 beginning of the year; the certificates of deposit amounted to RMB28.699 billion, representing an increase of 214.51% compared with that at the beginning of the year.

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”(资管宝), 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.



On 7 August 2016, the Company held speech contest of “Q-Talk Special Show”, which is one of “Building Dreams with Ingenuity” series of activities for teenagers.

5.10.4 Distribution channels

5.10.4.1 Physical distribution channels

The business outlets of the Company are based in Qingdao with a footprint extending to other regions of Shandong Province. As at the end of the reporting period, the Company 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.

5.10.4.2 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%.

5.10.4.3 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.



On 26 September 2016, the new customer service system of the Company was put into practice successfully, during which, the Company established customer problems handling team. The picture shows that the members of the team discussed work problems.

5.11 RISK MANAGEMENT

5.11.1 Credit risk management

Credit risk refers to the risk arising from the failure by an obligor or a party concerned to meet its obligations in accordance with agreed upon terms. The Company is exposed to credit risk primarily through the on- and off-balance sheet credit extension business.

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.

5.11.2 Liquidity risk management

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

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

The 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) according to its own liquidity and market interest rate trend 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.

5.11.3 Market risk management

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

5.11.3.1 Analysis of interest rate risk

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

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

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

In 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.

5.11.3.2 Analysis of interest rate sensitivity

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

5.11.3.3 Analysis of exchange rate sensitivity

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

5.11.4 Operational risk management

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



On 4 September 2016, the Company held 2016 Workers Sport Meet. The picture shows that the teams paraded into the field.

5.12 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 effectively 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 Relived”, 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.

5.13 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.



On 19 November 2016, the Company held “Art Performance Celebrating the 20th Anniversary of Founding Bank of Qingdao”.

5.14 DEVELOPMENT PLAN FOR 2017

5.14.1 Operating situation analysis for 2017

In 2017, there are great uncertainties as to the global economy and finance and the changes of domestic economy and finance 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.

5.14.2 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.

5.14.3 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.

Chapter VI Significant Events

6.1 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Company carried out credit business with related party in strict compliance with relevant provisions of the regulatory authority and the Administrative Measures for Related Party Transactions of Bank of Qingdao and Terms of Implementation of Management of Related Party Transactions of Bank of Qingdao formulated by the Company. During the reporting period, all the loans involved in related party transactions of the Company were released in conformity with relevant legal provisions and the conditions and approval procedures of loans, and were repaid in a normal way without any non-performing loan, bringing no adverse effect to the operating results and financial position of the Company.

During the reporting period, one significant related party transaction of the Company was approved by the Board of Directors, which was related to credit granted to Qingdao Haier Real Estate Group Co., Ltd.

At the end of the reporting period, according to the Measures for the Administration of Related Party Transactions between Commercial Banks and Internal Personnel and Shareholders issued by the CBRC, the balance of credit-related significant related party transactions was RMB2,572 million, the details of which are as follows:

Unit: RMB'0,000

Name of Related Party	Credit Balance	Type of Business	Way of Guarantee	Net Credit After Deducting Margin	Percentage of Net Capital
Qingdao Haier Real Estate Group Co., Ltd.	150,000.00	Non-standard debt	Guarantee	150,000.00	7.22%
Qingdao Conson Financial Holdings Co., Ltd.	50,000.00	Loan	Guarantee	50,000.00	2.41%
Qingdao Changyuan Land Co., Ltd.	30,000.00	Non-standard debt	Guarantee	30,000.00	1.44%
Qingdao Haier Home Integration Co., Ltd.	27,205.76	Letter of guarantee	Pledge, deposit	27,180.83	1.31%

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

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

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

6.3 PUNISHMENT IMPOSED ON THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

1. In June 2011, in accordance with the relevant requirements of the Notice of the General Office of China Banking Regulatory Commission on Strengthening the Examination of Qualifications of Substantial Shareholders of Small- and Medium-sized Commercial Banks, Haier Group, Intesa Sanpaolo S.p.A. and Qingdao Conson Industrial Co., Ltd., shareholders of the Company with shareholding of 5% or more, respectively undertook: not to seek related transactions with terms more favourable than those of other shareholders; not to intervene in the daily business affairs of the Company; not to transfer the new shares subscribed for within five years from the date of completion of the change of business registration, and any transfer of shares upon the expiry of the said period and the qualifications of the transferee shall be subject to the consent of regulatory authorities; and to continue to provide the Company with additional capital as shareholding is the main source of the capital of the Company; not to impose undue pressure on the Company by setting indicators.
2. Qingdao Conson Industrial Co., Ltd., six companies under the Haier Group (including Qingdao Haier Mold Co., Ltd. (青島海爾模具有限公司), Qingdao Haier Tooling Development Co., Ltd. (青島海爾工裝研製有限公司), Qingdao Haier Robot Co., Ltd. (青島海爾機器人有限公司), Qingdao Haier Co., Ltd. (青島海爾股份有限公司), Qingdao Haier Air-Conditioner Co., Ltd. (青島海爾空調器有限總公司) and Qingdao Haier Special Refrigerator Co., Ltd. (青島海爾特種電冰櫃有限公司)) and Intesa Sanpaolo S.p.A., which participated in the subscription for the shares of the Company in 2014, respectively undertook not to transfer the 95,179,773 shares, 145,018,723.97 shares and 111,111,187 shares subscribed for in the above subscription within five years from 28 February 2015 (being the day of completion of business registration of the relevant subscription). In addition, Intesa Sanpaolo S.p.A. further undertook not to transfer the other equity interest held by it within a period of three years from the day of listing of the H shares of the Company.
3. For undertakings made by the Company to the Hong Kong Stock Exchange, Joint Sponsors for listing application of H shares of the Company, Joint Global Coordinators for global offering of H shares of the Company, Joint Bookrunners, Joint Lead Managers and Hong Kong Underwriters, please refer to the Underwriting section of the H-share prospectus dated 20 November 2015 published on the website of the Company (<http://www.qdccb.com/>).

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

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

During the reporting period, the Company did not engage in any material acquisition, merger and disposal of assets, except that the Company paid RMB510 million for the establishment of Qingdao Qingyin Financial Leasing Company Limited.

6.6 SIGNIFICANT GUARANTEE, COMMITMENT AND ENTRUSTED ASSET MANAGEMENT

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

6.7 NON-PERFORMING LOANS OF SHAREHOLDERS AND THEIR ASSOCIATES

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

6.8 PUBLISHING OF ANNUAL REPORT

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

Chapter VII Changes in Share Capital and Information on Shareholders

7.1 STATEMENT OF SHARE STRUCTURE

Unit: share

Type of shareholder	31 December 2015		Changes during the reporting period	31 December 2016	
	Number of shares	Percentage of total share capital		Number of shares	Percentage of total share capital
Domestic legal persons	2,248,545,010	56.05%	-4,679,200	2,243,865,810	55.29%
Domestic natural persons	51,850,759	1.29%	-38,800	51,811,959	1.28%
H shares	1,711,136,980	42.66%	51,898,000	1,763,034,980	43.44%
Total	4,011,532,749	100.00%	47,180,000	4,058,712,749	100.00%

7.2 STATEMENT OF CHANGES IN TOTAL SHARE CAPITAL

On 24 December 2015, the Company partially exercised the over-allotment option to issue 51,898,000 H Shares (including 4,718,000 sale shares sold by shareholders of the state-owned shares of the Company). The over-allotment shares were listed on the Main Board of the Hong Kong Stock Exchange on 4 January 2016, with the total share capital changing from 4,011,532,749 shares to 4,058,712,749 shares, and HK\$0.224 billion was raised as a result of over-allotment.

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

Unit: share

No.	Name of shareholder	Total number of shares held at the end of period	Shareholding percentage	Number of shares pledged	Number of shares frozen
1	Hong Kong Securities Clearing Company Nominees Limited (香港中央結算(代理人)有限公司)	1,140,184,880	28.09%	unknown	unknown
2	Intesa Sanpaolo S.p.A. (意大利聯合聖保羅銀行)	622,306,980	15.33%	unknown	unknown
3	Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	503,556,341	12.41%	–	–
4	Qingdao Haier Investment and Development Co. Ltd. (青島海爾投資發展有限公司)	409,693,339	10.09%	–	–
5	Qingdao Haier Air Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	218,692,010	5.39%	–	–
6	Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	152,170,000	3.75%	152,170,000	–
7	Qingdao Haier Co., Ltd. (青島海爾股份有限公司)	139,663,690	3.44%	–	–
8	Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司)	133,910,000	3.30%	–	–
9	Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司)	90,936,164	2.24%	–	–
10	Shanghai Jiacheng Investment Management Co., Ltd. (上海嘉誠投資管理有限公司)	77,276,328	1.90%	77,276,328	–

- Notes:*
- Shares held by Hong Kong Securities Clearing Company Nominees Limited are the total number of H shares of the Company held by shareholders which are traded on the trading platform of Hong Kong Securities Clearing Company Nominees Limited on behalf of shareholders;
 - For the above shareholders, Qingdao Haier Investment and Development Co. Ltd., Qingdao Haier Air Conditioner Electronics Co., Ltd. and Qingdao Haier Co., Ltd. are all under Haier Group. The Company is not aware of any other related relationship between other shareholders.

7.4 INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, in so far as the Directors, Supervisors and chief executives of the Company are aware, substantial shareholders who had an interest or short position in the issued share capital of the Company which are required to be recorded in the register to be kept under section 336 of the SFO or held an equity interest or short position of 5% or more in the issued share capital of the Company which are required to be notified to the Company are shown as below:

Name of shareholder	Type of shares	Capacity	Number of shares held	Approximate percentage of the total share capital ⁽¹⁾	Approximate percentage of the total number of domestic shares ⁽¹⁾	Approximate percentage of the total number of H shares ⁽¹⁾	Long/short position
Haier Group Corporation (海爾集團公司) ⁽²⁾	Domestic Shares	Interest of controlled corporation	812,214,572	20.01	35.38	–	Long
Qingdao Haier Investment and Development Co., Ltd. (青島海爾投資發展有限公司) ⁽³⁾	Domestic Shares	Beneficial owner	409,693,339	10.09	17.85	–	Long
		Interest of controlled corporation	5,633,715	0.14	0.25	–	Long
		Other interest	396,887,518	9.78	17.29	–	Long
Qingdao Haier Co., Ltd. (青島海爾股份有限公司) ⁽⁴⁾	Domestic Shares	Beneficial owner	139,663,690	3.44	6.08	–	Long
		Interest of controlled corporation	244,680,795	6.03	10.66	–	Long
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	Domestic Shares	Beneficial owner	218,692,010	5.39	9.53	–	Long
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司) ⁽⁵⁾	Domestic Shares	Interest of controlled corporation	503,556,341	12.41	21.93	–	Long
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司) ⁽⁶⁾	Domestic Shares	Beneficial owner	503,556,341	12.41	21.93	–	Long
Ge Shoujiao (葛守蛟) ⁽⁶⁾	Domestic Shares	Interest of controlled corporation	152,170,000	3.75	6.63	–	Long
Leng Qiyuan (冷啟媛) ⁽⁶⁾	Domestic Shares	Interest of controlled corporation	152,170,000	3.75	6.63	–	Long
Shandong Sanliyuan Trading Co., Ltd. (山東三利源經貿有限公司) ⁽⁶⁾	Domestic Shares	Beneficial owner	152,170,000	3.75	6.63	–	Long
Han Huiru (韓匯如) ⁽⁷⁾	Domestic Shares	Interest of controlled corporation	133,910,000	3.30	5.83	–	Long
Wang Yunyun (王芸芸) ⁽⁷⁾	Domestic Shares	Interest of spouse	133,910,000	3.30	5.83	–	Long
Qingdao East Steel Tower Stock Co., Ltd. (青島東方鐵塔股份有限公司) ⁽⁷⁾	Domestic Shares	Interest of controlled corporation	133,910,000	3.30	5.83	–	Long
Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司) ⁽⁷⁾	Domestic Shares	Beneficial owner	133,910,000	3.30	5.83	–	Long
Intesa Sanpaolo S.p.A.	H Shares	Beneficial owner	622,306,980	15.33	–	35.30	Long
Chan Mei Ching ⁽⁸⁾	H Shares	Interest of controlled corporation	200,000,000	4.93	–	11.34	Long
Chan Min Chi ⁽⁸⁾	H Shares	Interest of controlled corporation	200,000,000	4.93	–	11.34	Long

Chapter VII Changes in Share Capital and Information on Shareholders

Name of shareholder	Type of shares	Capacity	Number of shares held	Approximate percentage of the total share capital ⁽¹⁾	Approximate percentage of the total number of domestic shares ⁽¹⁾	Approximate percentage of the total number of H shares ⁽¹⁾	Long/short position
LRC. Strategic (Global) Investment Group Limited ⁽⁸⁾	H Shares	Interest of controlled corporation	200,000,000	4.93	–	11.34	Long
LRC. Belt and Road Investment Limited ⁽⁸⁾	H Shares	Beneficial owner	200,000,000	4.93	–	11.34	Long
Jinan Binhe New District Constructive Investment Group (濟南濱河新區建設投資集團有限公司)	H Shares	Beneficial owner	200,000,000	4.93	–	11.34	Long
Ouyang Xinxiang (歐陽新香) ⁽⁹⁾	H Shares	Interest of controlled corporation	110,000,000	2.71	–	6.24	Long
Keystone Group Ltd. ⁽⁹⁾	H Shares	Beneficial owner	110,000,000	2.71	–	6.24	Long
Rothschilds Continuation Holdings AG ⁽¹⁰⁾	H Shares	Beneficial owner	98,830,000	2.44	–	5.61	Long
Rothschild & Co SCA ⁽¹⁰⁾	H Shares	Interest of controlled corporation	98,830,000	2.44	–	5.61	Long
Haitong International Financial Solutions Limited ⁽¹¹⁾	H Shares	Holder of security interests	110,000,000	2.71	–	6.24	Long
Haitong International Holdings Limited ⁽¹¹⁾	H Shares	Interest of controlled corporation	110,000,000	2.71	–	6.24	Long
Haitong International Securities Group Limited ⁽¹¹⁾	H Shares	Interest of controlled corporation	110,000,000	2.71	–	6.24	Long
Haitong Securities Co., Ltd ⁽¹¹⁾	H Shares	Interest of controlled corporation	110,000,000	2.71	–	6.24	Long
AMTD Asia (Holdings)Limited ⁽¹²⁾	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
AMTD Asia Limited ⁽¹²⁾	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
AMTD Group Company Limited ⁽¹²⁾	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
AMTD Investment Solutions Group Limited ⁽¹²⁾	H Shares	Beneficial owner	100,000,000	2.46	–	5.67	Long
AMTD Investment Solutions Limited ⁽¹²⁾	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
AMTD Investments Limited ⁽¹²⁾	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
AMTD Strategic Capital Group ⁽¹²⁾	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
CM International Capital Limited ⁽¹²⁾	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
CM International Capital Limited (中民國際資本有限公司) ⁽¹²⁾	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
L.R. Capital Financial Holdings Limited ⁽¹²⁾	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long

Chapter VII Changes in Share Capital and Information on Shareholders

Name of shareholder	Type of shares	Capacity	Number of shares held	Approximate percentage of the total share capital ⁽¹⁾	Approximate percentage of the total number of domestic shares ⁽¹⁾	Approximate percentage of the total number of H shares ⁽¹⁾	Long/short position
L.R. Capital Management Company (Cayman) Limited ⁽¹²⁾	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
L.R. Capital MNP Limited ⁽¹²⁾	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) ⁽¹²⁾	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long

Notes:

- As at 31 December 2016, the number of the Company's total issued shares, domestic shares and H shares are 4,058,712,749 shares, 2,295,677,769 shares and 1,763,034,980 shares respectively.
- 812,214,572 shares of the Company are held by its directly or indirectly controlled companies of Haier Group Corporation.
- These 812,214,572 shares are held as to 409,693,339 shares directly by Qingdao Haier Investment and Development Co., Ltd., as to 5,633,715 shares by its controlled company and as to 396,887,518 shares as to its person acting in concert respectively.
- 139,663,690 shares are held directly by Qingdao Haier Co., Ltd. and 244,680,795 shares are held by its controlled company.
- Qingdao Conson Industrial Co., Ltd. is 100% owned by Qingdao Conson Development (Group) Co., Ltd. Therefore, Qingdao Conson Development (Group) Co., Ltd. is deemed or taken to be interested in all our Shares held by Qingdao Conson Industrial Co., Ltd.
- Ge Shoujiao and Leng Qiyuan hold 55% and 45% equity interest in Shandong Sanliyuan Trading Co., Ltd. respectively. Therefore, Ge Shoujiao and Leng Qiyuan are deemed or taken to be interested in all our Shares held by Shandong Sanliyuan Trading Co., Ltd.
- Qingdao Hairen Investment Co., Ltd. is 100% owned by Qingdao East Steel Tower which is in turn 52.45% owned by Han Huiru. Therefore, Qingdao East Steel Tower Stock Co., Ltd and Han Huiru are deemed or taken to be interested in all our Shares held by Qingdao Hairen Investment Co., Ltd. Wang Yunyun is the spouse of Han Huiru. Therefore, Wang Yunyun is deemed or taken to be interested in all our Shares held by Han Huiru.
- LRC. Strategic (Global) Investment Group Limited is held as to 47% and 51% by Chan Mei Ching and Chan Min Chi respectively. LRC. Strategic (Global) Investment Group Limited holds 99% equity interest in LRC. Belt and Road Investment Limited. Therefore, Chan Mei Ching, Chan Min Chi and LRC. Strategic (Global) Investment Group Limited are deemed or taken to be interested in all our Shares held by LRC. Belt and Road Investment Limited.
- Keystone Group Ltd. is 100% owned by Ouyang Xinxiang. Therefore, Ouyang Xinxiang is deemed or taken to be interested in all our Shares held by Keystone Group Ltd.
- Rothschilds Continuation Holdings AG is 98.40% owned by Rothschild & Co SCA. Therefore, Rothschild & Co SCA is deemed or taken to be interested in all our Shares held by Rothschilds Continuation Holdings AG.
- Haitong International Financial Solutions Limited holds security interests in 110,000,000 shares of the Company. Haitong International Financial Solutions Limited is 100% owned by Haitong International Finance Company Limited which is in turn 100% owned by Haitong International (BVI) Limited, a wholly-owned subsidiary of Haitong International Securities Group Limited. Haitong International Holdings Limited holds 60.1% interest in Haitong International Securities Group Limited, and Haitong Securities Co., Ltd holds 100% interest in Haitong International Holdings Limited, therefore, Haitong Securities Co., Ltd, Haitong International Holdings Limited, Haitong International Securities Group Limited, Haitong International (BVI) Limited and Haitong International Finance Company Limited are deemed or taken to be interested in all the shares in which Haitong International Financial Solutions Limited holds security interests.

- 12 AMTD Investment Solutions Group Limited holds 100,000,000 shares of the Company. AMTD Investment Solutions Group Limited is 100% owned by AMTD Investment Solutions Limited, which is in turn 100% owned by AMTD Investments Limited. AMTD Investments Limited is 100% owned by AMTD Strategic Capital Group. AMTD Asia Limited holds 98.71% interest in AMTD Strategic Capital Group. AMTD Asia Limited is 100% owned by AMTD Asia (Holdings) Limited. AMTD Asia (Holdings) Limited is 100% owned by AMTD Group Company Limited. L.R. Capital Financial Holdings Limited holds 71.03% interest in AMTD Group Company Limited. L.R. Capital Financial Holdings Limited is held as to 65.10% and 34.10% by L.R. Capital MNP Limited and CM International Capital Limited. L.R. Capital MNP Limited is 100% owned by L.R. Capital Management Company (Cayman) Limited. CM International Capital Limited is 100% owned by CM International Capital Limited (中國國際資本有限公司), which is in turn 100% owned by China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司). Therefore, AMTD Investment Solutions Limited, AMTD Investments Limited, AMTD Strategic Capital Group, AMTD Asia Limited, AMTD Asia (Holdings) Limited, AMTD Group Company Limited, L.R. Capital Financial Holdings Limited, L.R. Capital MNP Limited, L.R. Capital Management Company (Cayman) Limited, CM International Capital Limited, CM International Capital Limited (中國國際資本有限公司) and China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) are deemed to be interested in the shares held by AMTD Investment Solutions Group Limited.

As at 31 December 2016, save as disclosed above, in so far as the Directors, Supervisors and chief executives of the Company are aware, there is no person who had an interest or short position in the shares, underlying shares or equity derivatives of the Company which are required to be recorded in the register to be kept under section 336 of the SFO or held an equity interest or short position of 5% or more in the issued capital of the Company which are required to be notified to the Company.

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

(I) Intesa Sanpaolo S.p.A.

Intesa Sanpaolo S.p.A. is a multi-national bank headquartered in Milan, Italy. It is one of the most prominent players of the Eurozone's banking industry as well as the industry-leader of Italy's retail, corporate business and wealth management businesses. Intesa Sanpaolo S.p.A. has a total of approximately 4,000 subsidiaries in Italy, providing tens of millions of customers with high-quality service. Tapping into overseas market is of great importance in Intesa Sanpaolo S.p.A.'s development strategy. By acquiring commercial banks in over a dozen countries in the regions of Central and Eastern Europe as well as the Mediterranean, Intesa Sanpaolo S.p.A. owns nearly 1,200 subsidiaries and 7.8 million customers in the above regions. In addition, Intesa Sanpaolo S.p.A. has set up subsidiaries in 29 countries and regions around the world to support its corporate business customers.

(II) Qingdao Conson Industrial Co., Ltd.

Qingdao Conson Industrial Co., Ltd. was established in 1997, and its legal representative is Huang Jianhui, with a registered capital of RMB2,000,000,000. It is a wholly state-owned company established on the basis of regulating the operation of state-owned assets according to the overall strategic requirement of the economic development of Qingdao with the approval of the People's Government of Qingdao. As a wholly-owned subsidiary of Qingdao Conson Development (Group) Co., Ltd. engaging in industry investment and operation, such company is an investing holding enterprise with investment focused on various sectors, such as energy and power, hotel and tourism, modern urban transportation, finance and real estates.

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

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

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

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

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Basic information of Directors

Name	Gender	Date of Birth	Position	Term	Initial Shareholding (shares)	Final Shareholding (shares)
GUO Shaoquan	Male	1962.08	Executive Director, Chairman	2010.05-2018.04	500,000	500,000
WANG Lin	Male	1963.09	Executive Director, President	2012.03-2018.04	500,000	500,000
YANG Fengjiang	Male	1964.07	Executive Director, Vice President	2012.05-2018.04	500,000	500,000
LU Lan	Female	1964.07	Executive Director, Secretary to the Board	2016.12-2018.04	380,000	380,000
ZHOU Yunjie	Male	1966.11	Non-executive Director	2015.06-2018.04	–	–
Rosario STRANO	Male	1963.04	Non-executive Director	2012.06-2018.04	–	–
WANG Jianhui	Male	1963.08	Non-executive Director	2007.05-2018.04	–	–
TAN Lixia	Female	1970.09	Non-executive Director	2012.05-2018.04	–	–
Marco MUSSITA	Male	1959.06	Non-executive Director	2011.12-2018.04	–	–
CHOI Chi Kin, Calvin	Male	1978.08	Non-executive Director	2016.12-2018.04	–	–
WANG Zhuquan	Male	1965.05	Independent Non-executive Director	2012.05-2018.04	–	–
DU Wenhe	Male	1958.03	Independent Non-executive Director	2014.01-2018.04	–	–
WONG Tin Yau, Kelvin	Male	1960.10	Independent Non-executive Director	2015.06-2018.04	–	–
CHEN Hua	Male	1967.07	Independent Non-executive Director	2015.06-2018.04	–	–
DAI Shuping	Female	1960.06	Independent Non-executive Director	2016.12-2018.04	–	–

2. Basic information of Supervisors

Name	Gender	Date of Birth	Position	Term	Initial Shareholding (shares)	Final Shareholding (shares)
CHEN Qing	Female	1959.06	Chairlady of the Board of Supervisors, Employee Supervisor	2016.12-2018.04	500,000	500,000
SUN Guoliang	Male	1957.04	Shareholder Supervisor	2016.05-2018.04	–	–
SUN Jigang	Male	1969.05	Employee Supervisor	2015.04-2018.04	272,822	272,822
XU Wansheng	Male	1967.05	Employee Supervisor	2015.04-2018.04	196,021	196,021
WANG Jianhua	Male	1953.09	External Supervisor	2015.04-2018.04	–	–
FU Changxiang	Male	1971.08	External Supervisor	2015.04-2018.04	–	–
HU Yanjing	Male	1959.06	External Supervisor	2015.04-2018.04	–	–

3. Basic information of senior management

Name	Gender	Date of Birth	Position	Commencement of the Term	Initial Shareholding (shares)	Final Shareholding (shares)
WANG Lin	Male	1963.09	President	2012.03	500,000	500,000
YANG Fengjiang	Male	1964.07	Vice President	2007.06	500,000	500,000
WANG Yu	Female	1968.01	Vice President	2007.06	500,000	500,000
YANG Changde	Male	1959.10	Vice President	2012.08	—	—
LU Lan	Female	1964.07	Secretary to the Board	2010.08	380,000	380,000

8.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the reporting period, according to the resolution at the 2016 second extraordinary general meeting of the Company, Mr. CHOI Chi Kin, Calvin was newly appointed as a Non-executive Director of the Company; Ms. Lu Lan was newly appointed as an Executive Director of the Company; and Ms. Dai Shuping was newly appointed as an Independent Non-executive Director of the Company. The qualification of directors of Mr. CHOI Chi Kin, Calvin, Ms. Lu Lan and Ms. Dai Shuping was approved by the Qingdao CBRC in December 2016.

During the reporting period, according to the resolution at the 2015 Shareholders Meeting of the Company, Mr. SUN Guoliang was newly appointed as a Shareholder Supervisor of the Company; according to the resolution at the fourth meeting of the 4th session of member (employee) congress, Ms. CHEN Qing was newly appointed as an Employee Supervisor of the Company; according to the resolution at the tenth meeting of the sixth session of the Board of Supervisors, Ms. CHEN Qing was newly appointed as a Chairlady of the Board of Supervisors of the Company. Ms. CHEN Qing no longer served as a Vice President of the Company. Mr. Fan Jianjun no longer served as a Shareholder Supervisor of the Company from May 2016; Ms. ZOU Junqiu resigned as a Chairlady of the Board of Supervisors and Employee Supervisor of the Company from December 2016 since she has reached the retirement age.

Save as disclosed above, no other change occurs to the Directors, Supervisors and Senior Management of the Company during the reporting period.

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

1. Mr. ZHOU Yunjie, a Non-executive Director of the Company, has been the president of Haier Group since December 2016, and ceased to be the alternative president.
2. Mr. DU Wenhe, an Independent Non-executive Director of the Company, has been the Chairman of the Board of Supervisors of JIC Trust Co., Ltd since August 2016, and ceased to be the Chairman of the Board of Supervisors of Jiantou Holding Co., Ltd.
3. Mr. WONG Tin Yau, Kelvin, an Independent Non-executive Director of the Company, has been an Independent Non-executive Director of Xinjiang Goldwind Science & Technology Co., Ltd. and Asia Investment Finance Group Limited since October 2016.
4. Mr. CHEN Hua, an Independent Non-executive Director of the Company, has been an Independent Director of Jining Rural Commercial Bank since September 2016.
5. Mr. SUN Jigang, an Employee Supervisor of the Company, has been the General Manager of the Credit Approval Department of the Company since September 2016, and ceased to be the General Manager of Credit Management Department of the Company.

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

Name	Name of Employers	Roles	Term
ZHOU Yunjie	Haier Group	Alternate President and deputy president of the board President and deputy president of the board	Since May 2013 to December 2016 Since December 2016 to date
Rosario STRANO	Intesa Sanpaolo Bank – Italy	Head of human resources	Since August 2015 to date
WANG Jianhui	Qingdao Conson Development (Group) Co., Ltd.	Chairman	Since April 2013 to date
TAN Lixia	Haier Group	Senior vice president and chief financial officer Executive vice president and chief financial officer	Since June 2010 to February 2016 Since February 2016 to date
Marco MUSSITA	Unionlife Insurance Co., Ltd.	Director	Since May 2008 to date
CHOI Chi Kin, Calvin	AMTD Group	Chairman, president and managing director	Since January 2016 to date
SUN Guoliang	Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	Member of the party committee, director, and deputy general manager	Since September 2015 to date

8.5 BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. GUO Shaoquan, aged 54, was appointed as our Executive Director on 6 January 2010 and has been appointed as our Chairman in January 2010. Mr. Guo graduated from Nankai University in Tianjin in December 2004, majoring in executive business administration and obtained an EMBA degree. He also graduated from Peking University in July 2013, majoring in executive business administration and obtained an EMBA degree. Mr. Guo joined our Bank in November 2009 as secretary of the party committee. Prior to joining our Bank, Mr. Guo served as the head of the Tianjin branch of China Merchants Bank from July 2009 to November 2009, and he also served as the head of the Qingdao sub-branch and Qingdao branch of China Merchants Bank from April 2000 to December 2002 and from December 2002 to June 2009. Prior to that, he worked at the Qingdao branch of China Construction Bank from December 1980 to April 2000, successively as deputy chief of appropriation sub-department II, deputy of chief of investment sub-department II and deputy chief of the investment sub-department of the business department of the branch, chief of the investment department, assistant to the director and deputy director of the Shinan District office, deputy head and head of the Hi-tech Industrial Park, sub-branch and deputy head of the Hi-tech Industrial Park branch.

Mr. WANG Lin, aged 53, was appointed as our Executive Director on September 16, 2011, and has been our President since March 2012. Mr. Wang graduated from Nanjing University of Finance in Jiangsu Province, majoring in finance, and obtained a bachelor's degree in management in December 2000. He also graduated from Peking University, majoring in executive business administration, and obtained an EMBA degree in July 2006. He joined our Bank in July 2011 as the deputy secretary of the party committee. Prior to joining our Bank, Mr. Wang served as the general manager of the pension finance department and supplementary pension management center of the head office of China Merchants Bank from February 2010 to August 2010 and from August 2010 to July 2011, respectively. He also served as the head and secretary of the party committee of the Ningbo branch of China Merchants Bank from July 2005 to February 2010, and general manager of the corporate banking department of the head office of China Merchants Bank from June 2002 to July 2005. He also worked at the Nanjing branch of China Merchants Bank from December 1996 to June 2002 as deputy head and head of Chengbei sub-branch, head of Hunan Road sub-branch and Chengxi sub-branch, assistant to the head and deputy head of the Nanjing branch. Prior to that, he worked with the Nanjing branch of Agricultural Bank of China from July 1984 to December 1996 as an accountant, staff member of the credit office, secretary of the office and senior staff member of Pukou sub-branch, assistant to the director and deputy director of the Chengbei office as well as deputy general manager of the international department of the Nanjing branch.

Mr. YANG Fengjiang, aged 52, was appointed as our Executive Director on 10 April 2012 and has been our Vice President since June 2007. Mr. Yang graduated from Shaanxi Financial College, majoring in finance, and obtained a bachelor's degree in economics in July 1985. Mr. Yang joined our Bank in July 2003 and served as an assistant to the President and general manager of our treasury operation department from January 2006 to June 2007, Mr. Yang was the general manager of our treasury operation department from July 2003 to January 2006. Prior to joining our Bank, he served as the general manager of the investment banking department and bond department of Qingdao Wantong Securities Co., Ltd. (now known as CITIC Securities (Shandong) Co., Ltd.) from April 1999 to July 2003. Mr. Yang served successively as a member of the preparation group, deputy manager and general manager of the business development department of the Qingdao Securities Trading Center from May 1993 to April 1999. He also served as a senior staff member of the Qingdao branch of the People's Bank of China from November 1989 to May 1993.

Ms. LU Lan, aged 52, was appointed as our secretary to the Board in August 2010 and has been appointed as our Executive Director on 14 October 2016. Ms. Lu graduated from Nankai University, majoring in sociology, and obtained a bachelor's and master's degree in law in July 1987 and June 1990, respectively. She joined our Bank in August 2010. Prior to that, she served as a deputy manager, manager and senior manager of the office of board of directors of China Merchants Bank from October 2001 to July 2010. She was also a practicing lawyer working with Fuzhou Junli Law Firm from August 1997 to October 2001. She served as a project manager of Jardine Fleming's Beijing office from August 1995 to August 1997. She was an editor of the China Society Press from June 1990 to August 1995.

Mr. ZHOU Yunjie, aged 50, was appointed as our Non-executive Director on 10 April 2015. Mr. Zhou graduated from Huazhong Polytechnic University (now known as Huazhong University of Science and Technology), majoring in welding engineering and obtained a bachelor's degree in engineering in July 1988. He graduated from Ocean University of China in Shandong, majoring in corporate management, and obtained a master's degree in corporate management in June 1999. He also graduated from Xi'an Jiaotong University in Shaanxi, majoring in business administration, and obtained a doctorate degree in business administration in January 2006. He has been serving as an executive director and general manager of Haier Electronics Group Co., Ltd. since November 2009, and he was appointed as chief executive officer and chairman of the board of the abovementioned company in March 2013 and June 2013, respectively. He has been an alternative president and deputy chairman of the board of Haier Group Corporation from May 2013 to December 2016 and president and deputy chairman of Haier Group Corporation since December 2016. Mr. Zhou served as the senior vice president, chief marketing officer and executive vice president of Haier Group Corporation from November 2007 to May 2013. He served as probational vice president, vice president and head of the refrigeration product department and head of the promotion division and secretary of the party committee of Haier Group Corporation from August 1999 to November 2007. Mr. Zhou has been the head and general manager of the quality department, head of the electrical department and secretary of the party committee of Qingdao Haier Refrigerator Co., Ltd. (now known as Qingdao Haier Co., Ltd.) from August 1994 to August 1999. He has been the assistant to the chief, deputy chief and chief of the sales division of Qingdao Refrigerator Factory (now known as Qingdao Haier Co., Ltd.) and the vice director and director of the second factory of Qingdao Refrigerator Co., Ltd. (now known as Qingdao Haier Co., Ltd.) from October 1989 to August 1994.

Mr. Rosario STRANO, aged 53, was appointed as our Non-executive Director on 10 April 2012. Mr. STRANO graduated cum laude with a degree in law in July 1988 from the University of Bari in Italy. He has been serving as the chief human resources officer of ISP since 1 August 2015. He has also been an non-executive director of Intesa Sanpaolo Bank-Albania since March 2011. He served as the head of resources and corporate governance department at the international subsidiary banks division of Intesa Sanpaolo from May 2010 to July 2015. He was a vice president of Credit Agricole Cariparma from January 2010 to May 2010. Prior to that, he held the positions of the head of human resources and organisation department, human resources department and resources and corporate governance department at the international subsidiary banks division of ISP from January 2007 to January 2010. He also served as the supervisor of Privredna Banka Zagreb, and the director of KMB Bank since April 2009. He also served as the head of human resources and organisation department of Italian and international subsidiary banks division of Banca Intesa (now known as ISP) from October 2002 to December 2006. Before that, Mr. STRANO served as the head of external relations of the central south department of Poste Italiane from May 2000 to October 2002. From January 1989 to May 2000, Mr. STRANO worked at Banca di Roma, Alitalia, Grand Hotel Baglioni and Agenzia Nazionale Stampa Associata successively.

Mr. WANG Jianhui, aged 53, was appointed as our Non-executive Director on March 30, 2007. Mr. Wang graduated from Qingdao Financial College, majoring in finance and taxation, in July 1984. Mr. Wang graduated from Tianjin University, majoring in business administration, in June 1998, and obtained a master's degree in business administration in September 1998. He served successively as the general manager, director, vice chairman and deputy secretary of the party committee of Qingdao Conson Development (Group) Co., Ltd., which is engaged in the management of state-owned capital, since February 2008, as the general manager and chairman since April 2013 and as the chairman since December 2015. He has been the chairman of Zhonglu Property And Casualty Insurance Co., Ltd., since September 2015. Before that, he served as the general manager and director of Qingdao Conson from April 2006 to February 2008. He also served as deputy director of the State-owned Assets Supervision and Administration Commission of Qingdao Government from July 2004 to April 2006, and as deputy director of the National Asset Management Office of Qingdao from April 2001 to July 2004. Mr. Wang was also head of the property rights and regulation division and chief of the assessment and management division of the State-owned Assets Administration of Qingdao (State-owned Assets Office) from July 1996 to April 2001. and successively as senior staff member, principal staff member and deputy division chief of the Finance Bureau of Qingdao from July 1984 to July 1996.

Ms. TAN Lixia, aged 46, was appointed as our Non-executive Director on 10 April 2012. Ms. Tan graduated from Central Institute of Finance and Banking (now known as Central University of Finance and Economics), majoring in agricultural finance and credit, and obtained a bachelor's degree in economics in June 1992. She graduated from Europe International Business School in Shanghai, majoring in business administration, and obtained a master's degree in business administration in September 2010. She has been serving as a non-executive director of Haier Electronics Group Co., Ltd. since November 2013. Ms. Tan was also our Supervisor from August 2007 to April 2012. Ms. Tan joined Haier Group Corporation in August 1992 and had held several positions since then. She is currently the senior vice president and chief financial officer of Haier Group Corporation and deputy chairman of the board of directors of Qingdao Haier Co., Ltd. From June 2010 to February 2016, she has been the senior vice president and chief financial officer of Haier Group Corporation and deputy chairman of the board of directors of Qingdao Haier Co., Ltd. Ms. Tan served as the vice president, head of department of financial management and chief financial officer of Haier Group Corporation from June 2006 to May 2010 and the deputy head and head of department of overseas market development of Haier Group Corporation from April 1999 to June 2006.

Mr. Marco MUSSITA, aged 57, was appointed as our Non-executive Director on 16 September 2011. Mr. MUSSITA graduated from Università Ca' Foscari Venezia (Ca' Foscari University of Venice) in Italy, majoring in oriental literature and language, and obtained a master's degree in oriental literature and language in March 1986. He has been the supervisor of Qingdao Yicai Wealth Management Co., Ltd. since September 2016, the supervisor of MeccanotecnicaUmbras.p.A. (Qingdao) Mechanical Seal Co., Ltd., since May 2012, the director and general manager of Union Life Insurance Co., Ltd. and the general manager of Eurizon (Beijing) Business Consultation Co., Ltd. since May 2008 and the director of OMR (China) Automotive Components Co., Ltd. since June 2007. He has been the general manager and director of Shanghai Zhongyi Business Consulting Co., Ltd. (its main business is foreign investment consulting) from September 2003 to April 2008. Prior to that, he joined Banca Commerciale Italiana (now known as ISP) in April 1987, and successively served as an assistant to the chief representative of the Beijing office, assistant to the vice-president of the New York branch, manager of the credit department of the Hong Kong branch, vice general manager of the Shanghai branch and vice general manager of the Tokyo branch from May 1990 to August 2003. From March 1984 to April 1987, Mr. MUSSITA worked respectively at SKYHO A.G. as a sales representative of the Beijing branch and Ing.L.Dolci S.p.A. as a sales manager of the China region.

Mr. CHOI Chi Kin, Calvin, aged 38, was appointed as our Non-executive Director on 14 October 2016. Mr. Choi graduated from University of Waterloo in Canada, majoring in chartered accountants and obtained a Bachelor of Arts degree in June 2001. He has been a chairman, president and managing director of AMTD Group since January 2016. He was a managing director of investment banking division of Union Bank of Switzerland and member of the Asian-Pacific Committee of Global family office from October 2010 to January 2016. He was a director of Hongkong corporate finance department of PricewaterhouseCoopers from January 2009 to October 2010, an executive director of investment banking division and Chief strategy officer of China region of Citigroup Inc. from August 2005 to December 2008, and a senior manager of audit department of Hongkong and Beijing office of PricewaterhouseCoopers from December 2000 to August 2005.

Mr. WANG Zhuquan, aged 51, was appointed as our Independent Non-executive Director on 10 April 2012. He has been serving as an independent director of Yantai Changyu Pioneer Wine Company Limited from September 2007 to May 2013 and since May 2014. Furthermore, he has been serving as the independent director of Hailir Pesticides and Chemicals Group Co., Ltd. since August 2011, and Qingdao Liquan Department Store Group Co., Ltd. since September 2013, and Qingdao Doublestar Co., Ltd. since December 2013, and Qingdao TGOOD Electric Co., Ltd. from May 2009 to December 2015, and Shandong Binzhou Bohai Piston Co., Ltd. from April 2009 to November 2015. He held the position of a supervisor (from May 2010 to April 2013) and is an independent director (from April 2004 to May 2010 and since May 2016) of Qingdao Kingking Applied Chemistry Co., Ltd. He also served as an independent director of Mesnac Co., Ltd. from December 2006 to December 2009. From October 2004 to June 2009, he was the independent director of Qingdao Jiante Biological Investment Co., Ltd.

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

Mr. DU Wenhe, aged 58, was appointed as our Independent Non-executive Director on 6 December 2013. Mr. Du graduated from the second branch of the Beijing Institute of Technology (now known as Beijing Union University), majoring in computer technology, and obtained a bachelor's degree in engineering in January 1983. He has been the chief supervisor of JIC Trust Co., Ltd since August 2016, and was the chief supervisor of Jiantou Holding Co., Ltd. from April 2013 to August 2016. He served as the head of the information technology center of China Jianyin Investment Ltd. from April 2011 to April 2013. He was the chairman, general manager and secretary of the party committee of Zhongtuo Kexin Technology Co., Ltd. (now known as Jiantou Huake Investment Co., Ltd.), a company engaged in technology development, from August 2007 to April 2011. He was also the general manager of Jianyin technology development centre of China Jianyin Investment Ltd. from February 2005 to August 2007. Prior to that, he served as the deputy chief and chief of the planning standard division of the electronic computation center, vice general manager of the information technology department and the deputy head of the Suzhou branch of China Construction Bank from August 1986 to February 2005. He worked at the Computer Software Center of Beijing from February 1983 to August 1986.

Mr. WONG Tin Yau, Kelvin, aged 56, was appointed as our Independent Non-executive Director on 10 April 2015. Mr. Wong has been an independent non-executive director of Xinjiang Goldwind Science & Technology Co., Ltd., Asia Investment Finance Group Limited, Huarong International Financial Holdings Limited, Shanghai Fosun Pharmaceutical (Group) Co., Ltd., China ZhengTong Auto Services Holdings Limited and I.T Limited since October 2016, October 2016, October 2015, June 2015, November 2010, August 2007, respectively.

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

Mr. CHEN Hua, aged 49, was appointed as our Independent Non-executive Director on 10 April 2015. Mr. Chen has been an Independent Non-executive Director of Shanda Wit Science and Technology Co., Ltd. since March 2013, and Shandong Communication and Transportation Group since May 2016, and Jining Rural Commercial Bank since September 2016.

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

Ms. DAI Shuping, aged 56, was appointed as our Independent Non-executive Director on 14 October 2016. Ms. Dai graduated from Inter American University in July 2001, and obtained a master's degree in business administration. Ms. Dai has been serving as the dean of Qianhai Institute of Financial Management Limited since July 2015. She successively served as the assistant to the general manager of headquarter credit department, the general manager of credit department under Shenzhen administrative division, the deputy general manager of headquarter corporate banking department, the deputy general manager of headquarter risk management department, the general manager of headquarter credit management department, the general manager of headquarter credit approval department, the general manager of headquarter legal and compliance department, the general manager of headquarter audit department and the headquarter inspector of China Merchants Bank from October 1988 to July 2015, the bank staff and deputy chief of Shekou Sub-branch, Shenzhen Branch of the Industrial and Commercial Bank of China from January 1985 to October 1988, the bank staff of Urumqi Sub-branch of the People's Bank of China and the Industrial and Commercial Bank of China from December 1979 to December 1984.

Supervisors

Ms. CHEN Qing, aged 57, was appointed as our chief Supervisor on 15 December 2016. Ms. Chen graduated from Shanghai University of Finance and Economics, majoring in finance (adult higher education) in December 1989. She also graduated from the Southwest University of Science and Technology in Sichuan Province, majoring in accounting (online education), and obtained a bachelor's degree in accounting in July 1996. She joined Qingdao City Cooperative Bank (the predecessor of our Company) in October 1996 and had held various positions including the principal of the Huiheng sub-branch, deputy head of the Technology sub-branch, deputy head of the Rehe Road sub-branch and head of the Yan'ansan Road sub-branch from October 1996 to September 2002. Prior to joining our Company, she was the chief of the planning sub-division under the planning division of the Qingdao Xintong Urban Credit Cooperative from November 1994 to October 1996. She was an accounting officer of the cadre training center of People's Bank of China from February 1994 to November 1994. Prior to that, she successively served as the deputy chief of the accounting division of the Shinan District office and director of Shinan District Tianqiao office under the Qingdao branch of Industrial and Commercial Bank of China from December 1987 to February 1994. She also served as an accountant of the Shinan District office and the deputy director of the Longkou Road branch office under the Shinan District office of the Qingdao branch of the People's Bank of China from December 1980 to December 1987. In addition, she was an accountant of Jiaoxian subbranch of the People's Bank of China from May 1978 to December 1980.

Mr. SUN Guoliang, aged 59, was appointed as supervisor of the Company on 10 May 2016. Mr. Sun currently serves as the shareholder supervisor of the Company. Mr. Sun graduated from Tianjin University majoring in industrial enterprise management with a master's degree in December 1993. He has acted as a member of the Party Committee, a director and deputy manager of Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. and the chairman, chief executive officer and general manager of Qingdao Huatong Business Travel & Real Estate Co., Ltd. since September 2015. He has also served as a director of Qingdao Aucma Company Limited since April 2014, the chairman of Qingdao Zhongshan ShoppingMall Co., Ltd. since October 2011. Mr. Sun was the deputy general manager and a member of the Party Committee of Qingdao Huatong from February 2008 till June 2015; the director of the Investment Department, the director and deputy general manager of the General Office and a member of the Party Committee of Qingdao Hongxin Company from October 2000 till February 2008; the deputy chief of the Urban Society Section and the deputy chief of the General Department of the Information Research Office under the Municipal Government of Qingdao from July 1998 till October 2000; the secretary, deputy departmental secretary, departmental secretary, assistant researcher and deputy director of the Inspection Section of the General Office under the Municipal Government of Qingdao from April 1991 till July 1998; and the secretary, deputy director and director of the General Office of Qingdao No. 2 Vehicles Transportation Co., Ltd. from December 1976 till April 1991.

Mr. SUN Jigang, aged 47, was appointed as our Employee Supervisor on 25 January 2006. Mr. Sun graduated from Xiamen University, majoring in finance, and obtained a bachelor's degree in economics in July 1991. He joined our Company in December 1996, and has been the general manager of our credit approval department since September 2016. He served as the general manager of our credit management department from February 2010 to September 2016, and the deputy general manager and general manager of our risk control department from September 2004 to February 2010. He also served as an accountant of the business department, officer of special asset management department, deputy chief of credit planning division of the business department and assistant to the general manager of our business department from December 1996 to September 2004. Prior to joining our Company, he served as a clerk of the Qingdao Check Point office under the Shandong branch of the State Administration of Foreign Exchange from July 1991 to December 1996.

Mr. XU Wansheng, aged 49, was appointed as our Employee Supervisor on 23 January 2007. Mr. Xu graduated from the Shandong Industrial University, majoring in applied mathematics, and obtained a bachelor's degree in engineering in July 1990. He joined our Company in July 2003, and has been the general manager of our audit department since December 2012. He was the head of our internal audit department (which was renamed as audit department from February 2012) from September 2006 to December 2012. He was the deputy general manager of our finance and accounting department from July 2003 to September 2006. Prior to that, between July 1990 to July 2003, he served various roles at the Bank of China, including staff member of the finance and accounting division of the Huanghai branch, staff member of system check and balancing section under finance and accounting division, head of system division of Qingdao branch, deputy head of the Chengyang sub-branch, the principal of the system sub-division under the finance and accounting division and the chief of the computer audit sub-division under the audit division of the Shandong branch.

Mr. WANG Jianhua, aged 63, was appointed as our External Supervisor on 10 April 2015. Mr. Wang graduated from Liaoning Institute of Finance and Economics (now known as Dongbei University of Finance and Economics), majoring in construction finance and credit, and obtained a bachelor's degree in economics in July 1983. He graduated from Xiamen University, majoring in monetary banking, and obtained a master's degree in economics in July 1997. He was a director of Happy Life Insurance Co., Ltd. from August 2007 to December 2014. He served as, among others, the director of the Shenzhen office of China Cinda Asset Management Corporation (now known as China Cinda Asset Management Co., Ltd.) from August 1999 to August 2007. Mr. Wang was the head of the Qingdao branch of China Construction Bank from March 1998 to July 1999. He successively served as the deputy chief of the planning division, chief of the credit division, general manager of the international business department, head of the regional center subbranch, general manager of the trust investment company, chief of the finance and accounting division and deputy head of the Jiangxi branch of China Construction Bank from August 1983 to March 1998.

Mr. FU Changxiang, aged 45, was appointed as our External Supervisor on 10 April 2015. Mr. Fu graduated from Lanzhou University, majoring in national economy management, and obtained a bachelor's degree in economics in June 1993. He has been serving as the chief accountant in Qingdao Xinyongda Accounting Firm Co., Ltd. since July 2003. He has also been working as a deputy general manager in Qingdao Ruize Certified Tax Agents Firm Co., Ltd. since November 1997. Prior to that, he worked at Qingdao Special Purpose Vehicles Factory (now known as Sinotruk Qingdao Heavy Industry Co., Ltd.) from July 1993 to November 1997.

Mr. HU Yanjing, aged 57, was appointed as our External Supervisor on 10 April 2015. Mr. Hu graduated from Lanzhou University, majoring in political economics, and obtained a bachelor's and a master's degree in economics in July 1984 and June 1996, respectively. He also graduated from Ocean University of China in Shandong Province, majoring in fishery resources, and obtained a doctorate degree in agronomy in June 2004. Mr. Hu has been working at Qingdao University since July 1996. He has been the associate editor of the "Oriental Forum" and professor of economics since August 2013, and concurrently the deputy director of the society of Shandong University Journals since 2014. He was the dean and a professor of economics of the International College of Qingdao University from August 2007 to July 2013, and taught at the International Business College and School of Economics from July 1996 to July 2007. He has been the deputy dean of International Finance College and School of Economics since December 2000. Prior to that, he taught at the political economics department of the Party School under Gansu Provincial Committee of the Communist Party of China from July 1984 to August 1993.

Senior Management

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

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

Ms. WANG Yu, aged 49, was appointed as our Vice President in June 2007. Ms. Wang graduated from Finance and Economic Institute of Tianjin, majoring in enterprise management, and obtained a bachelor's degree in economics in July 1989. She graduated from Tongji University in Shanghai, majoring in business administration, and obtained a master's degree in business administration in November 2001. She joined our Company in April 2002 and served as deputy head and head of our Hong Kong East Road sub-branch, as well as assistant to our President from April 2002 to June 2007. Prior to joining our Company, she successively served as cadre and staff member of the deposit and remittance division of the Huanghai branch, a senior staff member and principal staff member of the credit card division of the Qingdao branch, as well as deputy head of the high-technology park sub-branch of Bank of China from June 1990 to April 2002.

Mr. YANG Changde, aged 59, was appointed as our Vice President in August 2012. Mr. Yang graduated from Distance Education College of Renmin University of China, majoring in finance, and obtained a bachelor's degree in economics in June 2007. He joined our Company in March 2012 and served as assistant to our President from March 2012 to August 2012. Prior to joining our Company, he served as the chief of the personnel division of the Qingdao CBRC from April 2007 to March 2012, principal and chief of the joint-stock banks regulation division of the Qingdao CBRC from October 2003 to April 2007. Prior to that, he served as a cadre and principal staff member of the personnel division of the Qingdao branch, deputy head of the Pingdu sub-branch, deputy director and director of the office of Qingdao central sub-branch, as well as the head of the joint-stock banks regulation division of the Qingdao central sub-branch of the People's Bank of China from September 1994 to October 2003.

Ms. LU Lan, for the biography of Mr. Wang, please refer to "Directors" in this section.

8.6 REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the reporting period, details of the remuneration of directors, supervisors and senior management are set out in note 9, note 10 and note 35(3) of the financial statements of this annual report.

8.7 EMPLOYEES AND HUMAN RESOURCES MANAGEMENT

8.7.1 Details of employees

1. Composition of employees

As at the end of the reporting period, the Company had 3,276 employees, including 583 at the head office, accounting for 17.80%; 1,486 at branches and sub-branches in Qingdao, accounting for 45.36%; and 1,207 at branches and sub-branches in other cities, accounting for 36.84%.

2. Composition by age

The average age of the employees of the Company was 34, of which 1,436 were aged 20 (inclusive) to 30, accounting for 43.83%; 957 were aged 30 (inclusive) to 40, accounting for 29.21%; 716 were aged 40 (inclusive) to 50, accounting for 21.86%; and 167 were aged above 50 (inclusive), accounting for 5.10%.

3. Composition by education

There were 557 employees of the Company with a master's degree or above, accounting for 17.00%, of which 13 were doctoral degree holders; 2,247 were bachelor's degree holders, accounting for 68.59%; and 472 were college graduates or below, accounting for 14.41%.

4. Composition by gender

There were 1,496 male employees, accounting for 45.67%; and 1,780 female employees, accounting for 54.33%.

8.7.2 Overall management of human resources

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

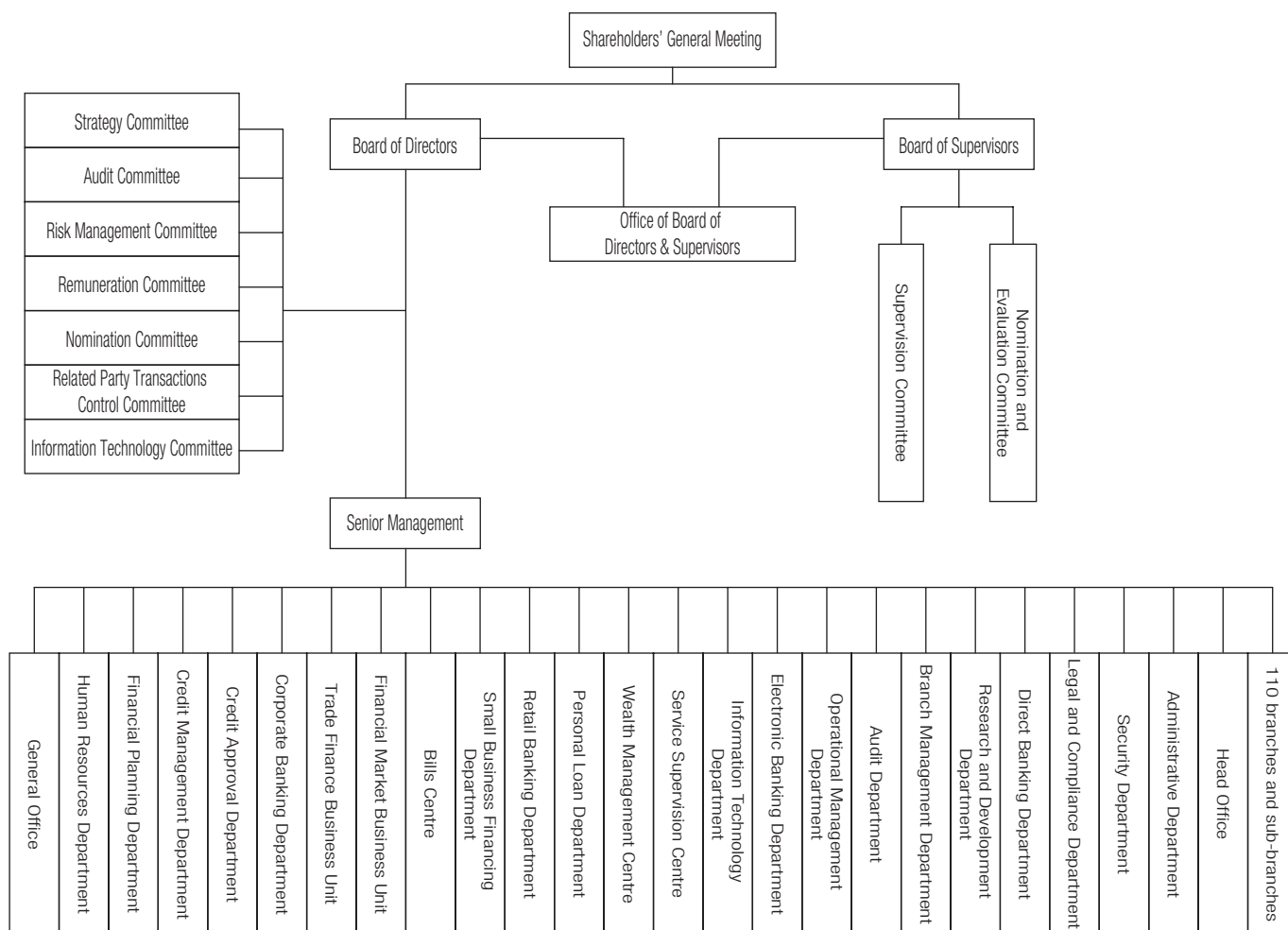
8.7.3 Policy on employee remuneration

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

8.7.4 Training for employees

The Company attached great importance to training employees and cultivating talents. The Company continued to improve training system, optimize training programs and enrich training contents according to overall development planning and promote the training for middle and senior management, professional and technical personnel and young employees in order to further enhance the comprehensive quality and professional skills of overall employees. In 2016, the aggregate number of participants of various staff training activities reached 52,481, with an average of 16 training sessions for each employee.

8.8 ORGANIZATION CHART



8.9 LIST OF BRANCHES AND SUB-BRANCHES

No.	Name of branch/sub-branch	Address
1	Head Office	No.68 Hong Kong Middle Road, Shinan District, Qingdao
2	Jinan Branch	Industry Association Building, No.157 Lishan Road, Lixia District, Jinan
3	Jinan High-tech Zone Sub-branch	Tower C, Yinhe Building, No.2008 Xinluo Avenue, Jinan Hi-tech Development Zone
4	Jinan Jiluo Road Sub-branch	1st and 2nd Floors, Qilu Brand-name Shoe City Building, No.82 Jiluo Road, Tianqiao District, Jinan
5	Jinan Zhangqiu Sub-branch	1st Floor, Jiahua Shopping Plaza, No.76 Huiquan Road, Zhangqiu
6	Jinan Shungeng Sub-branch	1st – 3rd Floors, No.2 Shunyu Road, Shizhong District, Jinan
7	Jinan Jiangshuiquan Sub-branch	Room 101, Yanjie Commercial Building, Zhengda City Garden Phase 2, West of Jiangshuiquan Road, Lixia District, Jinan
8	Jinan Quanfu Sub-branch	No.301 Gongye North Road, Licheng District, Jinan
9	Jinan Luoyuan Sub-branch	No.480 Weiyi Road, Shizhong District, Jinan
10	Jinan Jiaoyuan Sub-branch	1st Floor, Library (Office Building) of Shandong Jiaotong University, No.5001 Haitang Road, Changqing District, Jinan
11	Jinan Nanquanfu Community Sub-branch	Room 102, Unit 2, Building 12, Block South-2, Nanquanfu Avenue, Licheng District, Jinan
12	Jinan Yongda Mingzhu Community Sub-branch	No.101, Unit 1, West of Building 29, Zone 4, Yongda Mingzhu Dongshan Garden, No.1992 Shuangshan North Road, Zhangqiu
13	Jinan Lishan North Road Sub-branch for Small and Micro Enterprises	No.105-2 Lishan North Road, Tianqiao District, Jinan
14	Jinan High-tech Zone Administrative Service Centre Sub-branch for Small and Micro Enterprises	9th Floor, Administrative Approval Centre Office Building of Jinan High-tech Zone Administrative Committee, No.77 Shunhua Road, Jinan High-tech Zone
15	Jinan Huaiyin Sub-branch	No.192 Zhangzhuang Road, Huaiyin District, Jinan
16	Jinan Technology Market Community Sub-branch	1st Floor, No.160 Shanda Road, Lixia District, Jinan
17	Dongying Branch	No.72 Fuqian Avenue, Dongying District, Dongying
18	Dongying District Sub-branch	No.490 Xi'er Road, Dongying District, Dongying
19	Dongying Kenli Sub-branch	No.27 Zhongxing Road, Kenli County, Dongying
20	Dongying Guangrao Sub-branch	No.790 Le'an Avenue, Guangrao County, Dongying
21	Dongying Lijin Sub-branch	No.486 Jin'er Road, Lijin County, Dongying
22	Weihai Branch	No.112, No.3-4 Shichang Avenue, Weihai
23	Weihai Rongcheng Sub-branch	No.389 Chengshan Avenue Middle, Rongcheng
24	Weihai Economic and Technological Development Zone Sub-branch	No.106-1 Daqing Road, Weihai Economic and Technological Development Zone
25	Weihai Shidao Sub-branch	Building located at No.99 Huanghai Middle Road, Shidao, Rongcheng
26	Weihai Wendeng Sub-branch	No.93 Wenshan Road, Wendeng District, Weihai
27	Weihai Qingdao Road Sub-branch	No.9 Qingdao South Road (South), Weihai
28	Zibo Branch	No.266 Liantong Road, Zhangdian District, Zibo
29	Zibo Linzi Sub-branch	No.772 Linzi Avenue, Linzi District, Zibo
30	Zibo Zhangdian Sub-branch	No.126 Huaguang Road, Zhangdian District, Zibo

No.	Name of branch/sub-branch	Address
31	Dezhou Branch	No.717 Dexing Middle Avenue, Decheng District, Dezhou
32	Dezhou Technology Sub-branch	No.101, Building S6, Zhongjian Huafu Community, Sanba East Road, Dezhou
33	Zaozhuang Branch	No.215 Qingtan North Road, Shizhong District, Zaozhuang
34	Zaozhuang Tengzhou Sub-branch	No.1601, Building 16, Jiuzhou Qingyan Community, Shanguo Middle Road, Tengzhou
35	Yantai Branch	No.454 Shengli Road, Zhifu District, Yantai
36	Yantai Development Zone Sub-branch	No.108, Building 6, Haixin Garden, No.177 Huanghe Road, Development Zone, Yantai
37	Binzhou Branch	No.471 8th Huanghe Road, Binzhou
38	Weifang Branch	No. 124, Building 7, No.6636 Fushou East Street, Kuiwen District, Weifang
39	Laiwu Branch	No.57, Wanfu North Road, Laicheng District, Laiwu
40	West Coast Branch	Shuangzhu Road, Huangdao District, Qingdao (the original No.286 Zhuhai East Road, Jiaonan)
41	Jiaonan Sub-branch	Shuangzhu Road, Huangdao District, Qingdao (the original No.49 Zhuhai Road, Jiaonan)
42	Economic and Technological Development Zone Sub-branch	Jianguo Building, No.519-2 Changjiang Middle Road, Qingdao Economic and Technological Development Zone
43	Jinggangshan Road Sub-branch	No.541 Jinggangshan Road, Qingdao Economic and Technological Development Zone
44	Chongmingdao Road Sub-branch	No.17 Chongmingdao West Road, Qingdao Economic and Technological Development Zone
45	Dongjiakou Sub-branch	No.2 Muguandao Road, Residence Area of Poli Town, Huangdao District, Qingdao
46	Wuyishan Road Sub-branch	No.364 Wuyishan Road, Qingdao Economic and Technological Development Zone
47	Shandong University of Science and Technology Sub-branch	No.594 Qianwangang Road, Qingdao Economic and Technological Development Zone
48	Dongjiakou No.2 Sub-branch	Building 3, Complex Building, Dongjiakou Port Area, Qingdao Port, Qingdao
49	City North Sub-branch	No.172-1 Dunhua Road, Qingdao
50	Dunhua Road Sub-branch	No.50-D Dunhua Road, Qingdao
51	Nanjing Road Sub-branch	No.308 Nanjing Road, Qingdao
52	Chongqing Road Sub-branch	No.298 Chongqing South Road, Qingdao
53	Remin Road No.1 Sub-branch	No.102 Renmin Road, Qingdao
54	Maidao Sub-branch	Shop 45-1, Maidao Jin'an, No.1 Donghai East Road, Qingdao
55	Shazikou Sub-branch	No.94 Laoshan Road, Qingdao
56	Jiaozhou Sub-branch	No.333 Aomen Road, Jiaozhou
57	Jiaozhou Jiaodong Community Sub-branch	Shop 107, 1st Floor, Building 10, Pinshuo Huanian Community, No.7 Heping Road, Jiaodong Office, Jiaozhou
58	Jiaozhou Fuzhou South Road Sub-branch	No.17 Fuzhou South Road, Jiaozhou
59	Jiaozhou Ligezhuang Community Sub-branch	No.182 Lianyi Avenue, Ligezhuang Town, Jiaozhou
60	Hai'er Road Sub-branch	Outlet located at 1st Floor of the attached wing of Zhongshang International Building, No.8 Quanling Road, Laoshan District, Qingdao
61	Tong'an Road Sub-branch	No.809 Tong'an Road, Qingdao
62	Chengyang Sub-branch	No.220 Zhengyang Road, Chengyang District, Qingdao
63	Zhengyang Road Sub-branch	No.179-1 Zhengyang Road, Chengyang District, Qingdao
64	Hong Kong Middle Road No.1 Sub-branch	Qingdao Yamai International Centre, No.7-A Hong Kong Middle Road, Qingdao

No.	Name of branch/sub-branch	Address
65	Minjiang Road Sub-branch	No.18 Minjiang Road, Qingdao
66	Laoshan Sub-branch	Jinling Shangjie Outlet, No.17-10 Xianxialing Road, Qingdao
67	Zhonghan Community Sub-branch	No.856-25 Hefei Road, Qingdao
68	Guantao Road Sub-branch	No.1 Guantao Road, Qingdao
69	Xiangyang Road Sub-branch	No.90 Xiangyang Road, Qingdao
70	Jiushuidong Road Sub-branch	Nos.189-1 and 189-2 Jiushui East Road, Qingdao
71	Jufeng Road Sub-branch	Nos.3011-3014, No.178 Jufeng Road, Qingdao
72	May Fourth Square Sub-branch	Huareng Building, No.31 Donghai West Road, Shinan District, Qingdao
73	Jimo Sub-branch	No.848 Lan'ao Road, Jimo City, Qingdao
74	Jimo Economic Development Zone Sub-branch	No.38-8 Heshan Road, Jimo Economic Development Zone
75	Jimo Yanqing Road Sub-branch	No.42 Jianming Street, Jimo City
76	Nanjing Road No.2 Sub-branch	No.8 Nanjing Road, Qingdao
77	Hong Kong Middle Road No.2 Sub-branch	No.169 Hong Kong Middle Road, Qingdao
78	Qingdao University Sub-branch	Outlet located at the library of Qingdao University, No.308 Ningxia Road, Qingdao
79	Pingdu Sub-branch	No.23 Hongqi Road, Pingdu
80	Pingdu No.2 Sub-branch	No.30 Hangzhou Road, Pingdu
81	Pingdu Nancun Community Sub-branch	No. 129-1 Sancheng Road, Residence Area of Nancun Town, Pingdu
82	6th Taidong Road Sub-branch	No.60, 6th Taidong Road, Qingdao
83	3rd Taidong Road Sub-branch	No.17-C Fengsheng Road, Qingdao
84	Yinchuan Road Sub-branch	Outlet located at No.1 Zhonghai Yinhai, No.7 Yinchuan West Road, Qingdao
85	Yanji Road Community Sub-branch	No.155 Yanji Road, Qingdao
86	Technology Sub-branch	Outlet located at Tower C, Chuangye Building, No.1 Zhilidao Road, Hi-Tech Industrial Development Zone, Qingdao
87	Hongdao Community Sub-branch	No.88 Aodong South Road, Hongdao Street, Hongdao Economic Zone, Qingdao
88	Laixi Sub-branch	No.118 Yantai Road, Laixi City
89	Laixi Wenhua East Road Sub-branch	Unit 1, Building 2, No.13 Wenhua East Road, Laixi City
90	Donghai West Road No.1 Sub-branch	Outlet located at Building 2, No.41 Donghai West Road, Qingdao
91	Beizhong Road Community Sub-branch	No.30 Beizhong Road, Qingdao
92	Liaoyang Road Sub-branch	Outlet located at Nos.16-10 and 16-11 Liaoyang East Road, Qingdao
93	Guangxi Road Sub-branch	No.28 Guangxi Road, Qingdao
94	Guizhou Road community Sub-branch	No.7-B Guizhou Road, Qingdao
95	Jiangxi Road Sub-branch	No.100 Nanjing Road, Qingdao
96	3rd Yan'an Road Sub-branch	No.129, 3rd Yan'an Road, Qingdao
97	Qidong Road Community Sub-branch	No.27-A, 2nd Laiwu Road, Qingdao
98	Ningxia Road Sub-branch	No.129-C Ningxia Road, Qingdao
99	2nd Yan'an Road Sub-branch	No.1-3, 1st Floor, Unit 10, No.142-A Yan'an Road, Qingdao
100	Metro Building Sub-branch	No.6 Changning Road, Qingdao

No.	Name of branch/sub-branch	Address
101	Ruichang Road Sub-branch	No.122 Ruichang Road, Qingdao
102	Liaoning Road Sub-branch	No.129 Liaoning Road, Qingdao
103	Zhejiang Road Sub-branch	No.17 Hubei Road, Qingdao
104	Taiwan Road Sub-branch	No.6 Taiwan Road, Qingdao
105	Hefei Road Community Sub-branch	No.668-23 Hefei Road, Qingdao
106	Fuzhou Road Sub-branch	No.97-A Fuzhou South Road, Qingdao
107	Hong Kong Garden Sub-branch	Outlet located at No.75-A Hong Kong Middle Road, Qingdao
108	Minjiang Road No.1 Sub-branch	Outlet located at No.169-C and D Minjiang Road, Qingdao
109	Port Sub-branch	No.7 Ganghua Road, Qingdao
110	Qianwan Port Sub-branch	No.12 Fenjin North Road, Qianwan Port, Huangdao District, Qingdao
111	Donghai West Road Sub-branch	No.52-B Donghai West Road, Qingdao

Chapter IX Corporate Governance Report

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

During the reporting period, in order to strictly comply with the Listing Rules and the Guidelines on Corporate Governance of Commercial Banks, the Company completed the appointment of additional directors and the change of supervisors, further regulated the structure of the Board of Directors and Supervisors, and enhanced the diversity of expertise of Directors and Supervisors; made changes in the members of the Special Committees under the Board of Directors to enhance the professional guidance of the Special Committees under the Board of Directors, through increasing the frequency of meetings and enhancing the efficiency of performing duties; enriched the means of supervision of the Board of Supervisors, through periodic physical meetings, research and investigation and attending important meetings of the Company to continuously enhance the supervision. The mechanism of regular business investigation by external supervisors was improved, to fully exert the expertise and the supervisory function of external experts. In 2016, we performed self-check on the corporate governance construction in contrast with the laws, regulations and supervisory opinions, pushed forward the mechanisms of transmission and feedback from the execution of the decisions of the Board of Directors and Supervisors, to promote the positive run of the Board of Directors and Supervisors and efficient execution of the decisions. Through continuous improving the various systems and working mechanisms of corporate governance, we continuously enhanced the standardisation and efficiency of the corporate governance.

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

9.1 CONVENING OF SHAREHOLDERS' GENERAL MEETING

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

- (1) On 16 February 2016, the 2016 First Extraordinary General Meeting of the Company was convened in the conference room on the fourth floor of the Head Office. A total of 27 shareholders attended the meeting in person or by proxy, representing a total of 2,443,120,245 shares with voting rights, which accounted for 60.19% of the total number of shares of the Company. The resolution regarding the issuance of non-capital financial bonds by Bank of Qingdao was considered and passed at the meeting.
- (2) On 10 May 2016, the 2015 Annual General Meeting of the Company was convened in the conference room on the fourth floor of the Head Office. A total of 32 shareholders attended the meeting in person or by proxy, representing a total of 2,781,250,278 shares with voting rights, which accounted for 68.53% of the total number of shares of the Company. A total of 9 resolutions were considered and passed at the meeting, namely the Work Report of the Board of Directors of Bank of Qingdao Co., Ltd. for 2015, the Work Report of the Board of Supervisors of Bank of Qingdao Co., Ltd. for 2015, the Final Financial Accounts of Bank of Qingdao Co., Ltd. for 2015, the Profit Distribution Plan of Bank of Qingdao Co., Ltd. for 2015, the Resolution on Engagement of Domestic and Foreign Auditors and Their Remuneration of Bank of Qingdao Co., Ltd. for 2016, the Resolution on Election of Mr. Sun Guoliang as the Shareholder Supervisor of Bank of Qingdao Co., Ltd., the Special Report on Related Party Transactions of Bank of Qingdao Co., Ltd. for 2015, the Resolution on General Mandate to Issue Shares of Bank of Qingdao Co., Ltd. and the Resolution on the Plan on Authorisation to the Board by the General Meeting of Bank of Qingdao Co., Ltd.. In addition, the Evaluation Report on the Performance of Duties by the Board and Directors of Bank of Qingdao Co., Ltd. for 2015 and the Evaluation Report on the Performance of Duties by Supervisors of Bank of Qingdao Co., Ltd. for 2015 were heard at the meeting.
- (3) On 14 October 2016, the 2016 Second Extraordinary General Meeting (hereinafter referred to as the "EGM"), the 2016 First Class Meeting for Domestic Shareholders (hereinafter referred to as the "Domestic Shareholders Class Meeting") and the 2016 First Class Meeting for H Shareholders (hereinafter referred to as the "H Shareholders Class Meeting") of the Company was convened in the conference room on the fourth floor of the Head Office.

A total of 29 shareholders attended the EGM in person or by proxy, representing a total of 2,711,691,270 shares with voting rights, which accounted for 66.81% of the total number of shares of the Company. A total of 27 domestic shareholders attended the Domestic Shareholders Class Meeting in person or by proxy, representing a total of 1,778,944,790 domestic shares with voting rights, which accounted for 77.49% of the total number of domestic shares of the Company. A total of 2 H shareholders attended the H Shareholders Class Meeting in person or by proxy, representing a total of 932,746,480 H shares with voting rights, which accounted for 52.91% of the total number of H shares of the Company.

A total of 14 resolutions were considered and passed at the EGM, namely the Resolution on the three-year dividend return plan after the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the share price stabilizing plan of the Company within three years after the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the undertakings regarding information disclosure in the prospectus for the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the dilution of current returns as a result of the initial public offering of the A Shares of Bank of Qingdao Co., Ltd. and the remedial measures, the Resolution on the status report on the use of previously raised funds of Bank of Qingdao Co., Ltd. as of 30 June 2016, the Resolution on the amendments to the Rules of Procedure of the General Meeting of Bank of Qingdao Co., Ltd., the Resolution on the amendments to the Rules of Procedure of the Board of Directors of Bank of Qingdao Co., Ltd., the Resolution on the amendments to the Rules of Procedure of the Board of Supervisors of Bank of Qingdao Co., Ltd., the Resolution on the appointment of the additional directors of the sixth session of the Board of Directors of Bank of Qingdao Co., Ltd., the Resolution on the proposal regarding the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the use of the proceeds raised from the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the proposal regarding the distribution of accumulated profit prior to the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the authorisation to handle specific matters regarding the initial public offering and listing of the A Shares and the Resolution on the amendments to the Articles of Association of Bank of Qingdao Co., Ltd.

A total of 8 resolutions were considered and passed at the Domestic Shareholders Class Meeting, namely the Resolution on the proposal regarding the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the use of the proceeds raised from the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the proposal regarding the distribution of accumulated profit prior to the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the authorisation to handle specific matters regarding the initial public offering and listing of the A Shares, the Resolution on the three-year dividend return plan after the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the share price stabilizing plan of the Company within three years after the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the undertakings regarding information disclosure in the prospectus for the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd. and the Resolution on the dilution of current returns as a result of the initial public offering of the A Shares of Bank of Qingdao Co., Ltd. and the remedial measures.

A total of 8 resolutions were considered and passed at the H Shareholders Class Meeting, namely the Resolution on the proposal regarding the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the use of the proceeds raised from the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the proposal regarding the distribution of accumulated profit prior to the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the authorisation to handle specific matters regarding the initial public offering and listing of the A Shares, the Resolution on the three-year dividend return plan after the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the share price stabilizing plan of the Company within three years after the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd., the Resolution on the undertakings regarding information disclosure in the prospectus for the initial public offering and listing of the A Shares of Bank of Qingdao Co., Ltd. and the Resolution on the dilution of current returns as a result of the initial public offering of the A Shares of Bank of Qingdao Co., Ltd. and the remedial measures.

9.2 BOARD OF DIRECTORS AND SPECIAL COMMITTEES

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

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

During the reporting period, the Board strictly implemented the resolutions passed on the general meetings, and conscientiously implemented the resolutions considered and passed on the general meetings, including the Profit Distribution Plan for 2015, the engagement of external auditor for 2016, the proposal regarding the offering of A Shares, the appointment of additional director, modification of the Articles of Association, the Rules of General Meetings and the Rules of the Board Meetings.

9.2.2 Members of the Board

The Company selected Directors in accordance with the qualifications of Directors and election procedures as specified in the Articles of Association. At the end of the reporting period, the Board consisted of fifteen Directors, including four executive Directors, namely GUO Shaoquan (Chairman), WANG Lin (President), YANG Fengjiang (Vice President) and Lu Lan (Secretary to the Board); six non-executive Directors, namely Zhou Yunjie, Rosario STRANO, WANG Jianhui, Tan Lixia, Marco MUSSITA and CHOI Chi Kin, Calvin and five independent non-executive Directors, namely WANG Zhuquan, DU Wenhe, WONG Tin Yau, Kelvin, Chen Hua and Dai Shuping. The number of members and the composition of the Board complied with the requirements of the laws and regulations.

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

9.2.3 Changes in the Directors

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

9.2.4 Responsibilities and operation of the Board

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

During the reporting period, the Board held a total of twelve meetings, of which five meetings were held in the form of physical meetings and seven meetings were held in the form of circulation of written resolutions. At these meetings, the Board passed resolutions on 55 significant events including the 2015 Work report of the President, Report on Financial Budget and Final Account, Proposal on Profit Distribution and the appointment of additional director, and also listened to or reviewed 47 special reports including risk management report, internal and external audit report, proposal on external audit management and rectification report, in an effort to diligently perform the duties of the Board.

The Directors of the Company have acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016. The Directors are responsible for overseeing the preparation of financial statements for each accounting period to make sure such financial statements give a true and fair view of the financial conditions, operation results and cash flows of the Company. In preparing the financial statements for the year ended 31 December 2016, the Directors have adopted and consistently applied applicable accounting policies, and exercised prudent and reasonable judgement.

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

Directors	Actual attendance/Number of meetings requiring attendance									
	General meetings	Board meetings	Strategy Committee	Remuneration Committee	Nomination Committee	Related Party Transactions Control Committee	Audit Committee	Risk Management Committee	Information Technology Committee	
Executive Directors										
GUO Shaoquan	3/3	12/12	4/4	2/2	3/3	–	–	–	–	3/3
WANG Lin	2/3	12/12	4/4	–	3/3	–	–	5/5	–	3/3
YANG Fengjiang	3/3	12/12	–	–	–	4/4	2/2	5/5	–	–
Lu Lan	–	2/2	–	–	–	–	–	–	–	–
Non-executive Directors										
ZHOU Yunjie	3/3	10/12	3/4	1/2	2/3	–	–	–	–	–
Rosario STRANO	1/3	9/12	3/4	2/2	–	–	–	–	–	–
WANG Jianhui	3/3	10/12	3/4	–	–	–	1/2	–	–	–
TAN Lixia	3/3	10/12	–	–	–	–	2/2	5/5	–	2/3
Marco MUSSITA	3/3	12/12	–	–	–	–	–	4/5	–	3/3
CHOI Chi Kin, Calvin	–	2/2	–	–	–	–	–	–	–	–
Independent Non-executive Directors										
WANG Zhuquan	3/3	12/12	–	2/2	3/3	4/4	2/2	–	–	–
DU Wenhe	3/3	11/12	–	2/2	2/3	4/4	–	–	–	3/3
WONG Tin Yau, Kelvin	3/3	12/12	4/4	2/2	3/3	4/4	2/2	–	–	–
CHEN Hua	3/3	10/12	3/4	2/2	3/3	4/4	2/2	5/5	–	–
DAI Shuping	–	2/2	–	–	–	–	–	–	–	–

Notes:

1. Mr. WANG Lin has other work arrangement and Mr. Rosario STRANO is ordinarily resident in Italy which has a great time difference from the place where the General Meetings of the Company convenes. As such, Mr. WANG Lin and Mr. Rosario STRANO failed to attend some General Meetings of the Company convened during the reporting period;
2. The appointment of Ms. Lu Lan, Mr. CHOI Chi Kin, Calvin and Ms. Dai Shuping as directors commenced from 13 December 2016. Accordingly, they were not included in the counting of the total number of meetings requiring attendance for General Meetings, Board meetings and Meetings of the Special Committees;
3. Regarding the situations that actual attendance for Board Meetings and Meetings of the Special Committees was lower than attendance required, the Directors concerned had appointed another Director to attend such meetings on their behalf.

9.2.6 Performance of the independent non-executive Directors

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

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

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

9.2.7 Special Committees under the Board

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

During the reporting period, the Board committees exercised their respective authorities and powers in an independent, standardised and effective manner according to law. They held a total of 23 meetings during the year, at which 41 resolutions were studied and considered, 30 reports of all kinds were reviewed, 18 physical special reports were listened to, providing professional support for the scientific decision-making of the Board, and improving the efficiency and scientific decision-making ability of the Board.

9.2.7.1 Strategy Committee

Our Strategy Committee consists of two executive Directors, four non-executive Directors and three independent non-executive Directors. The two executive Directors are Mr. GUO Shaoquan and Mr. WANG Lin. The four non-executive Directors are Mr. Zhou Yunjie, Mr. Rosario STRANO, Mr. WANG Jianhui and Mr. CHOI Chi Kin, Calvin. The three independent non-executive Directors are Mr. WONG Tin Yau, Kelvin, Mr. Chen Hua and Ms. Dai Shuping. Mr. GUO Shaoquan is the chairman of the committee.

The primary duties of the Strategy Committee include the following:

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

Our Strategy Committee held 4 meetings in total in 2016, at which resolutions on the Interim Work Report of the President, the proposal regarding the initial public offering and listing of the A shares, the Report on Implementation Of the Strategic Programme, the general mandate of share issue, modification of the Articles of Association, modification of the Rules of the General Meetings, modification of the Rules of the Board Meetings, were considered and approved.

9.2.7.2 Remuneration Committee

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

The primary duties of the Remuneration Committee include the following:

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

During the reporting period, our Remuneration Committee held 2 meetings in total, at which resolutions on the 2015 Appropriation of the Staff Bonus and Distribution of the Performance Bonus of Senior Management at Bank Level, and the 2016 work plan of the Remuneration Committee, were considered and approved.

9.2.7.3 Nomination Committee

Our Nomination Committee consists of two executive Directors, one non-executive Director and four independent non-executive Directors. The two executive Directors are Mr. GUO Shaoquan and Mr. WANG Lin. The one non-executive Director is Mr. Zhou Yunjie. The four independent non-executive Directors are Mr. WANG Zhuquan, Mr. DU Wenhe, Mr. WONG Tin Yau, Kelvin and Ms. Dai Shuping. Mr. WONG Tin Yau, Kelvin is the chairman of the committee.

The primary duties of the Nomination Committee include the following:

1. reviewing the structure, size and composition of the Board annually, and making recommendations on any proposed changes to the Board to complement our strategy;
2. formulating the criteria and procedures for selecting directors and senior management and succession planning for directors, and making recommendations to the Board;

3. extensively identifying qualified candidates for directors and senior management, and making recommendations to the Board;
4. conducting the preliminary examination of qualifications of candidates for directorships and senior management positions, and making recommendations to the Board on the selection;
5. assessing the independence of independent non-executive directors.

During the reporting period, our Nomination Committee held 3 meetings in total, at which resolutions on the Directors of the Sixth Session of the Board Meeting, the appointment of Chen Shuang (陳霜) as the vice president and the 2016 work plan of the Nomination Committee, were considered and approved.

9.2.7.4 Related Party Transactions Control Committee

Our Related Party Transactions Control Committee consists of two executive Directors and five independent non-executive Directors. The two executive Directors are Mr. YANG Fengjiang and Ms. Lu Lan. The five independent non-executive Directors are Mr. WANG Zhuquan, Mr. DU Wenhe, Mr. WONG Tin Yau, Kelvin, Mr. Chen Hua and Ms. Dai Shuping. Mr. Chen Hua is the chairman of the committee.

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

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

During the reporting period, our Related Party Transaction Control Committee held 4 meetings in total, at which it considered resolutions on the 2016 Work Plan of Related Party Transaction Control Committee; considered resolution on the confirmation of the list of related party for three times and considered one significant related party transactions.

9.2.7.5 Audit Committee

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

The primary duties of the Audit Committee include the following:

1. examining our compliance status, accounting policies, financial reporting procedures and financial position, monitoring our financial information, including the integrity of our financial statements and annual reports and accounts, interim reports and quarterly reports (if prepared for publication), and reviewing significant financial reporting judgments contained in such statements and reports;
2. making recommendations to the Board on the appointment, reappointment or removal of the external auditor, and reviewing the fees and terms of engagement of the external auditor;
3. examining and supervising the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

4. formulating and implementing policies on engaging an external auditor to provide non-audit services;
5. reviewing the external auditor's letter to the management, any material queries raised by the external auditor to the management about accounting records, financial accounts or systems of control and management's response;
6. acting as the key representative body for overseeing our relations with the external auditor, overseeing the communication between internal and external auditors, and ensuring coordination between the internal and external auditors;
7. taking charge of the annual audit work;
8. ensuring that the internal audit function is adequately resourced;
9. reviewing our financial reporting system, internal control system and their implementation;
10. discussing the internal control system with management to ensure that management has performed its duty to establish an effective internal control system.

During the reporting period, our Audit Committee held 2 meetings in total, at which it reviewed resolutions on our annual report, engagement of external auditor, the self-evaluation report of internal control, the financial report, the proposal on profit distribution. It communicated with the external auditor and the management regarding the audit opinion and suggestions for internal control as proposed by the external auditor, and pushed forward and made guidance in the execution of the Company.

9.2.7.6 Risk Management Committee

Our Risk Management Committee consists of three executive Directors, two non-executive Directors and two independent non-executive Directors. The three executive Directors are Mr. WANG Lin, Mr. YANG Fengjiang and Ms. Lu Lan. The two non-executive Directors are Ms. Tan Lixia and Mr. Marco MUSSITA. The two independent non-executive Directors are Mr. WANG Zhuquan and Mr. Chen Hua. Mr. WANG Lin is the chairman of the committee.

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

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

During the reporting period, our Risk Management Committee held 5 meetings in total, at which it considered the resolutions on the 2016 risk appetite of business operation, the 2016 work plan of the Risk Management Committee, and listened to the report on credit risk management, the report on operational risk management, the report on compliance risk management and the report on market risk management, and reviewed the report on reputational risk management and report on information technology risk management etc.

9.2.7.7 Information Technology Committee

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

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

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

During the reporting period, our Information Technology Committee held 3 meetings in total, at which it considered the resolutions on the 2016 work plan of the Information Technology Committee, etc., and reviewed the report on the execution of the strategic programme of the information technology, the report on the management of information technology risk, the report on the management of business continuity and listened to the interim work report of information technology.

9.3 BOARD OF SUPERVISORS

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

9.3.1 Composition of the Board of Supervisors

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

9.3.2 Changes in the supervisors

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

9.3.3 Responsibilities and operating model of the Board of Supervisors

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

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

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

During the reporting period, the Board of Supervisors of the Company held eight meetings, of which four meetings were held in the form of physical meetings and four meetings were held by way of circulating written resolutions. At these meetings, the Board of Supervisors considered and approved 24 resolutions, listened to 40 reports and carried out one business investigation and research in relation to operation management and risk management of the Company, as well as the performance of directors, supervisors and the senior management. The Board of Supervisors improved its various rules and regulations and organisational structure in accordance with the domestic and foreign supervision regulations, so as to enhance its supervision over the financial activities and major risks of the Company and actively perform its duties as a supervisory body.

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

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

Supervisor	Number of meetings requiring attendance	Attendance in person	Attendance by proxy
Chen Qing	2	2	0
Zou Junqiu	6	6	0
Sun Guoliang	6	6	0
Fan Jianjun	2	2	0
Sun Jigang	8	8	0
Xu Wansheng	8	8	0
Wang Jianhua	8	7	1
Fu Changxiang	8	8	0
Hu Yanjing	8	8	0

Notes:

1. In March 2016, Mr. Fan Jianjun resigned as shareholder supervisor and Mr. Sun Guoliang was appointed as a shareholder supervisor. In December 2016, Ms. Zou Junqiu resigned as chairlady of the Board of Supervisors and employee supervisor, and Ms. Chen Qing was appointed as the chairlady of the Board of Supervisors and the employee supervisor. Accordingly, they were not included in the counting of the total number of meetings requiring attendance for the meetings of the Board of Supervisors;
2. During the reporting period, the Board of Supervisors of the Company held a total of four physical meetings. In case of absence, the supervisor had appointed another supervisor as his/her proxy to attend such meetings on his/her behalf.

9.3.5 Attendance at shareholders' general meetings during the reporting period

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

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

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

9.3.7 Operation of the Special Committees under the Board of Supervisors

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

No.	Committees under the Board of Supervisors	Chairman	Members
1	Supervision Committee	Fu Changxiang	Chen Qing, Sun Guoliang, Hu Yanjing, Xu Wansheng
2	Nomination and Evaluation Committee	Hu Yanjing	Chen Qing, Wang Jianhua, Fu Changxiang, Sun Jigang

Supervision Committee

The primary duties of the Supervision Committee include the following:

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

In 2016, the Supervision Committee held four meetings in total, at which the resolutions on financial report, proposals for profit distribution, annual report, the engagement of external auditor, self-evaluation report on internal control, and evaluation report on strategic programme for 2015 were considered and approved, and listened to the work report of internal audit and the market risk management report.

Nomination and Evaluation Committee

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

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

In 2016, the Nomination and Evaluation Committee held three meetings in total, at which the resolutions on the change of shareholder supervisors of the Sixth Session of the Board of Supervisors, the evaluation report on the duties performance of the Board of Directors and Directors, the evaluation report on the duties performance of Supervisors, the evaluation report on duties performance of the senior management and senior executives of Bank of Qingdao Co., Ltd. were considered and approved.

9.3.8 Work of external supervisors

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

In 2016, external supervisors informed themselves of the status of Company's operation and management; attended the meetings of the Board of Supervisors and its Special Committees, considered each issue from the interests of the of the Company and depositors, and gave their independent and objective opinions and suggestions; actively participated in the investigation conducted by the Board of Supervisors, put forward constructive suggestions, and performed their duties as external supervisors according to law.

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

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

During the reporting period, all the Directors and supervisors participated in the trainings required, to ensure they have proper understanding of the responsibilities and duties of Directors and supervisors conferred by relevant laws and regulations.

During the reporting period, the Board of Supervisors conducted investigations on the financial market business, and gave suggestions on formulation or amendment of relevant systems, refinement of systems establishment and personnel allocation, bond risk and policy risks regarding structured financing business.

9.5 SENIOR MANAGEMENT

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

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

- (I) take charge of the operation and management of the Company, make arrangements for the implementation of the resolutions of the Board of Directors and report the work to the Board of Directors;
- (II) submit business plans and investment proposals to the Board of Directors on behalf of the members of senior management, and make arrangements for the implementation upon approval by the Board of Directors;
- (III) make arrangements for the formulation and implementation of the Company's various rules and regulations, development plans and annual operation plans;
- (IV) authorize members of senior management and persons in charge of internal departments and branches to conduct operating activities;
- (V) draft proposals on the establishment of the Company's internal management entities;
- (VI) propose to the Board of Directors to engage or dismiss the vice presidents, chief financial officers and other members of senior management of the Company;
- (VII) engage or dismiss persons in charge of the internal departments and branches of the Company other than those to be engaged or dismissed by the Board of Directors;
- (VIII) draw up wages, benefits, rewards and punishment of the employees of the Company, and decide on their appointment and dismissal;
- (IX) propose the convening of an extraordinary meeting of the Board of Directors;
- (X) adopt emergency measures when any major emergency, such as bank run, arises in the Company and promptly report them to the banking regulatory authorities of the State Council as well as the Board of Directors and the Board of Supervisors;
- (XI) other duties and powers conferred by the laws, administrative regulations, departmental rules, regulatory documents, the regulations of the relevant regulatory authorities, the Articles of Association and by the Board of Directors.

9.5.1 Delegation of authority by the Board of Directors

The Board of Directors of the Company and the management led by the President exercise their respective powers in accordance with their responsibilities as set out in the Articles of Association. Apart from the responsibilities stipulated in the Articles of Association, the Company formulated the Delegation Arrangement to the Senior Management Authorized by the Board of Directors of the Bank of Qingdao Co., Ltd., to refine corporate governance structure and promote decision-making efficiency. The validity period of the delegation is from the date of approval by the Board of Directors until new delegation arrangements have been made by the Board of Directors.

9.5.2 Chairman and President

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

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

9.5.3 Securities transactions by Directors and Supervisors

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

9.5.4 External auditors and auditors' remuneration

The domestic and overseas auditors of the Company for 2016 were KPMG Huazhen LLP and KPMG respectively. For the year ended 31 December 2016, the Company has paid RMB5.90 million and RMB0.16 million to KPMG Huazhen LLP and KPMG for audit services and non-audit services, respectively.

9.5.5 Risk Management and Internal Control

The Board of Directors of the Company is responsible for ensuring the establishment and implementation of an adequate and effective internal control system and the Company's prudential operation under the framework set by laws and policies and has reviewed the risk management and internal control systems for the year ended 31 December 2016. The Board of Directors is also responsible for clearly determining the acceptable risk level, ensuring the senior management to adopt necessary risk control measures, and supervising the senior management on their monitoring and assessment of the adequacy and effectiveness of the internal control systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

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

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

Based on the provisions of rules and regulations including the "Basic Standards for Corporate Internal Control" and the accompanying guidelines and the "Guidelines on Internal Control of Commercial Banks", as well as the relevant requirements of the Hong Kong Stock Exchange, the Company has formulated the objectives and principles of internal control and established its internal control system. The Company takes control over the entire process of various operation and management activities, and continuously enhances the completeness, reasonableness and effectiveness of its internal control system through practice.

The Company has established the “Weekly Inspection Practice,” a senior management inspection system to look into compliance- and operation-related issues, lagged-behind regulatory executions and potential risks from time to time; the Company has continued to launch activities including “Year of Establishment”, “Year of Implementation”, “Year of Assessment”, “Year of Optimization” and “Year of Improvement” for rules and regulations to formulate smooth and useful systems and structures. The Company has established a sound internal control evaluation and post-evaluation mechanism, conducted annual regular audits, responsibility audits, departure audits and special audits, created an innovative audit model named “virtual branch” by temporarily substituting regular staff by ad hoc staff, and established a new operational risk assessment and rectification mechanism with sustained effectiveness. Through convening quarterly “internal control assessment meetings”, the Company has enhanced the awareness of risk prevention and control at all levels, which in turn ensures the early identification and timely rectification of risks as well as edges up the standards of its risk management and control.

The Company formulated Information Disclosure Management System of Bank of Qingdao Co., Ltd. which specified the definition of inside information, confidentiality measures, handling and issuance procedures and internal control.

9.5.6 Company Secretaries

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

9.6 INFORMATION DISCLOSURE AND TRANSPARENCY

In strict compliance with the provisions of laws and regulations, the Company released various periodic reports and temporary announcements to ensure that the information disclosed is true, accurate, complete, timely and standardized to protect the lawful rights and interests of shareholders. During the reporting period, 16 periodic reports, 26 statutory temporary announcements and 5 voluntary temporary announcements were released on the website of the Company (<http://www.qdccb.com/>) and HKExnews website of Hong Kong Stock Exchange (<http://www.hkexnews.hk/>).

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

9.7 AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the reporting period, in view of the plan of listing of its A shares, the Company carried out comprehensive amendments to the Articles of Association, Rules of Procedure of the Shareholders’ General Meeting, Rules of Procedure of the Board of Directors and Rules of Procedure of the Board of Supervisors in accordance with domestic laws and regulations and regulatory documents. The Company held the 2016 second extraordinary general meeting on 14 October 2016, during which the relevant proposals were considered and approved. The amended Articles of Association had been examined and approved by the CBRC Qingdao Office, and will take effect and be implemented on the date of the listing of A Shares of the Company. For details of the amendments, please refer to the circular dated 27 September 2016 published on the websites of the Company and the Hong Kong Stock Exchange.

9.8 SHAREHOLDERS' RIGHTS

9.8.1 Convening of extraordinary general meetings on requisition by shareholders

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

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

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

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

9.8.2 Proposals of shareholders' general meetings

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

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

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

9.9 INVESTOR RELATIONS

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

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

9.10 OTHER INFORMATION

The Company is the holder of the financial institution licence No. B0170H237020001 from the Qingdao Branch of the CBRC and the business license with a unified social credit code of 91370200264609602K from the Administration for Industry and Commerce of Qingdao City. As the Company is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of Laws of Hong Kong), it is neither subject to the supervision of the Hong Kong Monetary Authority, nor authorized to carry on banking or deposit-taking business in Hong Kong.

Chapter X Report of the Board of Directors

PRINCIPAL ACTIVITIES

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

OPERATIONS IN COMPLIANCE WITH LAWS AND REGULATIONS

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

BUSINESS REVIEW AND OUTLOOK

The business review of the Company for the year ended 31 December 2016, financial indicators and its development outlook for 2017 are set out in “Chapter II Financial Highlights” and “Chapter V Management Discussion and Analysis” of this annual report.

EXPOSURE TO MAJOR RISKS

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

EARNINGS AND DIVIDENDS

The revenue of the Company for the year ended 31 December 2016 and the financial position of the Company on the same date are set out in the financial statements of this annual report.

1. Pursuant to the resolutions passed at the annual general meeting of 2015 of the Company on 10 May 2016, the Company had 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 for 2015 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 of the Company 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 HK\$ to be adopted shall be the average of the central parity rates in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends by the Company at the 2016 annual general meeting (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 final dividend payment for 2016, holders of H shares of the Company who have not registered the related transfer documents are required to lodge the transfer documents together with the relevant share certificates with the Company's Registrar for H shares, Computershare Hong Kong Investor Services Limited at Shops 1712 to 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Tuesday, 16 May 2017.

The Board of the Company intends to distribute the final dividends for 2016 on Thursday, 6 July 2017. If there are any changes to the expected date for dividend payment, an announcement will be published.

TAX RELIEF (HOLDERS OF H SHARES)

Non-resident enterprise shareholders

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

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 to 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.

DISTRIBUTABLE RESERVES

The details of distributable reserves of the Company during the reporting period are set out in the "statement of changes in equity" in the "financial statements" of this annual report.

FINANCIAL HIGHLIGHTS

The highlights of the operational results, assets and liabilities of the Company for the five years prior to the end of the reporting period are set out in "Chapter II Financial Highlights" of this annual report.

DONATIONS

The Company made charity and other donations of approximately RMB6,342,800 in total during the reporting period.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

For further information of the environmental policies and performance of the Company, please refer to the environmental, social and governance report to be published by the Company on the websites of the Company and the Hong Kong Stock Exchange in due course.

PROPERTY AND EQUIPMENT

The details of the changes in the property and equipment of the Company during the Reporting Period are set out in note 21 of the financial statements of this annual report.

ACQUISITIONS, DISPOSAL OF ASSETS DURING THE REPORTING PERIOD

During the reporting period, the Company did not have any significant acquisition and disposal of assets, except that we paid RMB510 million for the establishment of Qingdao Qingyin Financial Leasing Company Limited.

RETIREMENT BENEFITS

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

SUBSTANTIAL SHAREHOLDERS

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

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the reporting period, the Company had not purchased, sold or redeemed any listed securities of the Company.

PRE-EMPTIVE RIGHTS

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

EMPLOYEES AND MAJOR CUSTOMERS

Please refer to "Chapter VIII Directors, Supervisors, Senior Management, Employees and Institutions – Employees and Human Resources Management" and the environmental, social and governance report to be published by the Company on the websites of the Company and the Hong Kong Stock Exchange in due course for details of employees and employment policies of the Company.

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

ISSUANCE OF DEBENTURE

During the reporting period, the Company has issued green financial bonds with a total issuing size of RMB8 billion by two tranches in the national interbank bond market in March and November 2016, respectively. The proceeds raised thereof are used for the loans in connection with green industry projects.

In March 2016, the Company issued the first tranche of the green financial bonds of 2016 of Bank of Qingdao with an issuing size of RMB4 billion, of which the issuing size of three-year bonds was RMB3.5 billion with a coupon rate of 3.25%; the issuing size of five-year bonds was RMB0.5 billion with a coupon rate of 3.40%.

In November 2016, the Company issued the second tranche of the green financial bonds of 2016 of Bank of Qingdao with an issuing size of RMB4 billion, of which the issuing size of three-year bonds was RMB3.0 billion with a coupon rate of 3.30%; the issuing size of five-year bonds was RMB1.0 billion with a coupon rate of 3.40%.

EQUITY-LINKED AGREEMENT

During the reporting period, the Company did not enter into or renew any other equity-linked agreement.

USE OF RAISED FUNDS

The funds raised from the listing of H shares of the Company was used in accordance with the purpose disclosed in the prospectus. The net proceeds from global offering of the Company (after deducting the underwriting commissions and estimated expenses for global offering payable by the Company) were used to supplement the capital of the Company to meet the need of our continuous business growth.

UNDERTAKINGS REGARDING THE LISTING OF H SHARES

Please refer to “Chapter VI Significant Events – Performance of Undertakings by the Company or Shareholders with Shareholding of 5% or more” for the undertakings regarding the listing of H shares of the Company.

SHARE CAPITAL

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

Name of director/ supervisor/ chief executive	Type of share	Capacity	Number of shares held	Approximate percentage of the total share capital ^{Note}	Percentage of the total number of domestic shares ^{Note}	Long position/ Short position
GUO Shaoquan	Domestic share	Beneficial owner	500,000	0.01%	0.02%	Long position
WANG Lin	Domestic share	Beneficial owner	500,000	0.01%	0.02%	Long position
YANG Fengjiang	Domestic share	Beneficial owner	500,000	0.01%	0.02%	Long position
Lu Lan	Domestic share	Beneficial owner	380,000	0.01%	0.02%	Long position
CHEN Qing	Domestic share	Beneficial owner	500,000	0.01%	0.02%	Long position
Sun Jigang	Domestic share	Beneficial owner	272,822	0.01%	0.01%	Long position
Xu Wansheng	Domestic share	Beneficial owner	196,021	0.005%	0.01%	Long position

Note: The above percentages are calculated based on the total share capital of 4,058,712,749 shares and total 2,295,677,769 domestic shares of the Company as at the end of the reporting period.

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

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

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

Saved for the continuing connected transactions which are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, as at 31 December 2016 and at any time during the year, none of the directors or supervisors or any entity connected with the directors or supervisors had any interest, whether directly or indirectly, in any transaction, arrangement or contract of significance (excluding service contracts) in relation to the Company's business to which the Company is a party. None of the directors or supervisors have entered into any service contracts with the Company, under which the Company should pay compensation (other than statutory compensation) if the Company terminates the contracts within one year.

PERMITTED INDEMNITY PROVISIONS

During the reporting period, there was or is not any permitted indemnity provision being in force for the benefit at any of the Directors of the Company (whether made by the Company or otherwise).

MANAGEMENT CONTRACTS

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

DIRECTORS AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

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

INSURANCE FOR DIRECTORS

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

CORPORATE GOVERNANCE

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

CONNECTED TRANSACTIONS

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

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

REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Board of Directors assesses senior management personnel using the Measures for Performance Appraisal of Senior Management Personnel of Bank of Qingdao and offers remuneration to executive directors and other senior management personnel based on the results of the assessment. The Company offers remuneration to employee supervisors in accordance with the administrative measures for staff salary. The Company distributes the allowances and meeting subsidies to non-executive directors, independent non-executive directors, shareholder supervisors and external supervisors according to the policies on the allowance of directors and supervisors.

PUBLIC FLOAT

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

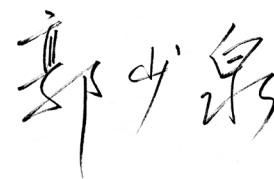
AUDITORS

The domestic and overseas auditors of the Company for 2016 were KPMG Huazhen LLP and KPMG respectively. The 2016 financial report of the Company prepared in accordance with International Financial Reporting Standards has been audited by KPMG, with unqualified auditor's report issued.

EVENTS AFTER THE REPORTING PERIOD

1. 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 to issue tier-two capital bonds, the total issue size of which not exceeding RMB6.5 billion with maturity not exceeding 15 years; and to issue no more than 80,000,000 offshore non-public offering 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 date of this report, the relevant regulatory authorities have yet to ratify the issuance.

By Order of the Board of Directors



GUO Shaoquan
Chairman

Chapter XI Report of the Board of Supervisors

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

In 2016, the Board of Supervisors held a total of 8 meetings, of which 4 were on-site meetings and 4 were conference meetings; and considered proposals including the 2015 report on the work of the Board of Supervisors, 2015 annual financial report and 2016 interim financial report, 2015 annual report, 2015 annual and 2016 interim reports on the work of the President, 2015 evaluation report on the performance of duties by the Board of Directors, senior management and their members, 2015 self-evaluation report on internal control; and received reports including the audit reports issued by internal and external auditors, report on financial regulation notification and rectification, and risk management reports on major risks including credit risk, operation risk, market risk.

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

COMPLIANT OPERATIONS OF THE COMPANY

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

AUTHENTICITY OF FINANCIAL REPORT

KPMG Huazhen LLP and KPMG respectively audited the 2016 annual financial report prepared by the Company in accordance with PRC accounting standards and international financial reporting standards, and respectively issued unqualified audit reports. The financial report has truly, objectively and accurately reflected the financial position and operating results of the Company.

ACQUISITION AND DISPOSAL OF ASSETS

During the reporting period, the Company had no material new acquisitions or disposal of assets except that the Company paid RMB510 million for the establishment of Qingdao Qingyin Financial Leasing Company Limited.

RELATED PARTY TRANSACTIONS

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

IMPLEMENTATION OF RESOLUTIONS OF THE SHAREHOLDERS' GENERAL MEETING

The Board of Supervisors had no objection to the reports and proposals submitted by the Board of Directors of the Company to the general shareholders' meeting in 2016; supervised the implementation of the resolutions of the shareholders' general meeting, and considered that the Board of Directors had conscientiously implemented the relevant resolutions of the shareholders' general meeting.

INTERNAL CONTROL

The Company attaches importance to the establishment of internal control systems for continuous improvement of its standards of internal control. During the reporting period, the Board of Supervisors reviewed the 2016 Self-evaluation Report on Internal Control of Bank of Qingdao Co., Ltd., and considered that the internal control systems of the Company were regulated, comprehensive and effective, and the implementation of the internal control mechanisms and systems was relatively sound.

By Order of the Board of Supervisors



Chen Qing
Chief Supervisor

Chapter XII Internal Control

12.1 INTERNAL CONTROL

During the report reporting, the Company placed emphasis on the implementation and improvement of internal control. Adhering to lawful, compliant and sound guiding principles in daily work, the Company continued to enhance the level of internal control management through optimizing process, refining management measures, strengthening risk prevention and improving the management structure, and effectively promoted the comprehensive implementation of its development strategy and business objectives.

The Company amended the rules of internal control and issued the Basic Rules of Internal Control of the Bank of Qingdao (2nd Version) to further refine the rules and regulations of internal control of the Company; the Company issued the Notice on the Negative List for Improvement of Compliance Management and Implementation of Conducts of Employees (《關於加強合規管理落實員工行為負面清單的通知》) as a “No. 1 document”, which involves 18 positions and 246 prohibitions, aiming to strengthen monitoring of the irregularities of employees and reinforce the awareness of compliance of employees; the Company issued the scheme of “Year of Improvement”, launched activities including “Daily Study of Regulations”, “Simplifying” and “Special Remediation” to improve the effect of structural system and regulatory executions; the Company held a lecture on “Talking about Compliance from Four Aspects”, and various compliance culture promotion activities including study of regulations, held 9 sessions of compliance knowledge quizzes, and conducted training seminars on “Staying Alert in Daily Life”; the Company hosted special inspection review on “Two Strengthens and Two Restrains”, further deepening the internal management and control under regulatory requirements; the Company engaged KPMG Huazhen LLP to conduct special assessment on internal control of the Company, to comprehensively improve the level of internal control management by constantly identifying and solving problems; the Company executed strict legal review system, having reviewed 1,808 legal documents, involving an amount of RMB234 billion, provided 8,298 reviewing comments, and refined 67 contracts of standard format; the Company timely tracked legislation amendments on the laws and regulations and regulatory systems closely related to banking business, and issued totally 92 articles on risk cautions, comments and legal compliance; the Company further refined anti-money laundering requirements and organized 269 employees for anti-money laundering of the Bank to participate in anti-money laundering remote training by PBOC; the Company amended requirements of anti-money laundering, and issued the Requirements of Anti-money Laundering of the Bank of Qingdao (3rd Version).

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

12.2 INTERNAL AUDIT

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

During the reporting period, the Company regulated the systems and work management structures for its internal audit, and established a sound audit management system of branches or the head office. Currently, an audit team of branches or the head office has been set up, which covered 6 branches including Jinan Branch, Weihai Branch and Dongying Branch and consisted of a total of 36 staff, and new systems such as the “Administrative Measures for the Appointment of Internal Auditing Staff of the Branches of Bank of Qingdao (Provisional)” have been formulated to continuously improve the audit systems.

Chapter XII Internal Control

The Company set up audit projects around the hotspots in industry risk and the precautionary requirements for cases, and constantly expanded its audit scope and strengthened its auditing efforts by combining its on-site audit and off-site audit. The risk management and internal control systems are reviewed at least once a year. During the reporting period, the Company successively conducted regular audits and special audits on bills business and financial market, which promoted the management departments to revise and supplement the 22 systems, and facilitated the construction of internal control compliance systems. The Company conducted audits in 11 of its operation institutions through an innovative model, with virtual branch playing a unique role in forwarding checkpoints, which has played a significant role in identifying potential risks and assisting basic institutions to strengthen internal management through down-to-earth work at the frontline. The Company kept abreast of the times to adjust the organization pattern of internal control assessment meetings, to conduct business coaching for newly opened institutions and to organize supervision on internal management. The Company informed the management departments about audit issues in a timely manner, and kept tracking on the rectification of the audit issues. The Company focused on theoretical research and experience summary, published "Internal Audit Information" on a regular basis, launched cases collection and audit manual in due time, and so on, which facilitated the effective application of audit results. During the reporting period, each of the internal audit mechanisms of the Company has been effectively implemented, which gave full play to the important role of audit as the "third line of defense", and provided powerful protection for promoting the perfection of the internal control system of the Company.

Chapter XIII Independent Auditor's Report

Independent auditor's report to the shareholders of Bank of Qingdao Co., Ltd.

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

OPINION

We have audited the financial statements of Bank of Qingdao Co., Ltd. (the "Bank") set out on pages 107 to 189, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") together with any ethical requirements that are relevant to our audit of the financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Chapter XIII Independent Auditor's Report (continued)

Impairment of loans and receivables

Refer to note 19 and note 20(3) to the financial statements and the accounting policies on pages 115-117.

The Key Audit Matter

Loans and receivables include both loans and advances to customers and financial investments classified as receivables.

Impairment of loans and receivables is a subjective area due to the level of judgement applied by management in determining provisions for impairment.

From the Bank's perspective, the portfolios which gave rise to the greatest uncertainty in determining provisions for impairment were those where impairment was derived from collective assessment models and individual assessments, where the loans and receivables were unsecured or where the loans and receivables were subject to potential collateral shortfalls.

The determination of the collective provisions for impairment is heavily dependent on the external macro environment and the Bank's internal credit risk management strategy. The Bank's collective provisions for impairment for corporate loans and receivables are derived from estimates including the Bank's historical losses, the loss emergence period for corporate loans and receivables (i.e. the time lapse between the occurrence of the event causing eventual default to the actual recording of a loss) and other adjustment factors. The Bank's collective provisions for impairment for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors.

Individual provisions for impairment losses are estimated by management once objective evidence of impairment becomes apparent in a corporate loan. Management exercises judgement in determining the quantum of loss based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, collateral valuation, the seniority of the claim and the existence and cooperativeness of other creditors. The Bank refers to valuation reports issued by qualified third party valuers and considers the influence of various factors including the market price, location and use when assessing the value of property held a collateral. The enforceability, timing and means of realisation of collateral can also have an impact on collateral valuation and, therefore, the amount of provisions for impairment as at the reporting date.

We identified impairment of loans and receivables as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Bank.

How the matter was addressed in our audit

Our audit procedures to assess impairment of loans and receivables included the following:

- assessing the design, implementation and operating effectiveness of key internal controls over the approval, recording and monitoring of loans and receivables, the credit grading process and the measurement of individual provisions for impairment;
- comparing the total balance of the loan database used by management to assess the allowances for impairment with the general ledger and comparing individual loan information, on a sample basis, with the underlying loan agreements and other related documentation to assess the accuracy of compilation of the loan database;
- evaluating the validity of the models used and assumptions adopted in management's calculation of collective provisions for impairment by critically assessing input parameters involving subjective judgement, seeking collaborative evidence from external sources and comparing the historical losses against the Bank's other internal records and our prior year records. As part of these procedures, we challenged the Bank's revisions to estimates and input parameters and considered the consistency of judgement applied in the use of economic factors, the loss emergence period and the observation period for historical losses. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development. We also assessed the emergence period by tracing the lifecycle of overdue accounts from the specific credit event to downgrading the accounts to impaired loans and receivables. Having considered the above, we performed re-calculations to assess the amount of collective provisions for impairment;
- assessing the individual provisions for impairment by selecting a risk-based sample for credit review. We analysed the loan portfolio by industry sector to select samples for credit review in industries more vulnerable to the current economic situation with reference to borrowers with adverse press coverage. We also selected overdue but performing loans, non-performing loans and samples based on other risk criteria; and
- performing credit review procedures for the sample of loans and receivables selected as mentioned above, which included making enquiries of the credit managers about the customers' business operations, reviewing customers' financial information and researching market information about customers' businesses. For impaired loans and receivables, we evaluated management's assessment of the value of any property collateral held by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral, assessed the forecast cash flows, challenged the viability of the Bank's recovery plans and considered other sources of repayment asserted by management.

Chapter XIII Independent Auditor's Report (continued)

Consolidation of structured entities

Refer to note 40 to the financial statements and the accounting policies on page 130.

The Key Audit Matter

Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Bank may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity through issuing a wealth management product, an asset management plan, a trust plan, an asset-backed security or an investment fund.

In determining whether a structured entity is required to be consolidated by the Bank, management is required to consider the power the Bank is able to exercise over the activities of the entity and the Bank's exposure to and ability to influence its own returns from the entity. In certain circumstances the Bank may be required to consolidate a structured entity even though it has no equity interest therein.

We identified the consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and because of the judgement exercised by management in the qualitative assessment of the terms and nature of each entity.

How the matter was addressed in our audit

Our audit procedures to assess the consolidation of structured entities included the following:

- making enquiries of management and inspecting documents relating to the judgement process over whether a structured entity is consolidated or not to assess whether the Bank has a robust process in this regard;
- selecting significant structured entities of each key product type and performing the following procedures for each entity selected:
 - inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Bank has with the structured entity and to assess management's judgement over whether the Bank has the ability to exercise power over the structured entity;
 - reviewing the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Bank's involvement in such an entity;
 - reviewing management's analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Bank's economic interests in the structured entity to assess management's judgement over the Bank's ability to influence its own returns from the structured entity;
 - assessing management's judgement over whether the structured entity should be consolidated or not;
- assessing the disclosures in the financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Bank are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, the directors of the Bank are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Bank's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Chapter XIII Independent Auditor's Report (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Tat Ming.

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

24 March 2017

Chapter XIV Financial Statements and Notes

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2016	2015
Interest income		9,664,474	8,587,709
Interest expense		(4,656,519)	(4,473,655)
Net interest income	3	5,007,955	4,114,054
Fee and commission income		952,124	787,427
Fee and commission expense		(63,991)	(37,800)
Net fee and commission income	4	888,133	749,627
Net trading gains	5	47,594	66,654
Net gains arising from investments	6	52,860	60,361
Other operating (losses)/income	7	(397)	14,812
Operating income		5,996,145	5,005,508
Operating expenses	8	(2,213,521)	(2,076,578)
Impairment losses	11	(1,108,874)	(579,894)
Profit before taxation		2,673,750	2,349,036
Income tax expense	12	(585,145)	(535,260)
Net profit for the year		2,088,605	1,813,776
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	32(4)	(419,582)	401,122
Other comprehensive income, net of tax		(419,980)	379,717
Total comprehensive income		1,668,625	2,193,493
Basic and diluted earnings per share (in RMB)	13	0.51	0.58

The notes on pages 112 to 189 form part of these financial statements.

Statement of financial position

as at 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2016	31 December 2015
Assets			
Cash and deposits with central bank	14	22,697,997	19,920,303
Deposits with banks and other financial institutions	15	6,421,827	3,585,267
Placements with banks and other financial institutions	16	619,210	1,108,138
Financial assets at fair value through profit or loss	17	320,315	297,595
Financial assets held under resale agreements	18	3,957,206	2,516,977
Loans and advances to customers	19	84,864,849	70,655,221
Financial investments:			
Available-for-sale financial assets	20	58,410,672	17,120,786
Held-to-maturity investments	20	31,324,703	22,575,284
Receivables	20	62,871,938	44,786,787
Property and equipment	21	1,221,493	1,021,157
Deferred tax assets	22	602,519	279,402
Other assets	23	4,675,377	3,368,337
Total assets		277,988,106	187,235,254
Liabilities			
Borrowings from central bank	24	3,432,407	528,909
Deposits from banks and other financial institutions	25	45,018,569	27,335,870
Placements from banks and other financial institutions	26	6,925,270	3,051,992
Financial assets sold under repurchase agreements	27	17,043,065	2,000,000
Deposits from customers	28	141,604,761	115,321,997
Income tax payable		211,940	107,758
Debt securities issued	29	41,786,221	16,314,307
Other liabilities	30	4,329,900	5,960,769
Total liabilities		260,352,133	170,621,602
Equity			
Share capital	31	4,058,713	4,011,533
Reserves	32	13,577,260	12,602,119
Total equity		17,635,973	16,613,652
Total liabilities and equity		277,988,106	187,235,254

Approved and authorised for issue by the board of directors on 24 March 2017.

GUO Shaoquan
Legal Representative (Chairman)

WANG Lin
President

YANG Fengjiang
Vice President in charge of finance function

Wang Bo
Head of the Planning & Finance Department

(Company Stamp)

The notes on pages 112 to 189 form part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Share capital	Capital reserve Note 32(1)	Surplus reserve Note 32(2)	General reserve Note 32(3)	Investment revaluation reserve Note 32(4)	Other reserve Note 32(5)	Retained earnings	Total
Balance at 1 January 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	31	47,180	118,258	–	–	–	–	–	165,438
Appropriation of profit:									
– Appropriation to surplus reserve	33	–	–	208,860	–	–	–	(208,860)	–
– Appropriation to general reserve	33	–	–	–	1,304,908	–	–	(1,304,908)	–
– Cash dividends	33	–	–	–	–	–	–	(811,742)	(811,742)
Balance at 31 December 2016		4,058,713	6,826,276	1,013,649	3,696,090	66,617	(3,473)	1,978,101	17,635,973
Balance at 1 January 2015		2,555,977	2,750,177	623,411	1,886,628	85,077	18,330	1,865,050	9,784,650
Profit for the year		–	–	–	–	–	–	1,813,776	1,813,776
Other comprehensive income		–	–	–	–	401,122	(21,405)	–	379,717
Total comprehensive income		–	–	–	–	401,122	(21,405)	1,813,776	2,193,493
Owners' contributions									
– Contribution by owners	31	1,455,556	3,957,841	–	–	–	–	–	5,413,397
Appropriation of profit:									
– Appropriation to surplus reserve	33	–	–	181,378	–	–	–	(181,378)	–
– Appropriation to general reserve	33	–	–	–	504,554	–	–	(504,554)	–
– Cash dividends	33	–	–	–	–	–	–	(777,888)	(777,888)
Balance at 31 December 2015		4,011,533	6,708,018	804,789	2,391,182	486,199	(3,075)	2,215,006	16,613,652

The notes on pages 112 to 189 form part of these financial statements.

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
Un-winding of interest	(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)
<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

The notes on pages 112 to 189 form part of these financial statements.

Cash flow statement (continued)

for the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2016	2015
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)
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)
Net cash flows generated from financing activities		23,873,518	12,009,741
Effect of foreign exchange rate changes on cash and cash equivalents		44,714	23,908
Net increase in cash and cash equivalents		24,703,428	376,151
Cash and cash equivalents as at 1 January		7,695,019	7,318,868
Cash and cash equivalents as at 31 December	34	32,398,447	7,695,019
Net cash flows generated from operating activities include:			
Interest received		5,027,984	4,748,186
Interest paid		(3,288,499)	(3,702,412)

The notes on pages 112 to 189 form part of these financial statements.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

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

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

The Bank obtained its financial institution licence No. B0170H237020001 from the Qingdao branch of the CBRC. The Bank obtained its business license 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 RMB 4.059 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 SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance and basis of preparation

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

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

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements that have a significant effect on the Financial Statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(23).

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(2) Translation of foreign currencies

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

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

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

(3) Cash and cash equivalents

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

(4) Financial instruments

(i) Recognition and measurement of financial assets and liabilities

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

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

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

Financial assets and financial liabilities are categorised as follows:

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

- ***Held-to-maturity investments***

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

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

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

- ***Loans and receivables***

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

- **Other financial liabilities**

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

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

(ii) **Impairment of financial assets**

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

Objective evidence includes the following loss events:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower, indicating that the cost of an investment in an equity instrument may not be recovered by the investor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Loans and receivables**

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

Individual assessment

Loans and receivables, which are considered individually significant or with unique credit risk characteristics, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognised in profit or loss.

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

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

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

Collective assessment

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

The collective impairment loss is assessed after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics;
- the emergence period between a loss occurring and that loss being identified; and
- the current economic and credit environments and the judgement on inherent loss based on management's historical experience.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Bank has made concessions that it would not otherwise consider under normal circumstances. Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to individual or collective impairment assessment, and the provision is calculated using the loan's original effective interest rate.

- ***Held-to-maturity investments***

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset, and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss.

(iii) **Fair value measurement principles**

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Derecognition of financial assets and financial liabilities

- **Derecognition**

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

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

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

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

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

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

- **Securitisation**

As part of its operating activities, the Bank securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When the securitisation of financial assets does not qualify for derecognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability. When the securitisation of financial assets partially qualifies for derecognition, the Bank continue to recognise the transferred assets to the extent of its continuing involvement, derecognise the remaining. The book value of the transferred assets is apportioned between the derecognised portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognised portion and the total consideration paid for the derecognised portion is recorded in profit or loss.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Offsetting

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

(5) Financial assets held under resale and repurchase agreements

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

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

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

(6) Property and equipment

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

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

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

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	Estimated useful lives	Estimated net residual value	Annual depreciation rate
Premises	20 – 50 years	3% – 5%	1.90% – 4.85%
Machinery equipment and others	5 – 10 years	3% – 5%	9.50% – 19.40%
Vehicles	5 years	3% – 5%	19.00% – 19.40%
Electronic equipment	3 – 7 years	3% – 5%	13.57% – 32.33%

Useful lives, residual values and depreciation methods of property and equipment are reviewed, and adjusted if appropriate, at least at each financial year end.

(7) Operating lease

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

(8) Intangible assets

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

The amortisation period for intangible assets is as follows:

Software	3 – 5 years
----------	-------------

(9) Repossessed assets

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(11) Employee benefits

(i) Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(ii) Post-employment benefits – Defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Bank participated in a defined contribution basic pension insurance and unemployment insurance in the social insurance system established and managed by government organizations, and annuity plan. The Bank makes contributions to basic pension insurance plans and unemployment insurance based on the applicable benchmarks and rates stipulated by the government. The Bank provides an annuity plan to the eligible employees. The Bank makes annuity contributions in proportion to its employee's gross wages which are charged to profit or loss when the contributions are made.

(iii) Post-employment benefits – Defined benefit plans

The Bank adopts the projected unit credit actuarial cost method, using unbiased and mutually compatible actuarial assumptions to estimate the demographic and financial variables, to measure the obligation associated in the defined benefits plan. The loss or gains that the discounted present value of the defined benefit obligation less the fair value of plan assets (if any), is recognised as the liabilities of the defined benefit plans.

The Bank recognises the obligation of defined benefit plans in the accounting period in which the employees render the related services. The related service cost and net interest from the defined benefit plan are recognised in profit or loss, or related asset cost, and the actuarial gains and losses arising from remeasurements are recognised in other comprehensive income.

(iv) Termination benefits

Termination benefits are payable as a result of either the Bank's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Bank recognise termination benefits in profit or loss at the earlier of:

- When the Bank can no longer withdraw an offer of those benefits;
- When the Bank has a specific, formal restructure plan involving payment of termination benefits, and the plan has started or been informed each affected party about the influence of the plan, therefore each party formed reasonable expectations.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(12) Income tax

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

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

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

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

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

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

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

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

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

(13) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Provisions and contingent liabilities

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

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

(14) Fiduciary activities

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

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

(15) Income recognition

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

(i) Interest income

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Fee and commission income

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

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

(iii) Other income

Other income is recognised on an accrual basis.

(16) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Bank at no consideration except for any capital contribution from the government as an investor in the Bank. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of capital reserve are dealt with as capital contributions, and not regarded as government grants.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Bank will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value.

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Grants related to income are government grants other than those related to assets. A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Bank for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Bank for expenses incurred is recognised in statement of profit or loss and other comprehensive income immediately.

(17) Expenses recognition

(i) Interest expenses

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

(ii) Other expenses

Other expenses are recognised on an accrual basis.

(18) Dividends

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(19) Related parties

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

- (i) A person, or a close member of that person's family, if that person:
 - (a) has significant influence over the Bank; or
 - (b) is a member of the key management personnel of the Bank.
- (ii) An entity, if that entity:
 - (a) has significant influence over the Bank;
 - (b) controls an entity identified in (ii)(a);
 - (c) is controlled or jointly controlled by an entity identified in (ii)(a) and (ii)(b);
 - (d) is controlled or jointly controlled by a person identified in (i).

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

(20) Segment reporting

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

(21) Subsidiaries and non-controlling interests

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(22) Associates and joint ventures

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

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

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

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(23) Significant accounting estimates and judgements

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

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

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

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

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

(ii) Fair value of financial instruments

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

(iii) Classification of held-to-maturity investments

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Income taxes

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

(v) Impairment of non-financial assets

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

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

(vi) Depreciation and amortisation

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

(vii) Determination of control over structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement.

When assessing whether to control and consolidate structured entities, the Bank considers several factors including the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management and other services, and the Bank's exposure to variability of returns.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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
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)
Sub-total	(4,656,519)	(4,473,655)
Net interest income	5,007,955	4,114,054
Of which:		
Interest income arising from impaired financial assets identified	22,504	25,104

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 RMB 9,651 million (2015: RMB 8,572 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 RMB 4,657 million (2015: RMB 4,474 million).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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
Sub-total	952,124	787,427
Fee and commission expense	(63,991)	(37,800)
Net fee and commission income	888,133	749,627

5 NET TRADING GAINS

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

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 from the purchase and sale of foreign currency spot.

6 NET GAINS ARISING FROM INVESTMENTS

	2016	2015
Dividends from available-for-sale equity investments	650	550
Net gains on disposal of available-for-sale financial assets	53,399	59,811
Others	(1,189)	—
Total	52,860	60,361

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

7 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
Total	(397)	14,812

8 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 (Note (i))	11,840	(164,300)
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
Sub-total	431,791	433,622
Tax and surcharges	132,498	284,682
Other general and administrative expenses (Note (ii))	407,487	381,621
Total	2,213,521	2,076,578

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 RMB 3.02 million for the year ended 31 December 2016 (2015: RMB 2.40 million).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

Unit: RMB'000

Name	Year ended 31 December 2016					Total emoluments before tax
	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	
Executive directors						
GUO Shaoquan	–	949	748	340	252	2,289
WANG Lin	–	864	748	281	249	2,142
YANG Fengjiang	–	624	600	198	195	1,617
LU Lan	–	470	451	152	176	1,249
Non-executive directors						
Rosario STRANO	–	–	–	–	–	–
WANG Jianhui	118	–	–	–	–	118
TAN Lixia	124	–	–	–	–	124
Marco MUSSITA	–	–	–	–	–	–
ZHOU Yunjie	118	–	–	–	–	118
CHOI Chi Kin, Calvin	6	–	–	–	–	6
Independent non-executive directors						
WANG Zhuquan	194	–	–	–	–	194
DU Wenhe	91	–	–	–	–	91
WONG Tin Yau, Kelvin	188	–	–	–	–	188
CHEN Hua	182	–	–	–	–	182
DAI Shuping	6	–	–	–	–	6
Supervisors						
CHEN Qing	–	624	600	193	198	1,615
ZOU Junqiu	–	624	600	198	249	1,671
SUN Guoliang	47	–	–	–	–	47
FAN Jianjun	39	–	–	–	–	39
SUN Jigang	–	374	426	92	65	957
XU Wansheng	–	374	426	92	65	957
WANG Jianhua	119	–	–	–	–	119
FU Changxiang	127	–	–	–	–	127
HU Yanjing	127	–	–	–	–	127
Total	1,486	4,903	4,599	1,546	1,449	13,983

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Unit: RMB'000

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Notes:

- (1) The emoluments of non-executive directors ("NED"), independent non-executive directors ("INED"), shareholder supervisors and external supervisors were affected by the time of service during the reporting period. Directors and supervisors received emoluments since their assumption of duty until their departure. The changes in directors and supervisors during the reporting period are as follows:
 - (i) In May 2016, Mr. SUN Guoliang, shareholder supervisor of the Bank, began to assume his duty. Mr. FAN Jianjun no longer served as shareholder supervisor of the Bank.
 - (ii) In December 2016, Mr. CHOI Chi Kin, Calvin, NED of the Bank, Ms. LU Lan, executive director of the Bank, and Ms. DAI Shuping, INED of the Bank, began to assume their duties.
 - (iii) In December 2016, Ms. CHEN Qing, employee supervisor and chief supervisor of the Bank, began to assume her duty. Ms. ZOU Junqiu no longer served as employee supervisor and chief supervisor of the Bank.
 - (iv) In April 2015, Mr. WANG Jianhua, Mr. FU Changxiang and Mr. HU Yanjing, external supervisors of the Bank, began to assume their duties. Mr. LI Zhanguo no longer served as shareholder supervisor of the Bank. Mr. LU Zhengming and Mr. ZHANG Xu no longer served as external supervisors of the Bank.
 - (v) In June 2015, Mr. ZHOU Yunjie, NED of the Bank, Mr. WONG Tin Yau, Kelvin and Mr. CHEN Hua, INED of the Bank, began to assume their duties. In April 2015, Ms. YANG Mianmian no longer served as NED of the Bank and Ms. WANG Jialing no longer served as INED of the Bank.
- (2) The emoluments of Mr. Rosario STRANO and Mr. Marco MUSSITA were waived with their authorization. In August 2016, Mr. DU Wenhe submitted a resignation report to the Bank's board of directors and confirmed that he would not receive further emolument before the formal departure. There was no other arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the reporting period.
- (3) There were no amounts paid during the reporting period to the directors and supervisors in connection with their retirement from employment or as compensation for loss of office with the Bank or as inducement to join.
- (4) The total compensation package for certain directors and supervisors for the year ended 31 December 2016 have not yet been finalized. The difference in emoluments is not expected to have any significant impact on the Bank's financial statements for the year ended 31 December 2016.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2016, the five individuals with the highest emoluments included three directors and two supervisors (31 December 2015: three directors and one supervisor), whose emoluments are disclosed in Note 9. The emoluments before individual income tax for the rest of the five highest paid individuals for the reporting period are as follows:

	2016	2015
Salaries and other emoluments	–	688
Discretionary bonuses	–	700
Contributions to pension schemes	–	131
Total	–	1,519

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS (continued)

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

	2016	2015
HKD nil-1,000,000	–	–
HKD 1,000,001-1,500,000	–	–
HKD 1,500,001-2,000,000	–	1

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

11 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
Total	1,108,874	579,894

12 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

	Note	2016	2015
Current tax		768,268	603,765
Deferred tax	22(2)	(183,123)	(68,505)
Total		585,145	535,260

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

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

Note:

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

13 BASIC AND DILUTED EARNINGS PER SHARE

	Note	2016	2015
Net profit attributable to equity shareholders of the Bank		2,088,605	1,813,776
Weighted average number of ordinary shares (in thousands)	13(1)	4,058,197	3,115,125
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		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.

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

	2016	2015
Number of ordinary shares as at 1 January	4,011,533	2,555,977
Increase in weighted average number of ordinary shares	46,664	559,148
Weighted average number of ordinary shares	4,058,197	3,115,125

The details of the change in share capital of the Bank during the year are stated in note 31 to the financial statements.

14 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	31 December 2016	31 December 2015
Cash on hand		442,304	697,995
Deposits with central bank			
– Statutory deposit reserves	14(1)	18,576,968	16,322,972
– Surplus deposit reserves	14(2)	3,646,751	2,853,619
– Fiscal deposits		31,974	45,717
Sub-total		22,255,693	19,222,308
Total		22,697,997	19,920,303

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

	31 December 2016	31 December 2015
Reserve ratio for RMB deposits	13.5%	15.0%
Reserve ratio for foreign currency deposits	5.0%	5.0%

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2016	31 December 2015
In Mainland China		
– Banks	5,947,601	1,220,736
Outside Mainland China		
– Banks	474,226	2,364,531
Total	6,421,827	3,585,267

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2016	31 December 2015
In Mainland China		
– Banks	616,220	1,103,912
– Other financial institutions	2,990	4,226
Total	619,210	1,108,138

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2016	31 December 2015
Debt securities held for trading purpose		
Issued by the following institutions in Mainland China		
– Policy banks	129,600	–
– Banks and other financial institutions	141,756	145,966
– Corporate entities	48,959	151,629
Total	320,315	297,595
Unlisted	320,315	297,595

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2016	31 December 2015
In Mainland China		
– Banks	3,720,287	2,516,977
– Other financial institutions	236,919	–
Total	3,957,206	2,516,977

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (continued)

(2) Analysed by type of security held

	31 December 2016	31 December 2015
Discounted bills	1,955,387	2,016,977
Debt securities	2,001,819	500,000
Total	3,957,206	2,516,977

19 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	31 December 2016	31 December 2015
Corporate loans and advances		
– Corporate loans	58,589,447	49,249,757
– Discounted bills	3,874,462	3,570,642
Sub-total	62,463,909	52,820,399
Personal loans and advances		
– Residential mortgage	18,264,561	11,139,443
– Personal business loans	4,196,778	6,153,375
– Personal consumption loans	1,048,217	1,606,745
– Others	1,194,830	975,556
Sub-total	24,704,386	19,875,119
Gross loans and advances to customers	87,168,295	72,695,518
Less: Provision for impairment losses		
– Individually assessed	(420,904)	(315,332)
– Collectively assessed	(1,882,542)	(1,724,965)
Total provision for impairment losses	(2,303,446)	(2,040,297)
Net loans and advances to customers	84,864,849	70,655,221

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by industry

	31 December 2016		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	18,825,857	21.60%	5,278,335
Construction	9,169,167	10.52%	2,740,279
Renting and business activities	6,799,075	7.80%	3,685,454
Water, environment and public utility management	6,416,683	7.36%	3,247,070
Wholesale and retail trade	6,254,015	7.17%	3,641,030
Production and supply of electric and heating power, gas and water	3,567,969	4.09%	748,205
Real estate	3,549,132	4.07%	2,431,532
Financial services	2,420,730	2.78%	855,051
Transportation, storage and postal services	2,237,931	2.57%	359,204
Others	3,223,350	3.70%	784,246
Sub-total of corporate loans and advances	62,463,909	71.66%	23,770,406
Personal loans and advances	24,704,386	28.34%	22,278,852
Gross loans and advances to customers	87,168,295	100.00%	46,049,258

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	31 December 2016				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment losses charged during the year	Written-off during the year
Manufacturing	411,518	147,621	591,481	466,611	463,397
Construction	106,970	60,324	173,607	84,822	–

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

(3) Analysed by type of collateral

	31 December 2016	31 December 2015
Unsecured loans	6,569,160	4,056,931
Guaranteed loans	34,549,877	30,170,838
Loans secured by tangible assets other than monetary assets	35,149,440	30,427,847
Loans secured by intangible assets or monetary assets	10,899,818	8,039,902
Gross loans and advances to customers	87,168,295	72,695,518
Less: Provision for impairment losses		
– Individually assessed	(420,904)	(315,332)
– Collectively assessed	(1,882,542)	(1,724,965)
Total provision for impairment losses	(2,303,446)	(2,040,297)
Net loans and advances to customers	84,864,849	70,655,221

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(4) Overdue loans analysed by overdue period

	31 December 2016				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	11,070	1,832	47,920	–	60,822
Guaranteed loans	1,933,133	665,976	192,129	10,000	2,801,238
Loans secured by tangible assets other than monetary assets	98,532	181,583	342,879	42,487	665,481
Total	2,042,735	849,391	582,928	52,487	3,527,541
As a percentage of gross loans and advances to customers	2.35%	0.97%	0.67%	0.06%	4.05%

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	31 December 2016				
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))		Total	Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	85,981,016	270,032	917,247	87,168,295	1.36%
Less: Provision for impairment losses	(1,759,832)	(122,710)	(420,904)	(2,303,446)	
Net loans and advances to customers	84,221,184	147,322	496,343	84,864,849	

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

Notes:

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(6) Movements of provision for impairment losses

	2016				Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances			
		which are collectively assessed	which are individually assessed		
As at 1 January	1,610,118	114,847	315,332	2,040,297	
Charge for the year	149,714	162,468	752,086	1,064,268	
Release for the year	–	–	(63,787)	(63,787)	
Unwinding of discount	–	–	(22,504)	(22,504)	
Write-offs and transfer out	–	(163,978)	(581,900)	(745,878)	
Recoveries of loans and advances written off and others	–	9,373	21,677	31,050	
As at 31 December	1,759,832	122,710	420,904	2,303,446	

	2015				Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances			
		which are collectively assessed	which are individually assessed		
As at 1 January	1,401,906	62,842	275,140	1,739,888	
Charge for the year	208,212	119,356	248,640	576,208	
Release for the year	–	–	(39,334)	(39,334)	
Unwinding of discount	–	–	(25,104)	(25,104)	
Write-offs and transfer out	–	(71,851)	(178,838)	(250,689)	
Recoveries of loans and advances written off and others	–	4,500	34,828	39,328	
As at 31 December	1,610,118	114,847	315,332	2,040,297	

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS

	Note	31 December 2016	31 December 2015
Available-for-sale financial assets	20(1)	58,410,672	17,120,786
Held-to-maturity investments	20(2)	31,324,703	22,575,284
Receivables	20(3)	62,871,938	44,786,787
Total		152,607,313	84,482,857

(1) Available-for-sale financial assets

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

(i) 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	30,584,602	16,956,326
Unlisted	30,584,602	16,956,326

(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).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS (continued)

(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
Carrying value	31,324,703	22,575,284
Unlisted	31,324,703	22,575,284

(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
Gross amount	63,067,938	44,877,287
Less: provision for impairment losses	(196,000)	(90,500)
Total	62,871,938	44,786,787

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	Construction in progress	Total
Cost						
As at 1 January 2015	833,091	324,882	46,485	53,531	1,930	1,259,919
Additions	172,196	70,840	6,830	7,173	–	257,039
Disposals	(5,668)	(17,868)	(2,936)	(793)	(1,930)	(29,195)
As at 31 December 2015	999,619	377,854	50,379	59,911	–	1,487,763
Additions	219,827	56,035	4,496	7,837	–	288,195
Disposals	(1,127)	(3,845)	(1,389)	(253)	–	(6,614)
As at 31 December 2016	1,218,319	430,044	53,486	67,495	–	1,769,344
Accumulated depreciation						
As at 1 January 2015	(169,046)	(172,273)	(25,861)	(27,201)	–	(394,381)
Additions	(24,668)	(55,371)	(6,611)	(7,885)	–	(94,535)
Disposals	1,567	17,599	2,789	355	–	22,310
As at 31 December 2015	(192,147)	(210,045)	(29,683)	(34,731)	–	(466,606)
Additions	(24,317)	(46,884)	(6,274)	(8,545)	–	(86,020)
Disposals	–	3,257	1,348	170	–	4,775
As at 31 December 2016	(216,464)	(253,672)	(34,609)	(43,106)	–	(547,851)
Net book value						
As at 31 December 2016	1,001,855	176,372	18,877	24,389	–	1,221,493
As at 31 December 2015	807,472	167,809	20,696	25,180	–	1,021,157

The carrying amount of premises with incomplete title deeds as at 31 December 2016 was RMB 13.73 million (31 December 2015: RMB 14.80 million). Management is in the opinion that there would be no significant cost for obtaining the title deeds.

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

	31 December 2016	31 December 2015
Held in Mainland China		
– Long-term leases (over 50 years)	18,258	18,649
– Medium-term leases (10 – 50 years)	980,374	784,286
– Short-term leases (less than 10 years)	3,223	4,537
Total	1,001,855	807,472

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 DEFERRED INCOME TAX ASSETS

(1) Analysed by nature

	31 December 2016		31 December 2015	
	Deductible/ (taxable) temporary differences	Deferred Income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred Income tax assets/ (liabilities)
Provision for impairment losses	2,318,424	579,606	1,653,312	413,328
Deferred interest income from discounted bills	66,448	16,612	61,412	15,353
Change in fair value	(90,908)	(22,727)	(654,728)	(163,682)
Others	116,112	29,028	57,612	14,403
Total	2,410,076	602,519	1,117,608	279,402

(2) Analysed by movement

	Provision for Impairment losses	Deferred interest income from discounted bills Note (i)	Change in fair value	Others Note (ii)	Total
As at 1 January 2015	298,874	15,925	(28,125)	50,795	337,469
Recognised in profit or loss	114,454	(572)	(1,850)	(43,527)	68,505
Recognised in other comprehensive income	–	–	(133,707)	7,135	(126,572)
As at 31 December 2015	413,328	15,353	(163,682)	14,403	279,402
Recognised in profit or loss	166,278	1,259	1,094	14,492	183,123
Recognised in other comprehensive income	–	–	139,861	133	139,994
As at 31 December 2016	579,606	16,612	(22,727)	29,028	602,519

Notes:

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 OTHER ASSETS

	Note	31 December 2016	31 December 2015
Prepayment for long-term assets		1,840,503	1,716,243
Interest receivable	23(1)	1,597,870	1,090,551
Long-term deferred expense		184,559	142,331
Intangible assets	23(2)	171,661	165,630
Deferred expense		48,940	47,598
Precious metals		39,314	16,986
Repossessed assets		22,151	–
Land use rights		–	60,604
Other receivables (Note (i))		770,573	128,960
Sub-total		4,675,571	3,368,903
Less: Provision for impairment losses		(194)	(566)
Total		4,675,377	3,368,337

Note:

- (i) As at 31 December 2016, other receivables include the Bank's contributed capital for establishing Qingdao Qingyin Financial Leasing Co., Ltd., amounting to RMB 510 million. As at 31 December 2016, the company registration of Qingdao Qingyin Financial Leasing Co., Ltd. was still in process.

(1) Interests receivable

	31 December 2016	31 December 2015
Interest receivable arising from:		
– Investments	1,251,859	820,124
– Loans and advances to customers	319,956	233,442
– Others	26,055	36,985
Total	1,597,870	1,090,551

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 OTHER ASSETS (continued)

(2) Intangible assets

	2016	2015
Cost		
As at 1 January	267,639	187,937
Additions	75,181	96,672
Decrease	(16,000)	(16,970)
As at 31 December	326,820	267,639
Accumulated amortisation		
As at 1 January	(102,009)	(73,264)
Additions	(56,350)	(45,715)
Decrease	3,200	16,970
As at 31 December	(155,159)	(102,009)
Net value		
As at 1 January	165,630	114,673
As at 31 December	171,661	165,630

Intangible assets of the Bank mainly represent software.

24 BORROWINGS FROM CENTRAL BANK

	31 December 2016	31 December 2015
Borrowings	3,000,000	487,020
Re-discounted bills	432,407	41,889
Total	3,432,407	528,909

25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2016	31 December 2015
In Mainland China		
– Banks	13,588,273	14,358,519
– Other financial institutions	31,430,296	12,977,351
Total	45,018,569	27,335,870

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2016	31 December 2015
In Mainland China		
– Banks	6,717,160	2,922,120
Outside Mainland China		
– Banks	208,110	129,872
Total	6,925,270	3,051,992

27 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2016	31 December 2015
In Mainland China		
– Banks	14,105,065	2,000,000
– Other financial institutions	2,938,000	–
Total	17,043,065	2,000,000

(2) Analysed by types of collaterals

	31 December 2016	31 December 2015
Debt securities	16,532,140	2,000,000
Discounted bills	510,925	–
Total	17,043,065	2,000,000

28 DEPOSITS FROM CUSTOMERS

	31 December 2016	31 December 2015
Demand deposits		
– Corporate deposits	54,911,942	40,164,726
– Personal deposits	10,093,140	9,192,474
Sub-total	65,005,082	49,357,200
Time deposits		
– Corporate deposits	37,737,200	29,763,437
– Personal deposits	38,572,531	35,763,810
Sub-total	76,309,731	65,527,247
Outward remittance and remittance payables	268,881	436,901
Fiscal deposits to be transferred	21,067	649
Total	141,604,761	115,321,997
Including:		
Pledged deposits	9,817,564	10,992,059

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

29 DEBT SECURITIES ISSUED

	31 December 2016	31 December 2015
Debt securities issued (Note (i))	13,087,167	7,189,158
Certificates of interbank deposit issued (Note (ii))	28,699,054	9,125,149
Total	41,786,221	16,314,307

Note:

- (i) Financial debts with fixed interest rates were issued by the Bank. The details are as follows:
- (a) Three-year debts were issued with an interest rate of 4.60% per annum and with a nominal amount of RMB 2.1 billion in March 2013. The debts would mature on 5 March 2016 with annual interest payments. As at 31 December 2016, the debts has matured. As at 31 December 2015, the fair value of the debts was RMB 2.105 billion.
 - (b) Five-year debts were issued with an interest rate of 4.80% per annum and with a nominal amount of RMB 2.9 billion in March 2013. The debts will mature on 5 March 2018 with annual interest payments. As at 31 December 2016, the fair value of the debts was RMB 2.915 billion (31 December 2015: RMB 2.970 billion).
 - (c) Ten-year tier-two capital bonds were issued with an interest rate of 5.59% per annum and with a nominal amount of RMB 2.2 billion in March 2015. The debts will mature on 5 March 2025 with annual interest payments. The Bank has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2016, the fair value of the debts was RMB 2.218 billion (31 December 2015: RMB 2.288 billion).
 - (d) Three-year Green Bonds were issued with an interest rate of 3.25% per annum and with a nominal amount of RMB 3.5 billion in March 2016. The debts will mature on 14 March 2019 with annual interest payments. As at 31 December 2016, the fair value of the debts was RMB 3.423 billion.
 - (e) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB 0.5 billion in March 2016. The debts will mature on 14 March 2021 with annual interest payments. As at 31 December 2016, the fair value of the debts was RMB 0.481 billion.
 - (f) Three-year Green Bonds were issued with an interest rate of 3.30% per annum and with a nominal amount of RMB 3.0 billion in November 2016. The debts will mature on 24 November 2019 with annual interest payments. As at 31 December 2016, the fair value of the debts was RMB 2.923 billion.
 - (g) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB 1.0 billion in November 2016. The debts will mature on 24 November 2021 with annual interest payments. As at 31 December 2016, the fair value of the debts was RMB 0.959 billion.
- (ii) The Bank issued a number of certificates of interbank deposit with duration between 1 month to 1 year. As at 31 December 2016 and 2015, the outstanding balance of certificates of interbank deposit issued by the Bank was RMB 28.699 billion and RMB 9.125 billion respectively, and the fair value was RMB 28.620 billion and RMB 9.052 billion respectively.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

30 OTHER LIABILITIES

	Note	31 December 2016	31 December 2015
Interest payable	30(1)	2,548,373	2,134,308
Employee benefits payable	30(2)	1,061,805	908,156
Taxes payable	30(3)	65,953	69,039
Payable raising from fiduciary activities		262,448	980,107
Settlement payable		144,019	72,181
Dividend payable		17,182	15,319
Others (Note (i))		230,120	1,781,659
Total		4,329,900	5,960,769

Note:

- (i) As at 31 December 2015, others include funds raised for wealth management products managed by third parties amounting to RMB 1.105 billion.

(1) Interest payable

	31 December 2016	31 December 2015
Interest payable arising from:		
– Deposits from customers	1,878,174	1,599,781
– Deposits and placements from banks and other financial institutions	328,375	238,378
– Debt securities issued	335,732	296,042
– Financial assets sold under repurchase agreements	6,092	107
Total	2,548,373	2,134,308

(2) Employee benefits payable

	31 December 2016	31 December 2015
Salaries, bonuses and allowances payable	925,066	813,607
Social insurance and housing allowances payable	43,850	–
Staff welfare expenses	1,751	6,296
Staff education expenses	14,081	13,524
Labor union expenses	16,637	17,119
Supplementary retirement benefits (Note (i))	60,420	57,610
Total	1,061,805	908,156

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

30 OTHER LIABILITIES (continued)

Note:

- (i) Supplementary retirement benefits include early retirement plan and supplementary retirement plan.

Early retirement plan

The Bank provides early retirement benefit payments to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The Bank accounts for the respective obligations in accordance with the accounting policies in Note 2(11).

Supplementary retirement plan

The Bank provides a supplementary retirement plan to its eligible employees. The Bank accounted for the respective obligations in accordance with the accounting policies in Note 2(11).

(3) Taxes payable

	31 December 2016	31 December 2015
Value added tax payable	58,034	—
Business tax payable	(48)	61,781
Urban construction tax and surcharges payable	7,967	7,258
Total	65,953	69,039

31 SHARE CAPITAL

Authorised and issued share capital

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

In January 2016, the Bank issued 47.18 million H-shares with a nominal value of RMB 1 at an offering price of HKD 4.75 per share (the "H-share offering"). The premium arising from the H-share offering amounting to RMB 0.118 billion was recorded in capital reserve.

In December 2015, the Bank issued 900 million H-shares with a nominal value of RMB 1 at an offering price of HKD 4.75 per share (the "H-share offering"). The premium arising from the H-share offering amounting to RMB 2.513 billion was recorded in capital reserve.

In February 2015, the Bank issued 556 million ordinary shares with a nominal value of RMB 1 at RMB 3.60 per share. The premium arising from the issuance of new shares amounting to RMB 1.444 billion was recorded in capital reserve.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

32 RESERVES

(1) Capital reserve

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

(2) Surplus reserve

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

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

(3) General reserve

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

(4) Investment revaluation reserve

	2016	2015
As at 1 January	486,199	85,077
Change in fair value recognised in other comprehensive income	(506,044)	594,640
Transfer to profit or loss upon disposal	(53,399)	(59,811)
Less: income tax	139,861	(133,707)
As at 31 December	66,617	486,199

(5) Other reserve

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

33 PROFIT 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 RMB 209 million to surplus reserve;
- Appropriated RMB 1,305 million to general reserve;
- Declared cash dividends to all shareholders of RMB 812 million representing RMB 0.20 per share (before tax).

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 RMB 181 million to surplus reserve;
- Appropriated RMB 505 million to general reserve;
- Declared cash dividends to all shareholders of RMB 812 million representing RMB 0.20 per share (before tax).

(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 RMB 150 million to surplus reserve;
- Appropriated RMB 553 million to general reserve;
- Declared cash dividends to all shareholders of RMB 778 million representing RMB 0.25 per share (before tax).

34 NOTES TO CASH FLOW STATEMENT

Cash and cash equivalents:

	31 December 2016	31 December 2015
Cash	442,304	697,995
Surplus deposit reserves with central bank	3,646,751	2,853,619
Original maturity within three months:		
– Deposits with banks and other financial institutions	4,271,357	2,965,267
– Placements with banks and other financial institutions	419,210	1,108,138
– Investments	22,033,656	–
– Financial assets held under resale agreements	1,585,169	70,000
Total	32,398,447	7,695,019

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

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

Shareholders of the Bank with 5% or above ownership include:

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

(b) Other related parties

Other related parties include members of the board of directors, the board of supervisors and senior management and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals, etc.

(2) Related party transactions and balances

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

(a) Transactions between the Bank and major shareholders and their groups

	31 December 2016	31 December 2015
Balances at the end of the year:		
On-balance sheet items:		
Loans and advances to customers	500,000	—
Receivables	1,950,000	500,000
Deposits with banks and other financial institutions	5,756	1,707
Placements with banks and other financial institutions	200,000	—
Interest receivable	5,802	906
Deposits from customers	227,902	580,298
Deposits from banks and other financial institutions	8,745	2
Interest payable	71	53
Off-balance sheet items:		
Letters of guarantees	272,058	67,920

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

	2016	2015
Transactions during the year:		
Interest income	92,904	31,163
Interest expense	8,012	584
Fee and commission income	18,042	1,437

(b) Transactions between the Bank and other related parties (excluding remuneration of key management personnel)

	31 December 2016	31 December 2015
Balances at the end of the year:		
On-balance sheet items:		
Loans and advances to customers	628,933	604,314
Receivables	–	430,000
Available-for-sale financial assets	2,091,753	–
Interest receivable	9,848	2,598
Deposits from customers	120,418	267,858
Interest payable	1,346	775
Off-balance sheet items:		
Letters of guarantees	56	–

	2016	2015
Transactions during the year:		
Interest income	52,523	46,599
Interest expense	3,792	2,419
Fee and commission income	183	436

(3) Key management personnel

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

	2016	2015
Remuneration of key management personnel	17,203	15,891

As at 31 December 2016, outstanding loans to the key management personnel amounted to RMB1.08 million (31 December 2015: RMB0.74 million), which have been included in loans and advances to related parties stated in Note 35(2).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 SEGMENT REPORTING

Segment reporting is disclosed in accordance with the accounting policy set out in Note 2(20).

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

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

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

Corporate banking

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

Retail banking

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

Financial market business

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

Un-allocated items and others

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 SEGMENT REPORTING (continued)

	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	1,121,316	451,879	1,103,868	(3,313)	2,673,750
Other segment information					
– Depreciation and amortisation	(125,018)	(164,514)	(10,139)	–	(299,671)
– Capital expenditure	235,379	309,741	19,089	–	564,209

	31 December 2016				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	77,416,754	34,620,377	165,348,456	–	277,385,587
Deferred tax assets					602,519
Total assets					277,988,106
Segment liabilities/Total liabilities	93,973,719	51,085,550	115,292,864	–	260,352,133
Credit commitments	22,354,190	371,657	–	–	22,725,847

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

36 SEGMENT REPORTING (continued)

	Year ended 31 December 2015				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	2,170,053	29,051	1,914,950	–	4,114,054
Internal net interest income/(expense)	229,854	813,618	(1,043,472)	–	–
Net interest income	2,399,907	842,669	871,478	–	4,114,054
Net fee and commission income	253,579	181,720	314,328	–	749,627
Net trading gains	–	–	66,654	–	66,654
Net gains arising from investments	–	–	60,361	–	60,361
Other operating (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	1,054,838	384,144	892,717	17,337	2,349,036
Other segment information					
– Depreciation and amortisation	(141,981)	(148,681)	(9,556)	–	(300,218)
– Capital expenditure	315,296	330,173	21,221	–	666,690

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT

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

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

(1) Credit risk

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

Credit business

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

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

Financial market business

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

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

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

	31 December 2016			
	Loans and advances to customers	Balances with banks and other financial institutions	Financial assets held under resale agreements	Investments Note (ii)
Impaired (Note (i))				
Individually assessed				
Gross balance	917,247	–	–	–
Provision for impairment losses	(420,904)	–	–	–
Net balance	496,343	–	–	–
Collectively assessed				
Gross balance	270,032	–	–	–
Provision for impairment losses	(122,710)	–	–	–
Net balance	147,322	–	–	–
Overdue but not impaired (Note (i))				
Within 3 months (inclusive)	2,042,735	–	–	–
Between 3 months and 1 year (inclusive)	313,259	–	–	–
Over 1 year	–	–	–	–
Gross balance	2,355,994	–	–	–
Provision for impairment losses	(198,201)	–	–	–
Net balance	2,157,793	–	–	–
Neither overdue nor impaired				
Gross balance	83,625,022	7,041,037	3,957,206	153,100,378
Provision for impairment losses	(1,561,631)	–	–	(196,000)
Net balance	82,063,391	7,041,037	3,957,206	152,904,378
Book value	84,864,849	7,041,037	3,957,206	152,904,378

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

Notes:

- (i) As at 31 December 2016, the principal amount of the Bank's impaired loans and advances to customers subject to individual assessment was RMB 917 million (31 December 2015: RMB 629 million). The fair value of collaterals held against these loans and advances was RMB 188 million (31 December 2015: RMB 118 million).

As at 31 December 2016, the principal amount of the Bank's corporate loans and advances to customers overdue but not impaired was RMB 2,164 million (31 December 2015: RMB 910 million). The secured portion of these loans and advances were RMB 56 million (31 December 2015: RMB 222 million). The fair value of collaterals held against these loans and advances was RMB 110 million (31 December 2015: RMB 619 million).

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

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

(2) Market risk

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

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

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

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

(a) Interest rate risk

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

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

	31 December 2016					
	Total	Non-interest bearing	Less than Three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	22,697,997	474,279	22,223,718	–	–	–
Deposits with banks and other financial institutions	6,421,827	–	4,618,207	1,803,620	–	–
Placements with banks and other financial institutions	619,210	–	419,210	200,000	–	–
Financial assets held under resale agreements	3,957,206	–	3,586,988	370,218	–	–
Loans and advances to customers (Note (i))	84,864,849	–	20,404,071	48,000,649	14,685,131	1,774,998
Investments (Note (ii))	152,927,628	23,250	38,713,233	35,259,592	52,931,230	26,000,323
Others	6,499,389	6,499,389	–	–	–	–
Total assets	277,988,106	6,996,918	89,965,427	85,634,079	67,616,361	27,775,321
Liabilities						
Borrowings from central bank	3,432,407	–	3,432,407	–	–	–
Deposits from banks and other financial institutions	45,018,569	–	32,691,889	11,176,680	1,000,000	150,000
Placements from banks and other financial institutions	6,925,270	–	5,052,280	1,872,990	–	–
Financial assets sold under repurchase agreements	17,043,065	–	17,043,065	–	–	–
Deposits from customers	141,604,761	268,881	95,892,657	24,109,988	21,149,947	183,288
Debt securities issued	41,786,221	–	18,679,600	10,019,454	10,892,915	2,194,252
Others	4,541,840	4,541,840	–	–	–	–
Total liabilities	260,352,133	4,810,721	172,791,898	47,179,112	33,042,862	2,527,540
Asset-liability gap	17,635,973	2,186,197	(82,826,471)	38,454,967	34,573,499	25,247,781

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

	31 December 2015					
	Total	Non-interest bearing	Less than Three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	19,920,303	743,712	19,176,591	–	–	–
Deposits with banks and other financial institutions	3,585,267	–	3,465,267	120,000	–	–
Placements with banks and other financial institutions	1,108,138	–	1,108,138	–	–	–
Financial assets held under resale agreements	2,516,977	–	1,552,036	964,941	–	–
Loans and advances to customers (Note (i))	70,655,221	–	19,125,297	47,395,293	3,835,745	298,886
Investments (Note (ii))	84,780,452	23,250	12,423,510	21,303,934	38,067,314	12,962,444
Others	4,668,896	4,668,896	–	–	–	–
Total assets	187,235,254	5,435,858	56,850,839	69,784,168	41,903,059	13,261,330
Liabilities						
Borrowings from central bank	528,909	–	41,889	487,020	–	–
Deposits from banks and other financial institutions	27,335,870	–	12,285,370	11,900,500	3,150,000	–
Placements from banks and other financial institutions	3,051,992	–	3,051,992	–	–	–
Financial assets sold under repurchase agreements	2,000,000	–	2,000,000	–	–	–
Deposits from customers	115,321,997	436,901	75,727,483	23,639,412	15,322,739	195,462
Debt securities issued	16,314,307	–	6,063,646	5,161,002	2,895,663	2,193,996
Others	6,068,527	4,963,827	–	147,500	957,200	–
Total liabilities	170,621,602	5,400,728	99,170,380	41,335,434	22,325,602	2,389,458
Asset-liability gap	16,613,652	35,130	(42,319,541)	28,448,734	19,577,457	10,871,872

Notes:

- (i) For the Bank's loans and advances to customers, the category "Less than three months" as at 31 December 2016 includes overdue loans and advances (net of provision for impairment losses) of RMB 2,790 million (31 December 2015: RMB 1,560 million).
- (ii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and receivables.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

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

	31 December 2016 Increase/(Decrease)	31 December 2015 Increase/(Decrease)
Increase/(Decrease) 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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(b) Currency risk

The Bank's currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Bank manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

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

	31 December 2016			
	RMB (RMB Equivalent)	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	22,666,877	27,026	4,094	22,697,997
Deposits with banks and other financial institutions	2,503,573	3,885,860	32,394	6,421,827
Placements with banks and other financial institutions	202,990	416,220	–	619,210
Financial assets held under resale agreements	3,957,206	–	–	3,957,206
Loans and advances to customers	84,282,455	582,394	–	84,864,849
Investments (Note (i))	150,835,875	2,091,753	–	152,927,628
Others	6,392,481	104,872	2,036	6,499,389
Total assets	270,841,457	7,108,125	38,524	277,988,106
Liabilities				
Borrowings from central bank	3,432,407	–	–	3,432,407
Deposits from banks and other financial institutions	44,602,349	416,220	–	45,018,569
Placements from banks and other financial institutions	2,000,000	4,925,270	–	6,925,270
Financial assets sold under repurchase agreements	17,043,065	–	–	17,043,065
Deposits from customers	140,775,934	824,040	4,787	141,604,761
Debt securities issued	41,786,221	–	–	41,786,221
Others	4,489,775	50,550	1,515	4,541,840
Total liabilities	254,129,751	6,216,080	6,302	260,352,133
Net position	16,711,706	892,045	32,222	17,635,973
Off-balance sheet credit commitments	22,528,097	100,067	97,683	22,725,847

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

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

Note:

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

	31 December 2016 Increase/(Decrease)	31 December 2015 Increase/(Decrease)
Increase/(Decrease) in annualized net profit		
Foreign exchange rate increase by 100 bps	999	396
Foreign exchange rate decrease by 100 bps	(999)	(396)

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

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

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

(3) Liquidity risk

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(a) Maturity analysis

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

	31 December 2016							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with central bank	18,608,941	4,089,056	-	-	-	-	-	22,697,997
Deposits with banks and other financial institutions	-	1,092,067	3,179,290	346,850	1,803,620	-	-	6,421,827
Placements with banks and other financial institutions	-	-	419,210	-	200,000	-	-	619,210
Financial assets held under resale agreements	-	-	2,001,818	1,676,188	279,200	-	-	3,957,206
Loans and advances to customers	2,328,146	472,606	3,233,356	5,656,470	24,753,455	23,255,085	25,165,731	84,864,849
Investments (Note (i))	23,250	-	23,853,104	14,761,557	34,114,301	54,175,093	26,000,323	152,927,628
Others	4,901,519	3,825	660,264	337,777	562,756	33,248	-	6,499,389
Total assets	25,861,856	5,657,554	33,347,042	22,778,842	61,713,332	77,463,426	51,166,054	277,988,106
Liabilities								
Borrowings from central bank	-	-	3,158,623	273,784	-	-	-	3,432,407
Deposits from banks and other financial institutions	-	1,608,389	20,700,000	10,383,500	11,176,680	1,000,000	150,000	45,018,569
Placements from banks and other financial institutions	-	-	2,763,070	2,289,210	1,872,990	-	-	6,925,270
Financial assets sold under repurchase agreements	-	-	16,043,065	1,000,000	-	-	-	17,043,065
Deposits from customers	-	66,471,216	18,119,774	11,570,548	24,109,988	21,149,947	183,288	141,604,761
Debt securities issued	-	-	6,862,032	11,817,568	10,019,454	10,892,915	2,194,252	41,786,221
Others	14,469	128,360	879,204	784,633	1,118,090	1,556,664	60,420	4,541,840
Total liabilities	14,469	68,207,965	68,525,768	38,119,243	48,297,202	34,599,526	2,587,960	260,352,133
Long/(short) position	25,847,387	(62,550,411)	(35,178,726)	(15,340,401)	13,416,130	42,863,900	48,578,094	17,635,973

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

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

Notes:

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(b) Analysis on contractual undiscounted cash flows of liabilities

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

	31 December 2016								
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central bank	–	–	3,164,100	275,085	–	–	–	3,439,185	3,432,407
Deposits from banks and other financial institutions	–	1,608,389	20,717,695	10,457,276	11,371,604	1,027,000	150,563	45,332,527	45,018,569
Placements from banks and other financial institutions	–	–	2,766,053	2,295,039	1,887,961	–	–	6,949,053	6,925,270
Financial assets sold under repurchase agreements	–	–	16,050,834	1,003,255	–	–	–	17,054,089	17,043,065
Deposits from customers	–	66,471,216	18,128,322	11,610,291	24,710,680	23,286,928	193,040	144,400,477	141,604,761
Debt securities issued	–	–	6,870,000	12,282,930	10,283,000	12,160,620	2,691,920	44,288,470	41,786,221
Others	14,469	128,360	879,204	784,633	1,118,090	1,556,664	60,420	4,541,840	4,541,840
Total liabilities	14,469	68,207,965	68,576,208	38,708,509	49,371,335	38,031,212	3,095,943	266,005,641	260,352,133

	31 December 2015								
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central bank	–	–	–	42,000	15,073	496,807	–	553,880	528,909
Deposits from banks and other financial institutions	–	977,370	6,131,752	5,247,634	12,167,533	3,553,801	–	28,078,090	27,335,870
Placements from banks and other financial institutions	–	–	2,923,333	130,156	–	–	–	3,053,489	3,051,992
Financial assets sold under repurchase agreements	–	–	2,000,321	–	–	–	–	2,000,321	2,000,000
Deposits from customers	–	50,590,286	13,660,586	11,970,432	23,996,212	17,047,721	204,321	117,469,558	115,321,997
Debt securities issued	–	–	1,500,000	4,937,180	5,240,000	3,593,520	2,814,900	18,085,600	16,314,307
Others	13,594	77,272	1,863,785	1,407,996	800,308	2,186,308	57,610	6,406,873	6,068,527
Total liabilities	13,594	51,644,928	28,079,777	23,735,398	42,219,126	26,878,157	3,076,831	175,647,811	170,621,602

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(4) Operational risk

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

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

(5) Capital management

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

As at 31 December 2015 and 2016, the Bank calculated the capital adequacy ratios in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the CBRC in 2012 and relevant requirements promulgated by the CBRC as follows:

	31 December 2016	31 December 2015
Total core tier-one capital	17,635,973	16,613,652
– Share capital	4,058,713	4,011,533
– Qualifying portion of capital reserve	6,826,276	6,708,018
– Surplus reserve	1,013,649	804,789
– General reserve	3,696,090	2,391,182
– Retained earnings	1,978,101	2,215,006
– Investment revaluation reserve and others	63,144	483,124
Core tier-one capital deductions	(171,661)	(165,631)
Net core tier-one capital	17,464,312	16,448,021
Net tier-one capital	17,464,312	16,448,021
Tier two capital	3,319,322	3,376,236
– Qualifying portions of tier-two capital instruments issued	2,200,000	2,200,000
– Surplus provision for loan impairment	1,119,322	1,176,236
Net capital base	20,783,634	19,824,257
Total risk weighted assets	173,267,933	131,824,697
Core tier-one capital adequacy ratio	10.08%	12.48%
Tier-one capital adequacy ratio	10.08%	12.48%
Capital adequacy ratio	12.00%	15.04%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 FAIR VALUE

(1) Methods and assumptions for measurement of fair value

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

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

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

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

(a) Debt securities investments

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

(b) Receivables and other non-derivative financial assets

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 FAIR VALUE (continued)

(2) Financial instruments recorded at fair value

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

	31 December 2016			
	Level 1	Level 2	Level 3	Total
	Note (i)	Note (i)	Note (i) ~ (ii)	
Financial assets at fair value through profit or loss				
– Debt securities	–	320,315	–	320,315
Available-for-sale financial assets				
– Debt securities	–	30,584,602	–	30,584,602
– Investment funds	–	20,314,636	–	20,314,636
– Trust fund plans	–	388,907	1,001,753	1,390,660
– Asset management plans	–	2,591,753	2,003,746	4,595,499
– Wealth management products issued by financial institutions	–	–	1,502,025	1,502,025
Total	–	54,200,213	4,507,524	58,707,737

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

Note:

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 FAIR VALUE (continued)

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

	As at 1 January	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year		Purchases, issues, disposals and settlements				As at 31 December	Total gains or losses for the year included in profit or loss for assets held at the end of the year	
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals	Settlements			
2016												
Available-for-sale financial assets												
– Asset management plans	–	–	–	3,746	–	2,000,000	–	–	–	2,003,746	3,746	
– Wealth management products issued by financial institutions	–	–	–	2,025	–	1,500,000	–	–	–	1,502,025	2,025	
– Trust fund plans	–	–	–	1,753	–	1,000,000	–	–	–	1,001,753	1,753	
Total	–	–	–	7,524	–	4,500,000	–	–	–	4,507,524	7,524	

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 FAIR VALUE (continued)

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

- (i) Cash and deposits with central bank, borrowings from central bank, deposits and placements with/from banks and other financial institutions and financial assets held under resale agreements and sold under repurchase agreements.

Given that these financial assets and financial liabilities mainly mature within one year or adopt floating interest rates, their carrying amounts approximate their fair value.

- (ii) Loans and advances to customers and receivables

Loans and advances to customers and receivables are recorded net of allowance for impairment losses. Their estimated fair value represents the amount of estimated future cash flows expected to be received, discounted at current market rates.

- (iii) Held-to-maturity investments

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

- (iv) Available-for-sale equity investments

Available-for-sale equity investments are non-listed equities without active markets whose fair values cannot be measured reliably.

- (v) Deposits from customers

The fair value of checking, savings and short-term money market accounts is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices is estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 FAIR VALUE (continued)

(vi) Debt securities issued

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

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

	31 December 2016				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	31,324,703	31,299,756	–	31,299,756	–
Total	31,324,703	31,299,756	–	31,299,756	–
Financial liabilities					
Securities issued					
– Debt securities	13,087,167	12,920,228	–	12,920,228	–
– Certificates of interbank deposit	28,699,054	28,619,728	–	28,619,728	–
Total	41,786,221	41,539,956	–	41,539,956	–

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

The Bank's credit commitments take the form of bank acceptances, credit card limits, letters of credit and financial guarantees, 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	22,725,847	24,129,388

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

(2) Credit risk-weighted amount

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

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

(3) Operating lease commitments

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

	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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(4) Capital commitments

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

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

(6) Bonds redemption obligations

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

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Bank, but not yet matured at the 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	23,215,375	4,547,229

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 (Note14). 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 RMB 1,955 million as at 31 December 2016 (31 December 2015: RMB 2,017 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).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

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

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

The following tables set out an analysis of the carrying amounts of interests held by the Bank as at 31 December 2016 and 31 December 2015 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	31 December 2016			
	Available for sale financial assets	Receivables	Carrying amount	Maximum exposure
Asset management plans	4,595,499	31,079,477	35,674,976	35,674,976
Trust fund plans	1,390,660	10,876,265	12,266,925	12,266,925
Wealth management products issued by financial institutions	1,502,025	18,855,505	20,357,530	20,357,530
Asset-backed securities	2,789,113	–	2,789,113	2,789,113
Investment funds	20,314,636	–	20,314,636	20,314,636
Total	30,591,933	60,811,247	91,403,180	91,403,180

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

The maximum exposures to loss in the above structured entities are the amortised cost or the fair value of the assets held by the Bank at the end of the reporting period in accordance with the line items of these assets recognised in the statement of financial position.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (continued)

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

The types of unconsolidated structured entities sponsored by the Bank mainly include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Bank includes fees charged by providing management services to these structured entities. As at 31 December 2016 and 31 December 2015, the carrying amounts of the management fee receivables being recognized are not material in the statement of financial position.

As at 31 December 2016, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Bank, was RMB 50.793 billion (31 December 2015: RMB 34.094 billion).

In addition, the unconsolidated structured entities sponsored by the Bank also include asset-backed securities. As at 31 December 2016, the balances of these asset-backed securities was RMB 45 million (31 December 2015: RMB 159 million).

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

During the year ended 31 December 2016, the amount of fee and commission income recognised from the above mentioned structured entities by the Bank was RMB 91 million (2015: RMB 80 million).

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Bank after 1 January 2016 but matured before 31 December 2016 was RMB 118.327 billion (2015: RMB 83.853 billion).

41 ASSET SECURITIZATION

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

In August 2015 and October 2014, the Bank transferred a portfolio of customer loans with a book value of RMB 2.543 billion and RMB 2.833 billion respectively to an unconsolidated securitization vehicle managed by an independent trust company, which issued asset-backed securities to investors. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognized.

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 FIDUCIARY ACTIVITIES

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

As at 31 December 2016, the entrusted loans balance of the Bank was RMB 10.886 billion (31 December 2015: RMB 8.835 billion).

43 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the financial statements, the Bank has adopted all the new and revised IFRSs in issue which are relevant to the Bank for the reporting period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2016. The revised and new accounting standards and interpretations probably related to the Bank, which are issued but not yet effective for the accounting period ended 31 December 2016, are set out below:

	Effective for accounting periods beginning on or after
Amendments to IAS 7, <i>Disclosure initiative</i>	1 January 2017
Amendments to IAS 12, <i>Income taxes – Recognition of deferred tax assets for unrealised losses</i>	1 January 2017
IFRS 9, <i>Financial instruments</i>	1 January 2018
IFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
IFRS 16, <i>Leases</i>	1 January 2019

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

IFRS 9 Financial Instruments

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 SUBSEQUENT EVENTS

- (1) Qingdao Qingyin Financial Leasing Co., Ltd., with a registered capital of RMB1.00 billion, was co-established by the Bank, Qingdao Hanhe Cable Co., Ltd., Qingdao Port International Co., Ltd. and Qingdao Qianwan Container Terminal Co., Ltd. The Bank 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 Bank proposed to issue tier-two capital bonds, the total issue size of which not exceeding RMB6.5 billion with maturity not exceeding 15 years; and to issue no more than 80,000,000 offshore non-public offering 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 Bank. 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 Bank. Up to the approval date of the financial statements, the relevant regulatory authorities have yet to ratify the issuance.
- (3) The profit appropriation of the Bank was proposed in accordance with the resolution of the Bank's board of directors meeting as disclosed in Note 33.

Up to the approval date of the financial statements, except for the above, the Bank has no other significant non-adjusted events subsequent to the end of the reporting period.

Chapter XV Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

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

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

1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO

(1) Liquidity coverage ratio

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

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

	As at 31 December 2016	As at 31 December 2015
Qualified and high-quality current assets	35,122,080	36,069,181
Net cash outflows in next 30 days	34,693,024	27,313,363
Liquidity coverage ratio (RMB and foreign currency)	101.24%	132.06%

(2) Leverage ratio

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

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

Unit: RMB’000

No.	Item	Balance as at 31 December 2016	Balance as at 31 December 2015
1	Total consolidated assets as per published financial statements	275,986,287	187,235,254
2	Consolidated adjustments for accounting purposes but outside the scope of regulatory consolidation	—	—
3	Adjustments for fiduciary assets	—	—
4	Adjustments for derivative financial instruments	—	—
5	Adjustment for securities financing transactions	2,001,819	—
6	Adjustment for off-balance sheet items	22,117,282	21,519,055
7	Other adjustments	(171,661)	(165,631)
8	Balance of adjusted on-balance and off-balance sheet assets	299,933,727	208,588,678

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO (Continued)

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

Unit: RMB'000

No.	Item	Balance as at 31 December 2016	Balance as at 31 December 2015
1	On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	275,986,287	186,735,254
2	Less: asset amounts deducted in determining Basel III tier-one capital	(171,661)	(165,631)
3	Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)	275,814,626	186,569,623
4	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	2,001,819	500,000
5	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	—	—
6	Total securities financing transaction exposures	2,001,819	500,000
7	Off-balance sheet exposure at gross notional amount	22,117,282	21,519,055
8	Less: adjustments for conversion to credit equivalent amounts	—	—
9	Balance of adjusted off-balance sheet assets	22,117,282	21,519,055
10	Net tier-one capital	17,464,312	16,448,021
11	Balance of adjusted on-balance and off-balance sheet assets	299,933,727	208,588,678
12	Leverage ratio	5.82%	7.89%

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

2 CURRENCY CONCENTRATIONS

	31 December 2016			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	7,108,125	12,828	25,696	7,146,649
Spot liabilities	(6,216,080)	(5,810)	(492)	(6,222,382)
Net long position	892,045	7,018	25,204	924,267

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

The Bank has no structural position at the reporting periods.

3 INTERNATIONAL CLAIMS

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

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

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS (Continued)

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

	31 December 2016			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	26,164	5,971,005	593,744	6,590,913
– of which attributed to Hong Kong	–	2,100,081	–	2,100,081
– North and South America	–	446,889	–	446,889
– Europe	–	5,756	–	5,756
	26,164	6,423,650	593,744	7,043,558

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

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	31 December 2016	31 December 2015
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	225,537	223,456
– between 6 months and 1 year (inclusive)	623,854	310,947
– over 1 year	635,415	465,330
Total	1,484,806	999,733
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.26%	0.31%
– between 6 months and 1 year (inclusive)	0.71%	0.43%
– over 1 year	0.73%	0.64%
Total	1.70%	1.38%

Definitions

Company:	Bank of Qingdao Co., Ltd.
CBRC:	China Banking Regulatory Commission
CSRC:	China Securities Regulatory Commission
Hong Kong Stock Exchange:	The Stock Exchange of Hong Kong Limited
Qingdao Regulatory Commission:	Qingdao Supervisory Commission of the China Banking Regulatory Banking Commission
Hong Kong Listing Rules:	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Articles of Association:	Articles of Association of the Bank of Qingdao Co., Ltd.
SFO:	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Reporting Period:	the year ended 31 December 2016
PPP:	Public-Private Partnership
O2O Platform:	Online to Offline Platform



BQD  **青岛银行**

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

E-banking : www.qdccb.com

Fax : +86 (532) 85709725

Email : ir@qdbankchina.com

Bank Hotline : 96588 (Qingdao) 400-66-96588 (Outside Qingdao)

Postal Code : 266071



Bank of Qingdao
Official Website



Bank of Qingdao
WeChat Banking