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BQD  **青岛银行**

Bank of Qingdao Co., Ltd.*

青島銀行股份有限公司*

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

(Stock Code: 3866)

Announcement of Interim Results for 2017

The board of directors (the “**Board**”) of Bank of Qingdao Co., Ltd. (the “**Bank**”) hereby announces the unaudited results of the Bank for the six months ended 30 June 2017. This announcement, containing the full text of the 2017 Interim Report of the Bank, complies with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) in relation to information to accompany preliminary announcements of interim results.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

Both the Chinese and English versions of this results announcement are available on the website of the Bank (<http://www.qdccb.com/>) and the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk/>). In the event of any discrepancies in interpretations between the English and Chinese text, the Chinese version shall prevail. Printed version of the 2017 Interim Report of the Bank will be delivered to the H Share holders of the Bank and available on the website of the Bank (<http://www.qdccb.com/>) and the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk/>) in due course.

By order of the Board
Bank of Qingdao Co., Ltd.*
GUO Shaoquan
Chairman

Shandong, PRC, 18 August 2017

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

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

IMPORTANT NOTICE

1. The Board of Directors, Board of Supervisors, Directors, Supervisors and senior management of the Bank assure that the information in this report contains no false records, misleading statements or material omissions, and shall be liable jointly and severally for the authenticity, accuracy and completeness of the information in this report.
2. The proposal on the 2017 Interim Report of Bank of Qingdao Co., Ltd. was considered and approved at the 30th meeting of the sixth session of the Board of Directors of the Bank held on 18 August 2017. There were 15 Directors eligible for attending the meeting, of whom 13 Directors attended the meeting.
3. The interim financial report for the six months ended 30 June 2017 of the Company is prepared in accordance with the applicable disclosure provisions of the Hong Kong Listing Rules, including compliance with International Accounting Standard 34, Interim Financial Reporting and have been reviewed by the audit committee of the Bank and by the KPMG in accordance with the Hong Kong Standard on Review Engagements 2410. The interim financial report for the six months ended 30 June 2017 has not been audited.
4. The financial information set out in this report is prepared on a consolidated basis in accordance with the International Financial Reporting Standards and expressed in Renminbi, unless otherwise stated.
5. The Bank's chairman Mr. Guo Shaoquan, president Mr. Wang Lin, vice president in charge of financial work Mr. Yang Fengjiang and head of planning and finance Mr. Wang Bo assure the authenticity and completeness of this report.
6. No profit distribution and no transfer from capital reserve to share capital were made by the Bank in 2017 during the interim period.
7. This report contains certain forward-looking statements about the financial conditions, operating results and business developments of the Company. The report uses the words "will", "may", "strive", "plan" and similar wording to express forward-looking statements. These statements are made based on current plans, estimates and projections, and although the Company believes that the expectations reflected in these forward-looking statements are reasonable, the Company cannot assure that these expectations will be attained or confirmed to be correct and therefore they do not constitute substantive undertakings of the Company. Investors should not unduly rely on such statements, and should be aware of investment risks. Please note that these forward-looking statements are related to future events or future financial, business or other performance of the Company, and are subject to certain uncertainties which may cause the actual results to differ substantially.

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

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CHAPTER I CORPORATE INFORMATION

Legal name in Chinese:

青島銀行股份有限公司
(Abbreviation: 青島銀行)

Legal name in English:

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

Legal representative: Guo Shaoquan

Authorized 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

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 Corporation Limited
No. 17 Taipingqiao Avenue, Xicheng District,
Beijing

Newspapers designated by the**Bank for information disclosure:**

China Securities Journal

**Website for information disclosure
by the Bank:**

Website of the Bank
(<http://www.qdccb.com/>)
HKExnews website of the Hong Kong Stock Exchange
(<http://www.hkexnews.hk/>)

CHAPTER II FINANCIAL HIGHLIGHTS

2.1 FINANCIAL DATA

Item	January to June 2017	January to June 2016	Year-on-year change
Business performance (RMB'000)			Change (%)
Net interest income	2,344,567	2,446,882	(4.18)
Net fee and commission income	518,194	473,746	9.38
Net trading (losses)/gains, net (losses)/ gains arising from investments and other operating income, net	(27,567)	50,000	(155.13)
Operating income	2,835,194	2,970,628	(4.56)
Operating expenses	(792,826)	(954,192)	(16.91)
Impairment losses	(400,050)	(381,558)	4.85
Profit before taxation	1,642,318	1,634,878	0.46
Net profit	1,278,760	1,261,528	1.37
Net profit attributable to equity shareholders of the Bank	1,275,799	1,261,528	1.13
Net cash flows used in operating activities	(44,570,903)	(614,414)	7,154.21
			Change
Basic earnings per share (RMB)	0.31	0.31	–

2.2 FINANCIAL INDICATORS

Item	January to June 2017	January to June 2016	Year-on-year change
Profitability indicators (%)			Change
Return on average total asset (annualised)	0.91	1.28	(0.37)
Return on average equity (annualised)	14.44	14.98	(0.54)
Net interest spread (annualised)	1.62	2.17	(0.55)
Net interest margin (annualised)	1.79	2.36	(0.57)
Net fee and commission income to operating income	18.28	15.95	2.33
Cost-to-income ratio	26.94	28.43	(1.49)

CHAPTER II FINANCIAL HIGHLIGHTS

Item	30 June 2017	31 December 2016	Change from the end of last year
Scale indicators (RMB'000)			Change (%)
Total assets	281,976,231	277,988,106	1.43
Of which: loans and advances to customers, net	92,079,084	84,864,849	8.50
Total liabilities	263,787,759	260,352,133	1.32
Of which: deposits from customers	157,297,114	141,604,761	11.08
Share capital	4,058,713	4,058,713	–
Equity attributable to the equity shareholders of the Bank	17,695,511	17,635,973	0.34
Total equity	18,188,472	17,635,973	3.13
			Change
Net assets per share attributable to shareholders of the Bank (RMB)	4.36	4.35	0.01
Asset quality indicators (%)			Change
Non-performing loan ratio	1.69	1.36	0.33
Provision coverage ratio	152.17	194.01	(41.84)
Loan provision ratio	2.57	2.64	(0.07)
Indicators of capital adequacy ratio (%)			Change
Core tier-one capital adequacy ratio	10.16	10.08	0.08
Tier-one capital adequacy ratio	10.17	10.08	0.09
Capital adequacy ratio	13.67	12.00	1.67
Total equity to total assets	6.45	6.34	0.11
Other indicators (%)			Change
Liquidity coverage ratio	159.35	101.24	58.11
Liquidity ratio	47.03	53.48	(6.45)
Percentage of loans to the single largest customer	6.26	5.29	0.97
Percentage of loans to the top ten customers	38.73	36.99	1.74

- Notes:*
- (1) Net loans and advances to customers = the amount of total loan – provision for impairment
 - (2) Return on average total assets = net profit/average balance of total assets at the beginning and at the end of the period
 - (3) Return on average equity = net profit attributable to the equity shareholders of the Bank/average balance of equity attributable to equity shareholders of the Bank at the beginning and at the end of the period
 - (4) Net interest spread = average yield on interest-earning assets – average cost of interest-bearing liabilities
 - (5) Net interest margin = net interest income/average interest-earning assets
 - (6) Net fee and commission income to operating income = net fee and commission income/operating income
 - (7) Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income
 - (8) Basic earnings per share = net profit attributable to equity shareholders of the Bank/weighted average number of ordinary shares
 - (9) The capital adequacy ratio and other relevant indicators listed in the above table were calculated in accordance with the Regulations Governing Capital of Commercial Banks (Provisional) and other relevant regulatory regulations

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

3.1 REVIEW OF THE ECONOMIC AND FINANCIAL ENVIRONMENT AND POLICIES

In the first half of 2017, the economy was generally stabilized across the globe and seen steady recovery especially in the European and American areas. With the increase of USD interest rate, the world began to normalize monetary policies and this brought the global monetary environment to a turning point.

As China's economy continued to recover, corporate operating profits improved remarkably and industrial and dynamic structures kept optimizing. The financial market operated steadily and transformation and upgrading entered the deepening stage. Financial regulation was more rigorous in all aspects and systematic risk was effectively controlled. Commercial banks were confronted with great challenges in terms of asset-liability management due to the superposed effect of the marketization of interest rate and macro-prudential supervision under double pressure of industrial overcapacity cutting and financial deleveraging. Shandong province faced large transformation and upgrading pressure and various areas and cities of the province energetically carried out the new-for-old kinetic energy project. All this brought new challenges and opportunities to the Bank's operation and development.

3.2 SUMMARY OF OVERALL OPERATIONS

3.2.1 Status of Key Operational Indicators Achievement

- (1) Total assets amounted to RMB281.976 billion, representing an increase of RMB3.988 billion or 1.43% as compared with that at the end of the previous year;
- (2) Total deposits amounted to RMB157.297 billion, representing an increase of RMB15.692 billion or 11.08% as compared with that at the end of the previous year;
- (3) Total loans amounted to RMB94.509 billion, representing an increase of RMB7.340 billion or 8.42% as compared with that at the end of the previous year;
- (4) Net profit amounted to RMB1.279 billion, representing a year-on-year increase of RMB17 million or 1.37%;
- (5) Non-performing loan ratio, provision coverage ratio and capital adequacy ratio were 1.69%, 152.17% and 13.67%, respectively;
- (6) Return on average total assets was 0.91%, representing a year-on-year decrease of 0.37 percentage point, mainly due to the significant year-on-year increase of total assets of the Company at the beginning of the period, resulting in a comparatively greater increase in average total assets of the period;
- (7) Return on average equity was 14.44%, representing a year-on-year decrease of 0.54 percentage point.

3.2.2 Major Tasks of Operational Management

Regarding the retail banking business, the Company dedicated to the market and made efforts to become “the most convenient bank”. The Company developed convenient bill payment services to effectively increase customer loyalty and activeness. The Company managed and enriched retail product system, strengthened the construction and systematic training retail business line team, launched the pilot project of “taking gold with service” through hall-lobby integration to propel the value transformation of hall-lobby service. Through mix sale of retail finance assets and orderly putting consumption loans on market, the Company realized stable growth of retail liabilities. The Company focused on personal housing and consumption loans and strengthened the launch of “On-Line An Ju Dai”. With the scale of supply chain finance business continually expanding, the Company has already extended credit to 829 customers in aggregate, with loans extended amounting to RMB0.8 billion.

Regarding the corporate banking business, the Company persisted in transformation and upgrade, continuously enhanced competitiveness. The Bank continued to deepen public sector finance and strived to develop investment banking business. The trade finance business is transforming into trading bank model and we have confirmed on-line finance business model with 6 core companies. The bills business was carried out robustly. The Bank have completed the docking with exchange systems for 81 branches successfully. In addition, the Bank have successfully carried out the first mobile POS terminal non-tax payment business in Shandong Province, and completed the first bank-leasing linkage business and first investment-loan linkage business.

Regarding the financial market business, the Bank adjusted the investment strategies, optimized the asset and liability structure of the whole bank, and actively expanded direct finance channels for corporate customers, leading to the stable development of the structured finance and investment businesses. During the Reporting Period, the Bank’s interbank market transactions reached RMB4.44 trillion, representing a year-on-year increase of 36.51%, ranking the 25th among national financial institutions and the 7th among city commercial banks. The Bank vigorously developed bond underwriting business, and underwrote various bonds with an amount of RMB15.450 billion; the Bank actively developed market-making trade of bonds in the secondary market, and the bond trading concluded by us reached RMB263.735 billion during the Reporting Period; the Bank operated common derivatives trading business, and obtained the qualifications for RMB interest rate interchange business, gold lending and swap business.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

Regarding the credit management, the Bank proactively implemented supply-side reform policies and strengthened credit risk control. The Bank actively met relevant requirements for supply-side reform and “cutting over-capacity, destocking, deleveraging, reducing cost and remedying weakness”. By the means such as list system and industry restriction, the Bank actively promoted industrial structure adjustment, as a result, the total loans for the “high pollution, high energy-consumption and over-capacity” industries already decreased from RMB2.723 billion at the beginning of the year to RMB2.453 billion, representing a decrease of 9.92%. Meanwhile, the Bank continually strengthened the loan support to strategic emerging industries, Internet information service industries, and high-end equipment manufacturing industries. As at the end of the Reporting Period, the loans to support technology amounted to RMB3.661 billion, increased by RMB686 million or 23.06% as compared with that at the end of last year; the green credit amounted to RMB8.594 billion, increased by RMB2.332 billion or 37.24% as compared with that at the end of last year, reflecting remarkable effect of assets structure upgrading and adjustment. Meanwhile, the Bank took various measures and preserved the bottom line of risk strictly, implemented “one-to-one policies” to collect, resolve and dispose non-performing loans actively.

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

3.3.1 Financial Performance Summary

Unit: RMB'000

Item	January to June 2017	January to June 2016
Net interest income	2,344,567	2,446,882
Net fee and commission income	518,194	473,746
Net trading (losses)/gains, net (losses)/gains arising from investments and other operating income, net	(27,567)	50,000
Operating income	2,835,194	2,970,628
Operating expenses	(792,826)	(954,192)
Impairment losses	(400,050)	(381,558)
Profit before taxation	1,642,318	1,634,878
Income tax	(363,558)	(373,350)
Net profit	1,278,760	1,261,528
Of which: net profit attributable to equity shareholders of the Bank	1,275,799	1,261,528
net profit attributable to non-controlling interest	2,961	-

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Company's profit before taxation amounted to RMB1.642 billion, representing a year-on-year increase of RMB7.44 million or 0.46%; net profit amounted to RMB1.279 billion, representing a year-on-year increase of RMB17 million or 1.37%; and effective income tax rate was 22.14%, representing a year-on-year decrease of 0.70 percentage point. The following table sets forth the impact of changes in our significant profit or loss items on the profit before taxation during the Reporting Period.

Unit: RMB'000

Item	Amount
Profit before taxation in the first half of 2016	1,634,878
Changes in the first half of 2017	
Net interest income	(102,315)
Net fee and commission income	44,448
Net trading (losses)/gains, net (losses)/gains arising from investments and other operating income, net	(77,567)
Operating expenses	161,366
Impairment losses	(18,492)
Profit before taxation in the first half of 2017	1,642,318

3.3.2 Operating Income

During the Reporting Period, the Company's operating income amounted to RMB2.835 billion, representing a year-on-year decrease of RMB135 million or 4.56%, of which, net interest income accounted for 82.70%, representing a year-on-year increase of 0.33 percentage point, and net fee and commission income accounted for 18.27%, representing a year-on-year increase of 2.32 percentage points. The following table sets forth the year-on-year comparison of the composition of our operating income during the Reporting Period.

Unit: %

Item	January to June 2017	January to June 2016
Net interest income	82.70	82.37
Net fee and commission income	18.27	15.95
Net trading (losses)/gains, net (losses)/gains arising from investments and other operating income, net	(0.97)	1.68
Total	100.00	100.00

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

3.3.3 Net Interest Income

During the Reporting Period, the Company had net interest income of RMB2.345 billion, representing a year-on-year decrease of RMB102 million or 4.18%. The following table sets forth the average balance, interest income/interest expense and average annualised yield/cost rate of the assets and liabilities items of the Company for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities were daily average balances.

Unit: RMB'000

Item	January to June 2017			January to June 2016		
	Average balance	Interest income/expense	Average annualised yield/cost (%)	Average balance	Interest income/expense	Average annualised yield/cost (%)
Interest-earning assets						
Loans and advances to customers	91,563,093	2,155,414	4.75	78,655,708	2,145,748	5.49
Financial investments	130,325,232	2,828,570	4.38	95,677,365	2,191,656	4.61
Deposits with central bank	21,460,059	162,770	1.53	18,734,334	143,723	1.54
Deposits with banks and other financial institutions	3,988,933	23,333	1.18	2,763,303	16,759	1.22
Financial assets held under resale agreements	14,373,652	204,224	2.87	11,852,820	127,608	2.17
Placements with banks and other financial institutions	1,583,877	34,123	4.34	813,101	4,123	1.02
Financial assets at fair value through profit or loss	276,161	5,008	3.66	288,669	6,774	4.72
Others	1,267,049	30,316	4.82	-	-	-
Total	264,838,056	5,443,758	4.15	208,785,300	4,636,391	4.47
Interest-bearing liabilities						
Deposits from customers	141,828,218	1,239,495	1.76	119,631,003	1,071,310	1.80
Deposits from banks and other financial institutions	31,467,804	593,555	3.80	27,072,478	466,093	3.46
Financial assets sold under repurchase agreements	22,892,153	305,577	2.69	15,241,408	158,231	2.09
Placements from banks and other financial institutions	6,058,523	76,920	2.56	3,157,828	18,160	1.16
Debt securities issued	43,740,667	866,929	4.00	24,494,858	440,496	3.62
Others	797,732	16,715	4.23	1,635,602	35,219	4.33
Total	246,785,097	3,099,191	2.53	191,233,177	2,189,509	2.30
Net interest income		2,344,567			2,446,882	
Net interest spread			1.62			2.17
Net interest margin			1.79			2.36

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, average balances of interest-earning assets were RMB264.838 billion, representing a year-on-year increase of RMB56.053 billion or 26.85%, mainly due to an increase in the volume of loans and advances to customers and financial investments. Net interest margin was 1.79%, representing a year-on-year decrease of 0.57 percentage point; and net interest spread was 1.62%, representing a year-on-year decrease of 0.55 percentage point, mainly due to the co-effect of the factors, such as the separation of price and tax under "BT-to-VAT", the decrease in yield of loans and investments to customers, and the increase in the cost rate of market funds.

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	January to June 2017 vs. January to June 2016		
	Due to volume	Due to rate	Net increase/ (decrease)
Assets			
Loans and advances to customers	298,300	(288,634)	9,666
Financial investments	746,039	(109,125)	636,914
Deposits with central bank	19,976	(929)	19,047
Deposits with banks and other financial institutions	7,122	(548)	6,574
Financial assets held under resale agreements	35,472	41,144	76,616
Placements with banks and other financial institutions	16,613	13,387	30,000
Financial assets at fair value through profit or loss	(249)	(1,517)	(1,766)
Others	30,316	-	30,316
Change in interest income	1,153,589	(346,222)	807,367
Liabilities			
Deposits from customers	191,915	(23,730)	168,185
Deposits from banks and other financial institutions	81,817	45,645	127,462
Financial assets sold under repurchase agreements	101,998	45,348	147,346
Placements from banks and other financial institutions	36,837	21,923	58,760
Debt securities issued	380,275	46,158	426,433
Others	(17,693)	(811)	(18,504)
Change in interest expense	775,149	134,533	909,682
Change in net interest income	378,440	(480,755)	(102,315)

3.3.4 Interest Income

During the Reporting Period, the Company's interest income was RMB5.444 billion, representing a year-on-year increase of RMB807 million or 17.41%, mainly due to an increase in the volume of loans and advances to customers and financial investments. The interest income from loans and advances to customers and financial investments constituted the major part of the interest income of the Company.

Interest income of loans and advances to customers

During the Reporting Period, the Company's interest income of the loans and advances to customers was RMB2.155 billion, representing a year-on-year increase of RMB9.67 million or 0.45%. The following table sets forth the average balance, interest income and average annualised yield of each component of the loans and advances to customers of the Company for the periods indicated.

Unit: RMB'000

Item	January to June 2017			January to June 2016		
	Average balance	Interest income	Average annualized yield (%)	Average balance	Interest income	Average annualized yield (%)
Corporate loans	65,019,450	1,555,709	4.83	58,653,252	1,619,061	5.55
Personal loans	26,543,643	599,705	4.56	20,002,456	526,687	5.30
Total loans to customers	91,563,093	2,155,414	4.75	78,655,708	2,145,748	5.49

Interest income from financial investments

During the Reporting Period, the Company's interest income from financial investments amounted to RMB2.829 billion, representing a year-on-year increase of RMB637 million or 29.06%, mainly due to an increase in the volume of investments.

Interest income from deposits with banks and other financial institutions

During the Reporting Period, the Company's interest income from deposits with banks and other financial institutions amounted to RMB23 million, representing a year-on-year increase of RMB6.57 million or 39.23%, mainly due to an increase in the volume of deposits with banks and other financial institutions.

3.3.5 Interest Expense

During the Reporting Period, the Company's interest expense was RMB3.099 billion, representing a year-on-year increase of RMB910 million or 41.55%, mainly due to an increase in the volume of deposits from customers and debt securities issued and the increase in cost rate of market funds. Interest expenses on deposits from customers and debt securities were a major part of interest expense of the Company.

Interest expense on deposits from customers

During the Reporting Period, the Company's interest expense on deposits from customers amounted to RMB1.239 billion, representing a year-on-year increase of RMB168 million or 15.70%. The following table sets forth the average balance, interest expense and average annualized cost rate of the Company's corporate deposits and personal deposits for the periods indicated.

Unit: RMB'000

Item	January to June 2017			January to June 2016		
	Average balance	Interest expense	Average annualized cost rate (%)	Average balance	Interest expense	Average annualized cost rate (%)
Corporate deposits from customers						
Demand	51,288,492	162,951	0.64	39,466,899	129,403	0.66
Time	40,473,561	498,551	2.48	39,079,128	454,346	2.34
Subtotal	91,762,053	661,502	1.45	78,546,027	583,749	1.49
Personal deposits from customers						
Demand	10,647,373	18,702	0.35	9,575,680	16,898	0.35
Time	39,418,792	559,291	2.86	31,509,296	470,663	3.00
Subtotal	50,066,165	577,993	2.33	41,084,976	487,561	2.39
Total deposits from customers	141,828,218	1,239,495	1.76	119,631,003	1,071,310	1.80

Interest expense on deposits from banks and other financial institutions

During the Reporting Period, the Company's interest expense on deposits from banks and other financial institutions amounted to RMB594 million, representing a year-on-year increase of RMB127 million or 27.35%, mainly due to an increase in the volume and the cost rate of deposits from banks and other financial institutions.

Interest expense on issued debts

During the Reporting Period, the Company's interest expense on issued debts amounted to RMB867 million, representing a year-on-year increase of RMB426 million or 96.81%, mainly due to an increase in the volume and the cost rate of issued debts.

3.3.6 Net Non-interest Income

During the Reporting Period, the Company's net non-interest income amounted to RMB491 million, representing a year-on-year decrease of RMB33 million or 6.32%, of which, net non-interest income of corporate banking business decreased by RMB68 million or 43.20% year-on-year; the net non-interest income of retail banking business increased by RMB63 million or 39.52% year-on-year; the net non-interest income of financial market business decreased by RMB65 million or 31.66% year-on-year; the net non-interest income of other business increased by RMB37 million year-on-year.

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

Unit: RMB'000

Item	January to June 2017	January to June 2016
Fee and commission income	537,258	500,890
Less: fee and commission expense	(19,064)	(27,144)
Net fee and commission income	518,194	473,746
Net trading (losses)/gains, net (losses)/gains arising from investments and other operating income, net	(27,567)	50,000
Total net non-interest income	490,627	523,746

3.3.7 Net Fee and Commission Income

During the Reporting Period, the Company's net fee and commission income amounted to RMB518 million, representing a year-on-year increase of RMB44 million or 9.38%, mainly due to increase in income of wealth management service fees.

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

Unit: RMB'000

Item	January to June 2017	January to June 2016
Fee and commission income		
Wealth management service fees	285,869	145,448
Agency service fees	143,202	142,180
Settlement fees	50,009	129,912
Custody service fees	15,891	43,811
Bank card service fees	9,153	10,675
Others	33,134	28,864
Total	537,258	500,890
Fee and commission expense	(19,064)	(27,144)
Net fee and commission income	518,194	473,746

During the Reporting Period, the Company's wealth management service fees amounted to RMB286 million, representing a year-on-year increase of RMB140 million or 96.54%, mainly due to increase in the volume of wealth management products issued by the Company and the improvement of the operational level of wealth management; agency service fees amounted to RMB143 million, representing a year-on-year increase of RMB1.02 million or 0.72%; settlement fees amounted to RMB50 million, representing a year-on-year decrease of RMB80 million or 61.51%, mainly due to decrease in volume of trade finance settlement business; custody service fees amounted to RMB16 million, representing a year-on-year decrease of RMB28 million or 63.73%, mainly due to a decrease in the volume of trust plans of structured financing business; bank card service fees amounted to RMB9.15 million, representing a year-on-year decrease of RMB1.52 million or 14.26%, mainly due to a partial fee waiver to cater for the needs of customers.

3.3.8 Net Trading (Losses)/Gains, Net (Losses)/Gains Arising from Investments and Other Operating Income, Net

During the Reporting Period, the Company's net trading (losses)/gains, net (losses)/gains arising from investments and other operating income (net) decreased by RMB78 million or 155.13% on a year-on-year basis, mainly due to an increase in losses for sales of available-for-sale financial assets and changes in foreign exchange rate. The following table sets forth the major components of the Company's net trading (losses)/gains, net (losses)/gains arising from investments and other operating income (net) for the periods indicated.

Unit: RMB'000

Item	January to June 2017	January to June 2016
Net trading (losses)/gains	(21,068)	9,953
Net (losses)/gains arising from investments	(7,849)	38,120
Other operating income, net	1,350	1,927
Total	(27,567)	50,000

3.3.9 Operating Expenses

During the Reporting Period, the Company's operating expenses amounted to RMB793 million, representing a year-on-year decrease of RMB161 million or 16.91%; the cost-to-income ratio was 26.94%, representing a year-on-year decrease of 1.49 percentage points, of which, staff costs decreased by RMB118 million or 23.34% year-on-year, mainly due to a decrease in provision for performance-based remuneration; tax and surcharges decreased by RMB81 million year-on-year, mainly because business tax has been replaced with value-added tax after "BT-to-VAT" since May 2016, and value-added tax was not reflected in tax on operating expenses. The following table sets forth the major components of the Company's operating expenses for the periods indicated.

Unit: RMB'000

Item	January to June 2017	January to June 2016
Staff costs	386,918	504,711
Property and equipment expenses	200,762	181,109
Tax and surcharges	28,894	109,601
Other general and administrative expenses	176,252	158,771
Total operating expenses	792,826	954,192

3.3.10 Impairment Losses

During the Reporting Period, the Company's impairment losses amounted to RMB400 million, representing a year-on-year increase of RMB18 million or 4.85%. The following table sets forth the major components of the Company's impairment losses for the periods indicated.

Unit: RMB'000

Item	January to June 2017	January to June 2016
Loans and advances to customers	349,636	350,396
Receivables	20,000	30,000
Long-term receivables	27,226	–
Others	3,188	1,162
Total impairment losses	400,050	381,558

Loan impairment losses constituted the largest component of impairment losses. During the Reporting Period, the loan impairment losses amounted to RMB350 million without significant change, as compared to those of the corresponding period of the previous year.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

3.4 ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF FINANCIAL POSITION

3.4.1 Assets

As at the end of the Reporting Period, the Company's total assets amounted to RMB281.976 billion, representing an increase of RMB3.988 billion or 1.43% as compared with that at the end of last year. The following table sets forth, as at the dates indicated, the components of the Company's total assets.

Unit: RMB'000

Item	30 June 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Total loans and advances to customers	94,508,659	33.52	87,168,295	31.36
Provision for impairment on loans and advances to customers	(2,429,575)	(0.86)	(2,303,446)	(0.83)
Net loans and advances to customers	92,079,084	32.66	84,864,849	30.53
Financial investments	120,884,865	42.87	152,607,313	54.90
Cash and deposits with central bank	28,214,923	10.01	22,697,997	8.17
Deposits with banks and other financial institutions	2,861,096	1.01	6,421,827	2.31
Placements with banks and other financial institutions	3,996,197	1.42	619,210	0.22
Financial assets held under resale agreements	24,793,380	8.79	3,957,206	1.42
Financial assets at fair value through profit or loss	–	–	320,315	0.12
Derivative financial assets	1,936	–	–	–
Property and equipment	1,370,544	0.49	1,221,493	0.44
Deferred tax assets	802,892	0.28	602,519	0.22
Other assets	6,971,314	2.47	4,675,377	1.67
Total assets	281,976,231	100.00	277,988,106	100.00

3.4.1.1 Loans and advances to customers

As at the end of the Reporting Period, the Company's loans and advances to customers amounted to RMB94.509 billion, representing an increase of RMB7.340 billion or 8.42% as compared with that at the end of last year; net loans and advances to customers amounted to RMB92.079 billion, representing an increase of RMB7.214 billion or 8.50% as compared with that at the end of last year. The following table sets forth, as at the dates indicated, the loans and advances to customers of the Company by product type.

Unit: RMB'000

Item	30 June 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Corporate loans	62,568,166	66.20	58,589,447	67.22
Discounted bills	3,162,119	3.35	3,874,462	4.44
Personal loans	28,778,374	30.45	24,704,386	28.34
Total loans and advances to customers	94,508,659	100.00	87,168,295	100.00

Corporate loans

As at the end of the Reporting Period, the Company's total corporate loans amounted to RMB62.568 billion, representing an increase of RMB3.979 billion or 6.79% as compared with that at the end of last year, and accounted for 66.20% of the total loans and advances to customers, representing a decrease of 1.02 percentage points as compared with that at the end of last year. During the Reporting Period, the Company timely adjusted the development direction of its corporate business to be in line with the changing macro economy, focused its corporate credit assets on financing for public sector and listing. While complying with relevant regulatory requirements and national policies, the Company focused on meeting the reasonable credit requirements of key projects under construction and for subsequent construction at national, provincial and urban levels and the credit demands from momentum changes as well as industrial transformation and upgrade.

Discounted bills

As at the end of the Reporting Period, the Company's total discounted bills amounted to RMB3.162 billion, representing a decrease of RMB712 million or 18.39% as compared with that at the end of last year, and accounted for 3.35% of the total loans and advances to customers, representing a decrease of 1.09 percentage points as compared with that at the end of last year. During the Reporting Period, the volume of bill issuance decreased as compared with that of previous years, and the market funds were in a shortage, resulting in a great rise of the interest rate for discounted bills. In addition, as the relevant regulatory policies continued to be tightened in the first half of the year, bill financing business and existing bills decreased.

Personal loans

As at the end of the Reporting Period, the Company's total personal loans amounted to RMB28.778 billion, representing an increase of RMB4.074 billion or 16.49% as compared with that at the end of last year, and accounted for 30.45% of total loans and advances to customers, representing an increase of 2.11 percentage points as compared with that at the end of last year. During the Reporting Period, the Company focused on residential mortgage and personal consumption loans, gradually realizing the transformation and upgrading from personal credit business to consumption finance.

3.4.1.2 Investment

As at the end of the Reporting Period, the Company's carrying value of investment amounted to RMB120.885 billion, representing a decrease of RMB32.043 billion or 20.95% as compared with that at the end of last year. The Company's investments consist of financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and receivables. The following table sets forth, as at the dates indicated, the components of the Company's investment portfolio.

Unit: RMB'000

Item	30 June 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	–	–	320,315	0.21
Available-for-sale financial assets	42,113,673	34.84	58,410,672	38.20
Held-to-maturity investments	32,797,214	27.13	31,324,703	20.48
Receivables	45,973,978	38.03	62,871,938	41.11
Total	120,884,865	100.00	152,927,628	100.00

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

Financial assets at fair value through profit or loss

As at the end of the Reporting Period, the Company's total financial assets at fair value through profit or loss decreased by RMB320 million or 100.00% as compared with that at the end of last year, mainly because the financial assets held for trading were sold during the Reporting Period, as the interest rate in bond market fluctuated. The following table sets forth, as at the dates indicated, the components of the Company's financial assets at fair value through profit or loss.

Unit: RMB'000

Item	30 June 2017	31 December 2016
Debt securities issued by policy banks	–	129,600
Debt securities issued by banks and other financial institutions	–	141,756
Debt securities issued by corporate entities	–	48,959
Total financial assets at fair value through profit or loss	–	320,315

Available-for-sale financial assets

As at the end of the Reporting Period, the Company's total available-for-sale financial assets amounted to RMB42.114 billion, representing a decrease of RMB16.297 billion or 27.90% as compared with that at the end of last year, mainly because the Company downsized the scale of investment funds to implement macro control and meet the regulatory requirements. The following table sets forth, as at the dates indicated, the components of the Company's available-for-sale financial assets.

Unit: RMB'000

Item	30 June 2017	31 December 2016
Asset management plans	10,819,177	4,595,499
Debt securities issued by banks and other financial institutions	8,460,307	15,199,065
Debt securities issued by policy banks	7,495,062	9,379,448
Wealth management products issued by financial institutions	6,387,801	1,502,025
Trust fund plans	2,864,615	1,390,660
Debt securities issued by corporate entities	2,431,328	4,558,363
Investment funds	2,226,274	20,314,636
Debt securities issued by government	1,405,859	1,447,726
Equity investments	23,250	23,250
Total available-for-sale financial assets	42,113,673	58,410,672

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

Held-to-maturity investments

As at the end of the Reporting Period, the Company's total held-to-maturity investments amounted to RMB32.797 billion, representing an increase of RMB1.473 billion or 4.70% as compared with that at the end of last year. The Company kept the held-to-maturity investments on a long-term basis as strategic allocation. The following table sets forth, as at the dates indicated, the components of the Company's held-to-maturity investments.

Unit: RMB'000

Item	30 June 2017	31 December 2016
Debt securities issued by policy banks	11,248,873	11,792,171
Government bonds	10,913,359	10,042,362
Debt securities issued by banks and other financial institutions	9,055,600	8,070,558
Debt securities issued by corporate entities	1,579,382	1,419,612
Total held-to-maturity investments	32,797,214	31,324,703
Fair value of held-to-maturity investments	31,980,519	31,299,756

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

Receivables

As at the end of the Reporting Period, the Company's net receivables amounted to RMB45.974 billion, representing a decrease of RMB16.898 billion or 26.88% as compared with that at the end of last year, mainly because the Company reduced non-standard assets, such as the wealth management products issued by financial institutions, to implement macro control and meet the regulatory requirements. The following table sets forth, as at the dates indicated, the components of the Company's receivables.

Unit: RMB'000

Item	30 June 2017	31 December 2016
Asset management plans	25,005,851	31,240,341
Trust fund plans	14,075,494	10,911,401
Wealth management products issued by financial institutions	5,501,694	18,855,505
Beneficiary certificates	1,537,914	1,500,000
Beneficiary rights in margin financing	–	500,000
Others	69,025	60,691
Total receivables	46,189,978	63,067,938
Less: provision for impairment	(216,000)	(196,000)
Net receivables	45,973,978	62,871,938

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

Investment in securities

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

Name of bond	Value date	Term (years)	Nominal value (RMB10 thousand)	Coupon (%)	Maturity date	Remaining years to maturity (years)
15 Interest-bearing Government Bond 22	2015-09-24	3	3,000	2.92	2018-09-24	1.24
13 Interest-bearing Government Bond 25	2013-12-09	30	50,000	5.05	2043-12-09	26.46
13 Interest-bearing Government Bond 18	2013-08-22	10	55,000	4.08	2023-08-22	6.15
13 Interest-bearing Government Bond 16	2013-08-12	20	20,000	4.32	2033-08-12	16.13
12 Interest-bearing Government Bond 15	2012-08-23	10	15,000	3.39	2022-08-23	5.15
09 Interest-bearing Government Bond 16	2009-07-23	10	5,000	3.48	2019-07-23	2.06
02 Government Bond 05	2002-05-24	30	5,000	2.90	2032-05-24	14.91
01 Government Bond 11	2001-10-23	20	8,000	3.85	2021-10-23	4.32

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

3.4.2 Liabilities

As at the end of the Reporting Period, the Company's total liabilities amounted to RMB263.788 billion, representing an increase of RMB3.436 billion or 1.32% as compared with that at the end of last year. The following table sets forth the components of the Company's total liabilities as at the date indicated.

Unit: RMB'000

Item	30 June 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Deposits from customers	157,297,114	59.63	141,604,761	54.39
Deposits from banks and other financial institutions	21,814,631	8.27	45,018,569	17.29
Borrowings from central bank	1,467,999	0.56	3,432,407	1.32
Placements from banks and other financial institutions	6,198,512	2.35	6,925,270	2.66
Derivative financial liabilities	49,880	0.02	–	–
Financial assets sold under repurchase agreements	16,060,400	6.09	17,043,065	6.55
Income tax payable	282,744	0.11	211,940	0.08
Debt securities issued	56,137,986	21.28	41,786,221	16.05
Other liabilities	4,478,493	1.69	4,329,900	1.66
Total liabilities	263,787,759	100.00	260,352,133	100.00

3.4.2.1 Deposits from customers

As at the end of the Reporting Period, the Company's total deposits from customers amounted to RMB157.297 billion, representing an increase of RMB15.692 billion or 11.08% as compared with that at the end of last year, and accounted for 59.63% of the Company's total liabilities, being the Company's primary source of funding. The following table sets forth, as at the dates indicated, deposits from customers by product type and customer type.

Unit: RMB'000

Item	30 June 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Corporate deposits	103,979,194	66.10	92,649,142	65.43
Demand deposits	60,578,010	38.51	54,911,942	38.78
Time deposits	43,401,184	27.59	37,737,200	26.65
Personal deposits	52,964,738	33.67	48,665,671	34.37
Demand deposits	12,618,617	8.02	10,093,140	7.13
Time deposits	40,346,121	25.65	38,572,531	27.24
Outward remittance and remittance payables	344,153	0.22	268,881	0.19
Fiscal deposits to be transferred	9,029	0.01	21,067	0.01
Total deposits from customers	157,297,114	100.00	141,604,761	100.00

As at the end of the Reporting Period, the Company's demand deposits accounted for 46.53% of deposits from customers, representing an increase of 0.62 percentage point as compared with that at the end of last year. Among those deposits, corporate demand deposits accounted for 58.26% of corporate deposits, representing a decrease of 1.01 percentage points; and personal demand deposits accounted for 23.82% of personal deposits, representing an increase of 3.08 percentage points as compared with that at the end of last year.

3.4.2.2 Deposits from banks and other financial institutions

As at the end of the Reporting Period, the Company's deposits from banks and other financial institutions amounted to RMB21.815 billion, representing a decrease of RMB23.204 billion or 51.54% as compared with that at the end of last year, mainly due to the Company's optimization of interbank liabilities structure, increase in the issue size of marketized certificates of interbank deposit and corresponding decrease in the volume of deposits from banks and other financial institutions.

3.4.2.3 Debt securities issued

As at the end of the Reporting Period, the Company's debt securities issued amounted to RMB56.138 billion, representing an increase of RMB14.352 billion or 34.35% as compared with that at the end of last year. Among those debt securities, the balance of certificates of interbank deposit increased by RMB11.354 billion or 39.56% as compared with that at the end of last year, mainly because the Company increased the issue size of certificates of interbank deposit in order to continue to improve the structure of initiative debt and build market-financing channel; the balance of debt securities issued increased by RMB2.998 billion or 22.91% as compared with that at the end of last year, mainly because ten-year fixed rate tier-two capital bonds of RMB3.0 billion were issued by the Company to replenish additional capital during the Reporting Period.

3.4.3 Equity Attributable to Shareholders

Unit: RMB'000

Item	30 June 2017	31 December 2016
Share capital	4,058,713	4,058,713
Capital reserve	6,826,276	6,826,276
Surplus reserve	1,013,649	1,013,649
General reserve	3,696,090	3,696,090
Investment revaluation reserve	(338,750)	66,617
Other reserve	(2,625)	(3,473)
Retained earnings	2,442,158	1,978,101
Total equity attributable to shareholders of the Bank	17,695,511	17,635,973
Non-controlling interests	492,961	–
Total equity attributable to shareholders	18,188,472	17,635,973

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

3.5 ANALYSIS OF QUALITY OF LOANS

3.5.1 Distribution of Loans by Five Categories

Unit: RMB'000

Item	30 June 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Normal	88,533,311	93.68	82,513,800	94.66
Special mention	4,378,769	4.63	3,467,216	3.98
Substandard	779,613	0.82	539,426	0.62
Doubtful	746,386	0.79	589,156	0.67
Loss	70,580	0.08	58,697	0.07
Total loans to customers	94,508,659	100.00	87,168,295	100.00
Total non-performing loans	1,596,579	1.69	1,187,279	1.36

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 business inspection and risk checks and basic management, and prevent and control non-performing loans in accordance with the working guidelines of “positively disposing the inventory and strictly controlling loan increment”, 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 RMB1.597 billion, representing an increase of RMB409 million as compared with that at the end of last year, and the non-performing loan ratio was 1.69%, representing an increase of 0.33 percentage point as compared with that at the end of last year.

3.5.2 Distribution of Loans and Non-Performing Loans by Product Type

Unit: RMB'000

Item	30 June 2017				31 December 2016			
	Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %	Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %
Corporate loans	65,730,285	69.55	1,344,579	2.05	62,463,909	71.66	917,247	1.47
Working capital loans	45,334,597	47.97	1,079,408	2.38	43,391,254	49.79	685,428	1.58
Fixed asset loans	16,870,121	17.85	149,127	0.88	14,883,451	17.07	115,733	0.78
Import and export bills transactions	182,570	0.19	-	-	142,824	0.16	-	-
Discounted bills	3,162,119	3.35	-	-	3,874,462	4.44	-	-
Others	180,878	0.19	116,044	64.16	171,918	0.20	116,086	67.52
Retail loans	28,778,374	30.45	252,000	0.88	24,704,386	28.34	270,032	1.09
Personal housing loans	22,990,962	24.33	35,117	0.15	18,264,561	20.96	42,149	0.23
Personal business loans	3,447,617	3.65	184,985	5.37	4,196,778	4.81	183,981	4.38
Personal consumption loans	876,857	0.93	19,862	2.27	1,048,217	1.20	28,454	2.71
Others	1,462,938	1.54	12,036	0.82	1,194,830	1.37	15,448	1.29
Total loans to customers	94,508,659	100.00	1,596,579	1.69	87,168,295	100.00	1,187,279	1.36

The Company continued to enhance its corporate loan structure, extended corporate loans mainly to the real economy, local infrastructure construction and the development of green finance, 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. As at the end of the Reporting Period, the proportion of corporate loans of the Company decreased by 2.11 percentage points as compared with that at the end of last year to 69.55%. Under the impact of the regional restructuring and transformation and upgrade of industries, the non-performing loan ratio of corporate loans increased by 0.58 percentage point as compared with that at the end of last year to 2.05%.

During the Reporting Period, the Company took consumption finance as the focal point, and gradually achieved transformation and upgrade of personal loans business. The total proportion of residential mortgage and personal consumption loans gradually increased. The Company consolidated and strengthened the chief examiner system of subsidiaries, and enhanced trainings to employees, thereby further enhancing its risk control mechanism, and the non-performing loan ratio of retail loans decreased by 0.21 percentage point as compared with that at the end of last year to 0.88% by implementing measures such as collection and write-offs.

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

3.5.3 Distribution of Loans and Non-Performing Loans by Industry

Unit: RMB'000

Item	30 June 2017				31 December 2016			
	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	65,730,285	69.55	1,344,579	2.05	62,463,909	71.66	917,247	1.47
Manufacturing	18,202,946	19.26	779,818	4.28	18,825,857	21.60	411,518	2.19
Construction	9,854,166	10.43	117,415	1.19	9,169,167	10.52	106,970	1.17
Renting and business activities	7,095,840	7.51	18,800	0.26	6,799,075	7.80	12,000	0.18
Water, environment and public utility management	7,376,325	7.80	-	-	6,416,683	7.36	-	-
Wholesale and retail trade	6,909,711	7.31	294,956	4.27	6,254,015	7.17	265,159	4.24
Production and supply of electric and heating power, gas and water	4,180,779	4.42	-	-	3,567,969	4.09	-	-
Real estate	3,449,057	3.65	100,000	2.90	3,549,132	4.07	100,000	2.82
Financial services	3,041,630	3.22	-	-	2,420,730	2.78	-	-
Transportation, storage and postal services	2,407,723	2.55	3,000	0.12	2,237,931	2.57	3,000	0.13
Others	3,212,108	3.40	30,590	0.95	3,223,350	3.70	18,600	0.58
Retail loans	28,778,374	30.45	252,000	0.88	24,704,386	28.34	270,032	1.09
Total loans to customers	94,508,659	100.00	1,596,579	1.69	87,168,295	100.00	1,187,279	1.36

During the Reporting Period, the Company paid close attention to market changes and risks in various industries, properly adjusted industry concentration risk, strictly controlled total exposure to industries with overcapacity, promoted to optimize the inventory structure and established a variety of sound management instruments such as industry quota, bottom line of approval, customer list system, customer ratings, authorization of approval, appraisal and assessment, portfolio monitoring and warning, thereby achieving the object of structure adjustment. As at the end of the Reporting Period, 79.93% 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 28.77% to 26.57%.

3.5.4 Distribution of Loans and Non-Performing Loans by Region

Unit: RMB'000

Region	30 June 2017				31 December 2016			
	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	55,666,255	58.91	748,529	1.34	51,722,696	59.34	742,937	1.44
Dongying	8,045,469	8.51	202,133	2.51	8,334,824	9.56	44,923	0.54
Jinan	6,567,398	6.95	267,556	4.07	6,669,238	7.65	124,383	1.87
Weihai	7,419,444	7.85	20,808	0.28	6,517,455	7.48	16,770	0.26
Zibo	4,944,604	5.23	201,201	4.07	3,774,447	4.33	100,117	2.65
Binzhou	3,063,299	3.24	115,563	3.77	3,618,887	4.15	124,694	3.45
Yantai	2,380,913	2.52	33,444	1.40	2,036,698	2.34	33,444	1.64
Weifang	2,937,307	3.11	-	-	2,035,122	2.33	-	-
Dezhou	1,615,694	1.71	7,345	0.45	1,589,169	1.82	11	-
Zaozhuang	1,601,532	1.69	-	-	864,468	0.99	-	-
Laiwu	266,744	0.28	-	-	5,291	0.01	-	-
Total loans to customers	94,508,659	100.00	1,596,579	1.69	87,168,295	100.00	1,187,279	1.36

During the Reporting Period, the economy of Shandong region, where the operation institutions of the Company are located, was under a downtrend with mounting pressure from non-performing loans. As the largest city commercial bank based in Qingdao with a footprint extending to other regions of Shandong Province, the Company continued to adjust its regional credit extension policy, strengthened the management of business approval and appropriately lowered the guarantee limit for regions with higher risks.

3.5.5 Distribution of Loans and Non-Performing Loans by Type of Collateral

Unit: RMB'000

Item	30 June 2017				31 December 2016			
	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	7,839,848	8.30	49,676	0.63	6,569,160	7.54	49,751	0.76
Guaranteed loans	36,568,137	38.69	997,315	2.73	34,549,877	39.64	595,653	1.72
Mortgage loans	39,350,096	41.63	549,588	1.40	35,149,440	40.32	541,875	1.54
Pledged loans	10,750,578	11.38	-	-	10,899,818	12.50	-	-
Total loans to customers	94,508,659	100.00	1,596,579	1.69	87,168,295	100.00	1,187,279	1.36

During the Reporting Period, the Company increased its support to local infrastructure construction and public sector Finance projects, with some by way of unsecured loans. The proportion of unsecured loans increased by 0.76 percentage point to 8.30% as compared with that at the end of last year, while under the impact of the economic downturn, the non-performing loan ratio of guaranteed loans of the Company increased from 1.72% to 2.73%.

3.5.6 Loans to the Top Ten Single Borrowers

Unit: RMB'000

Top ten borrowers	Industry	Amount of loans as at the end of the Reporting Period	Percentage of net capital %	Percentage of total loans %
A	Water, environment and public utility management	1,485,000	6.26	1.57
B	Financial services	1,279,000	5.39	1.35
C	Renting and business activities	1,214,723	5.12	1.29
D	Water, environment and public utility management	995,000	4.19	1.05
E	Renting and business activities	936,171	3.95	0.99
F	Construction	709,000	2.99	0.75
G	Water, environment and public utility management	680,000	2.87	0.72
H	Renting and business activities	655,000	2.76	0.69
I	Renting and business activities	620,000	2.61	0.66
J	Financial services	615,106	2.59	0.65
Total		9,189,000	38.73	9.72

As at the end of the Reporting Period, the loan balance of the largest single borrower of the Company was RMB1.485 billion, accounting for 6.26% of the net capital of the Company; and the total amount of loans of the top ten single borrowers was RMB9.189 billion, accounting for 38.73% of the net capital of the Company and representing 9.72% of the total amount of loans of the Company.

3.5.7 Distribution of Loans by Overdue Period

Unit: RMB'000

Overdue period	30 June 2017		31 December 2016	
	Amount	Percentage of total loans %	Amount	Percentage of total loans %
Overdue for 3 months (inclusive) or less	2,351,203	2.49	2,042,735	2.35
Overdue for over 3 months to 1 year (inclusive)	1,223,935	1.29	849,391	0.97
Overdue for over 1 year to 3 years (inclusive)	829,617	0.88	582,928	0.67
Overdue for over 3 years	140,713	0.15	52,487	0.06
Total overdue loans	4,545,468	4.81	3,527,541	4.05
Total loans to customers	94,508,659	100.00	87,168,295	100.00

As at the end of the Reporting Period, the total amount of overdue loans of the Company was RMB4.545 billion, representing an increase of RMB1.018 billion as compared with that at the end of last year; the proportion of overdue loans was 4.81%, representing an increase of 0.76 percentage point as compared with that at the end of last year. Among the overdue loans, collateral loans accounted for 18.63%, guaranteed loans accounted for 80.12% and unsecured loans accounted for 1.25%. The ratio of loans overdue for more than 90 days to non-performing loans was 1.37.

3.5.8 Repossessed Assets and Provision for Impairment

As at the end of the Reporting Period, the total amount of the repossessed assets of the Company was RMB22.15 million, since no provision for impairment was made and the net amount of repossessed assets was RMB22.15 million.

3.5.9 Changes in Provision for Impairment of Loans

The Company uses two methods to assess impairment losses of loans as at the date of the balance sheet: those assessed individually and those assessed on a collective basis. Loans, which are considered individually significant, are assessed individually for impairment losses. 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 expected 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 and homogeneous groups of loans which are not considered individually significant and not assessed individually. Loans are grouped for similar credit risk characteristics for collective assessment.

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

Unit: RMB'000

Item	January to June 2017	2016
Balance at the beginning of the period/year	2,303,446	2,040,297
Charge for the period/year	372,127	1,064,268
Release for the period/year	(22,491)	(63,787)
Unwinding of discount	(16,874)	(22,504)
Write-offs and transfer out for the period/year	(213,831)	(745,878)
Recoveries of loans and advances written off and others	7,198	31,050
Balance at the end of the period/year	2,429,575	2,303,446

As at the end of the Reporting Period, the Company's balance of provision for impairment of loans amounted to RMB2.430 billion, representing an increase of RMB126 million as compared with that at the end of last year; the provision coverage ratio reached 152.17%, representing a decrease of 41.84 percentage points as compared with that at the end of last year; the provision rate of loans stood at 2.57%, representing a decrease of 0.07 percentage point as compared with that at the end of last year.

3.5.10 Countermeasures Taken Against Non-Performing Assets

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

Firstly, the Bank intensified the disposal of non-performing assets, quickened the clearing and receiving of non-performing loans through litigation, reinforced the coordination with the judicial departments of various levels, and promoted the rapid disposal of assets; strengthened the communications and cooperation with industry association and interbank, positively took part in the combined reduction and treatment of non-performing assets and risks, fully guaranteed and maintained our legitimate interests; based on the conventional clearing and receiving means, gradually explored multiple channels and took multiple actions at the same time to solve non-performing assets, canceled the loans verified as non-performing in due course, and heightened the subsequent clearing and receiving of assets.

Secondly, the Bank highlighted the dynamic regulation of credit asset quality, monitored the overdue loans per day, regularly analyzed non-performing loans and overdue loans, accelerated information transfer, and elevated the coping and handling capabilities of risk loans in accordance with the working guidelines of “positively disposing the inventory and strictly controlling loan increment” to prevent and control non-performing assets; improved the response speed and effectiveness of risk loans for taking preservative measures in litigation, and gained the initiative in disposal.

Thirdly, the Bank regularly organized the learning and training of laws and regulations on the disposal of non-performing loans, intensified the promotion and team construction of asset preservation ability, emphasized policy studies and individualized studies, collected and sorted out cases, arranged discussions, training and learning, and facilitated non-performing loan disposal and the effective implementation of legal rights protection through judicial ways.

3.5.11 Credit Extension to Group Customers and Risk Management

The Bank 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 the first half of 2017, the Bank continued to improve the management system in respect of credit extension to group customers. To prevent large-sum credit risk, the Bank established the Large-sum Credit Extension Review Committee that was composed of senior management pursuant to regulatory requirements, and the said committee was in charge of reviewing the business in which total credit amount extended to group customers exceeding 10% of net capital, or in which total credit amount extended to a single customer exceeding 5% of net capital. The Bank strengthened unified management of credit extension to group customers, determined composite credit extension limit, control the credit limit through credit risk management system; meanwhile, the Bank strictly identified and recognized the information of actual controller of credit extension customers, teased and updated existing and new group customers and set appropriate credit limits to prevent concentration risk, with an aim of improving its group customer management level on an ongoing basis.

3.5.12 Soft Loans Representing 20% (inclusive) or More of the Total Loans as at the End of the Reporting Period

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

3.6 ANALYSIS OF CAPITAL ADEQUACY RATIO AND LEVERAGE RATIO

The capital management of the Company, while satisfying regulatory requirements, is targeted to constantly enhance the ability to resist risk of capital and boost 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.

In internal capital management, the Company reinforced the allocation and management functions of economic capital, coordinated the development of assets businesses and raised capital saving awareness of operating agencies. In the performance appraisal scheme, it considered the capital consumption status and earnings of various institutions, gradually optimized the risk-adjusted performance appraisal scheme, and guided its branches and management departments to carry out more capital-saving businesses and businesses of high capital returns. Moreover, the Company set up a sound mechanism to balance and restrict capital occupancy and risk assets and ensured that the capital adequacy ratio continued to meet the standard.

3.6.1 Capital Adequacy Ratio

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

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

Relevant information on the Company's capital adequacy ratio as at the dates indicated is listed in the following table:

Unit: RMB'000

Item	30 June 2017	31 December 2016
Total core tier-one capital		
Share capital	4,058,713	4,058,713
Qualifying portion of capital reserve	6,826,276	6,826,276
Surplus reserve and general reserve	4,709,739	4,709,739
Retained earnings	2,442,158	1,978,101
Investment revaluation reserve and others	(341,375)	63,144
Qualifying portion of non-controlling interests	101,024	–
Core tier-one capital deductions	(170,866)	(171,661)
Net core tier-one capital	17,625,669	17,464,312
Other tier-one capital	13,470	–
Net tier-one capital	17,639,139	17,464,312
Net tier-two capital	6,087,162	3,319,322
Net capital base	23,726,301	20,783,634
Total credit risk-weighted assets	160,564,412	158,615,965
Total market risk-weighted assets	3,363,036	5,060,653
Total operation risk-weighted assets	9,591,315	9,591,315
Total risk-weighted assets	173,518,763	173,267,933
Core tier-one capital adequacy ratio	10.16%	10.08%
Tier-one capital adequacy ratio	10.17%	10.08%
Capital adequacy ratio	13.67%	12.00%

As at the end of the Reporting Period, the Company's capital adequacy ratio amounted to 13.67%, representing an increase of 1.67 percentage points as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 10.16%, representing an increase of 0.08 percentage point as compared with that at the end of last year. Changes in capital adequacy ratio during the Reporting Period are mainly attributable to the issuance of tier-two capital bonds by the Company to replenish its capital in June 2017.

3.6.2 Leverage Ratio

The leverage ratio of commercial banks shall not be less than 4% in accordance with the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)* promulgated by the CBRC and taking effect from 1 April 2015. As at the end of the Reporting Period, the Company's leverage ratio is 5.82% which calculated by the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)*, which is 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 30 June 2017
1	Total consolidated assets	281,976,231
2	Consolidated adjustments	-
3	Customer assets adjustments	-
4	Derivative adjustments	40,646
5	Securities financing transactions adjustments	-
6	Off-balance sheet items adjustments	21,085,103
7	Other adjustments	(170,866)
8	Balance of assets on and off balance sheet after adjustments	302,931,114

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

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 30 June 2017
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	257,180,915
2	Less: tier-one capital deductions	(170,866)
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	257,010,049
4	Replacement cost of various types of derivatives (net of qualified margins)	1,936
5	Potential risk exposure in various derivatives	40,646
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	42,582
12	The balance of accounting assets for securities financing transactions	24,793,380
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	24,793,380
17	The balance of items off balance sheet	21,085,103
18	Less: the balance of items off balance sheet reduced due to credit conversion	-
19	The balance of items off balance sheet after adjustments	21,085,103
20	Net tier-one capital	17,639,139
21	The balance of assets on and off balance sheet after adjustments	302,931,114
22	Leverage ratio	5.82%

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

3.7 Segment Reporting

The following segment operating performance is presented by business segment. The Company's main businesses include corporate banking, retail banking, financial market and other businesses. The following table shows a summary of the operating performance of each business segment of the Company during the periods presented.

Unit: RMB'000

Item	January to June 2017 Segment profit before taxation		January to June 2016 Segment profit before taxation	
	Ratio (%)		Ratio (%)	
Corporate banking	731,698	44.55	699,106	42.76
Retail banking	324,809	19.78	312,226	19.10
Financial market business	577,886	35.19	623,443	38.13
Un-allocated items and others	7,925	0.48	103	0.01
Total	1,642,318	100.00	1,634,878	100.00

Unit: RMB'000

Item	January to June 2017 Segment operating income		January to June 2016 Segment operating income	
	Ratio (%)		Ratio (%)	
Corporate banking	1,393,885	49.17	1,492,402	50.24
Retail banking	600,174	21.17	604,297	20.34
Financial market business	785,736	27.71	873,826	29.42
Un-allocated items and others	55,399	1.95	103	0.00
Total	2,835,194	100.00	2,970,628	100.00

3.8 OTHER FINANCIAL INFORMATION

3.8.1 Analysis of Off-Balance Sheet Items

The Company's off-balance sheet items include credit commitments, operating lease commitments and 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 RMB21.048 billion. For details, please refer to Note 39 of the "Unaudited Interim Financial Report".

3.8.2 Overdue and Outstanding Debts

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

3.9 BUSINESS DEVELOPMENT STRATEGY

Facing the change of operating environment, the Company stuck to the strategy of characteristic and differentiated development. Promoting the optimization and upgrading of interface banking, strengthening the connections with large-scale institution customers and Internet financing platforms, and continually enhancing the ability to win customers crosswise and generate passenger flows. Improving the 3D service levels of retail banking businesses, exerting the on-line and off-line multi-channel integration effect, further raising the service efficiency of "the most convenient bank for customers"; facilitating the upgrading of mobile banking 3.0, establishing a research team and an intelligent investment consulting system, promoting asset allocation capability, quickening the construction of the small- and micro-finance center, and forming differentiated consumer finance competitiveness by linking the interface banking with the supply chain interface. Comprehensively improving the customer management and service capabilities of banking businesses of the Company, adapting to the new-for-old kinetic energy transfer in Shandong province, adjusting the industrial positioning and customer structures, carefully selecting industrial leading enterprises and making them become stronger by investment bank-based upgrading of public sector financial services and by the innovative risk control model, deeply binding them with local headquarters enterprises through strategic cooperation, forming the financial advantages of supply chain by linking interface banking with the core enterprises on the industry chain, and further promoting the Company's ability to realize operating income in banking businesses. Positively adapting to the new regulation trend of financial deleveraging and MPA management in terms of financial market services, quickening the adjustment of asset-liability structures, improving the liquidity management level, and gradually building up an efficiency-guided and specialty-driven capital management and transaction system.

3.10 OVERVIEW OF BUSINESS DEVELOPMENT

3.10.1 Retail Banking

In the first half of 2017, under the guidance of the “interface banking” business strategy, the Bank further accelerated the construction of platforms of one-card-through, silver doctors’ service, convenient bill payment and further implemented the business model for acquiring a massive number of customers. The Company developed new retail products, enriched product systems, and implemented the working ideas of “transfer from product sales to overall customer management”. The Company strengthened the training of its retail banking business team, promoted the marketing capability and network output, realized hall service value-based transformation, created new service models, built with all its strength “the most convenient bank for customers”, and promptly and effectively satisfied customers’ wealth management demands. As at the end of the Reporting Period, the scale of existing assets held at the Bank by retail customers increased by 4.42% as compared with that at the end of the previous year to RMB102.147 billion. The operating income contribution¹ of retail business during the Reporting Period increased by 0.83 percentage point year-on-year to 21.17%. During the Reporting Period, the net non-interest income of retail banking business reached RMB223 million, representing a year-on-year increase of 39.52%, and accounting for 45.36% of the net non-interest income of the Company as a whole, representing a year-on-year increase of 14.91 percentage points.

1. Retail deposits

As at the end of the Reporting Period, the retail deposit balances of the Bank reached RMB52.965 billion, representing an increase of RMB4.299 billion or 8.83% as compared with that at the end of the previous year. During the Reporting Period, the Bank operated the “interface banking” business model, continually and fully propelled the construction of the one-card-through platform, silver doctors’ service platform, and convenient bill payment platform, actively expanded industrial cooperation and fees-collection services for customers, and comprehensively enhanced customer experience.

The one-card-through business increased card issue quantities. During the Reporting Period, the Bank signed six one-card-through projects and has the system implemented, and the number of one-card-through projects reached 32. For this reason, the Bank’s One Card Program issued accumulated to 3,307,100 cards, including 1,111,900 metro co-branded cards.

¹ The operating income contribution refers to the proportion of operating income from such business segment to the Company’s total operating income (same hereinafter).

The silver doctors' service was pushed forward steadily. During the Reporting Period, the Bank completed the system implementation of five silver doctors' service projects and signed three projects, and the number of cooperative hospitals reached 12, which promoted the growth of the corporate deposits of the Bank.

The convenient bill payment services for customers covered many industries. During the Reporting Period, the Bank added 11 convenient bill payment service projects, wherein two of them was signed and implemented and nine projects were signed but the system was being developed. The number of the signing and implementing companies of the convenient bill payment service platform was 72. During the Reporting Period, the Bank handled around 400,000 convenient bill payment services with charges of approximately RMB2.6 billion. With the continual expansion of the cloud payment businesses for companies and institutions without charging systems, the number of signing companies and institutions was up to 105, and charging items involved tuition fees of kindergartens, property fees, management fees, Party membership dues and other fields. The Company is one of the banks with a complete variety of convenient bill payment services in Qingdao. During the Reporting Period, the Bank handled around 11,000 cloud payment businesses with charges of approximately RMB7.2 million.

Furthermore, customer loyalty was continually enhanced by holding the wealth management festival, teenagers' football camps, targeted marketing, and other activities and the retail deposits at the bank were increased through promoting customer services.

2. Retail loans

As at the end of the Reporting Period, the balance of retail loans of the Bank was RMB28.778 billion, an increase of RMB4.074 billion or 16.49% as compared with that at the end of the previous year, accounting for 30.45% of the Bank's total loans, representing an increase of 2.11 percentage points as compared with that at the end of the previous year. During the Reporting Period, the Bank proactively coped with the serious challenges resulted from changes in external economic situation and regulatory policies by adjusting the structure, innovating the model, strictly controlling risks, and operating business in compliance with laws to lay a solid foundation for the transformation and development of retail loan businesses.

Taking consumer finance as the core, the Bank gradually realized the transformation and upgrading of retail loan businesses. During the Reporting Period, the Company focused on the issue of individual housing and consumption loans, with the balance of which amounting to RMB23.868 billion at the end of June, accounting for 82.94%, and gradually realized the transformation and upgrading of individual credit businesses to consumer finance.

Continually expanding supply chain financing businesses. As at the end of the Reporting Period, the Bank has cooperated with over ten domestic core enterprises in fast-moving consumer goods sector to carry out supply chain financing businesses, provided loans to 632 customers, with a loan balance of RMB353 million. The supply chain financing business is a successful practice of the Bank's "interface banking" model. With the growth of cooperative enterprises and continually enlargement of scale, the high yield produced from the business promoted the overall yield rate of retail loan assets.

Positively and reliably carrying out the business of Internet-based small-amount consumption loans. During the Reporting Period, the Bank handled the pre-approval formalities of "on-line housing loans" for 30,000 customers of spare residential and commercial mortgages, which allowed customers to conduct loan disbursement directly through the mobile banking. The Bank took the initiative to discuss with several famous petty consumer credit platforms regarding business cooperation and signed cooperative agreements, and signed cooperative agreements on second-hand car loans with large insurance company, and expedited the implementation of petty consumer credit.

3. Retail customers

As at the end of the Reporting Period, the number of retail customers of the Bank reached 3,357,400, representing an increase of 227,200 or 7.26% as compared with that at the end of the previous year. The number of customers with over RMB200,000 financial assets was up to 129,400, representing an increase of 7,300 as compared with that at the end of the previous year, with a total of RMB83.166 billion assets maintained at the Bank, representing a share of 81.42% and an increase of 0.76 percentage point as compared with that at the end of the previous year. The number of retail customers kept rising at a steady pace, as did the growth and proportion of medium- and high-end customers.

4. Retail products

During the Reporting Period, the Bank continuously improved the retail customers' wealth management product lines, issued exclusive wealth management products for new customers, and introduced new products like noble metal, fund, and insurance to strengthen customer attraction. Customer attraction was maintained by diverse retail products to meet customers' wealth management demands.

The regulatory business of second-hand housing assets was incepted. During the Reporting Period, the current deposit growth brought by the regulatory business of second-hand housing assets was RMB78.25 million. Business implementation achieved initial success and became a powerful weapon for absorbing low cost funds. Juhe QR code payment was launched to become an important channel of acquiring current deposits. The business mainly provided customers such as restaurants, farmer's markets, e-market agents, and various small and medium enterprises in trade with convenient and favorable payment and settlement tools. As at the end of the Reporting Period, the number of customers of Juhe QR code payment services reached 17,500 with a current deposit balance of RMB173 million and a total transaction of RMB136 million generated from 365,900 transactions in quantity.

5. Wealth management and private banking business

During the Reporting Period, the Bank focused on the prevention and control of capital investment risks together with customers using a steady and robust operating style, followed the trend to positively cope with market changes, provided dynamic financing services through capital allocation-centered wealth management and consultation, continued to enhance diversified customer-attracting capability, continually improved wealth and private banking customers' exclusive product lines, enhanced the ability to offer financing services for high-end customers, and achieved sustainable growth in business.

As at the end of the Reporting Period, the asset scale of customers with financial assets over RMB2 million was RMB24.349 billion, representing an increase of RMB1.478 billion as compared to that at the end of the previous year, and the number of customers went up to 5,394, representing an increase of 375 as compared to that at the end of the previous year with the business growth rates as high as 6.46% and 7.47% respectively; during the Reporting Period, the realized sales of wealth and private bank wealth management products accumulated to RMB21.369 billion, representing a year-on-year growth of RMB3.821 billion or 21.77%.

6. Customer service management

During the Reporting Period, the Bank continued to create the warm service procedure in a “scenario-oriented” way, started from “customer experience” to construct the service management mechanism for “bottom line” thought, intensified service level to stabilize the ability to offer, ensured the realization of maintaining the whole service standard at a stable level, built up the service marketing mechanism of “benefit-making” thought, forged a service value-based creation system, and transferred the business department from a transaction service center to a service and sales center, achieved initial results in the pilot projects of “service gold digging” in the business hall, and created service values.

The Bank’s service brands were renovated and developed continually through infiltration of service culture, studies of touching service scenes, and upgrading of service contents. In 2017, based on the monitoring of financial indicators, consumers’ behaviors, and brand strength, the Bank ranked the 418th with RMB6.031 billion brand values in the list of China’s top 500 most valuable brands as the only financing enterprise included in the list in Shandong Province.

3.10.2 Corporate Banking Business

In the first half of 2017, the Bank continued to strengthen its banking business advantages, observed the five development concepts of “innovation, coordination, green, development, and share”, focused on customer values, and further solidified the base of its business development via changes by system reform, structural optimization, element upgrading and the implementation of innovation-driven policies, so as to usher in the new development of its featured banking business.

1. Corporate deposits

During the Reporting Period, corporate deposits increased steadily as driven by public sector finance, listed enterprise finance, real estate finance, and major projects. Firstly, the Bank continuously copied and promoted effective business models through typical demonstration effect; secondly, the Bank applied “list system” management for major customers and projects, contributed its strength in the construction of Qingdao’s significant projects; thirdly, the Bank won the bid of multiple large public sector financing projects, expanded its influence, and reserved excellent customer resources for business development. As at the end of the Reporting Period, corporate deposit balance was up to RMB103.979 billion, accounting for 66.10% of the balance of various deposits, representing an increase of RMB11.330 billion or 12.23% as compared to that at the end of the previous year.

2. *Corporate loans*

During the Reporting Period, the Bank kept in pace with the change of macro-economy to promptly adjust the development direction of its business and redirect most of the corporate credit assets in public sector finance and listed enterprise finance, and gave priority to the satisfaction of reasonable credit demands of national, provincial, and municipal key projects under construction or continued construction with its participation, the assets needed for supply-side reform and structural adjustment, and the credit demands of new-for-old kinetic energy transfer, and industrial upgrading and transformation. As at the end of the Reporting Period, the total corporate loans (including notes discounted) were RMB65.730 billion, taking up 69.55% of the total loan amount, representing an increase of RMB3.266 billion or 5.23% as compared to that at the end of the previous year.

3. *Corporate customers*

The Bank has formulated different marketing strategies and management measures catered for each type of customers. The Company has made every effort to retain and serve existing quality customers through intensive cultivation to fully tap potentials for cooperation. For new customers, the Company has selected quality customers using the “hopper-type customer-selection model” to carry out targeted marketing and provide effective differentiated services.

During the Reporting Period, the Bank highlighted the principal status of public sector customers in its corporate banking business and made every effort to expand and enhance its public sector finance business. For quality large enterprises, the Bank has adopted supply 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 Bank has selected and screened out quality ones for implementing one-to-one policies to boost the frequency and amount of settlement through the Bank by the customers and build up a backbone customer base. For small and micro enterprises, the Bank has placed emphasis on its featured finance offerings and innovative products and services to raise the standards and efficiency of services for small and micro enterprises on the back of governmental and social efforts.

4. Corporate products

The Bank energetically implemented the national strategy of “innovation-driven development” to promote the effective integration of science and technology and finance, and used the innovative operating model to enrich the financial products and constantly enhance customer experience, create a 1+N science & technology and finance eco-circle, and take the path of innovation-driven development. The Bank pushed forward green credit businesses and further supported the development of regional green industries in a bid to strengthen the business integration with the government and other companies, screened out eligible enterprises in accordance with the industries enjoying special aids for green finance and bond businesses, reinforced the support in the credit-giving business of green finance enterprises.

3.10.3 Financial Market Business

In the first half of 2017, under the context of macro policies such as monetary restraint, deleveraging and regulation strengthening, the Bank fully analyzed and judged the trend of macro economy and financial regulation, promptly adjusted its operating strategy, constantly optimized its asset-liability structure, continued to push forward business innovation, and maintained steady development in financial market business. As at the end of the Reporting Period, the assets under management of the financial market business reached RMB197.764 billion, representing a decrease of 7.90% as compared with that at the end of the previous year. The operating income contribution of the financial market business during the Reporting Period was 27.71%, representing a year-on-year decrease of 1.71 percentage points. During the Reporting Period, the net non-interest income of the financial market business was RMB141 million, representing a year-on-year decrease of 31.66% and accounting for 28.80% of the net non-interest income of the Company as a whole, a year-on-year decrease of 10.68 percentage points.

1. *Proprietary investment*

According to the strategic deployment and operating plan, the Bank on the one hand continued to enlarge the competitive advantages of major businesses and maintained the financial innovation impetus, and on the other hand adjusted assets structure and attached great importance to after-investment management and risk prevention and control. As at the end of the Reporting Period, the Bank's investment scale reached RMB121.101 billion, a decrease of RMB32.023 billion or 20.91% as compared with that at the end of the previous year. Among them, the balance of bond investment was RMB52.659 billion, a decrease of RMB9.631 billion or 15.46% as compared with that at the end of the previous year; the reason of drop in bond investment was that during the financial deleveraging the Bank reduced the investment in interbank deposit certificates and partial policy-related financial bonds; the balance of non-standard assets investment was RMB68.419 billion, representing a decrease of RMB22.391 billion or 24.66% as compared with that at the end of the previous year. The decrease of non-standard assets investment was mainly because the Bank had proactively adjusted its assets structure so as to lower the investment in investment fund, interbank wealth management products and other assets.

2. *Interbank business*

Firstly, the national interbank market transactions remained active and the Bank's market influence improved day by day. During the Reporting Period, our transaction volume in the national interbank bond market was RMB4,435.6 billion, representing a year-on-year increase of RMB1,186.3 billion or 36.51%, ranking the 25th among national financial institutions and up by seven places to the top as compared with the end of last year, and the 7th among city commercial banks, jumping three places to the top as compared with the end of last year.

Secondly, cooperation on interbank customer businesses was deepened and interbank customer viscosity was enhanced. Comprehensive business was applied to set up core customer groups, maintain the fund-raising capability of the financial market, and provide sustainable capital sources for the Bank. As at the end of the Reporting Period, the balance of interbank deposits of the Company dropped to RMB21.815 billion, representing a decrease of RMB23.204 billion or 51.54% as compared with that at the end of the previous year; the balance of certificates of deposit issued amounted to RMB40.053 billion, representing an increase of RMB11.354 billion or 39.56% as compared with that at the end of the previous year; interbank deposits experienced a decrease and the proportion of market-oriented financing of the interbank deposit certificates raised.

During the Reporting Period, the Bank signed the Master Agreement for Trading of Financial Derivatives on the Interbank Market of China and recorded the interchange of RMB interest rates for it to carry out the interchange services of RMB interest rates, add hedge business varieties, and further enhanced the management of market risks and interest risks.

3. *Asset management*

In respect of asset management, the Bank set up a multi-dimension and 3D wealth management product system and vigorously developed the “interface banking” business of asset management and extended its wealth management product sales channels and customer groups based on the brands such as “Hairong Wealth” retail wealth management products, “Su Jue Su Sheng (quick decisive victory)” corporate wealth management products, and “Haiying” interbank wealth management products. During the Reporting Period, the Bank issued RMB107.011 billion wealth management products, representing an increase of RMB5,470 million or 5.39% on a year-on-year basis, wherein the individual wealth management products issued were RMB81.195 billion and the institution wealth management products issued were RMB25.816 billion. “Qingxin sharing” interbank sales-by-proxy wealth management business was issued 13 times in total, amounting to RMB64.51 million. As at the end of the Reporting Period, 20 small and medium financial institutions within the province signed contracts with the Bank regarding cooperation on wealth management businesses.

The Bank’s asset management was given much market attention and recognition and occupied a high share on the wealth management market. Various indicators of the Bank’s wealth management ranked the first among city commercial banks in Shandong province and made the top ten among city commercial banks across the country. The Bank was granted the “2016 Golden Bull Wealth Management Bank Award” in the 2016 “Golden Bull Wealth Management Products” award. In the 2016 evaluation on issuers of bank wealth management products organized by China Banking Association, the Bank was granted the “Award with Most Social Contribution”, the “Best City Commercial Bank Award” and the “Best Comprehensive Capability for Wealth Management Award” for banking wealth management institutions in the PRC.

4. *Investment banking*

With the qualification of B-Class lead underwriters for non-financial corporate debt financing instruments, the Bank provided direct financing services for corporate customers and achieved overall development in its investment banking business. Firstly, all the business types were covered. Based on traditional trust plans, authorized creditor’s rights and other structural financing businesses, the Bank added new ways of funds-raising, such as non-financial corporate debt financing instruments, wealth management product direct financing instruments, and debt financing plans of the Beijing Financial Assets Exchange (BFAE), implemented the products of various business types, and provided all-round financing services for customers; secondly, the Bank established a specialized investment banking business team and a perfect organizational framework system, facilitated coordinated development of the headquarters and branches, assisted its branches and sub-branches in carrying out excellent customer promotion, fully explored potential customers in Qingdao city, and brought in income of intermediate businesses and derivative deposits.

3.10.4 Distribution Channels

3.10.4.1 Physical distribution channels

The business outlets of the Bank are based in Qingdao with a footprint extending to other regions of Shandong Province. As at the end of the Reporting Period, the Bank set up 11 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, west coast areas of Qingdao, and Laiwu in Shandong Province. As at the end of the Reporting Period, the Bank had a total of 118 business outlets, including one headquarter business department, one branch, and 72 sub-branches in Qingdao.

3.10.4.2 Self-service banking channels

The Bank provided safe and convenient banking services to its clients through self-service banks and devices. As at the end of the Reporting Period, the Bank had 4 off-bank self-service banks, 96 in-bank self-service banks, 474 self-service devices, including 111 self-service ATMs, 243 self-service CRSs, and 120 self-service terminals, providing services such as withdrawal, deposit, transfer, account enquiry, and payment. During the Reporting Period, the Bank had 2,807,200 self-service bank transactions with a transaction amount of RMB9.482 billion.

3.10.4.3 Electronic banking channels

During the Reporting Period, the Bank continued to speed up the development and layout of mobile Internet system, endeavored to build up online interaction and data-driven mobile marketing service platforms; optimized and promoted the user experience and safety control of online banking, mobile banking, and WeChat banking; thoroughly pushed forward the development of cloud payment businesses, gradually set up an Internet finance eco-circle, and further improved the comprehensive financial service capability.

1. Rapid growth of mobile finance users and transaction volumes. As at the end of the Reporting Period, the registered mobile banking users of the Bank reached 950,000, up by 21.98% as compared with that at the end of the previous year; the accumulated number of transactions reached 28,095,700, representing a year-on-year increase of 34.17%, while total transaction amounted to RMB116.384 billion, representing a year-on-year increase of 138.59%.
2. Continuous upgrading of the experience of mobile finance products. Based on the full-fledged push into the construction of the mobile finance 3.0 project, the Bank successfully optimized and implemented a series of new functions to improve customer experience, and enhanced and reinforced the performance and security of mobile banking to provide more secured and convenient use experience for users.

3. Implementation of the interface banking strategy and acquiring of a massive number of customers while innovating on scene finance based on the cloud payment platform, deeply exploring living scenes from the foothold of “rigid demand and high frequency” payment scene, and transferring the off-line payment living scene to the online platform. During the Reporting Period, the Bank signed contracts with 105 cloud payment companies with the quantity of cloud payments amounting to 11,000. The high frequency transaction scene of cloud payment promoted customer loyalty and laid a foundation for later in-depth marketing.
4. Continuous enhancement of three-dimensional marketing system where mobile Internet constructed focusing on mobile banking, WeChat banking, and Haihui Life and physical business outlets interacted bilaterally. During the Reporting Period, the Bank successively organized online lottery and online payment lottery activities for mobile banking transactions, and the “one theme per month” activity for WeChat banking, with over 1 million aggregate number of participants participating in the lotteries. Through these activities, the number of mobile banking users and transactions maintained a high growth, resulting in an increase of customer assets.
5. Continuous optimization of direct banking platform. The Bank delivered investment and wealth management services to Internet users across the country and expanded the user base. Meanwhile, it positively implemented the “interface banking” concept, fully exerted the advantages of direct banking in account management, capital settlement, and risk control, and cooperated with remarkable third-party platforms. As at the end of the Reporting Period, the number of direct banking users accumulated to 8,865 and the agency sales of “Reaping Returns from the Money Market” (小胖挖寶) products realized RMB874 million, including RMB378 million during the Reporting Period.

3.10.4.4 Information technology

In the first half of 2017, the Bank 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 Bank continued to optimize interface banking service platform and speeded up development of a series of key projects including mobile finance and small amount consumption loan cooperation, 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 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 Bank continued to improve the project quality control mechanism based on process management and control with reference to the international software development capability maturity model (CMMI). The Bank completed the enhancement of its information technology framework, set up a specialized mobile finance team that deeply integrated businesses with technology, improved the reaction speed and project development quality, reduced development cost, and promoted multi-dimensional assessment and incentive mechanisms for information technology personnel. The Bank 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 Bank improved specific emergency plans, held various system switching 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 Bank continued to push forward the construction and implementation of the “interface banking service platform”, secured in-depth cooperation with a number of key local enterprises, and invested heavily in building up the “Huimin Card” 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. According to regulatory requirements, the Bank carried out the key projects such as classified bank account renewal and anti-fraud transaction monitoring. In term of back-desk management, the Bank set up a big data application infrastructure, completed the building of an integrated operation-maintenance data application platform, and realized centralized and visualized management of key system logs and key indicators.

3.11 RISK MANAGEMENT

3.11.1 Credit Risk Management

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

Pursuant to regulatory requirements, the Bank, taking into consideration the capability and intention of the borrowers 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 launched by the responsible management institution and confirmed by the credit management department of the head office or branches, while personal loans and 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 and regularly reports to the management and the risk management committee of the Board of Directors on risk management. During the Reporting Period, the Bank conveyed the spirit of the Central Economic Work Conference by implementing the measures such as supply side reform and overcapacity cutting, destocking, deleveraging, cost reduction, and weakness improvement, fully exerted the self-directed, flexible, rapid, and local characteristics, innovated the financing modes and financing service methods, focused on serving for the substantial economy, and realized new-for-old kinetic energy transfer. At the same time, the Bank strictly controlled the credit extension of overcapacity industries, strengthened the clearing and receiving, disposal, and elimination of risk assets stock, and reinforced the risk management of real estate industries and local financing platforms. By self-checking, the Company found problems and corrected them, and also found the direction and “sally port” of business development, built up the core competitiveness of “intensified risk management”, and realized the expected goals of overall controllable credit risk and continual management improvement. The Bank intensified credit risk management mostly in the following aspects:

1. Closely followed the national policy orientation and optimized the credit structure under the guidance of credit policies. The Bank strictly controlled risks, accelerated industrial structural adjustment by the list system and industry limit and other ways and compressed and reduced the total number of industries falling in this scope as well as the “high pollution, high energy-consumption and over-capacity” industries. The Bank heightened the clearing and receiving, disposal and elimination of risk assets stock, updated the assessment system, and enlarged the weight on risk evaluation. The Bank highlighted characteristics, followed the market-orientation thinking, supported the conduction of governmental financing and public sector financing businesses, and centered on the strong capability of the local government assets to produce cash flow, pushing forward the implementation of a series of significant projects, covering water conservation, underground pipelines, urban public transportation, and renovation of urban shanty areas. The Bank built up brands of science and technology finance, green finance, and ocean finance depending on the policy advantages of the west coastal new area and the blue economic zone in the Shandong Peninsula region.
2. Reinforced business examination and risk investigation. As per the requirements of the regulatory department, the Bank actively organized self-inspection, checking, and investigation and studies and closely followed the national policy orientation. Through inspection and examination, the Bank found existing problems to be corrected and the direction and breakthrough suitable for its business development, and realized further development in business. Moreover, the Bank emphasized problem correction, earnestly analyzed the causes, insisted to conduct investigation, make corrections, and carry out education at the same time, and comprehensively strengthened its employees’ awareness of observing laws and regulations and meeting specifications.

3. Enhanced credit risk management and control and figured out the risk background. The Bank strictly controlled and voluntarily exited from the “high pollution, high energy-consumption and over-capacity” industries as well as “Zombie enterprises”, focused on the prevention of the excessive credit-giving customer risks involving private lending and multi-channel fund raising, and strengthened the risk investigation and exit of Zombie enterprises. The Bank intensified the tracking and analysis of the guarantee circle and strictly prevented the risk chain reaction of the guarantee circle, normalized cross-financial businesses and performed the penetration principle, reasonably controlled the growth rate of property financing businesses, conducted quota management, and strictly controlled the irregular flow of assets into the real estate domain. According to the regulation requirements, the Bank further normalized the government’s platform financing business to keep away government debt risks. It also heightened the prevention and control of the risk in Internet finance and information technology, consolidated the uniform credit-extension management for the Group’s customers and improved the quota management and control functions of credit management system.
4. Implemented the before-loan investigation, loan-granting review, and after-loan inspection and further promoted the risk management level. The Bank reinforced the loan use supervision, normalized and strengthened after-loan management work, improved the collateral management system, and normalized the collateral management process. The Bank regularly checked and evaluated the performance of after-loan management, further intensified after-loan management effectiveness, and avoided the after-loan management from becoming a mere formality. The Bank heightened warning management, filtered and troubleshoot and identified warning signals, and took preservative measures against the confirmed risk signals without hesitation.
5. Intensified the construction of a credit risk management team, cultivated the serious and responsible credit risk management culture, and corrected the wrong understanding of “marketing is more important than after-loan management”. The Bank strengthened business training, organized business exchanges, shared risk management experience, and actually improved the risk management ability and standard of the whole bank.

3.11.2 Liquidity Risk Management

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations 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 risk management policies, and keeps its high liquidity assets at an appropriate level.

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

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

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

The Company holds an appropriate amount of assets with liquidity (such as deposits with central bank, other short-term deposits and securities) to ensure liquidity needs and unpredictable demand for payment in the ordinary course of business can be met. The Company's assets are mainly funded by deposits from customers. As a major source of funding, deposits from customers have been growing rapidly during the Reporting Period, and are widely diversified in terms of type and duration. During the Reporting Period, the Company intensified liquidity risk management mostly in the following aspects:

1. The Company continuously consolidated the base of deposit-taking businesses, boosted the steady and balanced growth of various deposits, strived to enhance the marketing effort in steady and low cost common deposits, lowered the substitution effect of interbank liabilities on common deposits step by step, and continued to elevate the stability of capital sources. It also intensified the monitoring and predication of major capital flows, optimized daily capital arrangement, and constantly promoted the ability of liquidity risk prevention and control.

2. The Company 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 taking into consideration during the coordination process to ensure the security of the source of capital.
3. The Company reasonably measured and evaluated the future cash flow of specific points of time on the basis of the dynamic estimation of the gaps in the future cash flow through forward active risk management with an aim to make relevant provisions and investing and financing arrangements in advance, reducing the costs and increasing the revenues.

3.11.3 Market Risk Management

Market risk is the risk of loss, in respect of the Company's activities, arising from adverse movements in market rates including interest rates, exchange rates, commodity prices and stock prices. Interest rate risk and exchange rate risk are the 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 authorization, credit facilities and risk limits and other measures.

3.11.3.1 Analysis of interest rate risk

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

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

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

CHAPTER III MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2017, the Company adhered to the principle of prudence by actively adjusting the structure of assets and liabilities under the condition that the risk is controllable and moderately bearing interest rate risk. The Company made rational use of the FTP (internal fund transfer pricing) system, perfected interest rate pricing management, promptly adjusted the pricing of funds and re-adjustment frequencies, effectively controlled fluctuations in loan interest rates and interest-bearing costs and improved forward-looking interest rate risk management to guarantee the continued increase in the Company's revenues.

3.11.3.2 Analysis of interest rate sensitivity

The Company assesses the potential impact of movements in interest rates on the Company's net interest income via sensitivity analysis. The following table sets forth the results of the interest rate sensitivity analysis based on the assets and liabilities as at 30 June 2017 and 31 December 2016.

Unit: RMB'000

Item	30 June 2017 Increase/ (Decrease)	31 December 2016 Increase/ (Decrease)
Change in annualised net interest income		
Interest rates increase by 100 bps	(454,890)	(539,852)
Interest rates decrease by 100 bps	454,890	539,852

3.11.3.3 Analysis of exchange rate sensitivity

The following table sets forth the results of the exchange rate sensitivity analysis based on the assets and liabilities as at 30 June 2017 and 31 December 2016.

Unit: RMB'000

Item	30 June 2017 Increase/ (Decrease)	31 December 2016 Increase/ (Decrease)
Increase/(decrease) in annualised net profit		
Foreign exchange rates increase by 100 bps	(3,352)	999
Foreign exchange rates decrease by 100 bps	3,352	(999)

3.11.4 Operational risk Management

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

During the Reporting Period, the Bank focused on the work of preventing systematic operational risks and major operational risks, applied effective risk prevention and control means to ensure effective identification, evaluation and supervision of operational risks, constantly improved operational risk management capability, and gradually elevated risk prevention and control level. During the Reporting Period, the Bank strengthened operational risk management in the following areas:

1. The Bank conducted specific checks and risk assessment on various aspects including systems, procedures and employees' behaviors in accordance with its overall business development, and implemented collection and analysis and alert of the key factors and loss data of operational risks to avoid operational risks in a comprehensive manner by leveraging the "triple defense lines" functions of the business operation department, risk management department, compliance department, audit department and discipline inspection and supervision department.
2. The Bank initiated the thoughts of work, continued to push the construction of the operational risk system and cultural propaganda, intensified personnel and post management, and investigated and detected the abnormal behaviors of personnel on important posts to avoid rule-breaking operations and strictly control operational risks.
3. The Bank promoted the business continuity management level and information technology risk management level to a great extent, intensified the security guarantee of information technology system, focused on propelling the construction of disaster backup emergency, and comprehensively evaluated the main directions of optimizing the business continuity management system.
4. The Bank further strengthened outsourcing business management, promoted the outsourcing project agreement management level, reinforced the risk control and screening in the implementation process of outsourcing projects, and well managed the information security of outsourcing service providers and outsourcing personnel.

3.12 SOCIAL RESPONSIBILITY

1. In terms of economic responsibility, the Bank continued to keep support for the supply-side structural reform as its main line, strengthening its support to industrial development with respect to infrastructure, key projects, strategic emerging industries, modern service industries, cultural industry, modern agriculture, energy saving and environmental protection. The Bank actively explored the new development models of government finance, public sector finance, listed finance and new economic finance, and has underwritten two tranches of bonds with an aggregate amount of RMB550 million during the Reporting Period while relying on its qualifications of B-Class lead underwriter for non-financial corporate debt financing instruments. It creatively developed its first direct wealth management financing instruments business, bank and lease linkage business, investment and loan linkage business, medium – term notes issuance and other new businesses. By concentrating on key fields like small and micro-sized enterprises, the Bank accelerated the development of inclusive finance and science and technology finance. The Bank also actively made innovations on financing products for technology enterprises, and newly launched the loan risk-sharing business for technology enterprises based on the pledge performing insured loan business for patent rights of technology enterprises launched in 2016. As at the end of the Reporting Period, the Bank supported a technology loan of RMB3.661 billion, representing an increase of RMB686 million or 23.06% as compared with that at the end of last year; continued to accelerate Qingdao Municipal Government's loan relending funds business for small enterprises and creatively conducted government procurement loan business, "1+N" businesses for small enterprises and "invoice credit" (發票貸) loan business. With active response to the requirement of the "Mutual Benefit Mechanism (Banks Benefit Enterprises and Enterprises Benefit Banks)" (雙惠工作制度(銀行惠企業、企業惠銀行)), the Bank designed and launched the featured products such as "Bank-Enterprises Benefit Card" (銀企惠通), and initiated to establish "Bank of Qingdao Mutual Benefit Entrepreneur Club" (青島銀行雙惠企業家俱樂部).

2. In terms of social responsibility, the Bank launched charitable activities on an on-going basis. During the Reporting Period, the Bank registered and established “Bank of Qingdao Philanthropic Foundation in Qingdao City” (青島市青銀慈善基金會), which provides a new platform for all staff of the Bank and the caring enterprises and caring people to dedicate their love and promote the development of charity undertakings. The Bank also added new means to support the education by firstly launching the provincial campus financial product of “Xue E Dai” (學E貸), a personal credit loan product tailored for the college students. The Bank continued to promote the popularization of financial knowledge by hosting various activities including “Financial Consumer Rights Day” (金融消費者權益日), “Popularizing Financial Knowledge into Every Household” (金融知識進萬家), “Popularizing Financial Knowledge to Benefit Every Village” (金融知識惠萬村), “Preventing and Fighting against Illegal Fundraising Publicity Month” (防範打擊非法集資宣傳月), “Anti-Telecommunications and Internet Fraud” (反電信網絡詐騙), and anti-money laundering and counterfeit money. Based on the community and caring for the society, the Bank went deep into the community, schools, counties and rural areas to carry out various charitable activities and volunteer services such as caring for new citizens, community neighborhood festival, parent-child welfare lecture, charity calligraphy and painting exhibition, book rent for free, “Qingxin” (青馨) happy reading time etc. Centered on the development idea of becoming “the most convenient bank”, the Bank vigorously promoted the development of convenient projects such as cloud payment, “all-in-one cards” and “Bank Hospital Pass”. Our community sub-branches increased to 14, which added “Online An Ju Dai” (線上安居貸) business and kept expanding the channels to serve our customers with the residential mortgage focusing on meeting the needs of residents for self-occupation and improved housing purchase financing.
3. In terms of environmental responsibility, the Bank continued to adhere to the green development concept, actively responded to the development strategy of “Two Zones, One Circle and One Belt” of Shandong Province (兩區一圈一帶, namely Shandong Peninsula blue economic zone and Yellow River Delta efficient ecological economic zone, Capital city circle and city belt in the south of Shandong Province) and the plan of “Three Centres and One Base” of Qingdao (三中心一基地, namely a key innovation centre on the east coast, an important domestic regional service centre, a world leading marine development centre and an advanced manufacturing base with international competitiveness), and developed sound policies of green finance and blue finance credit. The Bank aimed to build a green credit bank with reputation in Shandong Province and even in the whole country, and accelerated the development of green finance. As at the end of the Reporting Period, the Bank supported a green credit of RMB8.594 billion, representing an increase of RMB2.332 billion or 37.24% as compared with that at the end of last year; strengthened blue economic finance service, and explored an appropriate finance service plan that is applicable to port economy development by centering on the blue economic industry layout and industrial chain and taking the port sub-branch as the fulcrum. Furthermore, the Bank raised the green environmental awareness of staff by staging philanthropy activities, such as “I Have a Date with Spring, and I Contribute to Environmental Protection” (我和春天有個約、我為環保做貢獻), “Love at the Seaside” (愛在海邊), “Protecting Environment Together” (綠色環保·你我同行) and afforestation, while vigorously advocating water, electricity and energy conservation throughout the municipality, extending our support to the green environmental industry with practical actions.

It is the Bank's adherence to the sustainable and balanced development of economic responsibility, social responsibility and environmental responsibility that awarded it "The Most Socially Responsible Financial Institution of the year" (年度最具社會責任金融機構) in the 2016 annual social responsibility commendation conference held by the China Banking Association.

3.13 PROTECTION OF CONSUMER RIGHTS

During the Reporting Period, guided by the governmental and regulatory authorities' opinions, the Bank fully exerted its institutional advantages as a legal person banking institution, constantly strengthened the behavior management, earnestly implemented the entity responsibility, reinforced popularization and education, and accelerated the protection of consumer rights of the whole bank both in depth and width by setting the protection of consumer rights and interests as its goal and by taking the improvement of work mechanism, consolidation of system foundation, and creation of consumer rights protection brands as principal lines.

1. Focused on the promotion of operability to further reinforce the system foundation

Firstly, the Bank regarded consumer rights as its core and essence, organized the overall combing of the work system of consumer rights protection, and impelled the systematization and normalization of the system. Secondly, the Bank amended the Administrative Measures for Customer Complaints of Bank of Qingdao and further refined the work requirements. Thirdly, the Bank upgraded the supporting implementation details and business line operating rules, improved the practicality of the consumer rights protection system, and ensured that various requirements of the consumer rights protection work covered all the business procedures.

2. Gave priorities to the implementation of entity responsibilities and realized the whole-procedure management of consumer rights protection

Firstly, the Bank strengthened the management of product and service procedures. The Bank moved the critical pass of the work forward and intensified the protection review of consumer rights; fully disclosed information and uniformly normalized sales behaviors; carried out customer satisfaction investigation and survey and took the initiative to ask for suggestions and advices. Secondly, the Bank continued to push forward the special-area management and "double recording" (sound and video) work, heightened the management of distribution businesses, and effectively prevented misled sales and "lost orders" and other violations.

3. Centered on education to set up a normalized mechanism for dissemination of consumer rights protection

Firstly, the Bank actively participated in the centralized promotion and education activities of the industry, organized the staff of the whole bank to hold the “Financial Consumer Rights Day”, “Popularization and Education Activities regarding the Prevention and Fighting of Illegal Fund Raising”, “Bringing Financial Knowledge to Villages”, “Bringing Financial Knowledge to Schools”, as well as the “Finance Lecture Room in the Air” program, which ensured the popularization and education effect. Secondly, the Bank highlighted the daily promotion of business outlets and included financial consumer education of business outlets into the performance appraisal. Thirdly, the Bank opened the column of consumer rights protection and regularly published financial knowledge and information on its official website and WeChat official account as vectors. Fourthly, the Bank established “BQD doctors’ presentation team”, which worked with universities and colleges, enterprises and communities to carry out featured popularization and education activities, further increased the popularity and audience amount, and built the brand of “Qingcheng Xiaobao” consumer rights protection.

3.14 DEVELOPMENT PLAN FOR THE SECOND HALF OF 2017

3.14.1 Operating Situation Analysis for the Second Half of the Year

In the second half of 2017, global economy will steadily develop and China’s economy continues to rebound. Commercial banks are confronted with great challenges in terms of asset-liability management due to the effect of the interest rate liberalization and macro-prudential supervision under double pressure of industrial overcapacity cutting and financial deleveraging. Shandong Province faces higher transformation and upgrading pressure and various municipalities energetically carry out the new-for-old kinetic energy project. All these bring new opportunities as well as challenges to the Bank’s operation. Facing new operating situation, the Bank establishes and strengthens four development concepts: firstly, concentrating on all deposits; secondly, enhancing its risk control mechanism; thirdly, exploring high-quality assets; and fourthly, consolidating customer base.

3.14.2 Development Guidance for the Second Half of the Year

The second half of 2017 is a critical period of connecting the preceding and the following as well as transforming and upgrading; therefore, the Bank will continue to promote the enterprising spirit and entrepreneurial passion while adhering to the operations philosophy of “riding on trend, deepening management, controlling risks, and stabilizing development”, and taking serving the real economy as the starting point and foothold. It will improve the effective long-term development mechanisms of debt development, risk control compliance and sustainable profit and strive to explore a stable development road that focuses on the wholesale, fully develops the retail, highlights the financial market and carries out risk control and prevention, ensuring completion of the annual work plan.

3.14.3 Measures to Be Adopted for the Second Half of the Year

- (1) Stressing customers and their experience to become a convenient retail bank which benefits all people;
- (2) Keeping up with the trends and seeking progressive changes while remaining stable to steadily promote the transformation and upgrading of wholesale business;
- (3) Improving profitability, optimizing the structure and continuing to increase the contribution of financial market business;
- (4) Strictly managing and controlling the situation to ensure the stable development of various businesses of the Bank;
- (5) Optimizing the layout and enhancing efficiency to earnestly create warm, smart and intensive service channels;
- (6) Paying more attention and strengthening supervision to complete the critical work for the whole year with quality and quantity assured;
- (7) Strengthening fine management and improving the quality and efficiency to comprehensively enhance the capability to support and ensure the development of the business;
- (8) Gathering strengths and developing services to fully improve the development of the party committee, charitable activities and corporate culture.

CHAPTER IV SIGNIFICANT EVENTS

4.1 EARNINGS AND DIVIDENDS

The revenue of the Company for the six months ended 30 June 2017 and the financial position of the Company on the same date are set out in the financial statements of this report.

Pursuant to the resolutions passed at the annual general meeting of 2016 of the Bank on 11 May 2017, the Bank had distributed dividends in cash for 2016 in aggregate amount of RMB811,742,549.80 (tax inclusive) on 6 July 2017 to shareholders of domestic shares and H shares whose names appeared on the share register of the Bank on 22 May 2017, in accordance with the profit distribution plan to distribute a dividend of RMB0.20 per share (tax inclusive).

No profit distribution and no transfer from capital reserve to share capital were made by the Bank in 2017 during the interim period.

4.2 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

During the Reporting Period, there was one proposal on significant related party transactions of the Bank that required consideration by the Board of Directors, which were the credits granted to Qingdao Qingyin Financial Leasing Company Limited. 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 RMB3,392 million, the details of which are as follows:

Unit: RMB'000

<u>Name of Related Party</u>	<u>Type of Business</u>	<u>Way of Guarantee</u>	<u>Credit Balance</u>	<u>Net Credit After Deducting Margin</u>	<u>Percentage of Net Capital</u>
Qingdao Conson Financial Holdings Co., Ltd.	Loan	Guarantee	1,279,000	1,279,000	5.39%
Qingdao Changyuan Land Co., Ltd.	Non-standard debt	Guarantee	990,000	990,000	4.17%
Qingdao Haier Real Estate Group Co., Ltd.	Non-standard debt	Guarantee	800,000	800,000	3.37%
Qingdao Haier Home Integration Co., Ltd.	Letter of guarantee	Pledge, deposit	322,758	322,741	1.36%

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

4.3 SIGNIFICANT LITIGATION AND ARBITRATION AND MATERIAL CASES DURING 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 Bank has occurred.

4.4 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 Bank and its directors, supervisors and senior management.

4.5 PERFORMANCE OF UNDERTAKINGS BY THE BANK OR SHAREHOLDERS WITH SHAREHOLDING OF MORE THAN 5%

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 Bank with shareholding of more than 5%, respectively undertook: not to seek related transactions with terms more favorable than those of other shareholders; not to intervene in the daily business affairs of the Bank; 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 Bank with additional capital as shareholding is the main source of the capital of the Bank; not to impose undue pressure on the Bank 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. (青島海爾工裝研制有限公司), 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 Bank in 2014, respectively undertook not to transfer 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 date 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 date of listing of the H shares of the Bank.

So far as the Bank is aware, during the Reporting Period, there was no breach of the above undertakings by the Bank and shareholders with shareholding of more than 5%.

CHAPTER IV SIGNIFICANT EVENTS

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

On 15 February 2017, the Bank, Qingdao Hanhe Cable Co., Ltd., Qingdao Port International Co., Ltd. and Qingdao Qianwan Container Terminal Co., Ltd. jointly established Qingdao Qingyin Financial Leasing Company Limited with a registered capital of RMB1 billion. Please see Note 20 to “Unaudited Interim Financial Report” for details.

Save as disclosed above, during the Reporting Period, the Bank did not engage in any other material acquisition, merger and disposal of assets.

4.7 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 Bank did not have any other significant guarantee, commitments and entrusted asset management requiring disclosure.

4.8 NON-PERFORMING LOANS OF SHAREHOLDERS AND THEIR ASSOCIATES

As at the end of the Reporting Period, there were no non-performing loans among the loans of the Bank’s shareholders and their associates.

4.9 PUBLISHING OF INTERIM REPORT

This interim report prepared both in Chinese and English in accordance with the International Financial Reporting Standards and Hong Kong Listing Rules of the Company is available at the HKEx news website of the Hong Kong Stock Exchange and the website of the Bank. In case of any discrepancy in interpretation between the two versions, the Chinese version shall prevail. The report has been reviewed by the audit committee of the Bank’s Board and by KPMG in accordance with the Hong Kong Standard on Review Engagements 2410.

4.10 EVENTS AFTER THE REPORTING PERIOD

The Bank was approved to issue tier-two capital bonds in public with the total amount not exceeding RMB5 billion in the national interbank bond market. On 27 June 2017, the issuance of the first tranche of the tier-two capital bonds of 2017 in the amount of RMB3 billion was completed by the Bank, which was within the abovementioned limit.

The Bank completed the issuance of the tier-two capital bonds for the second tranche of 2017 on 12 July 2017 with a total amount of RMB2 billion. For details, please refer to the announcements dated 21 June 2017, 27 June 2017 and 12 July 2017 published on the websites of the Hong Kong Stock Exchange and the Bank.

CHAPTER V CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

5.1 STATEMENT OF SHARE CAPITAL STRUCTURE

Unit: share

Shareholder type	31 December 2016		Changes during the Reporting Period	30 June 2017	
	Number of shares	Percentage of total share capital		Number of shares	Percentage of total share capital
Domestic legal persons	2,243,865,810	55.29%	–	2,243,865,810	55.29%
Domestic natural persons	51,811,959	1.28%	–	51,811,959	1.28%
H shares	1,763,034,980	43.44%	–	1,763,034,980	43.44%
Total	4,058,712,749	100.00%	–	4,058,712,749	100.00%

5.2 STATEMENT OF CHANGES IN TOTAL SHARE CAPITAL

During the Reporting Period, there was no change in the Bank's total share capital.

CHAPTER V CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

5.3 PARTICULARS OF SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF THE BANK

Unit: share

No.	Name of Shareholders	Total number of shares held at the end of the 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)	1,140,277,880	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: (1) Shares held by Hong Kong Securities Clearing Company Nominees Limited are the total number of H shares of the Bank held by shareholders which are traded on the trading platform of Hong Kong Securities Clearing Company Nominees Limited on behalf of shareholders;

(2) For the above shareholders, Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air Conditioner Electronics Co., Ltd. and Qingdao Haier Co., Ltd. are all under Haier Group. The Bank is not aware of any other connected relationship between other shareholders.

CHAPTER V CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

5.4 INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, in so far as the Directors, Supervisors and chief executives of the Bank are aware, substantial shareholders who had an interest or short position in the issued share capital of the Bank 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 Bank which are required to be notified to the Bank are shown as below:

Name of shareholders	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 Economics and Trade 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 Hairan 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

CHAPTER V CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of shareholders	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
Chan Mei Ching ⁽⁶⁾	H shares	Interest of controlled corporation	200,000,000	4.93	-	11.34	Long
Chan Min Chi ⁽⁶⁾	H shares	Interest of controlled corporation	200,000,000	4.93	-	11.34	Long
LRC. Strategic (Global) Investment Group Limited ⁽⁶⁾	H shares	Interest of controlled corporation	200,000,000	4.93	-	11.34	Long
LRC. Belt and Road Investment Limited ⁽⁶⁾	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 Credit Company Limited	H shares	Holder of security interests	200,000,000	4.93	-	11.34	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	310,000,000	7.64	-	17.58	Long
Haitong International Securities Group Limited ⁽¹¹⁾	H shares	Interest of controlled corporation	310,000,000	7.64	-	17.58	Long
Haitong Securities Co., Ltd. ⁽¹¹⁾	H shares	Interest of controlled corporation	310,000,000	7.64	-	17.58	Long

CHAPTER V CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of shareholders	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
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 (中國國際資本有限公司) ⁽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
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
Haitian (HK) Financial Development Limited ⁽¹³⁾	H shares	Beneficial owner	100,000,000	2.46	–	5.67	Long
Qingdao Conson Development (Group) Cop., Ltd. ⁽¹³⁾	H shares	Beneficial owner	100,000,000	2.46	–	5.67	Long
Qingdao Conson Financial Holding Limited ⁽¹³⁾	H shares	Beneficial owner	100,000,000	2.46	–	5.67	Long

Notes:

- (1) As at 30 June 2017, the number of the Bank's total issued shares, domestic shares and H shares are 4,058,712,749 shares, 2,295,677,769 shares and 1,763,034,980 shares respectively.
- (2) 812,214,572 shares of the Bank are held by its directly or indirectly controlled companies of Haier Group Corporation.

CHAPTER V CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

- (3) These 812,214,572 shares are held as to 409,693,339 shares directly by Qingdao Haier Investment and Development Co., Ltd., as to 5,633,715 shares by its controlled company and as to 396,887,518 shares as to its person acting in concert respectively.
- (4) 139,663,690 shares are held directly by Qingdao Haier Co., Ltd. and 244,680,795 shares are held by its controlled company.
- (5) Qingdao Conson Industrial Co., Ltd. is wholly owned by Qingdao Conson Development (Group) Co., Ltd. Therefore, Qingdao Conson Development (Group) Co., Ltd. is deemed or taken to be interested in all our shares held by Qingdao Conson Industrial Co., Ltd.
- (6) Ge Shoujiao and Leng Qiyuan hold 55% and 45% equity interest in Shandong Sanliyuan Economics and Trade Co., Ltd. respectively. Therefore, Ge Shoujiao and Leng Qiyuan are deemed or taken to be interested in all our shares held by Shandong Sanliyuan Economics and Trade Co., Ltd.
- (7) Qingdao Hairen Investment Co., Ltd. is wholly owned by Qingdao East Steel Tower Stock Co., Ltd. which is in turn 52.45% owned by Han Huiru. Therefore, Qingdao East Steel Tower Stock Co., Ltd. and Han Huiru are deemed or taken to be interested in all our shares held by Qingdao Hairen Investment Co., Ltd. Wang Yunyun is the spouse of Han Huiru. Therefore, Wang Yunyun is deemed or taken to be interested in all our shares held by Han Huiru.
- (8) LRC. Strategic (Global) Investment Group Limited is held as to 47% and 51% by Chan Mei Ching and Chan Min Chi respectively. LRC. Strategic (Global) Investment Group Limited holds 99% equity interest in LRC. Belt and Road Investment Limited. Therefore, Chan Mei Ching, Chan Min Chi and LRC. Strategic (Global) Investment Group Limited are deemed or taken to be interested in all our shares held by LRC. Belt and Road Investment Limited.
- (9) Keystone Group Ltd. is wholly owned by Ouyang Xinxiang. Therefore, Ouyang Xinxiang is deemed or taken to be interested in all our shares held by Keystone Group Ltd.
- (10) 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.
- (11) Haitong International Financial Solutions Limited holds security interests in 110,000,000 shares of the Bank. Haitong International Financial Solutions Limited is wholly owned by Haitong International Finance Company Limited which is in turn wholly 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.

CHAPTER V CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

- (12) AMTD Investment Solutions Group Limited holds 100,000,000 shares of the Bank. AMTD Investment Solutions Group Limited is wholly owned by AMTD Investment Solutions Limited, which is wholly owned by AMTD Investments Limited. AMTD Investments Limited is wholly owned by AMTD Strategic Capital Group, which is 98.71% owned by AMTD Asia Limited. AMTD Asia Limited is wholly owned by AMTD Asia (Holdings) Limited, which is wholly owned by AMTD Group Company Limited. AMTD Group Company Limited is 71.03% owned by L.R. Capital Financial Holdings Limited. L.R. Capital MNP Limited and CM International Capital Limited hold 65.10% and 34.10% interests in L.R. Capital Financial Holdings Limited respectively, and L.R. Capital MNP Limited is wholly owned by L.R. Capital Management Company (Cayman) Limited. CM International Capital Limited is wholly owned by CM International Capital Limited (中民國際資本有限公司), which is wholly owned by China Minsheng Investment Co., Ltd. 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 (中民國際資本有限公司) and China Minsheng Investment Co., Ltd. are deemed or taken to be interested in our shares held by AMTD Investment Solutions Group Limited.
- (13) Haitian (HK) Financial Development Limited holds 100,000,000 shares of the Bank. Haitian (HK) Financial Development Limited is wholly owned by Qingdao Conson Financial Holding Limited, which is 88% owned by Qingdao Conson Development (Group) Cop., Ltd.

As at 30 June 2017, save as disclosed above, in so far as the Directors, Supervisors and chief executives of the Bank are aware, there is no person who had an interest or short position in the shares, underlying shares or equity derivatives of the Bank 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 Bank which are required to be notified to the Bank.

5.5 SHAREHOLDERS HOLDING MORE THAN 5% OF THE TOTAL SHARE CAPITAL

(I) Intesa Sanpaolo SpA

Intesa Sanpaolo SpA is a multi-national bank headquartered in Milan, Italy. It is one of the most prominent players of the Eurozone's banking industry as well as the industry-leader of Italy's retail, corporate business and wealth management businesses. Intesa Sanpaolo SpA has a total of 3,900 subsidiaries in Italy, providing tens of millions of customers with high-quality service. Tapping into overseas market is of great importance in Intesa Sanpaolo SpA's development strategy. By acquiring commercial banks in over a dozen countries in the regions of Central and Eastern Europe as well as the Mediterranean, Intesa Sanpaolo SpA owns 1,100 subsidiaries and 7.7 million customers in the above regions. In addition, Intesa Sanpaolo SpA has set up subsidiaries in 27 countries and regions around the world to support its corporate business customers.

(II) Qingdao Conson Industrial Co., Ltd.

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

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

Qingdao Haier Investment and Development Co. Ltd. was established in 2000, and its legal representative is Zhang Ruimin, with a registered capital of RMB252,050,000. It is principally engaged in projects including corporate investment and financial consultancy within the group; consultancy and services of home appliances, electronic products, communication equipment, computers and accessories, general machinery, kitchen appliances and production of industrial robots; economic technology consultancy; research, development and transfer of technological achievements.

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

Qingdao Haier Air Conditioner Electronics Co., Ltd. was established in 1999, and its legal representative is Liang Haishan, with a registered capital of RMB356,000,000. It is principally engaged in the research and development, production, sales and after-sales service for air conditioners, cooling equipment, heat pump, low temperature air-source equipment, total heat exchanger and air purifiers; installation and repair services for air-conditioners; solution design, construction and installation, technical services, technical consulting and sales for air-conditioning, heating and ventilation equipment, building control equipment, smart equipment and ancillary facilities; sales, installation, maintenance services and sales of smart home software and hardware; contracted energy management for air-conditioners, cooling equipment and smart home; indoor and outdoor decoration and design and engineering construction; and the import and export of goods and technology.

5.6 PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE BANK

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

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

6.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Basic information of Directors

Name	Gender	Date of Birth	Position	Term	Shareholding at the beginning of the Reporting Period (shares)	Shareholding at the end of the Reporting Period (shares)
GUO Shaoquan	Male	1962.08	Executive Director, Chairman	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	-	-
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	-	-
Simon CHEUNG	Male	1970.07	Independent Non-executive Director	2017.07-2018.04	-	-
Outgoing Directors						
DU Wenhe	Male	1958.03	Former Independent Non-executive Director	2014.01-2017.07	-	-

2. Basic information of Supervisors

Name	Gender	Date of Birth	Position	Term	Shareholding at the beginning of the Reporting Period (shares)	Shareholding at the end of the Reporting Period (shares)
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	2006.07-2018.04	272,822	272,822
XU Wansheng	Male	1967.05	Employee Supervisor	2007.01-2018.04	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	-	-

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

3. Basic information of senior management

Name	Gender	Date of Birth	Position	Commencement of the Term	Shareholding at the beginning of the Reporting Period (shares)	Shareholding at the end of the Reporting Period (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	-	-
CHEN Shuang	Female	1968.01	Vice President	2017.01	350,000	350,000
LU Lan	Female	1964.07	Secretary to the Board	2010.08	380,000	380,000

6.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. DU Wenhe tendered to the Board his resignation in written from the office of the Independent Non-executive Director and the special committees under the Board due to change of job. During the Reporting Period, the resolution on election of Mr. ZHANG Siming as Independent Non-executive Director of the sixth session of the Board of the Bank was passed at the annual general meeting of 2016 held in May 2017. In July 2017, the qualifications of Mr. ZHANG Siming for serving as Independent Non-executive Director were approved by CBRC Qingdao Office of with effect from the date of approval, and Mr. DU Wenhe ceased to serve as Independent Non-executive Director of the Bank.

During the Reporting Period, Ms. Chen Shuang was the vice president of the Company since January 2017 with the approval of CBRC Qingdao Office.

Save as disclosed above, during the Reporting Period, there was no other change in the Directors, Supervisors and senior management of the Bank.

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

During the Reporting Period, there was no change in information of the Directors and Supervisors.

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

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

In so far as the Directors, Supervisors and chief executives of the Bank are aware, as at 30 June 2017, the Directors, Supervisors and chief executives who had interests or short positions in the issued shares, debentures or equity derivatives of the Bank which are required to be recorded in the register referred to in section 352 of the SFO, or interests or short positions which are required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code, are as follows:

Name of Director/ Supervisor/chief executive	Type of shares	Capacity	Number of shares held	Approximate percentage of the total share capital ^{Note}	Approximate percentage of the domestic share capital ^{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 aforementioned percentages are calculated according to the total number of the share capital of 4,058,712,749 shares and the number of domestic shares of 2,295,677,769 at the end of the Bank's Reporting Period.

Save as disclosed above, in so far as the Directors, Supervisors and chief executives of the Bank are aware, as at 30 June 2017, no one had any interests or short positions in the shares, debentures or equity derivatives of the Bank which are required to be recorded in the register referred to in section 352 of the SFO, or any interests or short positions which are required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

6.5 EMPLOYEES AND HUMAN RESOURCES MANAGEMENT

6.5.1 Details of Employees

1. Composition of employees

As at the end of the Reporting Period, the Bank had 3,326 employees, including 609 at the head office, accounting for 18.31%; 1,482 at branches and sub-branches in Qingdao, accounting for 44.56%; and 1,235 at branches and sub-branches in other cities, accounting for 37.13%.

2. Composition by age

The average age of the employees of the Bank was 34, of which 1,380 were aged 20 or above to below 30, accounting for 41.49%; 1,045 were aged 30 or above to below 40, accounting for 31.42%; 732 were aged 40 or above to below 50, accounting for 22.01%; and 169 were aged 50 or above, accounting for 5.08%.

3. Composition by education

There were 564 employees of the Bank with a master's degree or above, accounting for 16.96%, of which 12 were doctoral degree holders; 2,304 were bachelor's degree holders, accounting for 69.27%; and 458 were college graduates or below, accounting for 13.77%.

4. Composition by gender

There were 1,532 male employees, accounting for 46.06%; and 1,794 female employees, accounting for 53.94%.

6.5.2 Human Resources Overview

In the first half of 2017, the Bank placed efforts on its human resources management in accordance with the development strategies planning requirements as well as business development needs. By aligning closely with its operation philosophy, the Company continued to aim at "serving business operation, core tasks and every sector", while kept on consolidating the foundation of human resources management, reinforcing talent pool building, improving its remuneration and benefits mechanism and innovating talents nurturing and development. Achieving upgrades in terms of management, system and efficiency offers strong human resources support for the Company's rapid and solid development.

6.5.3 Policy on Employee Remuneration

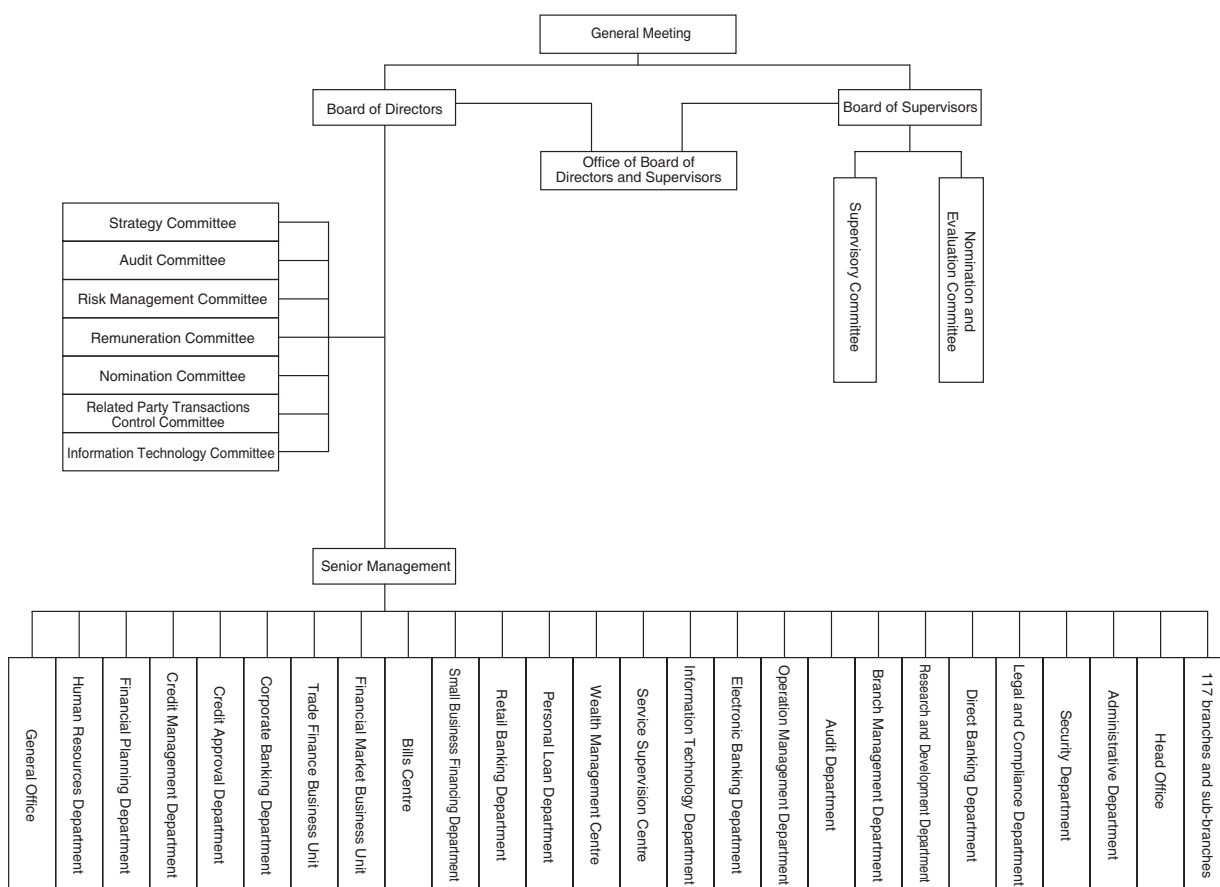
Currently, the Bank has established a market-oriented remuneration system that is based on a position-specific salary regime, under which employee remuneration is linked to the responsibilities, requirements and importance of the position and the results of performance appraisal. Under this remuneration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

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6.5.4 Training for Employees

Centering on the strategic development, the Bank continues to perfect its training system, strengthen various training mechanisms, actively explore and innovate training forms and improve training efficiency management of the Bank. According to the training plan, efforts were put on the overall implementation of training tasks for middle and senior management, professionals and new employees, but also on the continuous improvement of the overall quality of all staff. During the Reporting Period, the total number of various training activities reached 1,128 and the aggregate number of participants of various staff training activities reached 46,577.

6.6 ORGANISATION CHART



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

6.7 LIST OF BRANCHES AND SUB-BRANCHES

No.	Name of branch/ sub-branch	Address
1	Head Office	No. 68 Hong Kong Middle Road, Qingdao
2	Jinan Branch	Building 6, Yinfeng Fortune Plaza, No.1 Longaoxi Road, Lixia District, Jinan
3	Jinan Shungeng Sub-branch	1st – 3rd Floors, No. 2 Shunyu Road, Shizhong District, Jinan
4	Jinan High-tech Zone Sub-branch	Tower C, Yinhe Building, No. 2008 Xinluo Avenue, Jinan Hi-tech Development Zone
5	Jinan Quanfu Sub-branch	No. 301, Gongye North Road, Licheng District, Jinan
6	Jinan Huaiyin Sub-branch	No. 192, Zhangzhuang Road, Huaiyin District, Jinan
7	Jinan Zhangqiu Sub-branch	1st Floor, Jiahua Shopping Plaza, No. 76 Huiquan Road, Zhangqiu, Jinan
8	Jinan Luoyuan Sub-branch	No. 480, Weiyi Road, Shizhong District, Jinan
9	Jinan Jiluo Road Sub-branch	1st and 2nd Floors, Qilu Brand-name Shoe City Building, No. 82 Jiluo Road, Tianqiao District, Jinan
10	Jinan Jiangshuiquan Sub-branch	Room 101, Yanjie Commercial Building, Phase 2, Zhengda City Garden, West of Jiangshuiquan Road, Lixia District, Jinan
11	Jinan Jiaoyuan Sub-branch	1st Floor, Library (Office Building) of Shandong Jiaotong University, No. 5001 Haitang Road, Changqing District, Jinan
12	Jinan Nanquanfu Community Sub-branch	Room 102, Unit 2, Building 12, Block South-2, Nanquanfu Avenue, Licheng District, Jinan
13	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 City, Jinan
14	Jinan Lishan North Road Sub-branch for Small and Micro Enterprises	No. 105-2, Lishan North Road, Tianqiao District, Jinan
15	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
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 Guangrao Sub-branch	No. 790 Le'an Avenue, Guangrao County, Dongying
19	Dongying Kenli Sub-branch	No. 27 Zhongxing Road, Kenli District, Dongying
20	Dongying District Sub-branch, Dongying	No. 490 Xi'er Road, Dongying District, Dongying
21	Dongying Lijin Sub-branch	No. 486, Jiner Road, Lijin County, Dongying
22	Dongying Kenli Shengxing Road Sub-branch	No. 9 Shengxing Road, Kenli District, Dongying
23	Weihai Branch	No. 112, No. 3-4 Shichang Avenue, Weihai
24	Weihai Rongcheng Sub-branch	No. 389 Chengshan Avenue Middle, Rongcheng, Weihai

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No.	Name of branch/ sub-branch	Address
25	Weihai Wendeng Sub-branch	No. 93 Wenshan Road, Wendeng District, Weihai
26	Weihai Economic and Technological Development Zone Sub-branch	No. 106-1 Daqing Road, Economic and Technological Development Zone, Weihai
27	Weihai Shidao Sub-branch	Building 99, Huanghai Middle Road, Rongcheng, Weihai
28	Weihai Rushan Sub-branch	No. 87 Shengli Street, Rushan, Weihai
29	Weihai Qingdao Road Sub-branch	No.9 Qingdao Road South (South), Weihai
30	Zibo branch	No. 266 Liantong Road, Zhangdian District, Zibo
31	Zibo Linzi Sub-branch	No. 772 Linzi Road, Linzi District, Zibo
32	Zibo Zhangdian Sub-branch	No.126 Huaguang Road, Zhangdian District, Zibo
33	Zibo Huantai Sub-branch	No. 700 Dongyue Road, Huantai County, Zibo
34	Dezhou Branch	No. 717 Dexing Middle Avenue, Decheng District, Dezhou
35	Dezhou Technology Sub-branch	No. 101, Building S6, Zhongjian Huafu Community, Sanba East Road, Economic and Technological Development Zone, Dezhou
36	Zaozhuang Branch	No. 215 Qingtan Road, Shizhong District, Zaozhuang
37	Zaozhuang Tengzhou Sub-branch	No. 1601, Building 16, Jiuzhou Qingyan Community, Shanguo Middle Road, Tengzhou, Zaozhuang
38	Zaozhuang Tengzhou Xueyuan Road Sub-branch	Business Room 1-1, Lidu Shuian Community, Xueyuan Middle Road, Tengzhou, Zaozhuang
39	Yantai Branch	No. 454 Shengli Road, Zhifu District, Yantai
40	Yantai Development Zone Sub-branch	Room 108, Building No.6, Haixin Park, No.177 Huanghe Road, Yantai Economic and Technological Development Zone
41	Yantai Zhaoyuan Sub-branch	Jiaheng Plaza, No. 111 Wenquan Road, Zhaoyuan, Yantai
42	Binzhou Branch	No. 471 Huanghe 8th Road, Binzhou
43	Binzhou Bincheng Sub-branch	No. 659 Bohai 7th Road, Bincheng District, Binzhou
44	Weifang Branch	Room 124, Building No. 7, No. 6636 Fushou East Street, Kuiwen District, Weifang
45	Laiwu Branch	No. 57 Wanfu North Road, Laicheng District, Laiwu
46	Qingdao West Coast Branch	Shuangzhu Road, Huangdao District, Qingdao (Formerly No. 286 Zhuhai East Road, Jiaonan)
47	Jiaonan Sub-branch	Shuangzhu Road, Huangdao District, Qingdao (Formerly No. 49 Zhuhai Road, Jiaonan)
48	Economic and Technological Development Zone Sub-branch	Jianguo Building, No. 519-2 Changjiang Middle Road, Qingdao Economic and Technological Development Zone
49	Jinggangshan Road Sub-branch	No. 541 Jinggangshan Road, Qingdao Economic and Technological Development Zone
50	Chongmingdao Road Sub-branch	No. 17 Chongmingdao West Road, Qingdao Economic and Technological Development Zone
51	Dongjiakou Sub-branch	No. 7 Hongshi Road, Residence Area of Poli Town, Huangdao District, Qingdao (Formerly No. 2 Muguandao Road)
52	Wuyishan Road Sub-branch	No. 364 Wuyishan Road, Qingdao Economic and Technological Development Zone
53	Shandong University of Science and Technology Sub-branch	No. 594 Qianwangang Road, Qingdao Economic and Technological Development Zone

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No.	Name of branch/ sub-branch	Address
54	Dongjiakou No. 2 Sub-branch	Building 3, Complex Building, Dongjiakou Port Area, Qingdao Port, Qingdao
55	Shibei Sub-branch	No. 172-1 Dunhua Road, Qingdao
56	Nanjing Road Sub-branch	No. 308 Nanjing Road, Qingdao
57	Chongqing Road Sub-branch	No. 298 Chongqing South Road, Qingdao
58	Renmin Road No. 1 Sub-branch	No. 102, Renmin Road, Qingdao
59	Dunhua Road Sub-branch	No. 50-D Dunhua Road, Qingdao
60	Jiaozhou Sub-branch	No. 333 Aomen Road, Jiaozhou, Qingdao
61	Jiaozhou Jiaodong Community Sub-branch	Shop 107, 1st Floor, Building 10, Pinshuo Huanian Community, No. 7 Heping Road, Jiaodong Office, Jiaozhou, Qingdao
62	Jiaozhou Fuzhou South Road Sub-branch	No. 17 Fuzhou South Road, Jiaozhou, Qingdao
63	Jiaozhou Ligezhuang Community Sub-branch	No. 182 Lianyi Avenue, Ligezhuang Town, Jiaozhou, Qingdao
64	Maidao Sub-branch	Shop 45-1, Maidao Jin'an, No.1 Donghai East Road, Qingdao
65	Shazikou Sub-branch	No. 94 Laoshan Road, Qingdao
66	Xianggang Middle Road No. 1 Sub-branch	Qingdao Yamai International Centre, No. 7-A Xianggang Middle Road, Qingdao
67	Minjiang Road Sub-branch	No. 18 Minjiang Road, Qingdao
68	May Fourth Square Sub-branch	Huaren Building, No. 31 Donghai West Road, Qingdao
69	Jimo Sub-branch	No. 848 Lan'ao Road, Jimo, Qingdao
70	Jimo Economic Development Zone Sub-branch	No. 38-8 Heshan Road, Jimo Economic Development Zone, Qingdao
71	Jimo Yanqing Road Sub-branch	No. 42 Jianmin Street, Jimo, Qingdao
72	Guantao Road Sub-branch	No.1 Guantao Road, Qingdao
73	Xianggang Middle Road No. 2 Sub-branch	No. 169 Xianggang Middle Road, Qingdao
74	Qingdao University Sub-branch	Outlet located at the library of Qingdao University, No. 308, Ningxia Road, Qingdao
75	Laoshan Sub-branch	Jinling Shangjie Outlet, No. 17-10 Xianxialing Road, Qingdao
76	Zhonghan Community Sub-branch	No. 856-25 Hefei Road, Qingdao
77	Xiangyang Road Sub-branch	No. 90 Xiangyang Road, Qingdao
78	Jiushui East Road Sub-branch	Nos. 189-1 and 189-2 Jiushui East Road, Qingdao
79	Jufeng Road Sub-branch	Nos. 3011-3014, No. 178 Jufeng Road, Qingdao
80	Nanjing Road No. 2 Sub-branch	No. 8 Nanjing Road, Qingdao
81	Chengyang Sub-branch	No. 220 Zhengyang Road, Qingdao
82	Zhengyang Road Sub-branch	No. 179-1 Zhengyang Road, Qingdao

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No.	Name of branch/ sub-branch	Address
83	Taidong 6th Road Sub-branch	No. 60 Taidong 6th Road, Qingdao
84	Taidong 3rd Road Sub-branch	No. 120 Taidong 3rd Road, Qingdao
85	Pingdu Sub-branch	No. 23 Hongqi Road, Pingdu, Qingdao
86	Pingdu No. 2 Sub-branch	No. 30 Hangzhou Road, Pingdu, Qingdao
87	Pingdu Nancun Community Sub-branch	No. 129-1 Sancheng Road, Residence Area of Nancun Town, Pingdu, Qingdao
88	Port Sub-branch	No. 7 Ganghua Road, Qingdao
89	Qianwan Port Sub-branch	No. 12 Fenjin North Road, Qianwan Port, Huangdao District, Qingdao
90	Technology Sub-branch	Outlet located at Tower C, Chuangye Building, No. 1 Zhilidao Road, Qingdao Hi-Tech Industrial Development Zone
91	Hongdao Community Sub-branch	No. 88 Aodong South Road, Hongdao Street, Qingdao Hongdao Economic Zone
92	Yan'an 2nd Road Sub-branch	Nos. 1-3, 1st Floor, Unit A-10, No. 142 Yan'an Road, Qingdao
93	Metro Building Sub-branch	No. 6 Changning Road, Qingdao
94	May Fourth Square Metro Community Sub-branch	S3-F07-02 outlet located at the May Fourth Square Station Exit B of Metro-line 3, Qingdao
95	Guangxi Road Sub-branch	No. 28 Guangxi Road, Qingdao
96	Guizhou Road Community Sub-branch	No. 7-B Guizhou Road, Qingdao
97	Laixi Sub-branch	No. 118 Yantai Road, Laixi, Qingdao
98	Laixi Wenhua East Road Sub-branch	Unit 1, Building 2, No. 13 Wenhua East Road, Laixi, Qingdao
99	Taiwan Road Sub-branch	No. 6 Taiwan Road, Qingdao
100	Hefei Road Community Sub-branch	No. 668-23 Hefei Road, Qingdao
101	Jiangxi Road Sub-branch	No.100 Nanjing Road, Qingdao
102	Yinchuan Road Sub-branch	Outlet located at No. 1 Zhonghai Yin Hai, No. 7 Yinchuan West Road, Qingdao
103	Yanji Road Community Sub-branch	No. 155 Yanji Road, Qingdao
104	Yan'an 3rd Road Sub-branch	No. 129, Yan'an 3rd Road, Qingdao
105	Qidong Road Community Sub-branch	No. 27-A, Laiwu 2nd Road, Qingdao

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

No.	Name of branch/ sub-branch	Address
106	Donghai West Road No. 1 Sub-branch	Outlet located at Building 2, No. 41 Donghai West Road, Qingdao
107	Beizhong Road Community Sub-branch	No. 30 Beizhong Road, Qingdao
108	Liaoyang Road Sub-branch	Outlet located at Nos.16-10 and 16-11, Liaoyang East Road, Qingdao
109	Ruichang Road Sub-branch	No. 122 Ruichang Road, Qingdao
110	Liaoning Road Sub-branch	No. 129 Liaoning Road, Qingdao
111	Hai'er Road Sub-branch	Outlet located at 1st Floor of the attached wing of Zhongshang International Building, No. 8 Quanling Road, Qingdao
112	Tong'an Road Sub-branch	No. 809 Tong'an Road, Qingdao
113	Zhejiang Road Sub-branch	No. 17 Hubei Road, Qingdao
114	Ningxia Road Sub-branch	No. 129-C, Ningxia Road, Qingdao
115	Xianggang Garden Sub-branch	Outlet located at No. 75-A Xianggang Middle Road, Qingdao
116	Fuzhou Road Sub-branch	No. 97-A Fuzhou South Road, Qingdao
117	Minjiang Road No. 1 Sub-branch	Outlet located at No. 169-C and D Minjiang Road, Qingdao
118	Donghai West Road Sub-branch	No. 52-B Donghai West Road, Qingdao

CHAPTER VII CORPORATE GOVERNANCE REPORT

In compliance with the domestic and overseas regulations and the need of corporate governance practices, the Bank has been committed to the establishment of regulated, market-oriented and featured corporate governance mechanism, continuously improving the corporate governance balance mechanism such as organizational structure and responsibility boundary and corporate governance operation mechanism such as decision-making, execution and supervision of shareholders' general meetings, Board of Directors, Board of Supervisors and senior management, so as to promote the continuous and healthy development of the Bank through effective corporate governance.

During the Reporting Period, the Bank continued to strengthen the core role of the Board of Directors in corporate governance, improve the professional guidance of the special committees under the Board of Directors and enhance the level of scientific decision-making of the Board of Directors; enhance the supervision function of the Board of Supervisors, carefully carry out annual performance evaluations and give full play to the role of the Board of Supervisors in corporate governance; continue to optimize working mechanisms including transmission, execution and feedback of decisions made by the Board of Directors and Board of Supervisors, promote positive operation of the Board of Directors and Board of Supervisors and efficient implementation of decisions and continuously improve normalization and effectiveness of the corporate governance of the Bank.

7.1 CONVENING OF SHAREHOLDERS' GENERAL MEETING

During the Reporting Period, the Bank convened 2 shareholders' general meetings. The 2017 first extraordinary general meeting, the 2017 first class meeting for domestic shareholders and the 2017 first class meeting for H shareholders were convened on 15 March 2017, and the 2016 annual general meeting, the 2017 second class meeting for domestic shareholders and the 2017 second class meeting for H shareholders were convened on 11 May 2017. The notices, convening and voting procedures of the aforementioned meetings were all in compliance with the relevant requirements of the Company Law, the Articles of Association and the Hong Kong Listing Rules. For details of the meetings, please refer to the voting results announcements published on the Bank's website on the date of the meetings.

7.2 CONVENING OF MEETINGS OF THE BOARD AND SPECIAL COMMITTEES

During the Reporting Period, the Board of Directors of the Bank convened 7 meetings, of which 2 were on-site meetings and 5 were conference meetings, considering 36 resolutions and receiving 26 reports in total. Special committees of the Board of Directors convened 19 meetings, including 2 meetings of the strategy committee, 3 meetings of the risk management committee, 4 meetings of the audit committee, 2 meetings of the remuneration committee, 2 meetings of the nomination committee, 4 meetings of the related party transactions control committee and 2 meetings of the information technology committee, considering 22 resolutions and receiving 22 reports in total.

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

During the Reporting Period, the Board of Supervisors of the Bank convened 4 meetings, of which 1 was on-site meeting and 3 were conference meetings, considering 13 resolutions, receiving 22 reports in total. The special committee of the Board of Supervisors convened 3 meetings, including 2 meetings of the supervisory committee and 1 meeting of the nomination and evaluation committee, considering 11 resolutions and receiving 20 reports in total.

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

7.4 RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors of the Bank is responsible for ensuring the establishment and implementation of an adequate and effective risk management and internal control systems and the Bank's prudential operation under the framework set by laws and policies. The Board of Directors is also responsible for 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 risk management and internal control systems.

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

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

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

Based on the provisions of laws and regulations including the “Basic Standards for Corporate Internal Control” and the accompanying guidelines and the “Guidelines on Internal Control of Commercial Banks”, as well as the relevant requirements of the Hong Kong Stock Exchange, the Bank has formulated the objectives and principles of internal control and established its internal control system. The Bank 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 Bank 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 Optimisation”, “Year of Improvement” and “Standardization Activity” for rules and regulations to formulate smooth and useful systems and structures. The Company has established a sound internal control evaluation and post-evaluation mechanism, conducted annual regular audits, responsibility audits, departure audits and special audits, created an innovative audit model named “virtual branch” by temporarily substituting regular staff by ad hoc staff, and established a new operational risk assessment and rectification mechanism with sustained effectiveness. Through convening quarterly “internal control assessment meetings”, the Company has enhanced the awareness of risk prevention and control at all levels, which in turn ensures the early identification and timely rectification of risks as well as edges up the standards of its risk management and control.

7.5 REPRESENTATION ON COMPLIANCE WITH THE HONG KONG LISTING RULES

The Company has adopted the required standard set by the Model Code as the code of conduct for securities transactions by Directors and Supervisors of the Company. Having made enquiries to all Directors and Supervisors, the Company confirmed that they had complied with the above Model Code during the Reporting Period.

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

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

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 92 to 162 which comprises the consolidated statement of financial position of Bank of Qingdao Co., Ltd. (the "Bank") and its subsidiary (collectively the "Group") as of 30 June 2017 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim Financial Reporting, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting.

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

18 August 2017

CHAPTER IX UNAUDITED INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2017	2016
Interest income		5,443,758	4,636,391
Interest expense		(3,099,191)	(2,189,509)
Net interest income	3	2,344,567	2,446,882
Fee and commission income		537,258	500,890
Fee and commission expense		(19,064)	(27,144)
Net fee and commission income	4	518,194	473,746
Net trading (losses)/gains	5	(21,068)	9,953
Net (losses)/gains arising from investments	6	(7,849)	38,120
Other operating income, net	7	1,350	1,927
Operating income		2,835,194	2,970,628
Operating expenses	8	(792,826)	(954,192)
Impairment losses	9	(400,050)	(381,558)
Profit before taxation		1,642,318	1,634,878
Income tax expense	10	(363,558)	(373,350)
Net profit for the period		1,278,760	1,261,528

The notes on pages 100 to 162 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

*For the six months ended 30 June 2017 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)*

	Note	Six months ended 30 June	
		2017	2016
Net profit for the period		1,278,760	1,261,528
Net profit attributable to:			
Equity shareholders of the Bank		1,275,799	1,261,528
Non-controlling interests		2,961	–
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability		848	(810)
Items that may be reclassified subsequently to profit or loss			
– Net movement in the investment revaluation reserve of available-for-sale financial assets	32(4)	(405,367)	(151,890)
Other comprehensive income, net of tax		(404,519)	(152,700)
Total comprehensive income		874,241	1,108,828
Total comprehensive income attributable to:			
Equity shareholders of the Bank		871,280	1,108,828
Non-controlling interests		2,961	–
Basic and diluted earnings per share (in RMB)	11	0.31	0.31

The notes on pages 100 to 162 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2017	31 December 2016
Assets			
Cash and deposits with central bank	12	28,214,923	22,697,997
Deposits with banks and other financial institutions	13	2,861,096	6,421,827
Placements with banks and other financial institutions	14	3,996,197	619,210
Financial assets at fair value through profit or loss	15	–	320,315
Derivative financial assets	16	1,936	–
Financial assets held under resale agreements	17	24,793,380	3,957,206
Loans and advances to customers	18	92,079,084	84,864,849
Financial investments:			
Available-for-sale financial assets	19	42,113,673	58,410,672
Held-to-maturity investments	19	32,797,214	31,324,703
Receivables	19	45,973,978	62,871,938
Property and equipment	21	1,370,544	1,221,493
Deferred tax assets	22	802,892	602,519
Other assets	23	6,971,314	4,675,377
Total assets		281,976,231	277,988,106
Liabilities			
Borrowings from central bank	24	1,467,999	3,432,407
Deposits from banks and other financial institutions	25	21,814,631	45,018,569
Placements from banks and other financial institutions	26	6,198,512	6,925,270
Derivative financial liabilities	16	49,880	–
Financial assets sold under repurchase agreements	27	16,060,400	17,043,065
Deposits from customers	28	157,297,114	141,604,761
Income tax payable		282,744	211,940
Debt securities issued	29	56,137,986	41,786,221
Other liabilities	30	4,478,493	4,329,900
Total liabilities		263,787,759	260,352,133

The notes on pages 100 to 162 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2017 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2017	31 December 2016
Equity			
Share capital	31	4,058,713	4,058,713
Reserves	32	13,636,798	13,577,260
Total equity attributable to equity shareholders of the Bank		17,695,511	17,635,973
Non-controlling interests		492,961	–
Total equity		18,188,472	17,635,973
Total liabilities and equity		281,976,231	277,988,106

Approved and authorised for issue by the board of directors on 18 August 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

The notes on pages 100 to 162 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

Note	Attributable to equity shareholders of Bank							Total	Non-controlling interests	Total equity
	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			
Balance at 1 January 2017	4,058,713	6,826,276	1,013,649	3,696,090	66,617	(3,473)	1,978,101	17,635,973	-	17,635,973
Profit for the period	-	-	-	-	-	-	1,275,799	1,275,799	2,961	1,278,760
Other comprehensive income	-	-	-	-	(405,367)	848	-	(404,519)	-	(404,519)
Total comprehensive income	-	-	-	-	(405,367)	848	1,275,799	871,280	2,961	874,241
Contribution by owners										
– Non-controlling interests of a new subsidiary	-	-	-	-	-	-	-	-	490,000	490,000
Appropriation of profit:										
– Cash dividends	33	-	-	-	-	-	(811,742)	(811,742)	-	(811,742)
Balance at 30 June 2017	4,058,713	6,826,276	1,013,649	3,696,090	(338,750)	(2,625)	2,442,158	17,695,511	492,961	18,188,472
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	-	16,613,652
Profit for the period	-	-	-	-	-	-	1,261,528	1,261,528	-	1,261,528
Other comprehensive income	-	-	-	-	(151,890)	(810)	-	(152,700)	-	(152,700)
Total comprehensive income	-	-	-	-	(151,890)	(810)	1,261,528	1,108,828	-	1,108,828
Contribution by owners										
– Capital injection by ordinary shareholders	31	47,180	118,258	-	-	-	-	165,438	-	165,438
Appropriation of profit:										
– Cash dividends	33	-	-	-	-	-	(811,743)	(811,743)	-	(811,743)
Balance at 30 June 2016	4,058,713	6,826,276	804,789	2,391,182	334,309	(3,885)	2,664,791	17,076,175	-	17,076,175
Balance at 1 July 2016	4,058,713	6,826,276	804,789	2,391,182	334,309	(3,885)	2,664,791	17,076,175	-	17,076,175
Profit for the period	-	-	-	-	-	-	827,078	827,078	-	827,078
Other comprehensive income	-	-	-	-	(267,692)	412	-	(267,280)	-	(267,280)
Total comprehensive income	-	-	-	-	(267,692)	412	827,078	559,798	-	559,798
Contribution by owners										
– Capital injection by ordinary shareholders	31	-	-	-	-	-	-	-	-	-
Appropriation of profit:										
– Appropriation to surplus reserve	33	-	-	208,860	-	-	(208,860)	-	-	-
– Appropriation to general reserve	33	-	-	1,304,908	-	-	(1,304,908)	-	-	-
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	-	17,635,973

The notes on pages 100 to 162 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30 June 2017 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)*

	Six months ended 30 June	
	2017	2016
Cash flows from operating activities		
Profit before taxation	1,642,318	1,634,878
<i>Adjustments for:</i>		
Impairment losses	400,050	381,558
Depreciation and amortisation	155,292	143,057
Un-winding of interest	(16,874)	(10,456)
Unrealised foreign exchange losses/(gains)	18,711	(4,510)
Net (gains)/losses on disposal of long-term assets	(19)	2,757
Dividends from available-for-sale equity Investments	(700)	–
Revaluation losses on investments	46,938	1,759
Net losses/(gains) arising from investment	8,549	(38,120)
Interest expense on debt securities issued	866,929	440,496
Interest income on financial investments	(2,828,570)	(2,191,656)
	292,624	359,763
<i>Changes in operating assets</i>		
Net increase in deposits with central bank	(1,675,138)	(497,652)
Net decrease/(increase) in deposits with banks and other financial institutions	1,066,566	(374,680)
Net increase in placements with banks and other financial institutions	(770,000)	(663,120)
Net increase in loans and advances to customers	(7,552,361)	(8,419,321)
Net (increase)/decrease in financial assets held under resale agreements	(21,535,860)	2,446,977
Net decrease in financial assets at fair value through profit or loss	321,321	102,976
Net increase in other operating assets	(2,988,526)	(228,687)
	(33,133,998)	(7,633,507)

The notes on pages 100 to 162 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the six months ended 30 June 2017 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2017	2016
Cash flows from operating activities (continued)		
<i>Changes in operating liabilities</i>		
Net (decrease)/increase in borrowings from central bank	(1,964,408)	619,890
Net decrease in deposits from banks and other financial institutions	(23,203,938)	(2,001,458)
Net (decrease)/increase in placements from banks and other financial institutions	(726,758)	827,260
Net decrease in financial assets sold under repurchase agreements	(982,665)	(2,000,000)
Net increase in deposits from customers	15,692,353	10,977,569
Income tax paid	(358,287)	(298,728)
Net decrease in other operating liabilities	(185,826)	(1,465,203)
	(11,729,529)	6,659,330
Net cash flows used in operating activities	(44,570,903)	(614,414)
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	70,489,172	22,416,671
Net cash received from investment gains and interest	3,045,391	2,022,854
Proceeds from disposal of property and equipment, intangible assets and other assets	326	72,803
Payments on acquisition of investments	(60,865,866)	(37,726,547)
Payments on acquisition of property and equipment, intangible assets and other assets	(343,466)	(228,859)
Net cash flows generated from/(used in) investing activities	12,325,557	(13,443,078)

The notes on pages 100 to 162 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

*For the six months ended 30 June 2017 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)*

	Note	Six months ended 30 June	
		2017	2016
Cash flows from financing activities			
Proceeds from issuance of new shares		–	165,438
Capital contribution from investment to subsidiary		1,000,000	–
Net proceeds from debt securities issued		75,082,063	25,169,677
Repayment of debt securities issued		(61,360,000)	(13,720,000)
Interest paid on debt securities issued		(392,930)	(358,780)
Dividends paid		(354,964)	(35,386)
Net cash flows generated from financing activities		13,974,169	11,220,949
Effect of foreign exchange rate changes on cash and cash equivalents			
		(7,498)	9,917
Net decrease in cash and cash equivalents		(18,278,675)	(2,826,626)
Cash and cash equivalents as at 1 January		32,398,447	7,695,019
Cash and cash equivalents as at 30 June	34	14,119,772	4,868,393
Net cash flows generated from operating activities include:			
Interest received		2,710,681	2,404,062
Interest paid		(2,054,686)	(1,658,190)

The notes on pages 100 to 162 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(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 People’s Republic of China (the “PRC”). The share capital of the Bank is RMB4.059 billion as at 30 June 2017. 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 30 June 2017. The principal activities of the Bank and its subsidiary (collectively the “Group”) are the provision of corporate and personal deposits, loans and advances, settlement, financial market business and other services as approved by the CBRC. The background information of subsidiary refers to Note 20. The Bank mainly operates in Shandong Province.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

(1) Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue by the Bank’s Board of Directors on 18 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2(2).

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

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Bank’s statutory annual financial statements for that financial year but is derived from those financial statements.

(2) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period. None of these developments has had a material effect on how the group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

3 NET INTEREST INCOME

	Six months ended 30 June	
	2017	2016
Interest income arising from		
Deposits with central bank	162,770	143,723
Deposits with banks and other financial institutions	23,333	16,759
Placements with banks and other financial institutions	34,123	4,123
Financial assets at fair value through profit or loss	5,008	6,774
Loans and advances to customers		
– Corporate loans and advances	1,483,120	1,571,248
– Personal loans and advances	599,705	526,687
– Discounted bills	72,589	47,813
Financial assets held under resale agreements	204,224	127,608
Financial investments	2,828,570	2,191,656
Others	30,316	–
Sub-total	5,443,758	4,636,391
Interest expense arising from		
Deposits from banks and other financial institutions	(593,555)	(466,093)
Placements from banks and other financial institutions	(76,920)	(18,160)
Deposits from customers	(1,239,495)	(1,071,310)
Financial assets sold under repurchase agreements	(305,577)	(158,231)
Debt securities issued	(866,929)	(440,496)
Others	(16,715)	(35,219)
Sub-total	(3,099,191)	(2,189,509)
Net interest income	2,344,567	2,446,882
Of which:		
Interest income arising from impaired financial assets identified	16,874	10,456

Notes:

- (1) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on tier-two capital bonds issued.
- (2) Total interest income arising from financial assets that are not at fair value through profit or loss for the six months ended 30 June 2017 amounted to RMB5,439 million (six months ended 30 June 2016 amounted to RMB4,630 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the six months ended 30 June 2017 amounted to RMB3,099 million (six months ended 30 June 2016 amounted to RMB2,190 million).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2017	2016
Fee and commission income		
Wealth management service fees	285,869	145,448
Agency service fees	143,202	142,180
Settlement fees	50,009	129,912
Custody service fees	15,891	43,811
Bank card service fees	9,153	10,675
Others	33,134	28,864
Sub-total	537,258	500,890
Fee and commission expense	(19,064)	(27,144)
Net fee and commission income	518,194	473,746

5 NET TRADING (LOSSES)/GAINS

	Six months ended 30 June	
	2017	2016
Net gains/(losses) from debt securities	246	(4,566)
Net losses from derivative financial instruments	(47,944)	-
Net foreign exchange gains	26,630	14,519
Total	(21,068)	9,953

6 NET (LOSSES)/GAINS ARISING FROM INVESTMENTS

	Six months ended 30 June	
	2017	2016
Net (losses)/gains on disposal of available-for-sale financial assets	(9,235)	38,120
Others	1,386	-
Total	(7,849)	38,120

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(Expressed in thousands of Renminbi, unless otherwise stated)

7 OTHER OPERATING INCOME, NET

	Six months ended 30 June	
	2017	2016
Rental income	1,033	1,084
Net gains/(losses) on disposal of property and equipment	19	(92)
Others	298	935
Total	1,350	1,927

8 OPERATING EXPENSES

	Six months ended 30 June	
	2017	2016
Staff costs		
– Salaries, bonuses and allowances	239,863	363,221
– Social insurance and housing allowances	33,969	36,503
– Staff welfare expenses	31,136	21,043
– Staff education expenses	5,938	9,164
– Labor union expenses	4,780	7,341
– Post-employment benefits – defined contribution plans	66,452	61,819
– Supplementary retirement benefits	4,780	5,620
Sub-total	386,918	504,711
Property and equipment expenses		
– Depreciation and amortization	155,292	143,057
– Electronic equipment operating expenses	22,283	18,004
– Maintenance	23,187	20,048
Sub-total	200,762	181,109
Tax and surcharges	28,894	109,601
Other general and administrative expenses	176,252	158,771
Total	792,826	954,192

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

9 IMPAIRMENT LOSSES

	Six months ended 30 June	
	2017	2016
Loans and advances to customers	349,636	350,396
Receivables	20,000	30,000
Long-term receivables	27,226	–
Others	3,188	1,162
Total	400,050	381,558

10 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

	Note	Six months ended 30 June	
		2017	2016
Current tax		429,091	392,184
Deferred tax	22(2)	(65,533)	(18,834)
Total		363,558	373,350

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

	Six months ended 30 June	
	2017	2016
Profit before taxation	1,642,318	1,634,878
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	410,580	408,720
Tax effect of non-deductible expenses for tax purpose		
– Entertainment expenses	1,303	1,038
– Annuity	5,644	3,966
– Others	2,090	100
	9,037	5,104
Tax effect of non-taxable income for tax purpose (Note (i))	(56,059)	(40,474)
Income tax	363,558	373,350

Note:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

11 BASIC AND DILUTED EARNINGS PER SHARE

	Note	Six months ended 30 June	
		2017	2016
Net profit attributable to equity shareholders of the Bank		1,275,799	1,261,528
Weighted average number of ordinary shares (in thousands)	11(1)	4,058,713	4,057,935
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.31	0.31

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

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

	Six months ended 30 June	
	2017	2016
Number of ordinary shares as at 1 January	4,058,713	4,011,533
Increase in weighted average number of ordinary shares in current period	–	46,402
Weighted average number of ordinary shares	4,058,713	4,057,935

12 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	30 June	31 December
		2017	2016
Cash on hand		604,465	442,304
Deposits with central bank			
– Statutory deposit reserves	12(1)	20,255,612	18,576,968
– Surplus deposit reserves	12(2)	7,326,378	3,646,751
– Fiscal deposits		28,468	31,974
Sub-total		27,610,458	22,255,693
Total		28,214,923	22,697,997

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

12 CASH AND DEPOSITS WITH CENTRAL BANK (continued)

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

	30 June 2017	31 December 2016
Reserve ratio for RMB deposits	13.5%	13.5%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The subsidiary of the Bank is required to place statutory RMB deposits reserve in accordance with relevant regulations of the PBOC.

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

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

13 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2017	31 December 2016
Deposits in Mainland China		
– Banks	2,602,698	5,947,601
Deposits outside Mainland China		
– Banks	258,398	474,226
Total	2,861,096	6,421,827

14 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2017	31 December 2016
Placements in Mainland China		
– Banks	3,970,000	616,220
– Other financial institutions	26,197	2,990
Total	3,996,197	619,210

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2017	31 December 2016
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
– Corporate entities	–	48,959
Total	–	320,315
Unlisted	–	320,315

16 DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2017			31 December 2016		
	Nominal amount	Fair value Assets	Fair value Liabilities	Nominal amount	Fair value Assets	Fair value Liabilities
Foreign exchange rate derivatives:						
– Currency swap	4,064,640	1,936	(49,880)	–	–	–
Total	4,064,640	1,936	(49,880)	–	–	–

17 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	30 June 2017	31 December 2016
In Mainland China		
– Banks	24,793,380	3,720,287
– Other financial institutions	–	236,919
Total	24,793,380	3,957,206

(2) Analysed by type of security held

	30 June 2017	31 December 2016
Discounted bills	1,365,930	1,955,387
Debt securities	23,427,450	2,001,819
Total	24,793,380	3,957,206

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS

(1) *Analysed by nature*

	30 June 2017	31 December 2016
Corporate loans and advances		
– Corporate loans	62,568,166	58,589,447
– Discounted bills	3,162,119	3,874,462
Sub-total	65,730,285	62,463,909
Personal loans and advances		
– Residential mortgage	22,990,962	18,264,561
– Personal business loans	3,447,617	4,196,778
– Personal consumption loans	876,857	1,048,217
– Others	1,462,938	1,194,830
Sub-total	28,778,374	24,704,386
Gross loans and advances to customers	94,508,659	87,168,295
Less: Provision for impairment losses		
– Individually assessed	(502,085)	(420,904)
– Collectively assessed	(1,927,490)	(1,882,542)
Total provision for impairment losses	(2,429,575)	(2,303,446)
Net loans and advances to customers	92,079,084	84,864,849

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by economic sector

	30 June 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	18,202,946	19.26%	4,290,934
Construction	9,854,166	10.43%	3,282,227
Renting and business activities	7,095,840	7.51%	3,345,650
Water, environment and public utility management	7,376,325	7.80%	3,242,772
Wholesale and retail trade	6,909,711	7.31%	4,197,486
Production and supply of electric and heating power, gas and water	4,180,779	4.42%	805,822
Real estate	3,449,057	3.65%	2,431,657
Financial services	3,041,630	3.22%	496,950
Transportation, storage and postal services	2,407,723	2.55%	441,711
Others	3,212,108	3.40%	1,057,806
Sub-total of corporate loans and advances	65,730,285	69.55%	23,593,015
Personal loans and advances	28,778,374	30.45%	26,507,659
Gross loans and advances to customers	94,508,659	100.00%	50,100,674
	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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

18 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 economic sector which constitutes 10% or more of gross loans and advances to customers is as follows:

	30 June 2017				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment losses charged during the period	Written-off during the period
Manufacturing	779,818	235,700	703,014	342,348	142,736
Construction	117,415	60,709	178,434	8,212	3,000

	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	-

(3) Analysed by type of collateral

	30 June 2017	31 December 2016
Unsecured loans	7,839,848	6,569,160
Guaranteed loans	36,568,137	34,549,877
Loans secured by tangible assets other than monetary assets	39,350,096	35,149,440
Loans secured by intangible assets or monetary assets	10,750,578	10,899,818
Gross loans and advances to customers	94,508,659	87,168,295
Less: Provision for impairment losses		
– Individually assessed	(502,085)	(420,904)
– Collectively assessed	(1,927,490)	(1,882,542)
Total provision for impairment losses	(2,429,575)	(2,303,446)
Net loans and advances to customers	92,079,084	84,864,849

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

(4) Overdue loans analysed by overdue period

	30 June 2017				Total
	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	
Unsecured loans	7,085	1,115	48,560	–	56,760
Guaranteed loans	2,189,166	995,738	447,149	10,000	3,642,053
Loans secured by tangible assets other than monetary assets	154,735	227,082	333,908	130,713	846,438
Loans secured by intangible assets or monetary assets	217	–	–	–	217
Total	2,351,203	1,223,935	829,617	140,713	4,545,468
As a percentage of gross loans and advances to customers	2.49%	1.29%	0.88%	0.15%	4.81%

	31 December 2016				Total
	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	
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%

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

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(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	30 June 2017				Total	Gross impaired loans and advances as a percentage of gross loans and advances
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))		Total		
	for which provision are collectively assessed	for which provision are collectively assessed	for which provision are individually assessed	Total		
Gross loans and advances to customers	92,912,080	252,000	1,344,579	94,508,659		1.69%
Less: Provision for impairment losses	(1,786,461)	(141,029)	(502,085)	(2,429,575)		
Net loans and advances to customers	91,125,619	110,971	842,494	92,079,084		

	31 December 2016				Total	Gross impaired loans and advances as a percentage of gross loans and advances
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))		Total		
	for which provision are collectively assessed	for which provision are collectively assessed	for which provision are individually assessed	Total		
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		

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).

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(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

(6) Movements of provision for impairment losses

	Six months ended 30 June 2017			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	1,759,832	122,710	420,904	2,303,446
Charge for the period	26,629	71,348	274,150	372,127
Release for the period	–	–	(22,491)	(22,491)
Unwinding of discount	–	–	(16,874)	(16,874)
Write-offs and transfer out	–	(59,755)	(154,076)	(213,831)
Recoveries of loans and advances written off and others	–	6,726	472	7,198
As at 30 June	1,786,461	141,029	502,085	2,429,575

	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

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19 FINANCIAL INVESTMENTS

	Note	30 June 2017	31 December 2016
Available-for-sale financial assets	19(1)	42,113,673	58,410,672
Held-to-maturity investments	19(2)	32,797,214	31,324,703
Receivables	19(3)	45,973,978	62,871,938
Total		120,884,865	152,607,313

(1) Available-for-sale financial assets

	Note	30 June 2017	31 December 2016
Debt securities	(i)	19,792,556	30,584,602
Asset management plans	(ii)	10,819,177	4,595,499
Wealth management products issued by financial institutions	(ii)	6,387,801	1,502,025
Trust fund plans	(ii)	2,864,615	1,390,660
Investment funds	(ii)	2,226,274	20,314,636
Equity investment	(iii)	23,250	23,250
Total		42,113,673	58,410,672

(i) Debt securities issued by the following institutions:

	30 June 2017	31 December 2016
In Mainland China		
– Government	1,405,859	1,447,726
– Policy banks	7,495,062	9,379,448
– Banks and other financial institutions	8,460,307	15,199,065
– Corporate entities	2,431,328	4,558,363
Total	19,792,556	30,584,602
Unlisted	19,792,556	30,584,602

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

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

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(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL INVESTMENTS (continued)

(2) Held-to-maturity investments

	30 June 2017	31 December 2016
In Mainland China		
– Government	10,913,359	10,042,362
– Policy banks	11,248,873	11,792,171
– Banks and other financial institutions	9,055,600	8,070,558
– Corporate entities	1,579,382	1,419,612
Carrying value	32,797,214	31,324,703
Unlisted	32,797,214	31,324,703
Fair value	31,980,519	31,299,756

(3) Receivables

	30 June 2017	31 December 2016
Asset management plans	25,005,851	31,240,341
Trust fund plans	14,075,494	10,911,401
Wealth management products issued by financial institutions	5,501,694	18,855,505
Beneficiary certificates	1,537,914	1,500,000
Beneficiary rights in margin financing	–	500,000
Others	69,025	60,691
Gross amount	46,189,978	63,067,938
Less: provision for impairment losses	(216,000)	(196,000)
Total	45,973,978	62,871,938

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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20 INVESTMENT IN SUBSIDIARY

As at 30 June 2017, the subsidiary is as follow:

Name	Percentage of equity interest %	Voting rights %	Paid-in capital	Amount invested by the Bank	Place of incorporation registration	Principal activities
Qingdao Qingyin Financial Leasing Company Limited.	51.00	51.00	1,000,000	510,000	Qingdao, China	Leasing

Note:

Qingdao Qingyin Financial Leasing Company Limited was co-established by the Bank, Qingdao Hanhe Cable Co., Ltd., Qingdao Port International Co., Ltd. and Qingdao Qianwan Container Terminal Co., Ltd. on 15 February 2017, with a registered capital of RMB1.00 billion.

21 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	CIP	Total
Cost						
As at 1 January 2016	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
Additions	-	31,882	1,800	2,930	157,594	194,206
Disposals	(184)	(2,247)	-	(90)	-	(2,521)
As at 30 June 2017	1,218,135	459,679	55,286	70,335	157,594	1,961,029

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(Expressed in thousands of Renminbi, unless otherwise stated)

21 PROPERTY AND EQUIPMENT (continued)

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	CIP	Total
Accumulated depreciation						
As at 1 January 2016	(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)
Additions	(14,218)	(23,614)	(3,145)	(3,872)	–	(44,849)
Disposals	–	2,129	–	86	–	2,215
As at 30 June 2017	(230,682)	(275,157)	(37,754)	(46,892)	–	(590,485)
Net book value						
As at 30 June 2017	987,453	184,522	17,532	23,443	157,594	1,370,544
As at 31 December 2016	1,001,855	176,372	18,877	24,389	–	1,221,493

The carrying amount of premises with incomplete title deeds as at 30 June 2017 was RMB13.48 million (31 December 2016: RMB13.73 million). The Group is still in the progress of applying for the outstanding title deeds for the above premises. The management is of the opinion that there would be no significant cost for obtaining the title deeds.

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

	30 June 2017	31 December 2016
Held in Mainland China		
– Long-term leases (over 50 years)	18,063	18,258
– Medium-term leases (10 – 50 years)	966,445	980,374
– Short-term leases (less than 10 years)	2,945	3,223
Total	987,453	1,001,855

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22 DEFERRED TAX ASSETS

(1) *Analysed by nature*

	30 June 2017		31 December 2016	
	Deductible temporary differences	Deferred tax assets	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Provision for impairment losses	2,536,704	634,176	2,318,424	579,606
Deferred interest income from discounted bills	61,272	15,318	66,448	16,612
Change in fair value	496,520	124,130	(90,908)	(22,727)
Others	117,072	29,268	116,112	29,028
Total	3,211,568	802,892	2,410,076	602,519

(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 2016	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
Recognised in profit or loss	54,570	(1,294)	11,735	522	65,533
Recognised in other comprehensive income	-	-	135,122	(282)	134,840
As at 30 June 2017	634,176	15,318	124,130	29,268	802,892

Notes:

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

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23 OTHER ASSETS

	Note	30 June 2017	31 December 2016
Long-term receivables	23(1)	2,722,648	–
Prepayment for long-term assets		1,944,627	1,840,503
Interest receivable	23(2)	1,460,151	1,597,870
Long-term deferred expense		180,049	184,559
Intangible assets	23(3)	170,866	171,661
Deferred expense		50,072	48,940
Precious metals		35,495	39,314
Repossessed assets		22,151	22,151
Other receivables		413,128	770,573
Sub-total		6,999,187	4,675,571
Less: Provision for impairment losses		(27,873)	(194)
Total		6,971,314	4,675,377

(1) Long-term receivable

	30 June 2017	31 December 2016
Minimum finance lease receivables	3,050,750	–
Less: Unearned finance lease income	(328,102)	–
Present value of finance lease receivables	2,722,648	–

As at 30 June 2017, impairment losses on long-term receivables that are assessed collectively was RMB27.23 million.

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(Expressed in thousands of Renminbi, unless otherwise stated)

23 OTHER ASSETS (continued)

Minimum finance lease receivables, unearned finance lease income and present value of finance lease receivables analysed by remaining period are listed as follows:

	30 June 2017			31 December 2016		
	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Less than 1 year	766,210	(123,452)	642,758	-	-	-
1 year to 2 years	701,762	(92,956)	608,806	-	-	-
2 years to 3 years	704,441	(63,582)	640,859	-	-	-
3 years to 5 years	878,337	(48,112)	830,225	-	-	-
Total	3,050,750	(328,102)	2,722,648	-	-	-

(2) Interests receivable

	30 June 2017	31 December 2016
Interest receivable arising from:		
– Investments	1,051,511	1,251,859
– Loans and advances to customers	346,253	319,956
– Others	62,387	26,055
Total	1,460,151	1,597,870

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(Expressed in thousands of Renminbi, unless otherwise stated)

23 OTHER ASSETS (continued)

(3) Intangible assets

	Six months ended 30 June 2017	2016
Cost		
As at 1 January	326,820	267,639
Additions	29,608	75,181
Decrease	–	(16,000)
As at 30 June/31 December	356,428	326,820
Accumulated amortisation		
As at 1 January	(155,159)	(102,009)
Additions	(30,403)	(56,350)
Decrease	–	3,200
As at 30 June/31 December	(185,562)	(155,159)
Net value		
As at 1 January	171,661	165,630
As at 30 June/31 December	170,866	171,661

Intangible assets of the Group mainly include software.

24 BORROWINGS FROM CENTRAL BANK

	30 June 2017	31 December 2016
Borrowings	1,000,000	3,000,000
Re-discounted bills	467,999	432,407
Total	1,467,999	3,432,407

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25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2017	31 December 2016
In Mainland China		
– Banks	7,985,717	13,588,273
– Other financial institutions	13,828,914	31,430,296
Total	21,814,631	45,018,569

26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2017	31 December 2016
In Mainland China		
– Banks	5,995,280	6,717,160
Outside Mainland China		
– Banks	203,232	208,110
Total	6,198,512	6,925,270

27 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

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

	30 June 2017	31 December 2016
In Mainland China		
– Banks	16,060,400	14,105,065
– Other financial institutions	–	2,938,000
Total	16,060,400	17,043,065

(2) *Analysed by types of collaterals*

	30 June 2017	31 December 2016
Debt securities	16,060,400	16,532,140
Discounted bills	–	510,925
Total	16,060,400	17,043,065

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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28 DEPOSITS FROM CUSTOMERS

	30 June 2017	31 December 2016
Demand deposits		
– Corporate deposits	60,578,010	54,911,942
– Personal deposits	12,618,617	10,093,140
Sub-total	73,196,627	65,005,082
Time deposits		
– Corporate deposits	43,401,184	37,737,200
– Personal deposits	40,346,121	38,572,531
Sub-total	83,747,305	76,309,731
Outward remittance and remittance payables	344,153	268,881
Fiscal deposits to be transferred	9,029	21,067
Total	157,297,114	141,604,761
Including:		
Pledged deposits	9,589,805	9,817,564

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(Expressed in thousands of Renminbi, unless otherwise stated)

29 DEBT SECURITIES ISSUED

	30 June 2017	31 December 2016
Debt securities (Note (1))	16,084,958	13,087,167
Certificates of interbank deposit (Note (2))	40,053,028	28,699,054
Total	56,137,986	41,786,221

Notes:

- (1) The details of debt securities issued by the Group but not yet matured as at 30 June 2017 are as follows:
- (i) Five-year debts were issued with an interest rate of 4.80% per annum and with a nominal amount of RMB2.9 billion in March 2013. The debts will mature on 5 March 2018 with annual interest payments. As at 30 June 2017, the fair value of the debts was RMB2.899 billion (31 December 2016: 2.915 billion).
 - (ii) Ten-year tier-two capital bonds were issued with an interest rate of 5.59% per annum and with a nominal amount of RMB2.2 billion in March 2015. The debts will mature on 5 March 2025 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 30 June 2017, the fair value of the debts was RMB2.201 billion (31 December 2016: RMB2.218 billion).
 - (iii) Three-year Green Bonds were issued with an interest rate of 3.25% per annum and with a nominal amount of RMB3.5 billion in March 2016. The debts will mature on 14 March 2019 with annual interest payments. As at 30 June 2017, the fair value of the debts was RMB3.411 billion (31 December 2016: RMB3.423 billion).
 - (iv) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB0.5 billion in March 2016. The debts will mature on 14 March 2021 with annual interest payments. As at 30 June 2017, the fair value of the debts was RMB0.475 billion (31 December 2016: RMB0.481 billion).
 - (v) Three-year Green Bonds were issued with an interest rate of 3.30% per annum and with a nominal amount of RMB3.0 billion in November 2016. The debts will mature on 24 November 2019 with annual interest payments. As at 30 June 2017, the fair value of the debts was RMB2.904 billion (31 December 2016: RMB2.923 billion).
 - (vi) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB1.0 billion in November 2016. The debts will mature on 24 November 2021 with annual interest payments. As at 30 June 2017, the fair value of the debts was RMB0.943 billion (31 December 2016: RMB0.959 billion).
 - (vii) Ten-year tier-two capital bonds were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB3.0 billion in June 2017. The debts will mature on 29 June 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 30 June 2017, the fair value of the debts was RMB2.865 billion.
- (2) The Group issued a number of certificates of interbank deposit with durations from 1 month to 1 year.

As at 30 June 2017 and 31 December 2016, the outstanding balance of certificates of interbank deposit issued by the Group was RMB40.053 billion and RMB28.699 billion respectively, and the fair value was RMB40.065 billion and RMB28.620 billion respectively.

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(Expressed in thousands of Renminbi, unless otherwise stated)

30 OTHER LIABILITIES

	<i>Note</i>	30 June 2017	31 December 2016
Interest payable	30(1)	2,570,246	2,548,373
Employee benefits payable	30(2)	847,476	1,061,805
Taxes payable	30(3)	83,469	65,953
Dividend payable		473,960	17,182
Settlement payable		263,473	144,019
Payable raising from fiduciary activities		49,525	262,448
Others		190,344	230,120
Total		4,478,493	4,329,900

(1) Interest payable

	30 June 2017	31 December 2016
Interest payable arising from:		
– Deposits from customers	2,140,822	1,878,174
– Deposits and placements from banks and other financial institutions	222,021	328,375
– Debt securities issued	204,427	335,732
– Financial assets sold under repurchase agreements	2,976	6,092
Total	2,570,246	2,548,373

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

30 OTHER LIABILITIES (continued)

(2) Employee benefits payable

	30 June 2017	31 December 2016
Salaries, bonuses and allowances payable	710,733	925,066
Social insurance and housing allowances payable	44,044	43,850
Staff welfare expenses	1,751	1,751
Staff education expenses	17,756	14,081
Labor union expenses	13,112	16,637
Supplementary retirement benefits (Note (i))	60,080	60,420
Total	847,476	1,061,805

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 relevant accounting policies.

Supplementary retirement plan

The Bank provides a supplementary retirement plan to its eligible employees. The Bank accounted for the respective obligations in accordance with relevant accounting policies.

(3) Taxes payable

Taxes payable as at 30 June 2017 mainly include value added tax payable and surcharges payable.

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(Expressed in thousands of Renminbi, unless otherwise stated)

31 SHARE CAPITAL

Authorised and issued share capital

	30 June 2017	31 December 2016
Number of shares authorised, issued and fully paid at nominal value (in thousands)	4,058,713	4,058,713

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

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

32 RESERVES (continued)

(4) *Investment revaluation reserve*

	Six months ended 30 June 2017	2016
As at 1 January	66,617	486,199
Change in fair value recognised in other comprehensive income	(549,724)	(506,044)
Transfer to profit or loss upon disposal	9,235	(53,399)
Less: income tax	135,122	139,861
As at 30 June/31 December	(338,750)	66,617

(5) *Other reserve*

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

33 PROFIT APPROPRIATION

(1) *At the Annual General Meeting of Shareholders held on 11 May 2017, the shareholders approved the following profit appropriation for the year ended 31 December 2016:*

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

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

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

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34 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents:

	30 June 2017	30 June 2016
Cash	604,465	444,416
Surplus deposit reserves with central bank	7,326,378	2,637,794
Original maturity within three months:		
– Deposits with banks and other financial institutions	1,777,192	1,128,069
– Placements with banks and other financial institutions	3,026,197	598,575
– Financial assets held under resale agreements	885,483	–
– Investments	500,057	59,539
Total	14,119,772	4,868,393

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

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

Share percentage in the Bank:

	30 June 2017	31 December 2016
Intesa Sanpaolo S.p.A.	15.33%	15.33%
Qingdao Conson Industrial Co., Ltd.	12.41%	12.41%
Qingdao Haier Investment and Development Co., Ltd.	10.09%	10.09%
Qingdao Haier Air-Conditioning Electronic Co., Ltd.	5.39%	5.39%

(b) Subsidiary of the Bank

The detailed information of the Bank's subsidiary is set out in Note 20.

(c) 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Related party transactions and balances

Related party transactions of the Group 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

	30 June 2017	31 December 2016
Balances at the end of the period/year:		
On-balance sheet items:		
Loans and advances to customers	1,279,000	500,000
Receivables	1,790,000	1,950,000
Deposits with banks and other financial institutions	8,151	5,756
Placements with banks and other financial institutions	970,000	200,000
Interest receivable	23,799	5,802
Deposits from customers	301,209	227,902
Deposits from banks and other financial institutions	1,792	8,745
Interest payable	117	71
Off-balance sheet items:		
Letters of guarantees	322,758	272,058
	Six months ended 30 June	
	2017	2016
Transactions during the period:		
Interest income	79,793	35,249
Interest expense	1,798	364
Fee and commission income	12,255	6,639
Operating expenses	1,415	-

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35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(b) Transactions between the Bank and subsidiary

	30 June 2017	31 December 2016
Balances at the end of the period/year:		
Deposits from banks and other financial institutions	1,380	–
Interest payable	24	–
Six months ended 30 June		
	2017	2016
Transactions during the period:		
Interest expense	620	–
Fee and commission income	5	–

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

	30 June 2017	31 December 2016
Balances at the end of the period/year:		
On-balance sheet items:		
Loans and advances to customers	519,014	628,933
Available-for-sale financial assets	2,388,731	2,091,753
Interest receivable	42,303	9,848
Deposits from customers	250,312	120,418
Interest payable	2,302	1,346
Off-balance sheet items:		
Letters of guarantees	56	56
Six months ended 30 June		
	2017	2016
Transactions during the period:		
Interest income	72,708	27,995
Interest expense	2,541	1,405
Fee and commission income	–	183

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35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(3) Remuneration of key management personnel

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

	Six months ended 30 June	
	2017	2016
Remuneration of key management personnel	7,610	7,383

As at 30 June 2017, outstanding loans to the key management personnel amounted to RMB1.30 million (31 December 2016: RMB1.08 million), which have been included in loans and advances to related parties stated in Note 35(2).

36 SEGMENT REPORTING

The Group manages its business by segment of business lines. Segment assets and liabilities, and segment income, expense and operating results are measured in accordance with the Group'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 Group 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 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 related businesses of the subsidiary, head office assets, liabilities, income and expenses that are not directly attributable to a segment.

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36 SEGMENT REPORTING (continued)

	Six months ended 30 June 2017				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	1,001,424	77,265	1,246,172	19,706	2,344,567
Internal net interest income/(expense)	303,059	300,367	(601,728)	(1,698)	–
Net interest income	1,304,483	377,632	644,444	18,008	2,344,567
Net fee and commission income	88,760	221,748	170,157	37,529	518,194
Net trading losses	–	–	(21,068)	–	(21,068)
Net losses arising from investments	–	–	(7,849)	–	(7,849)
Other operating income, net	642	794	52	(138)	1,350
Operating income	1,393,885	600,174	785,736	55,399	2,835,194
Operating expenses	(379,377)	(205,351)	(187,850)	(20,248)	(792,826)
Impairment losses	(282,810)	(70,014)	(20,000)	(27,226)	(400,050)
Profit before taxation	731,698	324,809	577,886	7,925	1,642,318
Other segment information					
– Depreciation and amortisation	(67,063)	(82,816)	(5,380)	(33)	(155,292)
– Capital expenditure	147,607	182,278	11,842	1,739	343,466
	30 June 2017				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	84,428,395	40,247,439	153,774,404	2,723,101	281,173,339
Deferred tax assets					802,892
Total assets					281,976,231
Segment liabilities/Total liabilities	105,661,631	55,790,613	100,617,078	1,718,437	263,787,759
Credit commitments	20,668,594	379,321	–	–	21,047,915

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36 SEGMENT REPORTING (continued)

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

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37 RISK MANAGEMENT

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

The Group 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 Group's financial performance. Based on such objectives, the Group 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 Group. This category includes loan portfolio, investment portfolio, guarantees and various other on- and off-balance sheet credit risk exposures.

Credit business

The Group'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 Group would require the borrower to provide collaterals or other credit enhancements in appropriate circumstances.

The Group 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 Group 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 Group also takes into account the length of time for which payments of principal and interest on a loan are overdue.

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(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

Financial market business

The Group sets credit limits for financial market operations based on the credit risk inherent in the products and counterparties. The Group 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 Group invests in wealth management products issued by financial institutions. Before making the investment decision, the Group will assess the ability of the issuers to manage the investments and the credit risk of the underlying assets.

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

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

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

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(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

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

	30 June 2017			
	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	1,344,579	–	–	–
Provision for impairment losses	(502,085)	–	–	–
Net balance	842,494	–	–	–
Collectively assessed				
Gross balance	252,000	–	–	–
Provision for impairment losses	(141,029)	–	–	–
Net balance	110,971	–	–	–
Overdue but not impaired (Note (i))				
Within 3 months (inclusive)	2,348,213	–	–	–
Between 3 months and 1 year (inclusive)	595,869	–	–	–
Over 1 year	29,500	–	–	–
Gross balance	2,973,582	–	–	–
Provision for impairment losses	(327,928)	–	–	–
Net balance	2,645,654	–	–	–
Neither overdue nor impaired				
Gross balance	89,938,498	6,857,293	24,793,380	121,077,615
Provision for impairment losses	(1,458,533)	–	–	(216,000)
Net balance	88,479,965	6,857,293	24,793,380	120,861,615
Book value	92,079,084	6,857,293	24,793,380	120,861,615

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37 RISK MANAGEMENT (CONTINUED)

	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

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37 RISK MANAGEMENT (continued)

Notes:

- (i) As at 30 June 2017, the principal amount of the Group's impaired corporate loans and advances to customers was RMB1,345 million (31 December 2016: RMB917 million). The fair value of collaterals held against these loans and advances was RMB206 million (31 December 2016: RMB188 million).

As at 30 June 2017, the principal amount of the Group's corporate loans and advances to customers overdue but not impaired was RMB2,746 million (31 December 2016: RMB2,164 million). The secured portion of these loans and advances were RMB226 million (31 December 2016: RMB56 million). The fair value of collaterals held against these loans and advances was RMB701 million (31 December 2016: RMB110 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 Group's activities, arising from adverse movements in market rates including interest rates, exchange rates, commodity prices, stock prices and other prices.

The Group is exposed to market risk mainly in its financial market operations. The Group 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 Group employs sensitivity analysis, interest repricing gap analysis and foreign currency gap analysis to measure and monitor market risks. The Group 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 Group.

- (a) Interest rate risk

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

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:

	30 June 2017					
	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	28,214,923	632,934	27,581,989	-	-	-
Deposits with banks and other financial institutions	2,861,096	-	1,777,192	1,083,904	-	-
Placements with banks and other financial institutions	3,996,197	-	3,726,197	270,000	-	-
Financial assets held under resale	24,793,380	-	24,793,380	-	-	-
Loans and advances to customers (Note (i))	92,079,084	-	33,269,096	44,194,956	12,498,616	2,116,416
Investments (Note (ii))	120,884,865	23,250	8,586,193	34,734,748	49,705,471	27,835,203
Others	9,146,686	6,449,329	1,490,776	1,206,581	-	-
Total assets	281,976,231	7,105,513	101,224,823	81,490,189	62,204,087	29,951,619
Liabilities						
Borrowings from central bank	1,467,999	-	1,191,395	276,604	-	-
Deposits from banks and other financial institutions	21,814,631	-	12,917,581	8,747,050	150,000	-
Placements from banks and other financial institutions	6,198,512	-	2,669,424	3,529,088	-	-
Financial assets sold under repurchase agreements	16,060,400	-	16,060,400	-	-	-
Deposits from customers	157,297,114	344,153	110,404,502	23,995,311	22,358,031	195,117
Debt securities issued	56,137,986	-	19,705,745	23,245,226	7,995,916	5,191,099
Others	4,811,117	4,761,238	-	49,879	-	-
Total liabilities	263,787,759	5,105,391	162,949,047	59,843,158	30,503,947	5,386,216
Asset-liability gap	18,188,472	2,000,122	(61,724,224)	21,647,031	31,700,140	24,565,403

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(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

	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:

- (i) For the Group's loans and advances to customers, the category "Less than three months" as at 30 June 2017 includes overdue loans and advances (net of provision for impairment losses) of RMB3,583 million (31 December 2016: RMB2,790 million).
- (ii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and receivables.

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37 RISK MANAGEMENT (continued)

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

	30 June 2017 Increase/ (Decrease)	31 December 2016 Increase/ (Decrease)
(Decrease)/Increase in annualized net interest income		
Interest rates increase by 100 bps	(454,890)	(539,852)
Interest rates decrease by 100 bps	454,890	539,852

This sensitivity analysis is based on a static interest rate risk profile of the Group'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 Group'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 Group's net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

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(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(b) Currency risk

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

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

	30 June 2017			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	28,178,453	31,509	4,961	28,214,923
Deposits with banks and other financial institutions	1,378,326	1,417,673	65,097	2,861,096
Placements with banks and other financial institutions	3,996,197	–	–	3,996,197
Financial assets held under resale agreements	24,793,380	–	–	24,793,380
Loans and advances to customers	91,475,397	598,938	4,749	92,079,084
Investments (Note (i))	118,496,134	2,388,731	–	120,884,865
Others	9,066,456	78,121	2,109	9,146,686
Total assets	277,384,343	4,514,972	76,916	281,976,231
Liabilities				
Borrowings from central bank	1,467,999	–	–	1,467,999
Deposits from banks and other financial institutions	19,104,871	2,709,760	–	21,814,631
Placements from banks and other financial institutions	2,100,000	4,098,512	–	6,198,512
Financial assets sold under repurchase agreements	16,060,400	–	–	16,060,400
Deposits from customers	156,604,708	687,354	5,052	157,297,114
Debt securities issued	56,137,986	–	–	56,137,986
Others	4,692,102	104,251	14,764	4,811,117
Total liabilities	256,168,066	7,599,877	19,816	263,787,759
Net position	21,216,277	(3,084,905)	57,100	18,188,472
Off-balance sheet credit commitments	20,443,355	291,240	313,320	21,047,915

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37 RISK MANAGEMENT (continued)

	31 December 2016			
	RMB	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

Note:

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

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37 RISK MANAGEMENT (continued)

	30 June 2017 Increase/ (Decrease)	31 December 2016 Increase/ (Decrease)
(Decrease)/Increase in annualized net profit		
Foreign exchange rate increase by 100 bps	(3,352)	999
Foreign exchange rate decrease by 100 bps	3,352	(999)

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 Group'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.

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37 RISK MANAGEMENT (continued)

(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 Group has sufficient cash flow to meet payment obligations and fund business operations on a timely basis. To achieve this, the Group 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 group also needs to comply with statutory requirements on liquidity ratios, and actively carry out lending and investment business. The Group monitors the future cash flow according to its liquidity management policies, and keeps its high liquidity assets at an appropriate level.

Under the guidance of the Asset and Liability Management Committee, the Financial Planning Department performs daily management of liquidity risk in accordance with the liquidity management objectives, and to ensure payment of the business.

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

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37 RISK MANAGEMENT (continued)

(a) Maturity analysis

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

	30 June 2017							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	20,284,080	7,930,843	-	-	-	-	-	28,214,923
Deposits with banks and other financial institutions	-	1,777,192	-	-	1,083,904	-	-	2,861,096
Placements with banks and other financial institutions	-	-	3,276,197	450,000	270,000	-	-	3,996,197
Financial assets held under resale agreements	-	-	24,312,933	480,447	-	-	-	24,793,380
Loans and advances to customers	2,617,515	981,605	3,045,402	6,467,943	22,841,116	24,563,404	31,562,099	92,079,084
Investments (Note (i))	23,250	-	4,604,007	3,563,608	34,380,400	50,478,397	27,835,203	120,884,865
Others	4,989,178	8,677	505,840	691,354	892,267	2,059,370	-	9,146,686
Total assets	27,914,023	10,698,317	35,744,379	11,653,352	59,467,687	77,101,171	59,397,302	281,976,231
Liabilities								
Borrowings from central bank	-	-	1,036,938	154,457	276,604	-	-	1,467,999
Deposits from banks and other financial institutions	-	2,155,201	4,451,710	6,310,670	8,747,050	150,000	-	21,814,631
Placements from banks and other financial institutions	-	-	-	2,669,424	3,529,088	-	-	6,198,512
Financial assets sold under repurchase agreements	-	-	16,060,400	-	-	-	-	16,060,400
Deposits from customers	-	74,682,882	20,158,559	15,907,214	23,995,311	22,358,031	195,117	157,297,114
Debt securities issued	-	-	11,456,090	8,249,655	23,245,226	7,995,916	5,191,099	56,137,986
Others	16,174	255,158	1,089,098	624,419	1,148,156	1,618,032	60,080	4,811,117
Total liabilities	16,174	77,093,241	54,252,795	33,915,839	60,941,435	32,121,979	5,446,296	263,787,759
Long/(short) position	27,897,849	(66,394,924)	(18,508,416)	(22,262,487)	(1,473,748)	44,979,192	53,951,006	18,188,472
Notional amount of derivatives	-	-	-	-	4,064,640	-	-	4,064,640

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37 RISK MANAGEMENT (continued)

	31 December 2016							
	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	Total
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:

- (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".

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(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(b) Analysis on contractual undiscounted cash flows of non-derivative financial liabilities

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

	30 June 2017								
	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	-	-	1,039,186	155,000	279,870	-	-	1,474,056	1,467,999
Deposits from banks and other financial institutions	-	2,155,201	4,460,510	6,367,279	8,898,594	174,188	-	22,055,772	21,814,631
Placements from banks and other financial institutions	-	-	-	2,679,470	3,596,648	-	-	6,276,118	6,198,512
Financial assets sold under repurchase agreements	-	-	16,065,624	-	-	-	-	16,065,624	16,060,400
Deposits from customers	-	74,682,882	20,170,335	15,946,907	24,400,025	24,455,369	208,200	159,863,718	157,297,114
Debt securities issued	-	-	11,480,000	8,310,000	24,365,930	9,590,670	6,318,940	60,065,540	56,137,986
Other	16,174	255,158	1,089,098	624,419	1,098,275	1,618,032	60,080	4,761,236	4,761,237
Total non-derivative financial liabilities	16,174	77,093,241	54,304,753	34,083,075	62,639,342	35,838,259	6,587,220	270,562,064	263,737,879

	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 non-derivative financial 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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

(c) Analysis on contractual undiscounted cash flows of derivatives

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

	30 June 2017							Contractual undiscounted cash flow
	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	
Cash flows of derivatives								
Derivatives settled on a gross basis								
Of which: cash inflow	-	-	-	-	4,249,242	-	-	4,249,242
cash outflow	-	-	-	-	(4,298,332)	-	-	(4,298,332)
Total derivative financial instruments	-	-	-	-	(49,090)	-	-	(49,090)

(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 Group 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 Group's operational risk management. The Group's senior management leads the bank-wide operational risk management on a day-to-day basis. The Group 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 Group's internal control system and compliance.

(5) Capital management

The Group'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 Group calculates capital adequacy ratios in accordance with the guidance issued by the CBRC. The capital of the Group 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 Group. Capital adequacy ratio reflects the Group's sound operations and risk management capability. The Group'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 Group's operating situations.

The Group 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 Group regularly.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RISK MANAGEMENT (continued)

As at 30 June 2017 and 31 December 2016, the Group calculated the capital adequacy ratios in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the CBRC in 2012 and relevant requirements promulgated by the CBRC as follows:

	30 June 2017	31 December 2016
Total core tier-one capital	17,796,535	17,635,973
– Share capital	4,058,713	4,058,713
– Qualifying portion of capital reserve	6,826,276	6,826,276
– Surplus reserve	1,013,649	1,013,649
– General reserve	3,696,090	3,696,090
– Retained earnings	2,442,158	1,978,101
– Investment revaluation reserve and others	(341,375)	63,144
– Qualifying portion of non-controlling interests	101,024	–
Core tier-one capital deductions	(170,866)	(171,661)
Net core tier-one capital	17,625,669	17,464,312
Other tier-one capital	13,470	–
Net tier-one capital	17,639,139	17,464,312
Tier two capital	6,087,162	3,319,322
– Qualifying portions of tier-two capital instruments issued	5,200,000	2,200,000
– Surplus provision for loan impairment	860,222	1,119,322
– Qualifying portion of non-controlling interests	26,940	–
Net capital base	23,726,301	20,783,634
Total risk weighted assets	173,518,763	173,267,933
Core tier-one capital adequacy ratio	10.16%	10.08%
Tier-one capital adequacy ratio	10.17%	10.08%
Capital adequacy ratio	13.67%	12.00%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(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 Group 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 Group 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 Group 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.

(d) Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards and swaps. The most frequently applied valuation techniques include discounted cash flow model, etc. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(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:

	30 June 2017			
	Level 1 Note (i)	Level 2 Note (i)	Level 3 Note (i) ~ (ii)	Total
Derivative financial assets	–	1,936	–	1,936
Available-for-sale financial assets				
– Debt securities	–	19,792,556	–	19,792,556
– Asset management plan	–	6,939,199	3,879,978	10,819,177
– Wealth management products issued by financial institutions	–	–	6,387,801	6,387,801
– Trust fund plans	–	496,345	2,368,270	2,864,615
– Investment funds	–	2,226,274	–	2,226,274
Total	–	29,456,310	12,636,049	42,092,359
Derivative financial liabilities	–	49,880	–	49,880
Total	–	49,880	–	49,880
	31 December 2016			
	Level 1 Note (i)	Level 2 Note (i)	Level 3 Note (i) ~ (ii)	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

38 FAIR VALUE (continued)

Notes:

- (i) During the reporting period, there were no significant transfers among each level.
- (ii) The following table shows the movement from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy during the six months ended 30 June 2017:

Six months ended 30 June 2017	As at 1 January	Transfer into level 3	Transfer out of level 3	Total gains or losses for the period		Purchases, issues, disposals and settlements				As at 30 June	Total gains or losses for the period included in profit or loss for assets held at the end of the period	
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals	Settlements			
Available-for-sale financial assets												
- Asset management plans	2,003,746	-	-	70,907	-	2,622,590	-	-	(817,265)	3,879,978	55,117	
- Wealth management products issued by financial institutions	1,502,025	-	-	105,476	-	6,300,000	-	-	(1,519,700)	6,387,801	87,801	
- Trust fund plans	1,001,753	-	-	32,488	-	2,350,500	-	-	(1,016,471)	2,368,270	17,770	
Total	4,507,524	-	-	208,871	-	11,273,090	-	-	(3,353,436)	12,636,049	160,688	

2016	As at 1 January	Transfer into level 3	Transfer out of level 3	Total gains or losses for the period		Purchases, issues, disposals and settlements				As at 31 December	Total gains or losses for the period included in profit or loss for assets held at the end of the period	
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals	Settlements			
Available-for-sale financial assets												
- 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	

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 UNAUDITED INTERIM FINANCIAL REPORT

(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, financial assets held under resale agreements and sold under repurchase agreements and long-term receivables

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 UNAUDITED INTERIM FINANCIAL REPORT

(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:

	30 June 2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	32,797,214	31,980,519	-	31,980,519	-
Total	32,797,214	31,980,519	-	31,980,519	-
Financial liabilities					
Debt securities issued					
– Debt securities	16,084,958	15,697,287	-	15,697,287	-
– Certificates of interbank deposit	40,053,028	40,065,440	-	40,065,440	-
Total	56,137,986	55,762,727	-	55,762,727	-
	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					
Debt 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	-

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

39 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

The Group'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 Group to pay bills of exchange drawn on customers. The Group 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 Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

	30 June 2017	31 December 2016
Bank acceptances	15,835,547	17,084,672
Letters of credit	1,873,051	2,750,188
Letters of guarantees	2,775,696	2,324,330
Unused credit card commitments	379,321	371,657
Loan commitments	184,300	195,000
Total	21,047,915	22,725,847

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

(2) Credit risk-weighted amount

	30 June 2017	31 December 2016
Credit risk-weighted amount of contingent liabilities and commitments	9,248,049	9,328,680

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Commitments and contingent liabilities (Continued)

(3) Operating lease commitments

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

	30 June 2017	31 December 2016
Within one year (inclusive)	91,141	109,494
After one year but within five years (inclusive)	273,872	277,007
After five years	103,828	109,968
Total	468,841	496,469

(4) Capital commitments

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

	30 June 2017	31 December 2016
Contracted but not paid for	226,598	476,479
Total	226,598	476,479

(5) Outstanding litigations and disputes

As at 30 June 2017 and 31 December 2016, there were no significant legal proceedings outstanding against the Group. Management is in the opinion that it is not necessary to provide any contingent liabilities as at the reporting period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

39 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(6) Bonds redemption obligations

As an underwriting agent of PRC government bonds, the Group 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 Group, but not yet matured at the reporting date:

	30 June 2017	31 December 2016
Bonds redemption obligations	3,585,695	3,390,234

(7) Pledged assets

	30 June 2017	31 December 2016
Investment securities	25,105,805	22,704,450
Discounted bills	–	510,925
Total	25,105,805	23,215,375

Some of the Group'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 Group maintains statutory deposit reserves with the PBOC as required (Note 12). These deposits are not available for the Group's daily operations.

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. The fair value of such pledged assets was RMB1,365 million as at 30 June 2017 (31 December 2016: RMB1,955 million). As at 30 June 2017, the Group did not sell or repledge any pledged assets which it has an obligation to repurchase when they are due (31 December 2016: nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(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 Group holds an interest

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. The Group 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 Group as at 30 June 2017 and 31 December 2016 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	30 June 2017			
	Available for sale financial assets	Receivables	Carrying amount	Maximum exposure
Asset management plans	10,819,177	24,819,770	35,638,947	35,638,947
Trust fund plans	2,864,615	14,045,575	16,910,190	16,910,190
Wealth management products issued by financial institutions	6,387,801	5,501,694	11,889,495	11,889,495
Asset-backed securities	1,989,254	–	1,989,254	1,989,254
Investment funds	2,226,274	–	2,226,274	2,226,274
Total	24,287,121	44,367,039	68,654,160	68,654,160

	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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

40 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (continued)

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

The types of unconsolidated structured entities sponsored by the Group 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 Group includes fees charged by providing management services to these structured entities. As at 30 June 2017 and 31 December 2016, the carrying amounts of the management fee receivables being recognized are not material.

As at 30 June 2017, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB45.230 billion (31 December 2016: RMB50.793 billion).

In addition, the unconsolidated structured entities sponsored by the Group also include asset-backed securities. As at 30 June 2017, the balances of these asset-backed securities was RMB30 million (31 December 2016: RMB45 million).

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

During the six months ended 30 June 2017, the amount of fee and commission income recognised from the above mentioned structured entities by the Group was RMB32 million (six months ended 30 June 2016: RMB37 million).

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2017 but matured before 30 June 2017 was RMB48.919 billion (six months ended 30 June 2016: RMB45.600 billion).

41 FIDUCIARY ACTIVITIES

The Group 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 Group's assets.

As at 30 June 2017, the entrusted loans balance of the Group was RMB10.214 billion (31 December 2016: RMB10.886 billion).

42 SUBSEQUENT EVENTS

The second tranche of ten-year tier-two capital bonds of 2017 were issued with a fixed coupon rate and a nominal amount of RMB 2 billion on 12 July 2017. The debts will mature on 14 July 2027 with annual interest payments. The Bank has an option to redeem the debts at the end of the fifth year at the nominal amount.

CHAPTER X UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

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

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

1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO

(1) Liquidity coverage ratio

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

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

	As at 30 June 2017	As at 31 December 2016
Qualified and high-quality current assets	31,658,786	35,122,080
Net cash outflows in next 30 days	19,866,883	34,693,024
Liquidity coverage ratio (RMB and foreign currency)	159.35%	101.24%

(2) Leverage ratio

	As at 30 June 2017	As at 31 December 2016
Leverage ratio	5.82%	5.82%

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.

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

2 CURRENCY CONCENTRATIONS

	30 June 2017			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	4,514,972	20,898	56,018	4,591,888
Spot liabilities	(7,599,877)	(14,090)	(5,726)	(7,619,693)
Net long position	(3,084,905)	6,808	50,292	(3,027,805)

	31 December 2016			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
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

The Group has no structural position during the reporting periods.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

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

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

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

	30 June 2017			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	31,306	3,656,911	615,697	4,303,914
– of which attributed to Hong Kong	–	2,407,636	–	2,407,636
– North and South America	–	206,439	–	206,439
– Europe	–	8,151	–	8,151
	31,306	3,871,501	615,697	4,518,504
	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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	30 June 2017	31 December 2016
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	410,588	225,537
– between 6 months and 1 year (inclusive)	813,347	623,854
– over 1 year	970,330	635,415
Total	2,194,265	1,484,806
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.43%	0.26%
– between 6 months and 1 year (inclusive)	0.86%	0.71%
– over 1 year	1.03%	0.73%
Total	2.32%	1.70%

Company:	Bank of Qingdao Co., Ltd. and its subsidiaries as well as branches and sub-branches
Bank	Bank of Qingdao Co., Ltd. and its branches and sub-branches
CBRC:	China Banking Regulatory Commission
PBOC:	People's Bank of China
Hong Kong Stock Exchange:	The Stock Exchange of Hong Kong Limited
CBRC Qingdao Office:	Qingdao Office of the China Banking Regulatory Commission
Hong Kong Listing Rules:	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Company Law:	Company Law of the People's Republic of China
Articles of Association:	Articles of Association of Bank of Qingdao Co., Ltd.
SFO:	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Reporting Period:	for the six months ended 30 June 2017
RMB:	the lawful currency of the PRC
Model Code:	Model Code of Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Hong Kong Listing Rules
Director(s):	director(s) of the Bank
Supervisor(s):	supervisor(s) of the Bank
Board of Directors:	the board of Directors of the Bank
Board of Supervisors:	the board of Supervisors of the Bank
Hong Kong:	The Hong Kong Special Administrative Region of the PRC

DEFINITIONS

Interface banking:	A strategic model which facilitates the systematic integration between the business platform of the Bank and the service platform of our partners. Our partners comprise the corporate customers of the Bank, financial institutions and other third-party platforms. Under such model, our partners can satisfy their demands for financial services, while the Bank can identify the business of our partners and acquire their customer resources through systematic integration.
Technology credit:	Loans provided to technology-based enterprises by the Bank. "Technology enterprises" refers to <i>Guidance on further strengthening the loan support to small and medium technology-based enterprises (Yin Jian Fa [2009] No.37)</i> .
Green credit:	The Bank commenced energy saving and environmental protection project and service loans as well as loans comply with <i>Catalog of Projects Backed by Green Bonds (2015 version)</i> issued by the Green Finance Professional Committee of the China Society for Finance and Banking (中國金融學會綠色金融專業委員會). "Energy saving and environmental protection project and service loans" refers to <i>Notice on Submitting Statistical Table of Situations of Green Credit issued by General Office of the China Banking Regulatory Commission (Yin Jian Ban Fa [2013] No.185)</i> .
"High pollution, high energy-consumption and over-capacity" industries:	Namely "high energy-consumption, high pollution and over-capacity" industries, including steel, cement, oil refining, tyres, electrolytic aluminium, ships, paper-making and caustic soda industry.
MPA:	Macro Prudential Assessment