BANK OF QINGDAO CO., LTD.

2017 ANNUAL REPORT

(A joint stock company incorporated in the People's Republic of China with limited liability)
(H Shares Stock Code: 3866)
(Preference Shares Stock Code: 4611)

BQD 青岛银行

BANK OF QINGDAO CO., LTD.

2017 Annual Report

BQD 青岛银行

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 severally and jointly for the authenticity, accuracy and completeness of the information in this report.

2. The proposals on the 2017 Annual Report of Bank of Qingdao Co., Ltd. and the 2017 Financial Statements were considered and approved at the 37th meeting of the sixth session of the Board of Directors held on 23 March 2018. There were 15 directors eligible for attending the meeting, of whom 13 directors attended the meeting.

3. The overseas auditor of the Company for 2017 was KPMG. The 2017 financial report of the Company prepared in accordance with International Financial Reporting Standards has been audited by KPMG, with unqualified auditor's report issued.

4. Unless otherwise specified, the currency of the amounts mentioned in this annual report is RMB.

5. The 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 department Mr. Wang Bo assure the authenticity and completeness of this annual report.

6. Profit distribution plan: the Board of Directors has proposed a final dividend of RMB0.20 per share (tax inclusive) in cash for the year ended 31 December 2017 in an aggregate amount of RMB811,742,549.80 (tax inclusive) to all shareholders of the Bank. The profit distribution proposal will be submitted to the 2017 annual general meeting for approval.

7. This report contains certain forward-looking statements about the financial conditions, operating results and business developments of the Company. The report uses the words "will", "may", "strive", "plan" and similar wording to express forward-looking statements. These statements are made based on current plans, estimates and projections, and although the Company believes that the expectations reflected in these forward-looking statements are reasonable, the Company cannot assure that these expectations will be attained or confirmed to be correct and therefore they do not constitute substantive undertakings of the Company. Investors should not unduly rely on such statements, and should be aware of investment risks. Please note that these forward-looking statements are related to future events or future financial, business or other performance of the Company, and are subject to certain uncertainties which may cause the actual results to differ substantially.

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

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Chapter I Corporate Information

1.1 BASIC INFORMATION OF THE COMPANY

Legal name in Chinese:
青島銀行股份有限公司
(Abbreviation: 青島銀行)

Legal name in English:
BANK OF QINGDAO CO., LTD.
(Abbreviation: BANK OF QINGDAO)

Legal representative: GUO Shaoquan
Authorised representatives: GUO Shaoquan, LU Lan
Secretary to the Board: LU Lan
Joint company secretaries: LU Lan, LAI Siu Kuen

Registered and office address:
Building 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, PRC

Office of Board of Directors & Supervisors
Address: No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, PRC
Postal code: 266061
Telephone: +86 (532) 85709728
Fax: +86 (532) 85783866
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

Stock exchange on which offshore preference shares are listed:
The Stock Exchange of Hong Kong Limited
Stock name: BQD 17USDPREF
Stock code: 4611

Unified Social Credit Code: 91370200264609602K
Date of first registration: 15 November 1996
Date of change of registration: 16 October 2017

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 Co., Ltd.
No. 26 Financial Street, 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/)

1.2 HONORS AND AWARDS

In June 2017, the Bank won the award of "2016 Most Socially Responsible Financial Institution in China Banking Industry" at the 2016 China Banking Industry Social Responsibility Report release and the Social Responsibility Commendation Meeting held by the China Banking Association.

In July 2017, the Bank ranked No. 372 in terms of the core tier one capital in the World Bank Top 1000 List released by UK Bankers magazine, ranking in the top 500 for the fourth consecutive year.

In October 2017, the Bank won the "2016-2017 China Best Customer Contact Center Award" and "China Customer Contact Center Best Service Experience Award" at the "15th China Customer Contact Center Industry Summit Forum and the 15th Best Customer Contact Center and Best Manager Awards Conference" held by the Customer Relationship Management Committee of China Federation of IT Promotion.

In November 2017, the Bank won the "2012-2017 Outstanding Unit in Corporate Culture Construction" award at the 15th Summit of Chinese and Foreign Corporate Culture organized by the China Research Institute of Enterprise Culture.

In December 2017, the Bank won two awards of "Ten Years of Golden Dragon Outstanding Achievement" and "Best Small And Medium-Sized Bank of the Year in Wealth Management" at the "China Financial Institutions Gold Medal – Golden Dragon Award Contest" jointly organized by the "Financial Times" and Chinese Academy of Social Sciences Institute of Finance. We won ten Golden Dragon trophies in the past seven years.

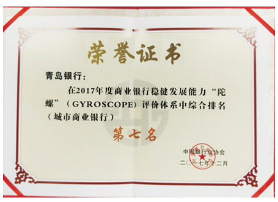
In December 2017, the Bank won the "2017 (the eleventh session) Five-Star Diamond Award" awarded by World Brand Laboratory.

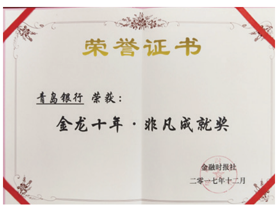
In December 2017, the Bank ranked No. 7 in terms of steady development capability of commercial banks in 2017 evaluated by the "Gyro" evaluation system of commercial banks issued by the China Banking Association.

In December 2017, the Bank's "Research on the Application of Knowledge Graph in Smart CRM for Small and Medium-sized Banks" was awarded the "Second Category of Achievement of 2017 Annual Banking Information Technology Risk Management Project" by CBRC.

In December 2017, the Bank won the award of "2017 Best Mobile Banking Function in Regional Commercial Banks" at the 13th China E-Banking annual event held by the China Financial Certification Authority.

In December 2017, the Bank ranked No. 10 in the "List of Top 100 in Banking Wealth Management Product Distribution" released by the China Central Depository & Clearing Co., Ltd. and ranked No. 1 among city commercial banks.





Chapter II Financial Highlights

2.1 FINANCIAL DATA

Unit: RMB'000

Item	2017	2016	Year-on-year change	2015	2014	2013
Business Performance			Change (%)			
Net interest income	**4,802,408**	5,007,955	(4.10)	4,114,054	3,596,336	3,087,784
Net fee and commission income	**828,969**	888,133	(6.66)	749,627	688,751	425,330
Operating income	**5,567,593**	5,996,145	(7.15)	5,005,508	4,365,052	3,556,292
Operating expenses	**(1,818,922)**	(2,213,521)	(17.83)	(2,076,578)	(1,995,253)	(1,688,944)
Impairment losses	**(1,378,904)**	(1,108,874)	24.35	(579,894)	(411,278)	(348,702)
Profit before taxation	**2,369,767**	2,673,750	(11.37)	2,349,036	1,958,521	1,518,646
Net profit	**1,903,607**	2,088,605	(8.86)	1,813,776	1,495,352	1,141,914
Net profit attributable to shareholders of the Bank	**1,900,252**	2,088,605	(9.02)	1,813,776	1,495,352	1,141,914
Per share (RMB)			Change			
Net assets per share attributable to shareholders of the Bank[1]	**4.38**	4.35	0.03	4.14	3.83	3.21
Basic earnings per share	**0.47**	0.51	(0.04)	0.58	0.59	0.45
Diluted earnings per share	**0.47**	0.51	(0.04)	0.58	0.59	0.45
Dividend per share[2]	**0.20**	0.20	–	0.20	0.25	0.08

2.2 FINANCIAL INDICATORS

Item	2017	2016	Year-on-year change	2015	2014	2013
Scale indicators (RMB'000)			Change (%)			
Total assets	**306,276,092**	277,988,106	10.18	187,235,254	156,165,941	135,689,371
Of which: loans and advances to customers, net[3]	**95,514,680**	84,864,849	12.55	70,655,221	61,248,341	54,105,925
Total liabilities	**280,152,883**	260,352,133	7.61	170,621,602	146,381,291	127,484,219
Of which: deposits from customers	**160,083,783**	141,604,761	13.05	115,321,997	101,733,660	96,283,907
Share capital	**4,058,713**	4,058,713	–	4,011,533	2,555,977	2,555,977
Equity attributable to shareholders of the Bank	**25,629,854**	17,635,973	45.33	16,613,652	9,784,650	8,205,152
Total equity	**26,123,209**	17,635,973	48.12	16,613,652	9,784,650	8,205,152

Item	2017	2016	Year-on-year change	2015	2014	2013
Profitability indicators (%)			Change			
Return on average total assets[4]	**0.65**	0.90	(0.25)	1.06	1.02	0.96
Return on average equity[5]	**10.73**	12.20	(1.47)	13.74	16.62	14.60
Net interest spread[6]	**1.57**	2.05	(0.48)	2.23	2.25	2.38
Net interest margin[7]	**1.72**	2.23	(0.51)	2.36	2.43	2.54
Net fee and commission income to operating income[8]	**14.89**	14.81	0.08	14.98	15.78	11.96
Cost-to-income ratio[9]	**31.68**	34.71	(3.03)	35.80	39.61	41.04
Asset quality indicators (%)			Change			
Non-performing loan ratio	**1.69**	1.36	0.33	1.19	1.14	0.75
Provision coverage ratio	**153.52**	194.01	(40.49)	236.13	242.32	365.24
Loan provision ratio	**2.60**	2.64	(0.04)	2.81	2.76	2.74
Indicators of capital adequacy ratio (%)			Change			
Core tier-one capital adequacy ratio[10]	**8.71**	10.08	(1.37)	12.48	9.72	9.75
Tier-one capital adequacy ratio[10]	**12.57**	10.08	2.49	12.48	9.72	9.75
Capital adequacy ratio[10]	**16.60**	12.00	4.60	15.04	10.75	10.88
Total equity to total assets	**8.53**	6.34	2.19	8.87	6.27	6.05
Other indicators (%)			Change			
Liquidity coverage ratio	**173.05**	101.24	71.81	132.06	N/A	N/A
Liquidity ratio	**56.36**	53.48	2.88	60.04	45.57	41.16

Notes:

(1) Net assets per share attributable to shareholders of the Bank = (equity attributable to shareholders of the Bank – other equity instrument)/the number of ordinary shares at the end of the period.

(2) Dividend per share represents dividend per share attributable to ordinary shareholders of the Bank.

(3) Net loans and advances to customers = total loan and advances to customers – provision for impairment of loans and advances to customers.

(4) Return on average total assets = net profit/average balance of total assets at the beginning and at the end of the period.

(5) Return on average equity = net profit attributable to ordinary shareholders of the Bank/average balance of equity attributable to ordinary shareholders of the Bank at the beginning and at the end of the period.

(6) Net interest spread = average yield on interest-earning assets – average cost rate of interest-bearing liabilities.

(7) Net interest margin = net interest income/average interest-earning assets.

(8) Net fee and commission income to operating income = net fee and commission income/operating income.

(9) Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income.

(10) The capital adequacy ratio and other relevant indicators listed in the above chart were calculated in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and other relevant regulatory regulations.

Chapter III Chairman's Statement

GUO
Shaoquan
Chairman

Chairman's Statement

In 2017, in the face of increasingly serious economic and financial situation at home and abroad and constantly changing reform and development, the Company, based on steady development and focused on risk prevention and control, highlighted the differentiated and distinctive business quality and harmonious service brand, thus recording the results satisfactorily to the investors who trusted and favoured the Company and to all sectors of society which showed care and support to the Company.

As at the end of the Reporting Period, the Company's total assets exceeded RMB300 billion and amounted to RMB306.3 billion, representing a year-on-year increase of 10%; the group-based accumulative net profit amounted to RMB1.9 billion; and non-performing loan ratio was 1.69%. Under the current situation, the hard-earned operating results of the Company were attributable to the understanding and support of investors, customers, government and regulators. On behalf of the Board of Directors, senior management and all staff of the Company, I would like to express our sincere gratitude to all sectors of society for their support to the Company.

In 2017, the Bank promoted the listing of A-shares as scheduled and solidly promoted integrated operations. The subsidiary BQD Financial Leasing Company Limited successfully commenced operations; the two branches in Linyi and Jining started operations, making a solid step forward in covering the entire province. Key business segments such as retail, companies, and financial markets were collaboratively coordinated and innovatively developed to provide integrated financial services for the real economy, regional transformation and upgrade, and residents' lives; the Bank was constantly consolidating the employees' awareness of "proactive compliance" to enhance risk management and control. The Bank strengthened construction and optimization of human resources, information technology, and financial management systems, reinforced the protection and support functions of the business, and comprehensively consolidated the footstone of professional and refined operation and management. In 2017, the Bank won numerous awards and its social reputation continued to rise. It ranked No. 372 among the Top 1000 World Banks and won the "Five-Star Diamond Award" with the highest honor in the global service industry. The entity credit rating was raised from AA+ to AAA, and the Bank ranked No. 7 of the city commercial banks in the "Gyro" evaluation system.

Aspiration lies in persistence, but not in sharpness. Success lies in long-term, but not rapidity. In 2018, the Company will adhere to the stable operation and characteristic development, continue to maintain strategic composure, proactively adapt to changes in the environment, actively seize opportunities for development, deepen management, take the initiative to comply with regulations, carry out transformation and innovation, make progress amid steady development, and return the trust and support of the majority of shareholders, investors and all sectors of society with better business performance.

郭少泉

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

Chapter IV President's Statement

President's
Statement

In 2017, under the correct leadership of the Board of Directors and by adhering to the operation guidance of "taking advantage of opportunities, deepening management, controlling risks, and making steady progress", the Bank constantly persisted in characteristic and differentiated development and various businesses maintained steady development; operating results met expectations and overall strength was improved steadily.

In 2017, the Bank continued to deep plow Shandong market, promoted the transformation of wholesale business into investment banking and specialization, and met the era of the strict regulations with "proactive compliance". As at the end of 2017, the Company's total deposit balance reached RMB160.084 billion, increasing by 13.05% year-on-year; outstanding loans totaled RMB98.061 billion, increasing by 12.50% year-on-year; and non-performing loan ratio was 1.69%, while the group-based annual net profit amounted to RMB1.904 billion.

In 2017, the Bank successfully issued tier-two capital bonds with a total size of RMB5 billion and overseas preferred shares with a total size of US$1.203 billion; its capital structure was increasingly diversified; the first cultural and creative sub-branch was established in Shandong Province, and there were seven special franchised institutions under its jurisdiction. The Bank have entered into strategic cooperation with the domestic well-known Internet companies and realized business linkage and cross-border coordination in the consumer finance field. The Bank set up a centralized operation center for business operations and started the centralized disposal era of "factorization of headquarters and lightweight of branches".

While pursuing its own development, the Bank persisted in commitment to social welfare and charitable activities. In 2017, the Bank donated RMB1 million to China Foundation for Development of Financial Education to support the financial education charity project of the Foundation. On the occasion of the 21st anniversary of the establishment of the Bank, the "Bank of Qingdao Charitable Foundation" was established and all employees of the Bank and caring companies generously donated RMB10 million on the opening day.

Take your dream as your direction and motivation and do not live up to the wonderful days. After 21 years of development, Bank of Qingdao, which has entered better development, is striding to maturity. On behalf of senior management of the Bank, I would like to express our sincere gratitude to people from all sectors of society for their cares and supports to the Bank of Qingdao.

Looking to 2018, all employees of the Bank will continually endeavour to ride on the current favourable momentum, grasp opportunities from challenges, make an effort to create value and work together to make better achievements for our Bank.

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

Chief Supervisor

Chapter V Management Discussion and Analysis

5.1 REVIEW OF THE ECONOMIC FINANCE AND POLICY ENVIRONMENT

In 2017, economic growth in developed economies including Europe and the United States picked up, and emerging markets and developing countries also saw faster economic growth thanks to the improving external environment. In this context, Chinese economy achieved better-than-expected growth as primarily driven by, from the perspective of the demand side, significant growth in exports, rising consumption contribution ratio amid stability that contributed to ascending added value of strategic emerging industries, while from the perspective of the supply side, emerging effects of structural reform as evidenced by rapidly rising industry concentration as well as remarkable increase in benefits of leading enterprises. The pick-up in real economy provided an opportunity for the financial risk governance in China. Chinese financial system entered into an era of strict regulation as regulators promoted financial deleveraging and risk governance and improved the framework of regulation underpinned by monetary policy and macro-prudential policy.

In 2017, economy in Shandong province periodically resonated with domestic economy. The economy grows steadily with a positive prospective within the medium and long term as Shandong province pushes forward the replacement of old drivers with new ones, but the risk in certain regions is great. Monetary policy conditions were still tight, while higher compliance requirements were raised under strict supervision, and financial technology increases the differentiation in banking industry. Centering on improving development quality and efficiency, Qingdao sped up fostering new growth drivers to replace old ones. The overall economy in the city moved steadily, and positive factors kept increasing. Under the new business environment, the Company will actively comply with regulations, accelerate the reform and keep liability in a reasonable level, so as to improve quality and increase efficiency.

5.2 SUMMARY OF OVERALL OPERATIONS

1. Status of Key Operational Indicator Achievements

(1) Total assets amounted to RMB306.276 billion, representing a year-on-year increase of RMB28.288 billion or 10.18%;

(2) Total deposits amounted to RMB160.084 billion, representing a year-on-year increase of RMB18.479 billion or 13.05%;

(3) Total loans amounted to RMB98.061 billion, representing a year-on-year increase of RMB10.893 billion or 12.50%;

(4) Net profit amounted to RMB1.904 billion, representing a year-on-year decrease of RMB185 million or 8.86%;

(5) Non-performing loan ratio, provision coverage ratio and capital adequacy ratio were 1.69%, 153.52% and 16.60%, respectively;

(6) Return on average total assets was 0.65%, representing a year-on-year decrease of 0.25 percentage point, mainly due to the fact that total assets increased while incomes did not increase;

(7) Return on average equity was 10.73%, representing a year-on-year decrease of 1.47 percentage points, mainly due to the decrease of net profit as compared to that of last year.

2. Major Tasks of Operational Management

(1) The retail business turned to be experience-based and intelligent

The Bank continuously enhanced personal customer experience and further promoted the building of retail business IT system. Firstly, the Bank continuously implemented the interface banking strategy and proactively promoted cooperation in "all-in-one cards" (一卡通), "Bank Hospital Pass" (銀醫通), convenient bill payment services for communities, "Metro Card" (地鐵卡), supply chain finance and other projects, effectively creating opportunities for cross marketing and integrated services. Secondly, the Bank constantly strengthened research and development and marketing of new businesses and launched QR code payment and supervision of second-hand housing funds. Savings deposit balance amounted to RMB591 million becoming new growth drivers of retail business. Thirdly, the Bank developed such systems as interface banking platform phase II, customer service system phase II and mobile finance 3.0, providing technical support for retail business. Fourthly, the Bank adopted crossover cooperation and sped up exploration and innovation of consumption finance. The Bank entered into strategic cooperation agreements with reputable internet companies, worked with third parties to launch varieties internet microcredit products and integrated online and offline platforms through complementarities.

(2) Transformation towards developing investment banking and featured businesses for corporate customers yielded initial success

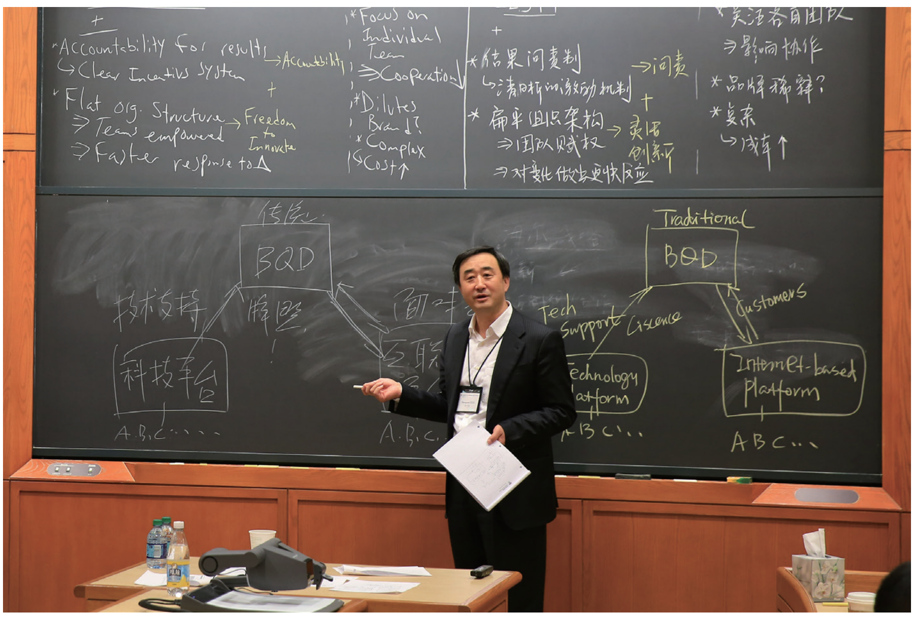
The Bank took various measures to promote transformation towards developing investment banking and featured businesses for corporate customers. Firstly, the Bank flexibly used various direct financing instruments, actively participated in bidding of government projects and bond issue of enterprises, and constantly developed in such fields as people's livelihood finance and listed enterprise finance. Secondly, the Bank explored in-depth the trading bank development mode, launched the cash management system phase I and completed marketing and system docking for 46 cash management customers. Besides, the Bank also launched "Yin Mao Tong" (銀貿通), "Yin Guan Bao" (銀關保) and financial service packages of export credit insurance for micro foreign trade enterprises. Thirdly, the Bank gradually made technology finance and port finance gradually as its feature and the Bank was exploring the development path of subway finance and culture finance.

(3) Development strategies for financial market business were proactively adjusted

While maintaining the financial transaction volume, the Bank proactively adjusted interbank liability structure and developed new wealth management products. Firstly, the Bank continuously maintained the activeness of interbank market transactions. Throughout the year, the Bank's financial transaction volume amount to RMB9.72 trillion, representing an increase of 9.09%, ranking 26th among national financial institutions and 6th among city commercial banks. The Bank won the titles of "2017 Core Dealer in the Interbank Local Currency Market" issued by National Interbank Funding Center, "2017 Outstanding Dealer in the Chinese Bond Market" and "Outstanding Financial Bond Issuer" issued by China Government Securities Depository Trust and Clearing Co., Ltd. and other prizes. Secondly, the Bank improved the interbank liability structure. Leveraging certificates of deposit, interbank deposits, issue and repurchase of bonds and other financial instruments, the Bank established diversified and decentralized partner institution system and enhanced the bank-wide liquidity management and risk control capabilities. Thirdly, the Bank's asset management business recorded steady development. The Bank launched net-worth wealth management products and continuously enhanced product support for businesses.

(4) Risk management and internal control were improved gradually

In response to the severe market situation, the Bank adhered to the prudential principle, handled various asset businesses in a compliant manner and proactively adjusted the credit approval system. Firstly, in the grim regional economic and financial environment, the Bank monitored high-risk customers on a daily basis and formulated customer-tailored risk-reducing schemes and non-performing loan clearing and receiving schemes. Secondly, the Bank handled business in a legal and compliant manner. Following the prudential principle in examining business risk, the Bank avoided multiple risk events involving large group companies in Shandong province. Thirdly, the Bank reformed the corporate credit approval system and centralized the approval authority for corporate credit business and some retail loans to prevent credit risk based on the credit business approval system.



In February 2017, Harvard University advanced management program (2017) of Bank of Qingdao was opened. The picture shows GUO Shaoquan, the chairman, disseminated his views on the strategy for the Bank.

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

5.3.1 Financial Performance Summary

Unit: RMB'000

Item	2017	2016
Net interest income	**4,802,408**	5,007,955
Net fee and commission income	**828,969**	888,133
Net trading (losses)/gains, net gains arising from investments and other operating income/(losses)	**(63,784)**	100,057
Operating expenses	**(1,818,922)**	(2,213,521)
Impairment losses	**(1,378,904)**	(1,108,874)
Profit before taxation	**2,369,767**	2,673,750
Income tax charge	**(466,160)**	(585,145)
Net profit	**1,903,607**	2,088,605
Of which: net profit attributable to shareholders of the Bank	**1,900,252**	2,088,605
net profit attributable to non-controlling equity	**3,355**	–

During the year 2017, the Company's profit before taxation amounted to RMB2.370 billion, representing a year-on-year decrease of RMB304 million or 11.37%; net profit amounted to RMB1.904 billion, representing a year-on-year decrease of RMB185 million or 8.86%; and effective income tax rate was 19.67%, representing a year-on-year decrease of 2.21 percentage points. The following table sets forth the impact of changes in our significant profit or loss items on the profit before taxation for the year 2017.

Unit: RMB'000

Item	Amount
Profit before taxation in 2016	2,673,750
Changes in 2017	
Net interest income	(205,547)
Net fee and commission income	(59,164)
Net trading (losses)/gains, net gains arising from investments and other operating income/(losses)	(163,841)
Operating expenses	394,599
Impairment losses	(270,030)
Profit before taxation in 2017	2,369,767

5.3.2 Operating Income

During the year 2017, the Company's operating income amounted to RMB5.568 billion, representing a year-on-year decrease of RMB429 million or 7.15%, of which, net interest income accounted for 86.26%, representing a year-on-year increase of 2.74 percentage points, and net non-interest income accounted for 13.74%. The following table sets forth the year-on-year comparison of the composition of our operating income in the previous five years.

Unit: %

Item	2017	2016	2015	2014	2013
Net interest income	**86.26**	83.52	82.19	82.39	86.83
Net fee and commission income	**14.89**	14.81	14.98	15.78	11.96
Net trading (losses)/gains, net gains arising from investments and other operating income/(losses)	**(1.15)**	1.67	2.83	1.83	1.21
Total	**100.00**	100.00	100.00	100.00	100.00

In December 2017, the Bank set up the Culture Creative Branch which is the first specialised entity serving the culture creative industry in Shandong province.

5.3.3 Net Interest Income

During the year 2017, the Company had net interest income of RMB4.802 billion, representing a year-on-year decrease of RMB206 million or 4.10%, mainly due to the fact that the growth of interest income of interest-earning assets is less than that of interest expense of interest-bearing liabilities. The following table sets forth the average balance, interest income/interest expense and average yield/cost rate of the assets and liabilities of the Company for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities are daily average balances.

Unit: RMB'000

	2017			2016		
Item	**Average balance**	**Interest income/ expense**	**Average yield/cost rate**	Average balance	Interest income/ expense	Average yield/cost rate
Interest-earning assets						
Loans and advances to customers	**93,938,432**	**4,459,778**	**4.75%**	81,467,154	4,243,148	5.21%
Investments[1]	**138,930,060**	**6,267,263**	**4.51%**	104,779,353	4,753,041	4.54%
Deposits and placements with banks and other financial institutions[2]	**21,148,146**	**537,021**	**2.54%**	18,848,427	369,258	1.96%
Deposits with central bank	**22,478,374**	**340,988**	**1.52%**	19,537,132	299,027	1.53%
Long-term receivables	**2,653,624**	**144,669**	**5.45%**	–	–	–
Total	**279,148,636**	**11,749,719**	**4.21%**	224,632,066	9,664,474	4.30%
Interest-bearing liabilities						
Deposits from customers	**147,668,663**	**2,605,748**	**1.76%**	127,231,668	2,226,519	1.75%
Deposits and placements from banks and other financial institutions[3]	**59,974,673**	**1,951,036**	**3.25%**	50,147,037	1,383,820	2.76%
Debt securities issued	**54,783,446**	**2,356,747**	**4.30%**	28,130,242	989,802	3.52%
Others	**802,072**	**33,780**	**4.21%**	1,545,820	56,378	3.65%
Total	**263,228,854**	**6,947,311**	**2.64%**	207,054,767	4,656,519	2.25%
Net interest income	**/**	**4,802,408**	**/**	/	5,007,955	/
Net interest spread	**/**	**/**	**1.57%**	/	/	2.05%
Net interest margin	**/**	**/**	**1.72%**	/	/	2.23%

Notes: (1) Investments indicated in section 3.3 include financial assets at fair value with changes through current profit or loss, available-for-sale financial assets, held-to-maturity investments and receivables.

(2) Deposits and placements with banks and other financial institutions indicated in section 3.3 include financial assets held under resale agreements.

(3) Deposits and placements from banks and other financial institutions indicated in section 3.3 include financial assets sold under repurchase agreements.

During the year 2017, average balances of interest-earning assets were RMB279.149 billion, representing a year-on-year increase of RMB54.517 billion or 24.27%, mainly due to an increase in the volume of loans and advances to customers and investments. Net interest margin was 1.72%, representing a year-on-year decrease of 0.51 percentage point; and net interest spread was 1.57%, representing a year-on-year decrease of 0.48 percentage point, mainly due to the co-effect of the factors, such as the decrease in yield of loans and investments, the increase in the cost rate of market funds and the separation of price and tax under the replacement of business tax with value-added tax.

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 changes in interest income and expense due to volume changes.

Unit: RMB'000

Item	2017 vs. 2016 Due to volume	Due to rate	Net increase (decrease)
Assets			
Loans and advances to customers	591,379	(374,749)	216,630
Investments	1,545,656	(31,434)	1,514,222
Deposits and placements with banks and other financial institutions	58,442	109,321	167,763
Deposits with central bank	43,915	(1,954)	41,961
Long-term receivables	144,669	–	144,669
Interest income changes	**2,384,061**	**(298,816)**	**2,085,245**
Liabilities			
Deposits from customers	366,506	12,723	379,229
Deposits and placements from banks and other financial institutions	321,496	245,720	567,216
Debt securities issued	1,147,529	219,416	1,366,945
Others	(31,255)	8,657	(22,598)
Interest expense changes	**1,804,276**	**486,516**	**2,290,792**
Net interest income changes	**579,785**	**(785,332)**	**(205,547)**

In July 2017, WANG Lin, the president, attended CBRC press conference, at which he introduced the effective long-term mechanism and innovative method of the Bank on the protection of consumer rights.

5.3.4 Interest Income

During the year 2017, the Company's interest income was RMB11.750 billion, representing a year-on-year increase of RMB2.085 billion or 21.58%, mainly due to an increase in the volume of interest-earning assets. The interest income from loans and advances to customers and investments constituted the major part of the interest income of the Company.

Interest income of loans and advances to customers

During the year 2017, the Company's interest income of the loans and advances to customers was RMB4.460 billion, representing a year-on-year increase of RMB217 million or 5.11%. The following table sets forth the average balance, interest income and average yield of each component of the loans and advances to customers of the Company for the periods indicated.

Unit: RMB'000

	2017			2016		
Item	**Average balance**	**Interest income**	**Average yield**	Average balance	Interest income	Average yield
Corporate loans	**66,025,309**	**3,190,167**	**4.83%**	60,146,467	3,180,354	5.29%
Personal loans	**27,913,123**	**1,269,611**	**4.55%**	21,320,687	1,062,794	4.98%
Total loans to customers	93,938,432	4,459,778	4.75%	81,467,154	4,243,148	5.21%

Interest income from investments

During the year 2017, the Company's interest income from investments amounted to RMB6.267 billion, representing a year-on-year increase of RMB1.514 billion or 31.86%, mainly due to an increase in the volume of investments.

Interest income from deposits and placements with banks and other financial institutions

During the year 2017, the Company's interest income from deposits and placements with banks and other financial institutions amounted to RMB537 million, representing a year-on-year increase of RMB168 million or 45.43%, mainly due to an increase in the volume and interest margin of deposits and placements with banks and other financial institutions.

5.3.5 Interest Expense

During the year 2017, the Company's interest expense was RMB6.947 billion, representing a year-on-year increase of RMB2.291 billion or 49.20%, mainly due to an increase in the volume of interest-bearing liabilities and the increase in cost rate of market funds. Interest expenses on deposits from customers and debt securities issued were a major part of interest expense of the Company.

Interest expense on deposits from customers

During the year 2017, the Company's interest expense on deposits from customers amounted to RMB2.606 billion, representing a year-on-year increase of RMB379 million or 17.03%. The following table sets forth the average balance, interest expense and average cost rate of each component of the Company's deposits from customers for the periods indicated.

Unit: RMB'000

	2017			2016		
Item	Average balance	Interest expense	Average cost rate	Average balance	Interest expense	Average cost rate
Corporate deposits from customers						
Demand	**55,798,496**	**367,995**	**0.66%**	44,272,742	296,253	0.67%
Time	**42,201,224**	**1,091,892**	**2.59%**	35,982,197	763,474	2.12%
Subtotal	**97,999,720**	**1,459,887**	**1.49%**	80,254,939	1,059,727	1.32%
Personal deposits from customers						
Demand	**11,330,289**	**40,313**	**0.36%**	9,942,905	35,295	0.35%
Time	**38,338,653**	**1,105,548**	**2.88%**	37,033,824	1,131,497	3.06%
Subtotal	**49,668,942**	**1,145,861**	**2.31%**	46,976,729	1,166,792	2.48%
Total deposits from customers	**147,668,662**	**2,605,748**	**1.76%**	127,231,668	2,226,519	1.75%

In November 2017, the "Bank of Qingdao Charitable Foundation" was formally established. The picture shows CHEN Qing, Chief Supervisor, made a speech on the inauguration ceremony.

Interest expense on deposits and placements from banks and other financial institutions

During the year 2017, the Company's interest expense on deposits and placements from banks and other financial institutions amounted to RMB1.951 billion, representing a year-on-year increase of RMB567 million or 40.99%, mainly due to an increase in the volume, fund price and cost rate of deposits and placements from banks and other financial institutions.

Interest expense on issued debts

During the year 2017, the Company's interest expense on debt securities issued amounted to RMB2.357 billion, representing a year-on-year increase of RMB1.367 billion or 138.10%, mainly due to an increase in the volume and the cost rate of debt securities issued.

5.3.6 Net Non-interest Income

During the year 2017, the Company's net non-interest income amounted to RMB765 million, representing a year-on-year decrease of RMB223 million or 22.57%. The ratio of net fee and commission income to operating income is 14.89%, representing a year-on-year increase of 0.08 percentage point. The following table sets forth the major components of the Company's net non-interest income.

Unit: RMB'000

Item	2017	2016
Fee and commission income	**889,309**	952,124
Less: fee and commission expense	**(60,340)**	(63,991)
Net fee and commission income	**828,969**	888,133
Net trading (losses)/gains, net gains arising from investments and other operating income/(losses)	**(63,784)**	100,057
Total net non-interest income	**765,185**	988,190

5.3.7 Net fee and commission income

During the year 2017, the Company's net fee and commission income amounted to RMB829 million, representing a year-on-year decrease of RMB59 million or 6.66%, mainly due to decrease in settlement 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	2017	2016
Fee and commission income		
Wealth management service fees	**376,949**	311,613
Agency service fees	**258,094**	314,543
Settlement fees	**80,344**	202,467
Custody and bank card service fees	**46,081**	90,987
Others	**127,841**	32,514
Total	**889,309**	952,124
Fee and commission expense	**(60,340)**	(63,991)
Net fee and commission income	**828,969**	888,133

During the year 2017, the Company's wealth management service fees amounted to RMB377 million, representing a year-on-year increase of RMB65 million or 20.97%, mainly due to increase in the volume of wealth management products issued by the Company; agency service fees amounted to RMB258 million, representing a year-on-year decrease of RMB56 million or 17.95%, mainly due to the decline in the scale of asset management plans under structured financing business; settlement fees amounted to RMB80 million, representing a year-on-year decrease of RMB122 million or 60.32%, mainly due to decrease in income of trade finance settlement business; custody and bank card service fees amounted to RMB46 million, representing a year-on-year decrease of RMB45 million or 49.35%, mainly due to the Company's decrease in trust business and custody service fees, and reduction of some bank card service fees for the need of preferential customers; other fees income amounted to RMB128 million, representing a year-on-year increase of RMB95 million or 293.19%, mainly due to the inclusion of service fee of leasing business recognized by the newly established company BQD Financial Leasing Company Limited ("**BQD Financial Leasing**").

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

During the year 2017, the Company's net trading (losses)/gains, net gains arising from investments and other operating income/(losses) amounted to a total loss of RMB64 million, decreasing by RMB164 million or 163.75% as compared to the gains of RMB100 million in last year. Among which, net trading (losses)/gains decreased by RMB236 million as compared to that of last year, mainly due to a decrease in valuation of derivative financial instruments attributing to the fluctuation in foreign exchange rate; net gains arising from investments increased by RMB47 million as compared to that of last year, mainly due to an increase in net gains on disposal of available-for-sale financial assets. The following table sets forth the major components of the Company's net trading (losses)/gains, net gains arising from investments and other operating gains/(losses) (net) for the periods indicated.

Unit: RMB'000

Item	2017	2016
Net trading (losses)/gains	**(187,764)**	47,594
Net gains arising from investments	**100,330**	52,860
Other operating income/(losses)	**23,650**	(397)
Total	**(63,784)**	100,057

5.3.9 Operating Expenses

During the year 2017, the Company's operating expenses amounted to RMB1.819 billion, representing a year-on-year decrease of RMB395 million or 17.83%; the cost-to-income ratio was 31.68%, representing a year-on-year decrease of 3.03 percentage points, of which, staff costs decreased by RMB438 million or 35.29% as compared to that of last year, mainly due to a decrease in provision for performance-based remuneration. Property and equipment expenses increased by RMB55 million or 12.82% as compared to that of last year; tax and surcharges decreased by RMB78 million or 58.57% as compared to that of last year, mainly because business tax has been replaced with value-added tax since May 2016, and value-added tax was not reflected in tax on operating expenses. Other general and administrative expenses increased by RMB66 million or 16.15% as compared to that of last year. The following table sets forth the major components of the Company's operating expenses for the periods indicated.

Unit: RMB'000

Item	2017	2016
Staff costs	**803,562**	1,241,745
Property and equipment expenses	**487,149**	431,791
Tax and surcharges	**54,898**	132,498
Other general and administrative expenses	**473,313**	407,487
Total operating expenses	**1,818,922**	2,213,521

5.3.10 Impairment Losses

During the year 2017, the Company's impairment losses amounted to RMB1.379 billion, representing a year-on-year increase of RMB270 million or 24.35%. The following table sets forth the major components of the Company's impairment losses for the periods indicated.

Unit: RMB'000

Item	2017	2016
Loans and advances to customers	**1,284,514**	1,000,481
Long-term receivables	**68,389**	–
Financial investment: Receivables	**20,000**	105,500
Others	**6,001**	2,893
Total impairment losses	**1,378,904**	1,108,874

Loan impairment losses constituted the largest part of impairment losses. During the year 2017, the loan impairment losses amounted to RMB1.285 billion, representing a year-on-year increase of RMB284 million or 28.39%.

5.4 ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF FINANCIAL POSITION

5.4.1 Assets

As at the end of the year 2017, the Company's total assets amounted to RMB306.276 billion, representing an increase of RMB28.288 billion or 10.18% as compared with that at the end of last year, mainly due to the increase of the Company's loans and advances to customers as well as financial investments. The following table sets forth the components of the Company's total assets as at the dates indicated.

Unit: RMB'000

	31 December 2017		31 December 2016	
Item	Amount	% of total	Amount	% of total
Total loans and advances to customers	**98,061,379**	**32.02**	87,168,295	31.36
Provision for impairment on loans and advances to customers	**(2,546,699)**	**(0.83)**	(2,303,446)	(0.83)
Net loans and advances to customers	**95,514,680**	**31.19**	84,864,849	30.53
Financial investments	**164,410,351**	**53.68**	152,607,313	54.90
Cash and deposits with central bank	**27,097,814**	**8.85**	22,697,997	8.17
Deposits with banks and other financial institutions	**1,107,946**	**0.36**	6,421,827	2.31
Placements with banks and other financial institutions	**2,882,727**	**0.94**	619,210	0.22
Financial assets held under resale agreements	**3,584,200**	**1.17**	3,957,206	1.42
Financial assets at fair value through profit or loss	**179,078**	**0.06**	320,315	0.12
Long-term receivables	**4,076,396**	**1.33**	–	–
Property and equipment	**3,089,017**	**1.01**	1,221,493	0.44
Deferred income tax assets	**1,084,286**	**0.35**	602,519	0.22
Others assets	**3,249,597**	**1.06**	4,675,377	1.67
Total assets	**306,276,092**	**100.00**	277,988,106	100.00

5.4.1.1 Loans and advances to customers

As at the end of the year 2017, the Company's loans and advances to customers amounted to RMB98.061 billion, representing an increase of RMB10.893 billion or 12.50% as compared with that at the end of last year; net loans and advances to customers amounted to RMB95.515 billion, representing an increase of RMB10.650 billion or 12.55% as compared with that at the end of last year. The following table sets forth the loans and advances to customers of the Company by product type as at the dates indicated.

Unit: RMB'000

	31 December 2017		31 December 2016	
Item	Amount	% of total	Amount	% of total
Corporate loans	64,363,848	65.64	58,589,447	67.22
Discounted bills	2,951,203	3.01	3,874,462	4.44
Personal loans	30,746,328	31.35	24,704,386	28.34
Total loans and advances to customers	98,061,379	100.00	87,168,295	100.00
Less: impairment provision	(2,546,699)	/	(2,303,446)	/
Net loans and advances to customers	95,514,680	/	84,864,849	/

Corporate loans

As at the end of the year 2017, the Company's total corporate loans amounted to RMB64.364 billion, representing an increase of RMB5.774 billion or 9.86% as compared with that at the end of last year, and accounted for 65.64% of the total loans and advances to customers, representing a decrease of 1.58 percentage points as compared with that at the end of last year. During the year 2017, the Company was in line with the macroeconomic policies of "transfer mode and adjust structure" of the state. With the method of inventory adjustment and incremental optimization, the Bank reasonably allocated the credit resources through internal structure adjustment, focused on livelihood finance and listing finance, aimed to meet the reasonable credit needs of national and provincial key projects in construction, and the new-old energy conversion project under the condition that it is in compliance with regulatory requirements and the national policies. In addition, the opening of local branches has also increased the credit for local enterprises.

Discounted bills

As at the end of the year 2017, the Company's total discounted bills amounted to RMB2.951 billion, representing a decrease of RMB923 million or 23.83% as compared with that at the end of last year, and accounted for 3.01% of the total loans and advances to customers, representing a decrease of 1.43 percentage points as compared with that at the end of last year. During the year 2017, in order to ensure the Company's credit size, assets structure and scale meet the regulatory and internal requirements, and on the premise of making profits of discounted bills, the Company adjusted the bill financing business, and the discount rate was reduced as compared with that of last year.

Personal loans

As at the end of the year 2017, the Company's total personal loans amounted to RMB30.746 billion, representing an increase of RMB6.042 billion or 24.46% as compared with that at the end of last year, and accounted for 31.35% of total loans and advances to customers, representing an increase of 3.01 percentage points as compared with that at the end of last year. During the year 2017, the Company reasonably arranges the progress of housing loan as permitted by policies, the personal housing loan has increased to a certain extent, and the scale of supply chain finance business is expanding continuously, so as to actively support the development of real economy.

5.4.1.2 Investment

As at the end of the year 2017, the Company's carrying value of investment amounted to RMB164.589 billion, representing an increase of RMB11.662 billion or 7.63% as compared with that at the end of last year. The Company's investments consist of financial assets at fair value with changes through current profit or loss, available-for-sale financial assets, held-to-maturity investments and receivables. The following table sets forth the components of the Company's investment portfolio as at the dates indicated.

Unit: RMB'000

	31 December 2017		31 December 2016	
Item	**Amount**	**% of total**	Amount	% of total
Financial assets at fair value through profit or loss	**179,078**	**0.11**	320,315	0.21
Available-for-sale financial assets	**79,086,556**	**48.05**	58,410,672	38.20
Held-to-maturity investments	**38,644,926**	**23.48**	31,324,703	20.48
Receivables	**46,678,869**	**28.36**	62,871,938	41.11
Total	**164,589,429**	**100.00**	152,927,628	100.00

Financial assets at fair value through profit or loss

As at the end of the year 2017, the Company's total financial assets at fair value with changes through current profit or loss amounted to RMB179 million, decreased by RMB141 million or 44.09% as compared with that at the end of last year, mainly because the reduction in the positions of debt securities issued by policy banks in such assets by the Company. The following table sets forth the components of the Company's financial assets at fair value with changes through current profit or loss as at the dates indicated.

Unit: RMB'000

Item	**31 December 2017**	31 December 2016
Debt securities issued by policy banks	**–**	129,600
Debt securities issued by banks and other financial institutions	**138,232**	141,756
Debt securities issued by corporate entities	**40,846**	48,959
Total financial assets at fair value with changes through current profit or loss	**179,078**	320,315

Available-for-sale financial assets

As at the end of the year 2017, the Company's total available-for-sale financial assets amounted to RMB79.087 billion, representing an increase of RMB20.676 billion or 35.40% as compared with that at the end of last year, mainly because the Company adjusted the structure of available-for-sale financial assets, enlarged the investment in asset management plan, capital trust plan and the wealth management products issued by financial institutions in 2017, so as to meet the needs of asset allocation. The following table sets forth the components of the Company's available-for-sale financial assets as at the dates indicated.

Unit: RMB'000

Item	31 December 2017	31 December 2016
Debt securities	**30,332,516**	30,584,602
Wealth management products issued by financial institutions	**20,997,129**	1,502,025
Asset management plans	**13,912,231**	4,595,499
Investment funds	**8,634,391**	20,314,636
Trust fund plans	**5,187,039**	1,390,660
Equity investments	**23,250**	23,250
Total available-for-sale financial assets	**79,086,556**	58,410,672

Held-to-maturity investments

As at the end of 2017, the Company's total held-to-maturity investments was RMB38.645 billion, representing a year-on-year increase of RMB7.320 billion or 23.37%. The Company kept the held-to-maturity investments on a long-term basis as strategic allocation. In 2017, the Company increased investments in policy financial bonds and debt securities issued by banks and other financial institutions. The following table sets forth the components of the Company's held-to-maturity investments as at the date indicated.

Unit: RMB'000

Item	31 December 2017	31 December 2016
Government bonds	**11,244,166**	10,042,362
Debt securities issued by policy banks	**14,748,401**	11,792,171
Debt securities issued by banks and other financial institutions	**10,888,829**	8,070,558
Debt securities issued by corporate entities	**1,763,530**	1,419,612
Total held-to-maturity investments	**38,644,926**	31,324,703
Fair value of held-to-maturity investments	**36,656,311**	31,299,756

Receivables

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

As at the end of 2017, the Company's net receivables amounted to RMB46.679 billion, representing a year-on year decrease of RMB16.193 billion or 25.76%. In 2017, the Company adjusted the structure of receivables and decreased in its investing in wealth management products issued by financial institutions. The following table sets forth the components of the Company's receivables as at the date indicated.

Unit: RMB'000

Item	31 December 2017	31 December 2016
Asset management plans	**29,459,861**	31,240,341
Trust fund plans	**13,530,830**	10,911,401
Beneficiary certificates	**3,322,063**	1,500,000
Beneficiary rights in margin financing	**505,720**	500,000
Wealth management products issued by financial institutions	**–**	18,855,505
Others	**76,395**	60,691
Total receivables	**46,894,869**	63,067,938
Less: provision for impairment	**(216,000)**	(196,000)
Net receivables	**46,678,869**	62,871,938

Investment in securities

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

Name of bond	Nominal value (RMB10 thousand)	Coupon	Value date	Maturity date	Term (years)	Remaining years to maturity (years)
17 Interest-bearing Government Bond 14	56,000	3.47	2017-07-13	2022-07-13	5	4.53
13 Interest-bearing Government Bond 18	55,000	4.08	2013-08-22	2023-08-22	10	5.64
13 Interest-bearing Government Bond 25	50,000	5.05	2013-12-09	2043-12-09	30	25.96
17 Interest-bearing Government Bond 18	40,000	3.59	2017-08-03	2027-08-03	10	9.59
17 Interest-bearing Government Bond 25	27,000	3.82	2017-11-02	2027-08-02	10	9.59
13 Interest-bearing Government Bond 16	20,000	4.32	2013-08-12	2033-08-12	20	15.62
12 Interest-bearing Government Bond 15	15,000	3.39	2012-08-23	2022-08-23	10	4.65
01 Government Bond 11	8,000	3.85	2001-10-23	2021-10-23	20	3.81
02 Government Bond 05	5,000	2.90	2002-05-24	2032-05-24	30	14.41
09 Interest-bearing Government Bond 16	5,000	3.48	2009-07-23	2019-07-23	10	1.56

5.4.2 Liabilities

As at the end of 2017, the Company's total liabilities amounted to RMB280.153 billion, representing a year-on-year increase of RMB19.801 billion or 7.61%, mainly due to the stable increase in deposits from customers and debt securities issued. The following table sets forth the components of the Company's total liabilities as at the date indicated.

Unit: RMB'000

	31 December 2017		31 December 2016	
Item	Amount	% of total amount	Amount	% of total amount
Deposits from customers	160,083,783	57.14	141,604,761	54.39
Deposits from banks and other financial institutions	24,901,934	8.89	45,018,569	17.29
Borrowings from central bank	584,215	0.21	3,432,407	1.32
Placements from banks and other financial institutions	5,774,299	2.06	6,925,270	2.66
Financial derivative liabilities	353,220	0.13	–	–
Financial assets sold under repurchase agreements	11,899,583	4.25	17,043,065	6.55
Income tax payable	57,167	0.02	211,940	0.08
Debt securities issued	68,632,691	24.50	41,786,221	16.05
Other liabilities	7,865,991	2.80	4,329,900	1.66
Total liabilities	280,152,883	100.00	260,352,133	100.00

5.4.2.1 Deposits from customers

As at the end of 2017, our total deposits from customers amounted to RMB160.084 billion, representing an increase of RMB18.479 billion or 13.05% as compared with that at the end of last year, and accounted for 57.14% of our total liabilities, being our primary source of funding. The following table sets forth, as at the date indicated, the Company's deposits from customers by product type and customer type.

Unit: RMB'000

	31 December 2017		31 December 2016	
Item	Amount	% of total amount	Amount	% of total amount
Corporate deposits	107,274,155	67.01	92,649,142	65.43
Demand deposits	65,421,504	40.87	54,911,942	38.78
Time deposits	41,852,651	26.14	37,737,200	26.65
Personal deposits	52,225,500	32.62	48,665,671	34.37
Demand deposits	17,935,483	11.20	10,093,140	7.13
Time deposits	34,290,017	21.42	38,572,531	27.24
Outward remittance and remittance payables	566,193	0.36	268,881	0.19
Fiscal deposits to be transferred	17,935	0.01	21,067	0.01
Total deposits from customers	160,083,783	100.00	141,604,761	100.00

As at the end of 2017, the Company's demand deposits accounted for 52.07% of total deposits from customers, representing an increase of 6.16 percentage points as compared with that of the last year. Among those deposits, corporate demand deposits accounted for 60.99% of corporate deposits, representing an increase of 1.72 percentage points as compared with that at the end of last year; and personal demand deposits accounted for 34.34% of personal deposits, representing an increase of 13.60 percentage points as compared with that at the end of last year.

5.4.2.2 Deposits from banks and other financial institutions

As at the end of 2017, the Company's deposits from banks and other financial institutions amounted to RMB24.902 billion, representing a decrease of RMB20.117 billion or 44.69% as compared with that at the end of last year, mainly due to the Company's adjustment of the structure of interbank liabilities, increase in volume of certificates interbank deposit, and corresponding decrease in deposit from banks and other financial institutions.

5.4.2.3 Debt securities issued

As at the end of 2017, the Company's debt securities issued amounted to RMB68.633 billion, representing an increase of RMB26.846 billion or 64.25% as compared with that at the end of last year, of which the balance of certificates of interbank deposit issued increased by RMB21.848 billion or 76.13% as compared with that of last year, mainly due to the Company's establishment of marketized financing channels and increase in the volume of certificates from interbank deposit. The balance of debt securities issued increased by RMB4.998 billion or 38.19% as compared with that of last year, mainly because the two terms of Tier-2 Capital Bonds are of a total nominal value of RMB5 billion issued by the Company in 2017.

5.4.3 Equity attributable to shareholders

As at the end of 2017, the Company's equity attributable to shareholders amounted to RMB26.123 billion, representing a year-on-year increase of RMB8.487 billion or 48.12%. Equity attributable to shareholders that belongs to our bank amounted to RMB25.630 billion, representing a year-on-year increase of RMB7.994 billion or 45.33%. On 19 September 2017, the Company successfully issued overseas preferential shares amounting to USD1.203 billion, increasing the equity attributable to shareholders.

Unit: RMB'000

Item	31 December 2017	31 December 2016
Share capital	**4,058,713**	4,058,713
Other equity instruments	**7,853,964**	–
Capital reserve	**6,826,276**	6,826,276
Surplus reserve	**1,203,325**	1,013,649
General reserve	**3,969,452**	3,696,090
Investment revaluation reserve	**(882,006)**	66,617
Other reserve	**(3,443)**	(3,473)
Retained earnings	**2,603,573**	1,978,101
Total equity attributable to shareholders of the Bank	**25,629,854**	17,635,973
Non-controlling interests	**493,355**	–
Total equity attributable to shareholders	**26,123,209**	17,635,973

5.5 ANALYSIS OF QUALITY OF LOANS

During the Reporting Period, the Company strengthened its dynamic monitoring and risk resolving on the quality in credit asset. The Bank also implemented credit policies and strengthened risk management and control in key aspects, as a result, the size of credit asset increased soundly. Affected by the adjustment of regional economy structure, the non-performing loans ratio increased while the provision coverage ratio satisfies the regulatory requirements. As at the end of the Reporting Period, the total amount of loans of the Company was RMB98.061 billion, representing an increase of 12.50% as compared with that at the end of last year. The total amount of non-performing loans was RMB1.659 billion, representing an increase of RMB472 million as compared with that at the end of last year. The non-performing loans ratio was 1.69%, increasing by 0.33 percentage point as compared to that at the end of last year. The provision coverage ratio of the non-performing loans was 153.52%, decreasing by 40.49 percentage points as compared to that at the end of last year. The loan provision ratio decreased by 0.04 percentage point compared to that at the end of last year to 2.60%.

5.5.1 Distribution of loans by five categories

Unit: RMB'000

	31 December 2017		31 December 2016	
Item	**Amount**	**% of total amount**	Amount	% of total amount
Normal	**91,057,486**	**92.86**	82,513,800	94.66
Special mention	**5,345,060**	**5.45**	3,467,216	3.98
Substandard	**535,614**	**0.55**	539,426	0.62
Doubtful	**1,002,454**	**1.02**	589,156	0.67
Loss	**120,765**	**0.12**	58,697	0.07
Total loans to customers	**98,061,379**	**100.00**	87,168,295	100.00
Total non-performing loans	**1,658,833**	**1.69**	1,187,279	1.36

Pursuant to the regulatory requirement of risk-based loan classification, the Company adopted the five-category classification system for loan supervision. The non-performing loans of the Company are classified as substandard, doubtful and loss. During the Reporting Period, the Company monitored the quality of loans and sped up in handling non-performing loans. The total non-performing loans are mainly substandard loans and doubtful loans. As at the end of the Reporting Period, the proportion of substandard loans was 0.55%, representing a year-on-year decrease of 0.07 percentage point, the proportion of doubtful loans was 1.02%, representing an increase of 0.35 percentage point as compared with that at the end of last reporting period.

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

Unit: RMB'000

	31 December 2017				31 December 2016			
Item	**Amount of loans**	**% of total amount**	**Amount of non-performing loans**	**Non-performing loan ratio %**	Amount of loans	% of total amount	Amount of non-performing loans	Non-performing loan ratio %
Corporate loans	**67,315,051**	**68.65**	**1,293,675**	**1.92**	62,463,909	71.66	917,247	1.47
Working capital loans	**46,782,433**	**47.71**	**1,064,983**	**2.28**	43,391,254	49.79	685,428	1.58
Fixed asset loans	**17,012,861**	**17.35**	**223,394**	**1.31**	14,883,451	17.07	115,733	0.78
Import and export bills transactions	**460,772**	**0.47**	**–**	**–**	142,824	0.16	–	–
Discounted bills	**2,951,203**	**3.01**	**–**	**–**	3,874,462	4.44	–	–
Others	**107,782**	**0.11**	**5,298**	**4.92**	171,918	0.20	116,086	67.52
Retails loans	**30,746,328**	**31.35**	**365,158**	**1.19**	24,704,386	28.34	270,032	1.09
Personal residential mortgage	**24,128,570**	**24.61**	**22,366**	**0.09**	18,264,561	20.96	42,149	0.23
Personal business loans	**3,265,881**	**3.33**	**314,483**	**9.63**	4,196,778	4.81	183,981	4.38
Personal consumption loans	**1,746,965**	**1.78**	**16,918**	**0.97**	1,048,217	1.20	28,454	2.71
Others	**1,604,912**	**1.63**	**11,391**	**0.71**	1,194,830	1.37	15,448	1.29
Total loans to customers	**98,061,379**	**100.00**	**1,658,833**	**1.69**	87,168,295	100.00	1,187,279	1.36

Under the background of replacement of old drivers with new ones and consistent improvement in the supply-side reform, the Company actively responded to the dynamic changes of demand in effective credits. Based on the foundation of committing to the principle of prudence, the scale of loans recorded a sustainable increase. As at the end of the Reporting Period, the proportion of corporate loans of the Company decreased by 3.01 percentage points as compared to that of the end of last year to 68.65%. Under the impact from multiple factors including the macroeconomic situation and the external market, non-performing ratio increased by 0.45 percentage point compared to that of the end of last year to 1.92%.

The Company steadily developed in retail loans, adjusted in loans structure and enhanced distribution of individual housing loans of the Company. The proportion of retail loans increased by 3.01 percentage points to 31.35%. Under the impact of decrease in business profit of some borrowers and other factors, non-performing rate increased by 0.10 percentage point as compared to that at the end of last year to 1.19%.

5.5.3 Distribution of loans and non-performing loans by industry

Unit: RMB'000

Item	31 December 2017				31 December 2016			
	Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Nonperforming loan ratio %	Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %
Corporate loans	67,315,051	68.65	1,293,675	1.92	62,463,909	71.66	917,247	1.47
Manufacturing	16,870,734	17.20	748,086	4.43	18,825,857	21.60	411,518	2.19
Construction	9,192,196	9.37	75,420	0.82	9,169,167	10.52	106,970	1.17
Renting and business activities	8,184,724	8.35	8,850	0.11	6,799,075	7.80	12,000	0.18
Water, environment and public utility management	8,757,857	8.93	–	–	6,416,683	7.36	–	–
Wholesale and retail trade	7,275,598	7.42	221,219	3.04	6,254,015	7.17	265,159	4.24
Production and supply of electric and heating power, gas and water	3,838,368	3.91	1,500	0.04	3,567,969	4.09	–	–
Real estate	4,148,613	4.23	100,000	2.41	3,549,132	4.07	100,000	2.82
Financial services	4,288,439	4.37	–	–	2,420,730	2.78	–	–
Transportation, storage and postal services	1,950,773	1.99	–	–	2,237,931	2.57	3,000	0.13
Others	2,807,749	2.88	138,600	4.94	3,223,350	3.70	18,600	0.58
Retail loans	30,746,328	31.35	365,158	1.19	24,704,386	28.34	270,032	1.09
Total loans to customers	98,061,379	100.00	1,658,833	1.69	87,168,295	100.00	1,187,279	1.36

In 2017, the Company actively optimized the allocation of risk assets and served the real economy, increased credit support for small and micro enterprises, agriculture-related economy, people's livelihood projects, projects in relation to the replacement of old drivers with new ones and industrial upgrading projects. The Bank also actively adjusted credit structure, and strictly controlled credit input in industries with production overcapacity and unclear prospects. The ability of additional credit assets to shield against risks has continued to increase. Under the impact of the structural mismatch of regional economy, declining market demand and other factors, there is an increase in the corporate non-performing loans of the Company. Regarding the industrial distribution, 74.93% of the corporate non-performing loans concentrated in manufacturing and wholesale and retail trade industries, upon the adjustment of credit structure in 2017, the proportion of loan for these two industries out of the total loans reduced from 28.77% to 24.62%.

5.5.4 Distribution of Loans and Non-Performing Loans by Region

Unit: RMB'000

Region	31 December 2017 Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %	31 December 2016 Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %
Qingdao	**57,515,098**	**58.63**	**755,579**	**1.31**	51,722,696	59.34	742,937	1.44
Dongying	**8,324,279**	**8.49**	**413,199**	**4.96**	8,334,824	9.56	44,923	0.54
Jinan	**6,633,966**	**6.77**	**260,925**	**3.93**	6,669,238	7.65	124,383	1.87
Weihai	**7,537,049**	**7.69**	**18,105**	**0.24**	6,517,455	7.48	16,770	0.26
Zibo	**4,731,123**	**4.82**	**104,093**	**2.20**	3,774,447	4.33	100,117	2.65
Binzhou	**3,164,601**	**3.23**	**92,119**	**2.91**	3,618,887	4.15	124,694	3.45
Yantai	**3,071,566**	**3.13**	**7,500**	**0.24**	2,036,698	2.34	33,444	1.64
Weifang	**3,148,658**	**3.21**	**–**	**–**	2,035,122	2.33	–	–
Dezhou	**1,535,731**	**1.57**	**7,313**	**0.48**	1,589,169	1.82	11	–
Zaozhuang	**1,683,604**	**1.72**	**–**	**–**	864,468	0.99	–	–
Laiwu	**270,401**	**0.28**	**–**	**–**	5,291	0.01	–	–
Jining	**283,000**	**0.29**	**–**	**–**	–	–	–	–
Linyi	**162,303**	**0.17**	**–**	**–**	–	–	–	–
Total loans to customers	**98,061,379**	**100.00**	**1,658,833**	**1.69**	87,168,295	100.00	1,187,279	1.36

As the largest city commercial bank based in Qingdao with a footprint extending to other regions of Shandong Province, the Bank continuously optimized the allocation of regional credit resources and strengthened risk management and control in key areas. Facing the adjustment of regional economy structure of Shandong where the Bank is located with mounting pressure from non-performing loans, the Bank strengthened the assessment and incentive measures for its branches and implemented centralized approval of corporate credit services. Under the impact of the slowdown in local economic growth, declining market demand and other factors, Dongying and Jinan were the regions with higher non-performing loans.

5.5.5 Distribution of Loans and Non-Performing Loans by type of Collateral

Unit: RMB'000

Item	31 December 2017 Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %	31 December 2016 Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %
Unsecured loans	**10,323,398**	**10.53**	**50,165**	**0.49**	6,569,160	7.54	49,751	0.76
Guaranteed loans	**36,089,725**	**36.80**	**1,183,952**	**3.28**	34,549,877	39.64	595,653	1.72
Mortgage loans	**40,096,655**	**40.89**	**424,716**	**1.06**	35,149,440	40.32	541,875	1.54
Pledged loans	**11,551,601**	**11.78**	**–**	**–**	10,899,818	12.50	–	–
Total loans to customers	**98,061,379**	**100.00**	**1,658,833**	**1.69**	87,168,295	100.00	1,187,279	1.36

The Company strengthened risk prevention and control by increasing the risk mitigation measures such as pledged collateral. The highest proportion of mortgage loans reached 40.89%, and the proportion of guaranteed loans with high non-performing loan ratio dropped by 2.84 percentage points to 36.80%. The Company increased its support to local infrastructure construction and public sector Finance projects, some of which were unsecured loans. The proportion of unsecured loans increased by 2.99 percentage points to 10.53% as compared with that at the end of last year, while under the impact of the adjustment of regional economy structure, the non-performing loan ratio of guaranteed loans of the Company increased from 1.72% to 3.28%.

5.5.6 Loans to the Top Ten Single Borrowers

Unit: RMB'000

Names of 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	1,459,000	4.32	1.49
B	Financial services	1,279,000	3.78	1.30
C	Renting and business activities	1,186,189	3.51	1.21
D	Water, environment and public utility management	990,000	2.93	1.01
E	Construction	938,000	2.77	0.96
F	Financial services	900,000	2.66	0.92
G	Renting and business activities	867,288	2.57	0.88
H	Renting and business activities	800,000	2.37	0.82
I	Financial services	790,000	2.34	0.81
J	Public Management, social security and social organizations	666,310	1.96	0.67
Total		9,875,787	29.21	10.07

As at the end of the Reporting Period, the total amount of loans of the top ten single borrowers of the Company was RMB9.876 billion, accounting for 29.21% of the net capital of the Company and representing 10.07% of the total amount of loans of the Company. The loan balance of the largest single borrower of the Company was RMB1.459 billion, accounting for 4.32% of the net capital of the Company.

5.5.7 Distribution of Loans by Overdue Period

Unit: RMB'000

	31 December 2017		31 December 2016	
Overdue period	**Amount**	**Percentage of total loans %**	Amount	Percentage of total loans %
Overdue for 3 months (inclusive) or less	**1,551,189**	**1.58**	2,042,735	2.35
Overdue for over 3 months to 1 year (inclusive)	**916,246**	**0.93**	849,391	0.97
Overdue for over 1 year to 3 years (inclusive)	**932,357**	**0.95**	582,928	0.67
Overdue for over 3 years	**112,977**	**0.12**	52,487	0.06
Total overdue loans	**3,512,769**	**3.58**	3,527,541	4.05
Total loans to customers	**98,061,379**	**100.00**	87,168,295	100.00

As at the end of the Reporting Period, the amount of overdue loans of the Company was RMB3.513 billion, representing a decrease of RMB15 million as compared with that at the end of last year. The proportion of overdue loans to the total amount of loans of the Company was 3.58%, representing a decrease of 0.47 percentage point as compared with that at the end of last year. Among them, the loans overdue for three months (inclusive) or less was RMB1.551 billion, accounting for 44.16% of overdue loans. The Company adopted a stricter classification standard, for which the loans of all or part of the principal or interest that has been overdue for more than one day (inclusive) should be deemed as overdue loans. The ratio of loans overdue for more than 90 days to non-performing loans was 1.18, representing a decrease of 0.07 as compared with that at the end of last year.

5.5.8 Repossessed assets and provision for impairment

As at the end of the Reporting Period, the total amount of the repossessed assets of the Company was RMB5.9305 million with no provision for impairment, and the net amount of repossessed assets was RMB5.9305 million.

5.5.9 Changes in Provision for Impairment of Loans

The Company uses two methods to assess impairment losses of loans: those assessed individually and those assessed on a collective basis. Loans, which are considered individually significant or have unique credit risk characteristics, 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	2017	2016
Balance at the beginning of the year	**2,303,446**	2,040,297
Charge for the year	**1,374,825**	1,064,268
Release for the year	**(90,311)**	(63,787)
Unwinding of discount	**(30,730)**	(22,504)
Write-offs and transfer out for the year	**(1,042,762)**	(745,878)
Recoveries of loans and advances written off and others	**32,231**	31,050
Balance at the end of the year	**2,546,699**	2,303,446

As at the end of the Reporting Period, the Company's balance of provision for impairment of loans amounted to RMB2.547 billion, representing an increase of RMB243 million or 10.56% as compared with that at the end of last year; the provision coverage ratio reached 153.52% and the provision rate of loans stood at 2.60%.

5.5.10 Countermeasures taken against non-performing assets

During the Reporting Period, the Bank mainly adopted the following measures on management of non-performing assets to manage and control the asset quality and ensure its stability:

(1) Strictly control the quality of loans. The Bank specified its credit policies, strictly controlled the new credit granted to "high pollution, high energy-consumption and over-capacity" industries and zombie enterprises and compressed credit stock, which prevented the occurrence of new non-performing loans at the source.

(2) Accelerate the disposal of existing non-performing loans. The Bank reinforced the coordination with the judicial departments of various levels to quicken the clearing and receiving of non-performing loans through litigation. It also strengthened the communication and cooperation with industry association and interbank and made full use of the operation mechanism of the Banking Creditors' Committee to positively take part in the combined reduction and disposal of non-performing assets and risks, so as to fully guarantee and maintain its legitimate interests. In addition, the Bank gradually explored multiple channels to reduce and dispose of non-performing assets based on the conventional clearing and receiving means, and strengthened write-off of non-performing assets to optimize credit asset structure.

(3) Strengthen the dynamic monitoring and risk reduction of credit asset quality. The Bank monitored overdue loans per day, and regularly analyzed non-performing loans and overdue loans to be kept duly informed of the developments of risk loans. The Bank also improved the response speed and effectiveness of preservative measures in litigation taken against risk loans to gain the initiative in disposal. Besides, the Bank enhanced credit policy studies and individualized studies, collected and sorted out cases of risk customers and arranged for training and learning to intensify the asset preservation ability and team construction.

5.5.11 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. Firstly, to prevent large-sum credit risk, the Bank established the Large-sum Credit Extension Review Committee composed of senior management of the head office to review 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. Secondly, the Bank strengthened the identification of group customers and invisible related relationship among enterprises; the invisible related relationship among corporate customers was identified from such dimensions as corporate product flow, corporate capital flow, corporate guarantee circle and family ties of actual controllers. Thirdly, the Bank strengthened unified management of credit extension to group customers and determined composite credit limit for them. The Bank controlled the credit limit through credit risk management system, teased and updated the list of group customers in a timely manner, prudently checked credit limits to prevent concentration risk, and improved its group customer management level on an ongoing basis.

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

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

5.6 ANALYSIS OF CAPITAL ADEQUACY RATIO 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 capital saving, and raised capital saving awareness of operating agencies. In the performance appraisal scheme, the Company 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.

5.6.1 Capital adequacy ratio

The Company calculates capital adequacy ratio in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) issued by the CBRC and other regulatory provisions. The on-balance sheet weighted risk assets are calculated with different risk weights determined in accordance with each asset, credit 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.

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

Unit: RMB'000

Item	31 December 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	**5,172,777**	4,709,739
Retained earnings	**2,603,573**	1,978,101
Investment revaluation reserve and others	**(885,449)**	63,144
Qualifying portion of non-controlling interests	**155,327**	–
Core tier-one capital deductions	**(197,454)**	(171,661)
Net core tier-one capital	**17,733,763**	17,464,312
Net amount of other tier-one capital	**7,874,674**	–
Net tier-one capital	**25,608,437**	17,464,312
Net tier-two capital	**8,197,676**	3,319,322
Net capital base	**33,806,113**	20,783,634
Total credit risk-weighted assets	**180,791,585**	158,615,965
Total market risk-weighted assets	**12,629,951**	5,060,653
Total operation risk-weighted assets	**10,287,348**	9,591,315
Total risk-weighted assets	**203,708,884**	173,267,933
Core tier-one capital adequacy ratio	**8.71%**	10.08%
Tier-one capital adequacy ratio	**12.57%**	10.08%
Capital adequacy ratio	**16.60%**	12.00%

As at the end of the Reporting Period, the Company's capital adequacy ratio amounted to 16.60%, representing an increase of 4.60 percentage points as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 8.71%, representing a decrease of 1.37 percentage points as compared with that at the end of last year. Changes in capital adequacy ratio of the Company during the Reporting Period are mainly attributable to the successive completion of issuance of tier-two capital bonds and overseas preference shares, which promoted the huge increase in net capital of the Company; therefore, the indicators of the capital adequacy ratio increased significantly as compared with that at the end of last year.

5.6.2 Leverage ratio

The leverage ratio of commercial banks shall not be less than 4% in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision) of the CBRC. As at the end of the Reporting Period, the Company's leverage ratio calculated based on the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision) stood at 7.88%, higher than the regulatory requirements of the CBRC.

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

Unit: RMB'000

No.	Item	Balance as at 31 December 2017
1	Total consolidated assets	**306,276,092**
2	Consolidated adjustments	**–**
3	Customer assets adjustments	**–**
4	Derivative adjustments	**82,331**
5	Securities financing transactions adjustments	**–**
6	Off-balance sheet items adjustments	**18,906,591**
7	Other adjustments	**(197,454)**
8	Balance of assets on and off balance sheet after adjustments	**325,067,560**

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

Unit: RMB'000

No.	Item	Balance as at 31 December 2017
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	**302,691,892**
2	Less: tier-one capital deductions	**(197,454)**
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	**302,494,438**
4	Replacement cost of various types of derivatives (net of qualified margins)	**–**
5	Potential risk exposure in various derivatives	**82,331**
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	**82,331**
12	The balance of accounting assets for securities financing transactions	**3,584,200**
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	**3,584,200**
17	The balance of items off balance sheet	**18,906,591**
18	Less: the balance of items off balance sheet reduced due to credit conversion	**–**
19	The balance of items off balance sheet after adjustments	**18,906,591**
20	Net tier-one capital	**25,608,437**
21	The balance of assets on and off balance sheet after adjustments	**325,067,560**
22	Leverage ratio	**7.88%**

5.7 SEGMENT REPORTING

The following segment operating performance is presented by business segment. The Company's main businesses include corporate banking, retail banking, financial market business, unallocated items and others. 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	2017 Segment profit before taxation	2017 Ratio (%)	2016 Segment profit before taxation	2016 Ratio (%)
Corporate banking	**845,060**	**35.66**	1,121,316	41.93
Retail banking	**637,373**	**26.90**	451,879	16.90
Financial market business	**857,127**	**36.17**	1,103,868	41.29
Unallocated items and others	**30,207**	**1.27**	(3,313)	(0.12)
Total	**2,369,767**	**100.00**	2,673,750	100.00

Unit: RMB'000

Item	2017 Segment operating income	2017 Ratio (%)	2016 Segment operating income	2016 Ratio (%)
Corporate banking	**3,008,684**	**54.04**	3,039,614	50.69
Retail banking	**1,166,877**	**20.96**	1,234,945	20.60
Financial market business	**1,235,783**	**22.20**	1,724,899	28.77
Unallocated items and others	**156,249**	**2.80**	(3,313)	(0.06)
Total	**5,567,593**	**100.00**	5,996,145	100.00

5.8 OTHER FINANCIAL INFORMATION

5.8.1 Analysis of off-balance sheet items

The Company's off-balance sheet items include credit commitments, operating lease commitments, capital commitments, etc. Credit commitments are the most important parts and as at the end of the Reporting Period, the balance of credit commitments reached RMB19.421 billion. For details, please refer to Note 43 of the financial statements in this annual report.

5.8.2 Overdue and outstanding debts

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

5.8.3 Charges on Assets

Some of the Company's assets are pledged as collateral under repurchase agreements, deposits from banks and other financial institutions, borrowings from central bank and deposits from customers as at the end of the Reporting Period. For details, please refer to Note 43 of the financial statements in this annual report.

5.9 BUSINESS DEVELOPMENT STRATEGY

Facing the increasingly severe economic and financial situation at home and abroad and the ever-changing overall situation of reform and development, the Company carried out the strategy of characteristic and differentiated development based on steady development. The Company accelerated the development of financial technologies and promoted the optimization and upgrading of interface banking. By strengthening the docking and cooperation with internet financing platforms, the Company effectuated strength complementation and resource integration, providing customers with all-rounded and comprehensive financial services. The Company continued to promote transformation towards developing investment banking and featured businesses. The Company flexibly used various direct financing instruments, actively participated in bidding of government projects and bond issue of enterprises and developed in-depth fields such as people's livelihood finance, listed enterprise finance and micro-finance. The Company innovatively expanded artistic innovation finance, technology finance and port finance, and sought to build differentiation advantages through professional and customized services. With regard to retail business, the Company accelerated the exploration and innovation in consumption finance, realized the interaction among business by integrating online and offline platforms through crossover cooperation and further improved the service quality and efficiency of "the most convenient bank for customers" by "conducting service gold digging" and "making breakthroughs in efficiency". Regarding financial market business, under the policy environment of strict regulation and MPA regulation, the Company adjusted investment strategies in a timely manner, optimized the interbank liability structure, established a diversified and decentralized partner institutional system and enhanced the liquidity management and risk control capabilities.

5.10 OVERVIEW OF BUSINESS DEVELOPMENT

5.10.1 Retail banking

During the Reporting Period, as an important development strategy, the Bank continued to enhance "interface banking" business mode, and achieved a remarkable success in the aspects such as acquiring a massive number of customers, increasing asset volume, upgrading convenience service and improving customer experience by upgrading the platforms of transportation, medical treatment, industry parks payment, cloud payment and supply chain financing. The Bank also continued to deepen the QR code payment and business of second-hand housing funding regulation, which contributed more and more to liabilities businesses, especially the demand deposit. Meanwhile, the Bank continuously expanded the scale of supply chain finance business and steadily promoted the cooperation on internet small-amount consumption loans.

1. Retail deposits

As at the end of the Reporting Period, the retail deposit balances reached RMB52.226 billion, representing an increase of RMB3.560 billion or 7.31% as compared with that at the end of the previous year and accounting for 32.62% of the balance of various deposits. Particularly, the demand deposits amounted to RMB17.935 billion, representing an increase of RMB7.842 billion or 77.70% as compared with that at the end of the previous year and accounting for 34.34% of the retail deposits, representing an increase of 13.60 percentage points as compared with that at the end of the previous year. The average cost rate of retail deposits was 2.31%, representing a decrease of 0.17 percentage point as compared with that at the end of the previous year.

During the Reporting Period, the Bank issued a total of 3,548,700 bank cards to retail customers, representing a year-on-year increase of 9.31%, and the transaction amount added up to RMB118.796 billion, representing a year-on-year decrease of 3.60%.

The Bank continued to implement the "interface banking" strategy. The Bank signed and put on line 12 "all-in-one cards" projects during the Reporting Period, and saw an addition of 450,000 retail customers; five hospitals were signed in Bank Hospital Pass business and put online and the Bank signed with three hospitals, and the number of cooperative hospitals reached 12, realized cross marketing of payroll service business and POS settlement business. The Bank also set up cooperative relationships with 11 industry parks, campuses and communities and developed 450,000 retail customers. "Cloud payment" businesses were launched for the institutions with no fee collection systems, involving kindergarten tuition fee, property fee, management fee and others. As at the end of the Reporting Period, 240 cloud payment customers were signed or put online, with amount of RMB42.62 million and 0.06 million transactions for the year.

QR code payment contributed to the growth of retail deposit. During the Reporting Period, the Bank introduced the QR code payment business to customers such as restaurants, farmer's markets, e-market proprietors and various small and medium trade proprietors in trade as a convenient and favorable payment and settlement tool, which solved their difficulties in payment and receipt of monies. After being put on the market, the business won the goodwill and recognition of vast merchants and became a new approach for the Bank to expand low-cost deposits. As at the end of the Reporting Period, there were 23,901 existing merchants using the QR code payment business, and the retail deposit balance reached RMB317 million, becoming a new growth driver of retail business.

The regulatory business of second-hand housing assets was launched officially. During the Reporting Period, the Bank introduced the regulatory business of down payment to second-hand housing loan customers, which effectively ensured the customers' asset safety during the transfer of second-hand housing ownership. During the Reporting Period, the Bank handled 1,569 transactions in total with regard to the regulatory business of second-hand housing assets, involving RMB698 million of regulated assets, and recorded RMB274 million of retail deposit balance, preliminarily establishing a marketing process from front-end marketing to back-end customer development and retention.

Moreover, the Bank continuously developed its new customers through existing customers to impel the increase of retail deposits through pilot "project of service gold digging and department-hall integration service marketing", marketing of payroll business and selling of noble metals in festivals and other activities.

2. Retail loans

As at the end of the Reporting Period, the balance of retail loans was RMB30.746 billion, representing an increase of RMB6.042 billion or 24.46% as compared with that at the end of the previous year and accounting for 31.35% of the balance of various loans, representing an increase of 3.01 percentage points as compared with that at the end of the previous year. During the Reporting Period, by fully leveraging the limit for residential mortgage in the retail loan business, the Bank enhanced customers' comprehensive contribution, expanded the scale of supply chain financing business and actively conducted the internet small-amount consumption loan business.

The Bank actively took advantage of personal residential mortgage to drive its comprehensive income. During the Reporting Period, the Bank rationally arranged its extension tempo of residential mortgage to make the most of the limit for residential mortgage. Through excellent mortgage properties projects, the Bank drove the development of debt and intermediate business and enhanced customers' comprehensive contribution. As at the end of the Reporting Period, the balance of personal residential mortgage amounted to RMB24.129 billion, representing an increase of RMB5.864 billion as compared with that at the beginning of the year and accounting for 78.48% of the retail loans, representing an increase of 4.55 percentage points as compared with that at the beginning of the year.

The scale of supply chain financing business expanded continuously. During the Reporting Period, while expanding the cooperation on supply chain financing business with established leading companies, the Bank actively developed new leading companies to support the development of dealer business of leading companies. Throughout the year, the Bank provided loans aggregating to RMB1.161 billion to over 900 dealers under more than 10 large leading companies engaging in fast moving consumer goods at home, and as at the end of the Reporting Period, the loan balance reached RMB407 million, representing an increase of RMB165 million or 68.18% as compared with that at the end of the previous year.

The Bank steadily conducted internet small-amount consumption loan business. During the Reporting Period, the Bank handled the pre-approval formalities of "on-line housing loans" for nearly 40,000 customers of spare residential mortgages, which allowed customers to apply for loan disbursement directly through the mobile banking. During the Reporting Period, the Bank cumulatively granted "on-line housing loans" of RMB143 million. The Bank also cooperated with famous petty consumer credit platforms to conduct internet small-amount consumption loan business. The Bank cumulatively provided 255.1 thousand loans amounting to RMB1.306 billion. As at the end of the Reporting Period, the loan balance amounted to RMB965 million.

3. Retail customers and management of customers' assets

In 2017, the Bank witnessed continuous increase in the number of retail customers, constant improvement in customer structure and gradual increase in the percentage of mid and high-end customers. As at the end of the Reporting Period, the number of retail customers of the Bank reached 3,576.8 thousand, representing a net increase of 446.6 thousand and a year-on-year increase of 14.27%. The assets deposited by retail customers in the Bank broke through RMB100 billion and reached RMB107.928 billion, representing an increase of 10.33% as compared to that at the end of the previous year. The Bank had 135.1 thousand customers (up by 13 thousand as compared to that at the end of the previous year) with financial assets of over RMB0.2 million. Their assets deposited in the Bank came to RMB87.686 billion, accounting for 81.24% (representing an increase of 0.58 percentage point as compared to that at the end of the previous year) of the assets deposited by retail customers in the Bank.

4. Wealth management and private banking business

As at the end of the Reporting Period, there were 5,596 customers with assets of RMB2 million or more, up by 11.50% year on year. Their assets deposited in the Bank totalled RMB25.408 billion, representing a year-on-year increase of 11.10%.

During the Reporting Period, the Bank sold as an agent open-ended funds of RMB6.571 billion in total and issued as an agent insurance premium of RMB239 million. Among the above, the revenue from agency sales of funds amounted to RMB6 million, representing a year-on-year increase of 61.04%, mainly due to satisfactory revenues from fund products sold by the Bank as an agent and increase in purchasing customers. During the Reporting Period, the sales amount of various wealth management products and privileged finance products of private banking customers reached RMB41.893 billion.

Regarding wealth management business, during the Reporting Period, the Bank promoted process reengineering of wealth management business and carried out professional and standardized business operations. The Bank also offered systematic training and practice to improve the comprehensive ability of wealth management business personnel and constantly tamp the business foundation. In addition, the Bank subdivided the target customer base and made active and intensive efforts to further improve sustainable business development.

As for private banking business, the Bank adhered to the "customer-centered and market-oriented" operation philosophy and provided high net-worth customers, families and enterprises with private and personalized financial and non-financial services. The Bank also kept improving the operation system of private banking business and enriching the privileged product line including exclusive series wealth management, collective trust and special fund account, and strived to improve professional service ability, so as to meet the financial demands of high net-worth customers.

5. Customer service management

During the Reporting Period, the Bank continued to create a warm service procedure in a "scenario-oriented" way, and improve service ability internally and service experience externally, so as to develop "value-based, interactive and personalized" service ability.

It 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. The Bank achieved initial results in the pilot projects of "service gold digging and department-hall integration service marketing" in the business hall, realized the preset goals of improving four values, namely, "customer sentimental value, employee work value, institution management value and retail capacity value", made breakthroughs in output, consciousness, technology, channels and management 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. During the Reporting Period, the Bank was again awarded "2017 (the eleventh) Five Star Diamond Award", the most honorable title of international service industry, by the "World Brand Lab", an authoritative organization.

In May 2017, the Bank held the 4th "Youth Forum". The topic of this forum is "Creative, Persistence and Duty".

5.10.2 Corporate banking

In 2017, the corporate banking business implemented the value of "focusing on customer", which promoted transformation of the business toward investment banking and featured business in order to consolidate the Bank's overall business foundation constantly. The Bank made innovation in the product and service model in public sector finance, listed finance, technology finance and green finance, and explored new approaches for development, constantly broadened the customer base. In respect of corporate loans, the Bank adjusted inventories and optimized incremental inventories, focused on supporting regional material projects and new-old driver conversion project, as well as digging deeply into quality credit resource of emerging industries.

1. Corporate deposits

As at the end of the Reporting Period, corporate deposit balance reached RMB107.274 billion, accounting for 67.01% of the balance of various deposits, representing an increase of RMB14.625 billion or 15.79% as compared to that at the end of the previous year. In particular, demand deposit amounted to RMB65.421 billion, representing an increase of RMB10.510 billion or 19.14% as compared to that at the end of the previous year, and accounting for 60.99% of corporate deposits, representing an increase of 1.72 percentage points as compared to that at the end of the previous year. The average cost rate of corporate deposits was 1.49%, representing an increase of 0.17 percentage point as compared to that at the end of the previous year.

During the Reporting Period, while consolidating traditional advantages of corporate banking business, the Bank focused its business development on public sector finance and listed enterprise finance to propel increase of corporate deposits.

Open a new path for development of public sector finance. During the Reporting Period, the Bank made a deep analysis of new changes and new trends of public sector finance and launched public sector finance 2.0. It started from issue of bonds by local governments, enterprises involved in public sector projects, state-owned companies with sufficient operating cash flow, asset securitization business and public sector projects with stable cash flow, and won bids for five key public sector projects in succession, effectively widening the development path of public sector finance business.

Deepen cooperation in listed enterprise finance. First, it broadened the layout of listed enterprise finance business sector, and developed innovative finance businesses such as equity investment, investment funds, asset securitization and merge & acquisition (M&A) loans. As at the end of the Reporting Period, there were 50 corporate customers which are listed companies and companies seeking to be listed, bringing the Bank derivative deposits balance amounted to RMB1.989 billion and average daily deposit for the year amounted to RMB1.197 billion. Second, it launched fund custody business and achieved remarkable marketing effect. During the Reporting Period, the Bank offered custody service for 65 new privately offered funds, with RMB9.294 billion actually received. The balance as at the end of the Reporting Period was RMB2.160 billion, leading to an increase of RMB1.469 billion in daily average balance of corporate deposits.

In addition, new branches have made obvious contributions to the growth of corporate deposits. In 2017, the Bank opened two new branches in Shandong Province. As at the end of the Reporting Period, the new branches recorded a corporate deposit balance of RMB2.056 billion and contributed 14.06% of the increased corporate deposits.

2. Corporate loans

As at the end of the Reporting Period, the balance of corporate loans (including discounted bills) reached RMB67.315 billion, representing an increase of RMB4.851 billion or 7.77% as compared with that at the end of the previous year, accounting for 68.65% of the total loans of the Bank, representing a decrease of 3.01 percentage points as compared with that at the end of the previous year.

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", conducted reasonable allocation on credit resources through structure adjustment, mainly by taking a general strategy of "strictly controlling risks and highlighting characteristics" to shut down backward production capacity with "high pollution, high energy-consumption and over-capacity". The total loan represented a year-on-year decrease of RMB383 million. The Bank focused on the implementation of national and Shandong Province's significant strategies to continually enhance the financial service to key industries, sectors and projects in relevant areas. Supported public sector financing businesses in Shandong province and Qingdao, pushed 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 blue economic zone in the Shandong Peninsula region. The Bank also sped up to explore quality credit resources of new industries, such as strategic emerging industries, internet information service industries, high-end equipment manufacturing industries and cultural industries, in order to promote the adjustment and upgrading of assets structure of the Bank. The Bank improved culture finance service system, actively connected the financing demand of culture & creative parks and enterprises and endeavored to provide culture & creative enterprises with high-quality finance services.

3. Corporate customers

As at the end of the Reporting Period, the Bank had 124.9 thousand corporate customers, representing a year-on-year increase of 16.7 thousand or 15.45%. In particular, during the Reporting Period, the Bank signed strategic cooperation agreements with seven large group customers in education, publishing and emerging strategic industries. Signing of strategic cooperation agreements with group customers can deepen business relationships between the Bank and the large group customers so that the Bank can exert all efforts to provide comprehensive financial services for them.

4. Corporate products

The Bank took product and business mode innovation as motive power of the business of the Company, utilized innovative product and business mode to create a product combination of "trading bank" + "investment banking", and realized the product combination inside the Bank, promoted the products such as cash management, supply chain finance, bank notes pool, commercial notes discounting and corporate wealth management in the fields of corporate procurement, production, operation, sale and financial management and investment, and provided one-stop, targeted and integrated solutions. The Bank realized the transformation from accompanying services to embedded services, with products transforming to "standardization + customization". In addition, the Bank transformed from focusing on single enterprise and single group to providing whole industry chain with financial services.

In Fin-tech business, the Bank innovated products and services, pushed forward the shift in growth drivers, and launched six series of Fin-tech products, which involved more than 20 products with financial characteristics, including "Patented insurance and loans through pledge", "Ji Qun Dai" ("集群貸") and "Yin Zheng Bao" ("銀政保"). It effectively supported the development of new and high-technology enterprises including new energy, new materials and energy conservation and environmental protection. As at the end of the Reporting Period, the Bank's balance of loans from technology enterprises amounted to RMB4.058 billion, representing a year-on-year increase of RMB1.083 billion or 36.40%.

In green finance, the Bank continuously enhanced the support to green economy, low carbon economy, circular economy and the research and development of green credit products, used the funds raised from issuance of green bonds to support green credit projects with the emphasis on green industry projects such as energy conservation and environmental protection, pollution prevention and control, and clean transportation, so as to achieve sustainable economic, social and environmental development. As at the end of the Reporting Period, the Bank's balance of green credits amounted to RMB7.317 billion, representing a year-on-year increase of RMB1.055 billion or 16.85%.

5.10.3 Financial market business

In 2017, facing the macro-control of strict regulation, deleveraging and tight currency, the Bank fully studied the tendencies of macro-economy and financial regulatory policies to prevent and control financial risk for its financial market business. Meanwhile, during the Reporting Period, the Bank continuously optimized its asset and liability structure and proactively implemented the macro policy regarding finance serving the real economy to ensure standardized development of its business.

1. Proprietary investment

During the Reporting Period, the Bank revitalized its stock assets and incremental investments and increased its investment in bonds to support the development of the real economy. As at the end of the Reporting Period, the scale of investment was RMB164.805 billion, representing a year-on-year increase of RMB11.682 billion or 7.63%; particularly, the scale of bond investment was RMB69.233 billion, representing a year-on-year increase of RMB6.943 billion or 11.15%; the steady growth of bond investment was mainly due to increased investment in highly liquid and low risk assets including policy financial bonds and local government bonds during the Reporting Period; the scale of non-standard investment was RMB95.549 billion, representing a year-on-year increase of RMB4.739 billion or 5.22%; the slowed-down growth of non-standard investment was mainly due to reduced investment in monetary funds and correspondingly increased investment in capital trust plans and asset management plans during the Reporting Period.

2. Interbank business

Attaching great importance to the management and maintenance of interbank customers, the Bank strives to increase the cohesion of interbank customers while maintaining the diversification and dispersion of counterparties. To plump up the cushion for liquidity risks, the Company established three major businesses in interbank liabilities including interbank deposits, the certificates of deposit and issue and repurchase of bonds, through use of interbank platform and financial tools. As at the end of the Reporting Period, the balance of interbank deposits amounted to RMB24.901 billion, representing a decrease of 44.69% as compared with that at the beginning of the year, interbank deposits accounted for 8.89% of total liabilities; particularly, interbank demand deposits accounted for 6.31%, representing an increase of 2.73 percentage points as compared with that at the end of last year. The certificates of deposit amounted to RMB50.547 billion, representing an increase of 76.13% as compared with that at the beginning of the year. The issuance of certificates of deposit accounted for 18.04% of total liabilities.

During the Reporting Period, the Bank's national interbank bond market transactions reached RMB9.7181 trillion, representing a year-on-year increase of RMB810.1 billion or 9.09%. In the 2017 bond settlement rankings published by China Government Securities Depository Trust and Clearing Co., Ltd., the Bank ranked 26th among national commercial banks and 6th among city commercial banks, and was awarded the titles of "2017 Outstanding Dealer in the Chinese Bond Market" and "Outstanding Financial Bond Issuer". In the 2017 Top 300 local currency market transaction rankings published by the National Interbank Funding Center, the Bank ranked 32nd and was awarded the title of "2017 Core Dealer in the Interbank Local Currency Market".

During the Reporting Period, the Bank was approved to carry out the interchange services of RMB interest rates as well as gold lending and swap businesses in Shanghai Gold Exchange and added hedge business varieties to further enhance its control over market risks and interest rate risks.

3. Asset management

The Bank continued to strengthen the efforts to innovate wealth management products, enriched the variety of wealth management services and realized steady growth of wealth management business. As at the end of the Reporting Period, the balance of wealth management product was RMB61.597 billion, representing a year-on-year increase of RMB2.323 billion or 3.92%, of which non-principal-guaranteed wealth management products recorded a balance of RMB51.044 billion, principal-guaranteed wealth management products recorded a balance of RMB10.553 billion, all wealth management products have reached a profit as expected. During the Reporting Period, wealth management products issued recorded RMB362.447 billion, representing a year-on-year increase of RMB44.685 billion or 14.06%. The commission income from wealth management products was RMB377 million, representing a year-on-year increase of 20.97%.

During the Reporting Period, the Bank started to shift its focus on net worth products and launched "Fortune-laden" series of products. With transaction flexibility and high liquidity, net worth products offer a new solution for idle funds with uncertain investment periods.

On the list of top 100 bank financial product issuers published by China Central Depository & Clearing Co., Ltd., the Bank ranked 10th, leading other city commercial banks on the list, and was awarded the title of "2017 Outstanding City Commercial Bank of National Banking Financial Information Registration".

4. Investment banking

The development of the investment banking business of the Bank plays an important role in driving business transformation and product innovation as well as serving the real economy, promoting the adjustment and enhancement of the asset structure and business income of the Bank.

In terms of underwriting of debt financing, the Bank underwrote six debt financing instruments during the Reporting Period, amounting to RMB3,100 million, representing a significant increase as compared with that at the same period of last year. In terms of structured financing, during the Reporting Period the Bank's structured financing business amounted to RMB9,523 million, representing a year-on-year decrease of RMB978 million or 9.31%.

The Bank issued the first tranche of tier-two capital bonds with nominal value of RMB3 billion in June 2017 and the second tranche of tier-two capital bonds with nominal value of RMB2 billion in July 2017, both of which are ten-year fixed rate bonds. The Bank has an option to conditionally redeem the bonds at the end of the fifth year. The issuance of tier-two capital bonds further consolidated the Bank's capital and laid the foundation for its future business development.

In November 2017, the Bank held the 2017 "Qingyin Artisan" Service Skills Competition.

5.10.4 Distribution channels

5.10.4.1 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 128 business outlets including 13 branches in 13 cities in Shandong Province, including Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Laiwu, Linyi and Jining. The Bank had a head office, a branch and 73 sub-branches in Qingdao area. The Company's holding subsidiary BQD Financial Leasing is based in Qingdao and has an office in Shanghai.

5.10.4.2 Self-service banking channels

The Bank provides customers with safe and convenient banking services through self-service banks and self-service devices. As at the end of the Reporting Period, the Bank had four off-bank self-service banks, 97 in-bank self-service banks, 482 self-service devices, including 102 self-service ATMs, 257 self-service Cash Recycling Service (CRS) machines, and 123 self-service terminals, providing services such as withdrawal, deposit, transfer, account enquiry, and payment. As at the end of the Reporting Period, the Company had 5.7738 million self-service bank transactions with a total transaction amount of RMB20.2 billion.

5.10.4.3 Electronic banking channels

The Bank paid close attention to the development and innovation of internet finance and technology finance both inside and outside the industry, proactively responded to the challenges from both inside and outside the industry and accelerated implementation of the idea of "rejuvenating the Bank through science and technology". During the Reporting Period, the Bank continued to exert efforts in such aspects as the construction of a internet finance eco-system, the innovation of cloud payment scenarios, and online and offline interactive marketing, and persistently facilitated the overall strategic layout of internet finance by adhering to market demands and customer core needs.

(1) Internet banking

In 2017, the Bank's internet banking business continued its steady growth with the size of customers and transaction volume remaining stable. As at the end of the Reporting Period, the Bank had 74,706 online corporate banking customers, representing a year-on-year increase of 25.86%, with the transaction volume of 14,057,200, representing a year-on-year increase of 19.49%, while total transaction amounted to RMB976.985 billion, representing a year-on-year increase of 40.56%. The Company had 697,817 online retail banking customers, representing a year-on-year increase of 8.05%, with the transaction volume of 81.1342 million, representing a year-on-year decrease of 0.78%, while total transaction amounted to RMB623.543 billion, representing a year-on-year increase of 29.88%.

(2) Mobile finance

The Bank treated mobile finance construction as the development focus of electronic banking channels, with construction of mobile payment system in active progress and payment environment being optimized. During the Reporting Period, the Bank launched mobile banking 3.0 featuring open services, synergy effect with various life platforms and marketing orientation. Through this version, the Bank achieved accurate marketing based on big data analysis and initially completed the reform of mobile banking platform from a pure transaction platform to a marketing type one. At the same time, focusing on mobile banking, WeChat banking and Haihui Life, the Bank built a three-dimensional marketing system featuring bilateral interaction between mobile internet and physical outlets. During the Reporting Period, the Bank continued to organize online transaction lottery and monthly themed activity for WeChat banking. More than one million users participated in the transaction lottery.

During the Reporting Period, mobile banking users and mobile banking transactions of the Bank maintained a rapid growth. The number of existing mobile banking users was 1,113.1 thousand, representing a year-on-year increase of 43.63%, with the transaction volume of 55.8756 million, representing a year-on-year increase of 15.82%, while total transaction amounted to RMB256.366 billion, representing a year-on-year increase of 140.72%.

5.10.4.4 Information technology

Keeping up with the trend of internet development, the Bank 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. The Bank actively applied cloud computing, big data, artificial intelligence and mobile technologies in the innovation of product, service, channel and business models, therefore successfully achieved the strategic business goals for the Reporting Period and promoted the improvement of the core competence of the Bank.

The Bank continued to promote integration of technology and business innovation to enhance business support capacity. To facilitate the in-depth implementation of the “interface banking” strategy, the Bank completed the construction of a number of key projects such as the second phase of the interface banking platform, the second phase of the customer service system, and classification of type 2 and 3 accounts, continuing to optimize the financial service ecosphere featuring resource sharing, win-win and mutual benefit. Faced with the rapid development of internet finance, the Bank, focusing on developing mobile terminals, enhancing customer experience and enriching marketing interactions, completed the upgrading of mobile finance 3.0 and mobile banking App, newly launched multiple online micro-credit products and started to work on intelligent function development, such as face recognition. The intelligent Customer Relationship Management (CRM) project implemented by the Bank will make it possible to integrate and analyze data both inside and outside the Bank, provide data support for management decision-making, explore the application mode of data service productization, and comprehensively enhance big data mining capacity. The Bank continued to promote the construction of the cloud platform, laying a foundation for the promotion and use of secure, autonomous and controllable cloud technologies in data centers. During the Reporting Period, the Bank kept optimizing the integrated operation-maintenance data application platform, and realized centralized and visualized management of key system logs and key indicators.

In addition, the Bank kept optimizing the management of business continuity and the construction of information security system, and improved system security capabilities. During the Reporting Period, the Bank optimized the application architecture system based on the operation-maintenance automation system, continued business continuity construction, completed the expansion and upgrading of multiple key systems and infrastructure, strengthened the implementation of the backup mechanism and ensured the stable operation of the system. The Bank attached great importance to information security control and continuously enhanced its ability to prevent and control information technology risks by strengthening the IT governance system construction and internal control, conducting assessments on compliance with the Internet Security Law of the PRC, strengthening internet security protection, conducting third party security assessment for internet-related business systems, and successfully renewing its ISO27001 certification on its information security management systems.

During the Reporting Period, the Bank’s subject research level and scientific and technological strength reached a new level. The Bank’s Research on the Application of Knowledge Map in Intelligent CRM in Small and Medium Banks won a second class research award granted by CBRC in information technology risk management of banking industry in 2017; and the “automated and accurate marketing system construction project based on financial data analysis of small and medium banks” won the third prize of 2016 Bank Technology Development Award granted by the People’s Bank of China.

In December 2017, the Bank attended the 2nd Shandong FINEXPO.

5.10.5 Businesses of BQD Financial Leasing

BQD Financial Leasing was established on 15 February 2017 with its place of registration in Qingdao, and was initiated and established by the Bank. The Bank holds 51% of the share capital of BQD Financial Leasing. Guided by the national industrial policy, BQD Financial Leasing takes the financing lease of large and medium-sized equipment in medical and health care, cultural tourism, energy conservation and environmental protection industries as the main business development direction, serves the real economy, satisfies the personalized needs of tenants in purchasing equipment, boosting sales, revitalizing assets, balancing tax burden, improving financial structure, etc, and provides new financial lease services such as financing, asset management and economic consulting.

As at the end of the Reporting Period, the registered capital of BQD Financial Leasing was RMB1 billion, with 42 employees, total assets of RMB4.290 billion, and net assets of RMB1.007 billion. BQD Financial Leasing achieved a net profit of RMB6.85 million for the period from 15 February 2017 to 31 December 2017.

5.11 RISK MANAGEMENT

5.11.1 Credit risk management

Credit risk refers to the risk arising from the failure by an obligor or a party concerned to meet its obligations in accordance with agreed upon terms. The Bank's credit risks mainly come from loan portfolios, investment portfolios, guarantees and commitments.

Pursuant to regulatory requirements, the Bank, taking into consideration the intention and capability of the borrower to repay the loan, coupled with other factors such as guarantor, collateral and overdue payment, has implemented twelve-category classification and management on corporate credit assets based on the regulatory five-category loan classification. The loan classification is conducted by the managing institutions and confirmed by the credit management department of branches or the head office. Personal loans and interest payments of government credit card are classified and confirmed by the system based on the regulatory five-category loan classification in accordance with the number of overdue days.

The Credit Management Department takes a leading role in the credit risk management of the Bank and regularly reports to the management and the Risk Management and Consumer Rights Protection Committee of the Board on risk management. During the Reporting Period, the Bank adhered to the risk control principle of "proactive compliance, strict risk control and strengthened internal control" and kept strengthening credit risk management in terms of customer structure, business structure, risk management system, basic credit management and dissolution of non-performing loans. During the Reporting Period, the Bank took the following measures to strengthen credit risk management:

1. Strengthen policy orientation and enhance the execution of credit policies. The Bank formulated differentiated credit policies and made timely adjustments in the light of market conditions, environmental factors and risk appetite. For credit business, the Bank strictly examined and approved loan applications following the credit policies, strictly controlled loan extensions to "zombie enterprises" and voluntarily withdrew from the industries of "high pollution, high energy-consumption and over-capacity", realized total exposure control and promoted to optimize the inventory structure. The Bank issued the main points and requirements of credit risk management and control, tracked the implementation of relevant policies, and incorporated policy implementation by branches into the scope of risk management assessment, so as to ensure that credit policies and credit risk control measures are fully implemented.

2. Intensify risk identification and strengthen risk management in critical areas. The Bank intensified risk monitoring and identification for key areas and major customers and private groups that may bring potential risks, strengthened risk prevention and control in key fields and key risk areas such as guarantee circle, local government platform financing, real estate industry, financial market business and bill business, strengthened credit management of the Group and focused on the prevention of the excessive credit-giving customer risks involving multi-channel fund raising, actively responded to the requirements of national environmental inspection, and strictly controlled the credit risk arising from environmental issues.

3. Make full efforts to manage and control non-performing and overdue loans and promote the disposal of non-performing loans in a timely manner. The Bank heightened warning management, promptly formulated risk disposal plans for extending loans to customers for which a warning was given, compressed potential risk loans by amount reduction for renewal, credit enhancement and other measures, and took preservation measures if necessary; it worked out "customer-tailored" risk-reducing scheme for businesses in which non-performing loans were formed, and reduced and disposed of non-performing loans by stepping up clearing and receiving of loans and writing off loans to control its asset quality within a reasonable range; it continuously leveraged the communication and collaboration mechanism established with other banks and government departments to realize information sharing and took unified actions to jointly address problems encountered during enterprises' operations.

4. Carry out self-inspections and self-corrections in business compliance and provide cooperation for supervisory review and proactively conduct remediation. As per the relevant requirements of regulatory departments, the Bank actively organized self-inspections regarding "three violations", "three arbitrages" and "four improprieties", actively conducted remediation, formulated accountability plans for problems found to promote corrective work, insisted to conduct investigation, remediation and carry out education at the same time, and comprehensively strengthened its employees' awareness of observing laws and regulations and meeting specifications. The Bank carried out self-inspections in the form of inspection tour, specific inspection, and random business inspection etc. to further figure out the risk background and enhance its risk control, so as to ensure the stability of its asset quality.

5. Reform the credit approval system and implement centralized approval of the corporate credit business. The Bank set up Jinan and Qingdao approval centers under the headquarter credit approval department to approve its corporate credit business, which further improved the professionalism and independence of credit approval and consistency of the Bank's approval standards.

6. Strengthen risk management for branch institutions and assessment and incentive measures. The Bank formulated the Comprehensive Evaluation Methods for Credit Management Level of Branch Institutions of Bank of Qingdao, to supervise and evaluate the credit management work of branch institutions, divide the credit management work, enhance business training and effectively improve the credit risk management ability and level of the Bank.

7. Continue to enhance credit risk management system to meet the needs of business development. The Bank continued to enhance credit risk management system and enhanced its product functions. The Bank applied big data to collect, analyze, judge and solve typical problems, forming experience to generalize to guide the work all over the Bank; applied emerging technologies such as cloud computing, big data and artificial intelligence to check and control business operation, employees' behaviour, screened risks in time, and enhanced the support from technology system to risk management. The Bank promoted mobile platform development for project development of credit management. With the completion of the projects, functions such as real-time delivery of images and videos of after-loan inspection and underwriting site will be achieved and the Bank will improve after-loan quality inspection and the level and efficiency of credit management.

5.11.2 Liquidity risk management

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

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

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

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

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

The Company's internal control system on liquidity risk management is sound and compliant. The Company conducts internal specific audit on liquidity risk annually and produces and submits an independent audit report to the Board.

During the Reporting Period, the Company enhanced the liquidity risk management of the various areas below:

1. It actively promoted the growth of all kinds of deposits, consolidated the foundation of the deposit-taking business, strengthened efforts for marketing of stable and low-cost deposits and gradually improved the overall stability of liability.

2. It made provision in advance and at the same time continued to enhance monitoring on various liquidity risk limits to ensure the regulatory indicators were in full compliance with provisions.

3. It strengthened the management of active liability, and issued successively RMB5 billion of tier-two capital bonds and USD1.203 billion of offshore preference shares to raise proceeds in the capital market so as to effectively replenish sources of long-term capital.

4. It designed several stress test scenarios covering the bank, market and mixed risks to conduct regular stress tests for liquidity risks in strict accordance with CBRC's Administrative Measures for Liquidity Management of Commercial Banks (Provisional) and its own business scale, nature and complexity and risk profile.

5.11.3 Market risk management

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

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

The Company's internal control system on market risk management is sound and compliant. The Board, the senior management and various departments have clear responsibilities. The Company conducts internal specific audit on market risks annually and produces and submits an independent audit report to the Board.

The Company comprehensively uses information systems including the 1104 system of CBRC and ChinaBond Integrated Operation Platform to monitor the occupancy of market risk capital in strict accordance with requirements of New Basel Capital Accord.

5.11.3.1 Analysis of interest rate risk

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

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

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

In 2017, by adhering to the principle of stability and prudence, the Company proactively adjusted the asset and liability structure to undertake interest rate risks in a reasonable degree with controllable risks. The Company preliminarily established a database of yield on interest-earning assets and cost rate of interest-bearing liabilities to monitor such indicators as net interest margin, net interest spread and deposit-loan difference. The Company made a detailed analysis of the interest rates on products of various lines to achieve effective evaluation on the pricing of products of various lines, so as to provide strong data support for timely adjustment of the Company's pricing strategies.

5.11.3.2 Analysis of interest rate sensitivity

The Company uses sensitivity analysis to measure the potential effect of changes in interest rates to the Company's net interest income. The following table sets forth the results of the interest rate sensitivity analysis based on the current assets and liabilities on 31 December 2017 and 31 December 2016.

Unit: RMB'000

Item	31 December 2017 Increase/(Decrease)	31 December 2016 Increase/(Decrease)
Change in annualized net interest income		
Interest rates increase by 100 bps	**(399,892)**	(539,852)
Interest rates decrease by 100 bps	**399,892**	539,852

5.11.3.3 Analysis of exchange rate sensitivity

The following table presents the results of the analysis of exchange rate sensitivity based on the current assets and liabilities on 31 December 2017 and 31 December 2016.

Unit: RMB'000

Item	31 December 2017 Increase/(Decrease)	31 December 2016 Increase/(Decrease)
Increase/(Decrease) in annualised net profit		
Foreign exchange rate increase by 100 bps	**9,747**	999
Foreign exchange rate decrease by 100 bps	**(9,747)**	(999)

5.11.4 Operational risk management

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

The Bank focuses on preventing systematic operational risks and heavy losses from operational risks. The Board explicitly sets an acceptable operational risk level and supervises the senior management's monitoring and evaluation on the adequacy and efficiency of the internal control system; the senior management works out systematic systems, processes and methods and adopts corresponding risk control measures according to the acceptable risk level determined by the Board, so as to prevent operational risks in a comprehensive manner. Through effective risk prevention means, the Bank can effectively identify, evaluate and monitor operational risks, continuously enhance its operational risk management ability and gradually raise its risk prevention level. During the Reporting Period, the Bank enhanced the operational risk management of the various areas below:

1. The Bank enhanced internal control, focused on strategic business of the whole Bank, conducted specific inspection and risk evaluation from such aspects as system, process and employees' behavior, leveraged the "triple defense lines" functions of the frontline business personnel, risk management department and internal audit department, implemented the collection, analysis and alert of key indicators and loss data of operational risks in all dimensions.

2. The Bank innovated working ideas, continued to promote construction of operational risk system and propaganda of culture, ensured a complete, reasonable and effective internal control system, strengthened personnel and position management and conducted employee education on operation compliance by screening and inspecting the irregularities of employees at key positions, so as to prevent operational risks.

3. The Bank upgraded system dynamics, promoted scientific and technological innovation from a strategic height, prevented risks in a centralized disposal mode to achieve "factorization of headquarter and lightweight of branches", increased automation, reduced frequency of manual operation, effectively combined "personnel prevention" and "technology prevention" and enhanced the system back-desk control ability of rule-breaking operations prevention.

4. The Bank substantially improved business continuity management and IT risk management, enhanced security guarantee of information technology systems, focused on promoting construction of backup for disaster emergency response and comprehensively evaluated key directions of optimization of the business continuity management system.

5. The Bank further strengthened outsourcing business management, promoted management of outsourcing project agreements, enhanced risk control and screening in the implementation of outsourcing projects and well managed information security of outsourcing service providers and outsourcing personnel.

5.12 SOCIAL RESPONSIBILITY

While realizing stable development, the Bank never forgets its social missions and actively fulfils its corporate social responsibility with concrete actions to pay back the public.

In terms of economic responsibility, the Bank focused on serving the real economy. The Bank continued to focus on supporting the supply-side structural reform and increased efforts to support development of infrastructure, key projects, strategic emerging industries, modern service industry and other industries. The Bank actively explored new models of development of government finance, public sector finance, listed finance, subway finance and new economy finance. The Bank focused on small and micro enterprises to promote development of inclusive finance. As at the end of the Reporting Period, the balance of loans to small and micro enterprises was RMB48.303 billion, average interest rate of loans to small and micro enterprises was 5.57%, customers which are small and micro enterprises of the Bank amounted to 8,207 and featured branches serving small and micro enterprises totalled two. During the Reporting Period, the Bank designed and launched featured products such as "Bank-Enterprise Benefit Program" (銀企惠通), initiated the Reciprocal Entrepreneur Club of Bank of Qingdao, held "Mutual Benefit" (雙惠) work press conference, took the initiative to launch "Mutual Benefit" work of small and micro enterprises; actively innovated financing products for small and micro enterprises, and launched new loan risk sharing business for technology enterprises, "invoice loan" business and "loans to the custody accounts for export tax refund" and venture guarantee loans for small and micro enterprises; promoted the development of service trade finance, introduced "Yin Mao Tong" (銀貿通) and provided unsecured export order financing for small and medium export enterprises; signed a technology finance cooperation agreement with Qingdao Science and Technology Bureau, actively popularized such mature Fin-tech products as "insurance loan" and "patent pledge insurance loan"; explored the road of culture finance, set up the first cultural creativity sub-branch in Shandong Province and signed a strategic cooperation agreement on financial service platform in the cultural creativity industry with Qingdao Cultural Propaganda Department to help alleviate "financing difficulty" in Qingdao's cultural creativity industry.

In terms of social public welfare, the Bank further conducted charity activities. In 2017, the Bank set up the "Bank of Qingdao Charitable Foundation in Qingdao City" to provide employees of the Bank and caring enterprises and individuals in society with a new platform to dedicate love and promote the development of charity undertakings. The Bank donated RMB1 million to the Chinese Financial Education Development Foundation to support the Foundation in conducting financial education charity projects, popularized financial knowledge for the public in poverty-stricken areas, and conducted poverty alleviation work in designated poverty alleviation areas and so on. The Bank kept making efforts to protect consumer rights and popularize financial knowledge and participated in the regular press conferences of CBRC to introduce its excellent experience as one of the outstanding banks for protecting consumer rights in Qingdao. Meanwhile, the Bank went into communities, schools, counties and villages to conduct public welfare activities and volunteer services in various forms including caring new citizens, community neighbourhood festival, public welfare lectures, charitable painting and calligraphy exhibition and no-charge book borrowing for public welfare.

In terms of environmental responsibility, the Bank continued to practise the concepts of green development and blue development. The Bank accelerated the development of green finance. At the end of 2017, the balance of green credit was RMB7.317 billion, representing an increase of RMB1.055 billion or 16.85% as compared to the beginning of the year; enhanced financial services for blue economy, focused on industrial layout and industrial chain of blue economy and took the port sub-branch under its jurisdiction as the pivot point to explore financial service schemes for smart ports. The Bank provided financing for port customers via goods pledge business, cooperated with ports to establish a platform for commodity pledge supervision between banks and ports and improved business process and risk control measures; actively promoted customs guarantee business to create clearance convenience for customers; according to features of port cargo, developed online business halls and promoted mispos, self-service payment terminals and all-in-one cards at ports, so as to substantially improve the efficiency of payment and business handling and provide port enterprises with convenient services. Meanwhile, the Bank further enhanced its environmental protection awareness. In 2017, the Bank advocated bringing cups at internal meetings and management of public areas by person in charge based on the original proposal of water, electricity and energy conservation to practice saving from details. The Bank conducted a variety of public welfare activities including environmental protection and afforestation to support environmental protection with practical actions.

5.13 PROTECTION OF CONSUMER RIGHTS

During the Reporting Period, the Bank stayed abreast of the new trend of regulation; studied new concepts, new ideas and new strategies, leveraged institutional advantages of corporate bodies from the basic work; constantly optimized the organizational structure, reinforced the sense of entity responsibility and strengthened supervision and inspection duties by focusing on product and service design, creating the customer right protection brand "Qingcheng" and promoting the education of financial knowledge. Therefore, the Bank's overall protection of consumer rights continued to improve.

1. Set up a specialized department and strengthen the organizational leadership

The Bank formally established the Department of Consumer Rights Protection, which was responsible for the unified planning, coordination and deployment of the Bank's works relating to protection of consumer rights, so as to constantly improve the management structure and management level concerning protection of consumer rights.

2. Optimize systems and consolidate the management foundation

By streamlining the systems for consumer rights protection, the Bank continually established and improved the basic systems for protection of consumer rights that aligned with the organisational structure, business scale and business nature of the Bank. During the Reporting Period, the Bank developed three systems for protection of consumer rights and amended five relevant systems, providing the system guarantee for effective protection of consumer rights.

3. Promote brand leadership and popularize public education

The Bank created the consumer rights protection brand of "Qingcheng" to advocate sincere service and safeguard rights and interests. During the Reporting Period, the Bank continued to organise promotional activities such as "March 15 Consumer Protection Promotion", "Universalising Financial Knowledge", "Popularising Financial Knowledge into Every Household" and "Popularizing Financial Knowledge to Benefit Every Village", to promote and popularize financial knowledge and earnestly fulfill its social responsibilities. The Bank has won the title of "Advanced Unit in Universalising Financial Knowledge in the Banking Industry in Qingdao" for four consecutive years.

4. Enhance philosophy of consumer protection and fully implement obligations

The Bank proactively adapted to the regulatory policies and strictly followed the relevant industry standards and operational guidelines. During the Reporting Period, the Bank exercised strict control over the product and service related processes, e.g. design and development, pricing management, formulation of agreement, approval and access, marketing promotion and after-sale management, constantly strengthened relevant personnel's sense of responsibility, enhanced the concept of consumer protection and handled complaints flexibly, thereby achieving the full coverage and all-round management of protection of consumer rights.

In December 2017, the Bank held "Young Banker Officer" activity, which disseminated financial knowledge to primary school students to improve the awareness of financial risk prevention.

5.14 DEVELOPMENT PLAN FOR 2018

5.14.1 Operating situation analysis for the new year

In view of the economic climate at home and abroad, the global economy has rebounded beyond expectation and China's economy has performed well amid stability with structure improvement under the new theme of high-quality development. Under the banking business environment, the monetary policy environment was still tight, stringent supervision put forward higher requirements for compliance and financial technology exacerbated the business differentiation. Under the new business environment, the Bank will explore new thoughts of development: firstly, be proactive about compliance to enhance its operation and management capability; secondly, speed up the reform and upgrade its organizational structure, assessment and incentive policies to form a management mechanism which can better serve the first-line staff and is more fit for the market; thirdly, stabilize the liabilities and fund core liabilities and high-quality deposits in the trading bank, investment banking+, mobile finance, integrated services and other fields; fourthly, improve quality and efficiency to achieve high quality, sustainable and steady development.

5.14.2 Development guidance for the new year

In 2018, adhering to its operations philosophy of "deepening management, being proactive about compliance, making transformation and innovation, making progress while maintaining stability", the Bank will give prominence to strategic guidance, promote management improvement, explore transformation and innovation and strengthen risk control and compliance to actively seize new opportunities and make every effort to promote new developments to constantly achieve new breakthroughs in the new era.

5.14.3 Main measures to be adopted for the new year

1. Deepen management, optimize structure and improve functions to enhance overall management capability;

2. Focus on the source, acquire customers online and seek for greater perfection to steadily develop the retail business;

3. Strengthen the solid base, sharpen featured points and make steady progress to promote the transformation and upgrading of wholesale lines;

4. Adjust structure, strengthen management and make joint efforts to ensure the steady development of the financial market;

5. Pick up the pace, enhance quality and efficiency and safeguard support to enhance the leading role of financial technology;

6. Make intensive and smart operation and optimize processes to create a streamlined and efficient operating system;

7. Be proactive about compliance, strictly control the risks and strengthen internal control to facilitate the Bank-wide development;

8. Set up branches prudently, optimize the layout and promote transformation to improve the output efficiency of branches;

9. Lay a solid foundation, exercise fine management and increase efficiency by tapping potentials to improve the basic management level.

Chapter VI Significant Events

6.1 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

During the Reporting Period, two significant related party transactions of the Bank were considered and approved by the Board of Directors, which were related to credit granted to BQD Financial Leasing Company Limited and Qingdao Haier Home Integration Co., Ltd.

At the end of the Reporting Period, according to the Measures for the Administration of Related Party Transactions between Commercial Banks and Internal Personnel and Shareholders issued by the CBRC, the balance of credit-related significant related party transactions was RMB3,107 million, the details of which are as follows:

Unit: RMB'000

Name of Related Party	Balance of Credit-related Significant Related Party Transactions	Type of Business	Way of Guarantee	Net Credit After Deducting Margin	Percentage of Net Capital At the End of the Reporting Period
Qingdao Conson Financial Holdings Co., Ltd.	880,000	Loan	Guarantee	880,000	2.60%
Qingdao Changyuan Land Co., Ltd.	980,000	Non-standard debt	Guarantee	980,000	2.90%
Qingdao Haier Real Estate Group Co., Ltd.	800,000	Non-standard debt	Guarantee	800,000	2.37%
Intesa Sanpaolo S.p.A.	270,000	Interbank lending	–	270,000	0.80%
Qingdao Haier Home Integration Co., Ltd.	177,227	Letter of guarantee	Pledge, deposit	177,209	0.52%

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, the terms of which were normal commercial terms or better from the perspective of the Bank. According to Rule 14A.87(1) of the Hong Kong Listing Rules, those connected transactions were fully exempted.

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

During the Reporting Period, no significant litigation and arbitration and material cases having a significant adverse effect on the financial conditions and operating results of the Company had occurred. Management is in the opinion that it is not necessary to provide any contingent liabilities.

6.3 PUNISHMENT IMPOSED ON THE BANK AND DIRECTORS AND SENIOR MANAGEMENT OF THE BANK

During the Reporting Period, no punishment having a significant effect on the operating of the Bank was imposed by relevant regulatory authorities and judicial authorities on the Bank, Directors and senior management of the Bank.

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

1. In June 2011, in accordance with the relevant requirements of the Notice of the General Office of China Banking Regulatory Commission on Strengthening the Examination of Qualifications of Substantial Shareholders of Small- and Medium-sized Commercial Banks, Haier Group, Intesa Sanpaolo S.p.A. and Qingdao Conson Industrial Co., Ltd., shareholders of the Bank with shareholding of 5% or more, respectively undertook: not to seek related party transactions with terms more favourable 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 the 95,179,773 shares, 145,018,723.97 shares and 111,111,187 shares subscribed for in the above subscription within five years from 28 February 2015 (being the day of completion of business registration of the relevant subscription). In addition, Intesa Sanpaolo S.p.A. further undertook not to transfer the other equity interest held by it within a period of three years from the day of listing of the H shares of the Bank.

In 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 5% or more.

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

On 15 February 2017, BQD Financial Leasing Company Limited, with a registered capital of RMB1.00 billion, was co-established by the Bank, Qingdao Hanhe Cable Co., Ltd., Qingdao Port International Co., Ltd. and Qingdao Qianwan Container Terminal Co., Ltd. For details, please refer to "Note 22 to the Financial Statements" of this annual report.

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

6.6 SIGNIFICANT GUARANTEE, COMMITMENT AND ENTRUSTED ASSET MANAGEMENT

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

6.7 NON-PERFORMING LOANS OF SHAREHOLDERS AND THEIR ASSOCIATES

During the Reporting Period, there were no non-performing loans among the loans of the Bank's shareholders and their associates.

6.8 PUBLISHING OF ANNUAL REPORT

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

Chapter VII Changes in Share Capital and Information on Shareholders

7.1 STATEMENT OF ORDINARY SHARE STRUCTURE

Unit: share

	31 December 2016			31 December 2017	
Type of shareholder	Number of shares	Percentage of total ordinary shares	Changes during the Reporting Period	Number of shares	Percentage of total ordinary shares
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%**

7.2 STATEMENT OF CHANGES IN TOTAL ORDINARY SHARE CAPITAL

During the Reporting Period, the total ordinary share capital of the Bank did not change.

7.3 TOTAL NUMBER OF ORDINARY SHAREHOLDERS

At the end of the Reporting Period, the Bank had a total of 2,351 shareholders of ordinary shares, including 2,167 shareholders of domestic shares, 184 registered shareholders of H shares, and no preference shareholders with voting rights restored.

7.4 PARTICULARS OF SHAREHOLDINGS OF THE TOP TEN ORDINARY SHAREHOLDERS OF THE BANK

Unit: share

No.	Name of shareholder	Type of share	Total number of shares held at the end of period	Percentage of total ordinary shares	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)	H Shares	1,140,285,880	28.09%	Unknown	Unknown
	Including: AMTD Strategic Investment Limited	H Shares	301,800,000	7.44%	301,800,000	Unknown
	AMTD Investment Solutions Group Limited	H Shares	100,000,000	2.46%	Unknown	Unknown
2	Intesa Sanpaolo S.p.A. (意大利聯合聖保羅銀行)	H Shares	623,909,480	15.37%	Unknown	Unknown
3	Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	Domestic Shares	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)	Domestic Shares	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)	Domestic Shares	218,692,010	5.39%	–	–
6	Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	Domestic Shares	152,170,000	3.75%	152,170,000	–
7	Qingdao Haier Co., Ltd. (青島海爾股份有限公司)	Domestic Shares	139,663,690	3.44%	–	–
8	Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司)	Domestic Shares	133,910,000	3.30%	–	–
9	Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司)	Domestic Shares	90,936,164	2.24%	–	–
10	Shanghai Jiacheng Investment Management Co., Ltd. (上海嘉誠投資管理有限公司)	Domestic Shares	77,276,328	1.90%	61,276,328	–

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 shareholder. Among them, at the end of the Reporting Period, AMTD Strategic Investment Limited held 301,800,000 H shares of the Bank, and AMTD Investment Solutions Group Limited held 100,000,000 H shares of the Bank. The shares of the above two shareholders are held under the name of Hong Kong Securities Clearing Company Nominees Limited;

2. At the end of the Reporting Period, Intesa Sanpaolo S.p.A. held 623,909,480 H shares of the Bank. Among them, 622,306,980 H shares were held by Intesa Sanpaolo S.p.A. as the registered H shares shareholder of the Bank, and the remaining 1,602,500 H shares were increased during the Reporting Period and held under the name of Hong Kong Securities Clearing Company Nominees Limited;

3. 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. AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited are both under AMTD Group Company Limited. The Bank is not aware of any other related relationship between other shareholders in the above table.

7.5 INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS UNDER HONG KONG REGULATIONS

As at 31 December 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 shareholder	Note	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of ordinary shares	Approximate percentage of the number of domestic shares	Approximate percentage of the number of H shares	Long/short position
Haier Group Corporation (海爾集團公司)	1	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)	2	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)	3	Domestic Shares	Beneficial owner	139,663,690	3.44	6.08	–	Long
			Interest of controlled corporation	244,680,795	6.03	10.66	–	Long
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	–	Domestic Shares	Beneficial owner	218,692,010	5.39	9.53	–	Long
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展（集團）有限責任公司)	4	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)	4	Domestic Shares	Beneficial owner	503,556,341	12.41	21.93	–	Long
Ge Shoujiao (葛守蛟)	5	Domestic Shares	Interest of controlled corporation	152,170,000	3.75	6.63	–	Long
LENG Qiyuan (冷啟媛)	5	Domestic Shares	Interest of controlled corporation	152,170,000	3.75	6.63	–	Long
Shandong Sanliyuan Trading Co., Ltd. (山東三利源經貿有限公司)	5	Domestic Shares	Beneficial owner	152,170,000	3.75	6.63	–	Long
Han Huiru (韓匯如)	6	Domestic Shares	Interest of controlled corporation	133,910,000	3.30	5.83	–	Long
WANG Yunyun (王芸芸)	6	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)	6	Domestic Shares	Interest of controlled corporation	133,910,000	3.30	5.83	–	Long

Name of shareholder	Note	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of ordinary shares	Approximate percentage of the number of domestic shares	Approximate percentage of the number of H shares	Long/short position
Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司)	6	Domestic Shares	Beneficial owner	133,910,000	3.30	5.83	–	Long
Intesa Sanpaolo S.p.A.	–	H Shares	Beneficial owner	623,909,480	15.37	–	35.39	Long
L.R. Capital Management Company (Cayman) Limited	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
			Interest of controlled corporation	301,800,000	7.44	–	17.12	Short
L.R. Capital MNP Limited	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
			Interest of controlled corporation	301,800,000	7.44	–	17.12	Short
China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司)	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
CM International Capital Limited (中民國際資本有限公司)	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
CM International Capital Limited	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Holdings Limited	7	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
			Holder of security interests	301,800,000	7.44	–	17.12	Long
			Holder of security interests	301,800,000	7.44	–	17.12	Short
L.R. Capital Financial Holdings Limited	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Group Company Limited (尚乘集團有限公司)	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Asia (Holdings) Limited	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Asia Limited	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Strategic Capital Group	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Investments Limited	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Investment Solutions Limited	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Strategic Investment Limited	7	H Shares	Beneficial owner	301,800,000	7.44	–	17.12	Long
AMTD Investment Solutions Group Limited	7	H Shares	Beneficial owner	100,000,000	2.46	–	5.67	Long
Jinan Binhe New District Constructive Investment Group Co., Ltd. (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
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)	8	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long

Name of shareholder	Note	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of ordinary shares	Approximate percentage of the number of domestic shares	Approximate percentage of the number of H shares	Long/short position
Qingdao Conson Financial Holdings Co., Ltd. (青島國信金融控股有限公司)	8	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
Haitian (HK) Financial Development Limited (海天(香港)金融發展有限公司)	8	H Shares	Beneficial owner	100,000,000	2.46	–	5.67	Long
Rothschild & Co SCA	9	H Shares	Interest of controlled corporation	98,830,000	2.44	–	5.61	Long
			Interest of controlled corporation	98,830,000	2.44	–	5.61	Short
Rothschilds Continuation Holdings AG	9	H Shares	Beneficial owner	98,830,000	2.44	–	5.61	Long
			Beneficial owner	98,830,000	2.44	–	5.61	Short
CITIC Securities Co., Ltd. (中信證券股份有限公司)	–	H Shares	Holder of security interests	73,336,765	1.81	–	4.16	Long
			Interest of controlled corporation	623,269,353	15.36	–	35.35	Long
			Interest of controlled corporation	568,767,353	14.01	–	32.26	Short
Guangzhou Rural Commercial Bank Co., Ltd. (廣州農村商業銀行股份有限公司)	–	H Shares	Holder of security interests	301,800,000	7.44	–	17.12	Long
Goncius I Limited	–	H Shares	Beneficial owner	488,911,765	12.05	–	27.73	Long
			Beneficial owner	488,911,765	12.05	–	27.73	Short

Notes:

1. 812,214,572 shares of the Bank are held by its directly or indirectly controlled companies of Haier Group Corporation.

2. 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.

3. 139,663,690 shares are held directly by Qingdao Haier Co., Ltd. and 244,680,795 shares are held by its controlled company.

4. Qingdao Conson Industrial Co., Ltd. is 100% owned by Qingdao Conson Development (Group) Co., Ltd. Therefore, Qingdao Conson Development (Group) Co., Ltd. is deemed or taken to be interested in all our Shares held by Qingdao Conson Industrial Co., Ltd.

5. GE Shoujiao and LENG Qiyuan hold 55% and 45% equity interest in Shandong Sanliyuan Trading Co., Ltd. respectively. Therefore, GE Shoujiao and LENG Qiyuan are deemed or taken to be interested in all our Shares held by Shandong Sanliyuan Trading Co., Ltd.

6. Qingdao Hairen Investment Co., Ltd. is 100% 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.

7. AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited hold 301,800,000 shares and 100,000,000 shares of the Bank respectively. AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited are 100% owned by AMTD Investment Solutions Limited, which is in turn 100% owned by AMTD Investments Limited. AMTD Investments Limited is 100% owned by AMTD Strategic Capital Group. AMTD Asia Limited holds 79.13% interest in AMTD Strategic Capital Group. AMTD Asia Limited is 100% owned by AMTD Asia (Holdings) Limited. AMTD Asia (Holdings) Limited is 100% owned by AMTD Group Company Limited. L.R. Capital Financial Holdings Limited holds 71.03% interest in AMTD Group Company Limited. L.R. Capital Financial Holdings Limited is held as to 65.10% and 34.10% by AMTD Holdings Limited and CM International Capital Limited. AMTD Holdings Limited is 100% owned by L.R. Capital MNP Limited, which is in turn 100% owned by L.R. Capital Management Company (Cayman) Limited. CM International Capital Limited is 100% owned by CM International Capital Limited (中民國際資本有限公司), which is in turn 100% owned by China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司). Therefore, AMTD Investment Solutions Limited, AMTD Investments Limited, AMTD Strategic Capital Group, AMTD Asia Limited, AMTD Asia (Holdings) Limited, AMTD Group Company Limited, L.R. Capital Financial Holdings Limited, AMTD 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. (中國民生投資股份有限公司) are deemed to be interested in the shares held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited.

8. Haitian (HK) Financial Development Limited holds 100,000,000 shares of the Bank and is wholly-owned by Qingdao Conson Financial Holdings Co., Ltd. which is 88% owned by Qingdao Conson Development (Group) Co., Ltd.

9. 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.

10. Under Section 336 of the SFO, forms disclosing of interests shall be submitted by shareholders of the Bank upon satisfaction of certain conditions. Changes of shareholders' shareholdings in the Bank are not required to inform the Bank and the Hong Kong Stock Exchange, except for the satisfaction of certain conditions. Therefore, there could be difference between shareholders' latest shareholdings in the Bank and the shareholdings submitted to the Hong Kong Stock Exchange.

11. As at 31 December 2017, the number of the Bank's total issued ordinary shares, domestic shares and H shares are 4,058,712,749 shares, 2,295,677,769 shares and 1,763,034,980 shares, respectively.

As at 31 December 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.

7.6 SHAREHOLDERS HOLDING 5% OR MORE OF THE TOTAL ORDINARY SHARE CAPITAL

(I) Haier Group Corporation

Haier Group Corporation was established in 1980 with its legal representative of ZHANG Ruimin and a registered capital of RMB311.18 million. It is mainly engaged in household appliances, electronic products, communications equipment, electronic computers and accessories, general machinery, kitchen utensils, industrial robot manufacturing; domestic commercial wholesale and retail; import and export business; economic and technical consultation; research and development and transfer of technological achievements.

At the end of the Reporting Period, Haier Group Corporation held a total of 812,214,572 domestic shares of the Bank via 9 companies within the group, which accounted for 20.01% of the total ordinary share capital. These nine companies were persons acting in concert. The ultimate beneficiary of Haier Group Corporation is itself. Haier Group Corporation has declared to the Bank related parties in accordance with regulatory requirements. At the end of the Reporting Period, the balance of the Bank's credit-related significant related party transactions[Note] with Haier Group Corporation was RMB1,957 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

Note: The data of related party transactions in section 7.6 was accounted under the requirements of CBRC.

(II) Intesa Sanpaolo S.p.A.

Intesa Sanpaolo S.p.A. is a multi-national bank headquartered in Milan, Italy. It is one of the most prominent players of the Eurozone's banking industry as well as the industry-leader of Italy's retail, corporate business and wealth management businesses. Intesa Sanpaolo S.p.A. has a total of approximately 4,800 branches in Italy, providing tens of millions of customers with high-quality service. Tapping into overseas market is of great importance in Intesa Sanpaolo S.p.A.'s development strategy. By acquiring commercial banks in over a dozen countries in the regions of Central and Eastern Europe as well as the Mediterranean, Intesa Sanpaolo S.p.A. owns nearly 1,100 branches and 7.6 million customers in the above regions. In addition, Intesa Sanpaolo S.p.A. has set up branches in 29 countries and regions around the world to support its corporate business customers.

At the end of the Reporting Period, Intesa Sanpaolo S.p.A. held 623,909,480 H shares of the Bank, which accounted for 15.37% of the total ordinary share capital. Intesa Sanpaolo S.p.A. has no controlling shareholders, no actual controllers, no persons acting in concert, and its ultimate beneficiary is itself. Intesa Sanpaolo S.p.A. has declared to the Bank related parties in accordance with regulatory requirements. At the end of the Reporting Period, the balance of the Bank's credit-related significant related party transactions with Intesa Sanpaolo S.p.A. was RMB270 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

(III) Qingdao Conson Development (Group) Co., Ltd.

Qingdao Conson Development (Group) Co., Ltd. was established in 2008 with its legal representative of WANG Jianhui and a registered capital of RMB3 billion. It is mainly engaged in the investment, construction and operation of major urban and rural infrastructure projects, and major public welfare projects of the government; business services such as real estate, tourism and land development, and non-banking financial services.

At the end of the Reporting Period, Qingdao Conson Development (Group) Co., Ltd. held a total of 603,556,341 shares of the Bank via two subsidiaries, including 503,556,341 domestic shares and 100,000,000 H shares, which together accounted for 14.87% of the total ordinary share capital. The controlling shareholder and actual controller of Qingdao Conson Development (Group) Co., Ltd. is the State-owned Assets Supervision and Administration Committee of the Qingdao Municipal People's Government. It has no persons acting in concert, and its ultimate beneficiary is itself. Qingdao Conson Development (Group) Co., Ltd. has declared to the Bank related parties in accordance with regulatory requirements. At the end of the Reporting Period, the balance of the Bank's credit-related significant related party transactions with Qingdao Conson Development (Group) Co., Ltd. was RMB880 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

(IV) AMTD Group Company Limited

AMTD Group Company Limited was established in 2003 with its legal representative of WANG Ruiqiang and a registered capital of USD10,001. It is mainly engaged in investment banking, asset management, corporate insurance brokerage and risk solutions, investment strategy consultation.

At the end of the Reporting Period, AMTD Group Company Limited held a total of 401,800,000 H shares of the Bank via two subsidiaries, accounting for 9.90% of the total ordinary share capital. The controlling shareholder of AMTD Group Company Limited is L.R. Capital Financial Holdings Limited. It has no actual controllers, no persons acting in concert, and its ultimate beneficiary is itself. AMTD Group Company Limited has declared to the Bank related parties in accordance with regulatory requirements. During the Reporting Period, there were no significant related party transactions between the Bank and AMTD Group Company Limited.

7.7 OFFSHORE PREFERENCE SHARES

In order to further enhance the Bank's comprehensive competitive strength and sustainable development capacity, the Bank convened the 2017 First Extraordinary General Meeting, the 2017 First Class Meeting for Domestic Shareholders and the 2017 First Class Meeting for H Shareholders on 15 March 2017, and the 2016 Annual General Meeting on 11 May 2017. Relevant resolutions on offshore non-public offering of preference shares of the Bank were considered and approved. The Bank was allowed to issue no more than 80,000,000 offshore non-public preference shares with a par value of RMB100 per share to raise proceeds not exceeding RMB8 billion or its equivalent.

The offshore preference shares of the Bank were issued on 19 September 2017 and listed on the Hong Kong Stock Exchange on 20 September 2017 with 60.15 million shares issued at an issue price of USD20 per share and raised proceeds of USD1,203 million (equivalent to about RMB7.88 billion). The Bank's offshore preference shares were issued to qualified investors that met relevant regulatory requirements and other laws and regulations. The proceed raised from the issuance of offshore preference shares after deducting the expenses in connection with the issue shall be used to supplement other tier-one capital of the Bank in accordance with applicable laws and regulations and the approval of relevant regulatory authorities.

8.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Basic information of Directors

Name	Gender	Date of Birth	Position	Term	Initial Shareholding (shares)	Final Shareholding (shares)
GUO Shaoquan	Male	1962.08	Executive Director, Chairman	2010.05-2018.04	500,000	500,000
WANG Lin	Male	1963.09	Executive Director, President	2012.03-2018.04	500,000	500,000
YANG Fengjiang	Male	1964.07	Executive Director, Vice President	2012.05-2018.04	500,000	500,000
LU Lan	Female	1964.07	Executive Director, Secretary to the Board of Directors	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	–	–

2. Basic information of Supervisors

Name	Gender	Date of Birth	Position	Term	Initial Shareholding (shares)	Final Shareholding (shares)
CHEN Qing	Female	1959.06	Chairlady of the Board of Supervisors, Employee Supervisor	2016.12-2018.04	500,000	500,000
SUN Guoliang	Male	1957.04	Shareholder Supervisor	2016.05-2018.04	–	–
SUN Jigang	Male	1969.05	Employee Supervisor	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	–	–

3. Basic information of senior management

Name	Gender	Date of Birth	Position	Commencement of the Term	Initial Shareholding (shares)	Final Shareholding (shares)
WANG Lin	Male	1963.09	President	2012.03	500,000	500,000
YANG Fengjiang	Male	1964.07	Vice President	2007.06	500,000	500,000
WANG Yu	Female	1968.01	Vice President	2007.06	500,000	500,000
YANG Changde	Male	1959.10	Vice President	2012.08	–	–
CHEN Shuang	Female	1968.01	Vice President	2017.01	350,000	350,000
LU Lan	Female	1964.07	Secretary to the Board of Directors	2010.08	380,000	380,000

8.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. DU Wenhe tendered to the Board of Directors his resignation in writing from the position as Independent Non-executive Director and at the special committees under the Board of Directors due to change of job. During the Reporting Period, according to the resolution at the Bank's 2016 shareholders' general meeting held in May 2017, Mr. Simon CHEUNG was newly elected as an Independent Non-executive Director of the sixth session of the Board of Directors of the Bank. In July 2017, the qualification of Independent Non-executive Director of Mr. Simon CHEUNG was approved by the CBRC Qingdao Office, 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 began to serve as Vice President of the Bank since January 2017 upon approval of the CBRC Qingdao Office.

Save as disclosed above, no other change occurs to the Directors, Supervisors and senior management of the Company during the Reporting Period.

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

1. Mr. Rosario STRANO, a Non-executive Director of the Bank, has been the chief operating officer of Intesa Sanpaolo S.p.A. since January 2018, and ceased to be the head of human resources of Intesa Sanpaolo S.p.A.

2. Mr. Marco MUSSITA, a Non-executive Director of the Bank, has no longer been a director of Union Life Insurance Co., Ltd. since July 2017.

3. Mr. WANG Zhuquan, an Independent Non-executive Director of the Bank, has no longer been an independent non-executive director of Hailir Pesticides and Chemicals Group Co., Ltd. since August 2017.

4. Mr. WONG Tin Yau, Kelvin, an Independent Non-executive Director of the Bank, has no longer been an independent non-executive director of Asia Investment Finance Group Limited since February 2018.

5. Mr. CHEN Hua, an Independent Non-executive Director of the Bank, has been an external director of Shandong State-owned Assets Investment Holdings Co., Ltd. since August 2017, and ceased to be an independent non-executive director of Shandong Traffic and Transportation Group Co., Ltd; he has been an independent director of Shandong Baogang International Port Co., Ltd. and the temporary deputy director of Binhai New Area Management Committee of Weifang since December 2017.

6. Mr. Simon CHEUNG, an Independent Non-executive Director of the Bank, has been the chief technology officer of WeShare (Shenzhen) Ltd. since December 2017, and ceased to be the chief information officer of Shenzhen Qianhai Dashu Financial Service Co., Ltd.

7. Ms. CHEN Qing, the Chairlady of the Board of Supervisors of the Bank, has been the director-general of Bank of Qingdao Charitable Foundation in Qingdao City since April 2017.

8. Mr. SUN Guoliang, a Shareholder Supervisor of the Bank, has no longer been a member of the party committee, director and deputy general Manager of Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. since August 2017, chairman, chief executive officer and general manager of Qingdao Huatong Business Travel & Real Estate Co., Ltd. since November 2017, and chairman of Qingdao Zhongshan Shopping Mall Co., Ltd. since December 2017.

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

Name	Name of Employers	Roles	Term
ZHOU Yunjie	Haier Group Corporation	President and deputy president of the board	From December 2016 to date
Rosario STRANO	Intesa Sanpaolo S.p.A.	Head of human resources	From August 2015 to December 2017
		Chief operating officer	From January 2018 to date
WANG Jianhui	Qingdao Conson Development (Group) Co., Ltd.	Chairman	From April 2013 to date
TAN Lixia	Haier Group Corporation	Executive vice president and chief financial officer	From February 2016 to date
CHOI Chi Kin, Calvin	AMTD Group Company Limited	Chairman, president and managing director	From January 2016 to date
SUN Guoliang	Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	Member of the party committee, director, and deputy general manager	From September 2015 to August 2017

8.5 BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. GUO Shaoquan, aged 55, a senior economist with an EMBA degree from Nankai University and an EMBA degree from Peking University.

Mr. GUO was appointed as Executive Director of the Bank on 6 January 2010 and has been our Chairman since January 2010. Mr. GUO joined our Bank in November 2009 as secretary of the party committee. Prior to joining our Bank, Mr. GUO worked at the Qingdao branch of China Construction Bank from December 1980 to April 2000 as deputy head and head of the sub-branch and deputy head of the branch. He also served as the head of the Qingdao branch and Tianjin branch of China Merchants Bank from April 2000 to November 2009.

Mr. WANG Lin, aged 54, a senior economist with an EMBA degree from Peking University.

Mr. WANG was appointed as Executive Director of the Bank on 16 September 2011 and has been our President since March 2012. Mr. WANG joined our Bank in July 2011 as the deputy secretary of the party committee. Prior to joining our Bank, Mr. WANG worked at the Nanjing branch of Agricultural Bank of China from July 1984 to December 1996 as assistant to the director and deputy director of the office as well as deputy general manager of the international department of the branch. He also worked at the China Merchants Bank from December 1996 to July 2011 as head of the sub-branch, assistant to the head, deputy head and head of the branch as well as general manager of the pension finance department of the head office.

Mr. YANG Fengjiang, aged 53, a bachelor of economics majoring in finance of Shaanxi Financial College and a senior economist.

Mr. YANG was appointed as Executive Director of the Bank on 10 April 2012 and has been our Vice President since June 2007. Mr. YANG joined our Bank in July 2003 and served as the General Manager of our Treasury Operation Department and an Assistant to the President of the Head Office. Prior to joining our Bank, Mr. YANG served as a teacher of the school of Shandong Bank from July 1985 to November 1989, and a senior staff member of the Qingdao branch of the People's Bank of China from November 1989 to May 1993. He also served as the deputy manager and manager of the business development department of the Qingdao Securities Trading Center from May 1993 to April 1999, and general manager of the investment banking department and bond department of Qingdao Wantong Securities Co., Ltd. from April 1999 to July 2003.

Ms. LU Lan, aged 53, a master of law majoring in sociology of Nankai University.

Ms. LU was appointed as Executive Director of the Bank on 14 October 2016 and has been our Secretary to the Board of Directors since August 2010. Ms. LU joined our Bank in August 2010. Prior to joining our Bank, Ms. LU was an editor of the China Society Press from June 1990 to August 1995, a project manager of Jardine Fleming's Beijing office from August 1995 to August 1997, a practicing lawyer working with Fuzhou Junli Law Firm from August 1997 to October 2001 and a senior manager of the office of board of directors in headquarter of China Merchants Bank from October 2001 to July 2010.

Mr. ZHOU Yunjie, aged 51, a doctor of business administration of Xi'an Jiaotong University and a senior engineer.

Mr. ZHOU was appointed as Non-executive Director of the Bank on 10 April 2015, has been the president and deputy chairman of the board of directors of Haier Group since December 2016 and now serves as deputy to the 13th National People's Congress. Mr. ZHOU served as the chief of the sales division, director of the second factory, head of the quality department, deputy general manager and general manager of Qingdao Refrigerator Factory from 1988 to 2000. He has also been working in Haier Group since 2000 and successively served as the vice president, senior vice president, executive vice president and chief marketing officer. In particular, he served as the alternative president and deputy chairman of the board of the group from 2013 to 2016.

Mr. ZHOU has been an executive director and general manager of Haier Electronics Group Co., Ltd. since November 2009, and he served as chief executive officer of the abovementioned company from March 2013 to August 2017, and has been the chairman of the board of the abovementioned company since June 2013.

Mr. Rosario STRANO, aged 54, a bachelor of law of University of Bari in Italy.

Mr. STRANO was appointed as Non-executive Director of the Bank on 10 April 2012 and has been the chief operating officer of Intesa Sanpaolo S.p.A. since January 2018. Mr. STRANO worked at Banca di Roma, Alitalia, Grand Hotel Baglioni, Agenzia Nazionale Stampa Associata and Poste Italiane successively as a department manager and head from January 1989 to October 2002. He served as the head of human resources and organisation department of Italian and international subsidiary banks division of Banca Intesa (now known as ISP) from October 2002 to December 2006. He held the positions of the head of human resources and organisation department, human resources department and resources and corporate governance department at the international subsidiary banks division of Intesa Sanpaolo S.p.A. from January 2007 to January 2010. He also began to serve as the supervisor of Privredna Banka Zagreb and the director of KMB Bank since April 2009. He was a vice president of Crédit Agricole Cariparma from January 2010 to May 2010. He has been working in Intesa Sanpaolo S.p.A. since May 2010 and successively served as the head of resources and corporate governance department at the international subsidiary banks division and the chief human resources officer. He was a non-executive director of Intesa Sanpaolo Bank-Albania from March 2011 to April 2016.

Mr. WANG Jianhui, aged 54, a master of business administration of Tianjin University.

Mr. WANG was appointed as Non-executive Director of the Bank on 30 March 2007. He has been chairman of Qingdao Conson Development (Group) Co., Ltd. since December 2015 and chairman of Zhonglu Property And Casualty Insurance Co., Ltd. since September 2015. Mr. WANG served as principal staff member and deputy division chief of the Finance Bureau of Qingdao from July 1984 to July 1996; head of the property rights and regulation division and chief of the assessment and management division of the State-owned Assets Administration of Qingdao (State-owned Assets Office) from July 1996 to April 2001; deputy director of the National Asset Management Office of Qingdao from April 2001 to July 2004; deputy director of the State-owned Assets Supervision and Administration Commission of Qingdao Government from July 2004 to April 2006; general manager and director of Qingdao Conson Industrial Co., Ltd. from April 2006 to February 2008; and successively as general manager, director, vice chairman and deputy secretary of the party committee of Qingdao Conson Development (Group) Co., Ltd. from February 2008 to now.

Ms. TAN Lixia, aged 47, a master of business administration of Europe International Business School in Shanghai, a senior engineer, a specially invited expert of the Ministry of Finance on management accounting (expert who enjoys special allowance of the State Council), a Chartered Global Management Accountant (CGMA), a Certified Practising Accountant Australia (CPA) and a Certified Internal Control Professional.

Ms. TAN was appointed as Non-executive Director of the Bank on 10 April 2012. She has been executive vice president and chief financial officer of Haier Group Corporation since January 2016 and chairman of the board of directors of Haier Group (Qingdao) Finance Holding Co., Ltd. since February 2014. Ms. TAN served as deputy head and head of department of overseas market development, vice president, head of department of financial management, chief financial officer and senior vice president of Haier Group from August 1992 to now.

Ms. TAN has been non-executive director of Haier Electronics Group Co., Ltd. since November 2013 and deputy chairman of the board of directors of Qingdao Haier Co., Ltd. since 2011.

Mr. Marco MUSSITA, aged 58, a bachelor of oriental literature and language of Universita Ca' Foscari Venezia (Ca' Foscari University of Venice) in Italy.

Mr. MUSSITA was appointed as Non-executive Director of the Bank on 16 September 2011. He has been director of OMR (China) Automotive Components Co., Ltd. since June 2007. Mr. MUSSITA worked in Banca Commerciale Italiana (now known as ISP) from April 1987 to August 2003, and successively served as assistant to the chief representative of the Beijing office, assistant to the vice president of the New York branch, manager of the credit department of the Hong Kong branch, vice general manager of the Shanghai branch and vice general manager of the Tokyo branch. He served as general manager and director of Shanghai Zhongyi Business Consulting Co., Ltd. from September 2003 to April 2008; general manager of Eurizon (Beijing) Business Consultation Co., Ltd. from May 2008 to March 2015; director of Union Life Insurance Co., Ltd. from May 2008 to July 2017; supervisor of MeccanotecnicaUmbraS.p.A. (Qingdao) Mechanical Seal Co., Ltd. from May 2012 to now; and supervisor of Qingdao Yicai Wealth Management Co., Ltd. from September 2016 to now.

Mr. CHOI Chi Kin, Calvin, aged 39, an honorary bachelor of arts majoring in chartered accountants of University of Waterloo in Canada.

Mr. CHOI was appointed as Non-executive Director of the Bank on 14 October 2016. He has been chairman, president and managing director of AMTD Group Company Limited since January 2016. Mr. CHOI served as senior manager of audit department of Hong Kong and Beijing offices of PricewaterhouseCoopers from December 2000 to August 2005; executive director of investment banking division and chief strategy officer of China region of Citigroup Inc. from August 2005 to December 2008; director of Hong Kong corporate finance department of PricewaterhouseCoopers from January 2009 to October 2010; managing director of investment banking division of Union Bank of Switzerland and member of the Asian-Pacific Committee of Global family office from October 2010 to January 2016.

Mr. CHOI has been vice chairman of Hong Kong Youth Association since February 2014 and vice chairman of Hong Kong Federation of Professions since March 2017. He was selected as a "Young Global Leader" at the World Economic Forum in March 2017.

Mr. WANG Zhuquan, aged 52, a doctor of management majoring in accounting of Zhongnan University of Economics and Law.

Mr. WANG was appointed as Independent Non-executive Director of the Bank on 10 April 2012. He has been a second grade professor and a doctoral supervisor of Ocean University of China since April 2001. Mr. Wang worked in Shandong Mining Co., Ltd. from August 1984 to February 1985; served as associate professor and professor of Qingdao University of Technology from March 1985 to April 2001; and vice dean of the school of management, dean of accounting department, controller of the master's education center in accounting, controller of the research center of operation capital management of Chinese enterprises and controller of Chinese mixed ownership and capital management research institute of Ocean University of China since April 2001.

Mr. WANG served as independent director of Shandong Binzhou Bohai Piston Co., Ltd. from April 2009 to November 2015, Qingdao TGOOD Electric Co., Ltd. from May 2009 to December 2015, Hailir Pesticides and Chemicals Group Co., Ltd. from August 2011 to August 2017, Qingdao Liqun Department Store Group Co., Ltd. from September 2013 to now, Qingdao Doublestar Co., Ltd. from December 2013 to now, Yantai Changyu Pioneer Wine Company Limited from May 2014 to now, and Qingdao Kingking Applied Chemistry Co., Ltd. since May 2016.

Mr. WONG Tin Yau, Kelvin, aged 57, a doctor of business administration of The Hong Kong Polytechnic University.

Mr. WONG was appointed as Independent Non-executive Director of the Bank on 10 April 2015. Mr. WONG has been executive director and deputy managing general manager of COSCO SHIPPING Ports Limited since July 1996. He successively worked at Wing Lung Bank, the Bank of Tokyo, Credit Lyonnais Hong Kong (Finance) Limited and Credit Lyonnais Securities (Asia) Ltd. in France from August 1985 to February 1991 and has held such positions as credit analyst, supervisor of the 4th division of the loan department of Hong Kong office, assistant manager in multinational bank division and research analyst. He served as senior manager in the corporate finance and affairs division of Chuang's China Investments Limited from June 1992 to December 1994; general manager in enterprise development of Termbray Industries International (Group) Limited from October 1994 to July 1996; and assistant to the president of COSCO (H.K.) Group Limited from June 1996 to April 2005.

Mr. WONG has been an independent non-executive director of Xinjiang Goldwind Science & Technology Co., Ltd., Huarong International Financial Holdings Limited, Shanghai Fosun Pharmaceutical (Group) Co., Ltd., China ZhengTong Auto Services Holdings Limited and I.T Limited since October 2016, October 2015, June 2015, November 2010, and August 2007, respectively. Mr. Wong served as the independent non-executive director of Asia Investment Finance Group Limited from October 2016 to February 2018, the independent non-executive director of AAG Energy Holdings Limited from June 2015 to April 2016, the independent non-executive director of CIG Yangtze Ports PLC since April 2016 and from September 2005 to October 2015, and the independent non-executive director of Xinjiang Goldwind Science & Technology Co., Ltd. from June 2011 to June 2016.

Mr. CHEN Hua, aged 50, a doctor of economics majoring in finance of Soochow University and a professor.

Mr. CHEN was appointed as Independent Non-executive Director of the Bank on 10 April 2015. He has been the head of the finance research institute of Shandong University of Finance and Economics since August 2014. Mr. CHEN served as the deputy president of the sub-branch, department manager of the branch, etc. of the Industrial and Commercial Bank of China from July 1989 to September 2002, studied in Soochow University from September 2002 to June 2005, served as the head of the finance and taxation institute of Shandong Economic University from March 2005 to October 2011, and was the head of the center of economics research of Shandong University of Finance and Economics from November 2011 to July 2014.

Mr. CHEN served as the independent non-executive director of Shanda Wit Science and Technology Co., Ltd., the independent non-executive director of Jining Rural Commercial Bank, the external director of Shandong State-owned Assets Investment Holdings Co., Ltd., the independent non-executive director of Shandong Baogang International Port Co., Ltd., and temporary deputy director of Binhai New Area Management Committee of Weifang since March 2013, September 2016, August 2017, December 2017, and December 2017 respectively; from May 2016 to August 2017, he served as the independent non-executive director of Shandong Traffic and Transportation Group Co., Ltd.

Ms. DAI Shuping, aged 57, a master of business administration of Inter American University.

Ms. DAI was appointed as Independent Non-executive Director of the Bank on 14 October 2016. She has been serving as the dean of Qianhai Institute of Financial Management Limited since July 2015. Ms. DAI served in the Urumqi Sub-branch of the People's Bank of China and the Industrial and Commercial Bank of China from December 1979 to December 1984, and served as the deputy chief and other roles of Shekou Sub-branch, Shenzhen Branch of the Industrial and Commercial Bank of China from January 1985 to October 1988. In addition, she successively served as the assistant to the general manager of headquarter's credit management department, the general manager of credit department under Shenzhen administrative division, the deputy general manager of headquarter's corporate banking department, the deputy general manager of headquarter's risk management department, the general manager of headquarter's credit management department, the general manager of headquarter's credit approval department, the general manager of headquarter's legal and compliance department, and the general manager of headquarter's audit department of China Merchants Bank from November 1988 to July 2015, during which she also served as the executive director of China Banking Law Society and director of China Banking Audit Society.

Mr. Simon CHEUNG, aged 47, a bachelor of arts majoring in computer science of the University of Wisconsin-Madison.

Mr. CHEUNG was appointed as Independent Non-executive Director of the Bank on 11 May 2017. He has been the chief technology officer of WeShare (Shenzhen) Ltd. since December 2017. Mr. CHEUNG successively served as the program analyst, database administrator, managing partner and other roles in the University of Wisconsin Hospital and Clinics (USA), Ministry of Social Services (Canada), Modatech Systems Inc. (Canada), and Cheung Simon and Associates (USA) from September 1988 to October 2007, the senior manager of Oracle Hong Kong from November 2007 to August 2009, the deputy general manager of Ping An Insurance (Group) Company of China, Ltd. from August 2009 to November 2012, the director of IT architecture planning of SF Express (Group) Co., Ltd. from November 2012 to June 2014, the deputy general manager of WeBank Co., Ltd. from June 2014 to December 2015, and the chief information officer of Shenzhen Qianhai Dashu Financial Service Co., Ltd. from February 2016 to December 2017.

Supervisors

Ms. CHEN Qing, aged 58, a bachelor of accounting of Southwest University of Science and Technology.

Ms. CHEN was appointed as Chief Supervisor of the Bank on 15 December 2016. She has been the director-general of Bank of Qingdao Charitable Foundation in Qingdao City since April 2017. Ms. CHEN joined the Bank in October 1996 and had held various positions including the president of the sub-branch, assistant to president of the head office, and vice president of the head office. Prior to joining the Bank, she served as the deputy chief of the accounting division and director of branch office under the Qingdao branch of Industrial and Commercial Bank of China from December 1980 to February 1994, the accounting officer of the cadre training center of People's Bank of China from February 1994 to November 1994, and the chief of the planning sub-division under the planning division of the Qingdao Xintong Urban Credit Cooperative from November 1994 to October 1996.

Mr. SUN Guoliang, aged 60, a master of industrial enterprise management of Tianjin University.

Mr. SUN was appointed as Supervisor of the Bank on 10 May 2016. He has been a retired cadre of Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. since August 2017. Mr. SUN served as the deputy director and director of the General Office of Qingdao No. 2 Vehicles Transportation Co., Ltd. from December 1976 till April 1991, deputy director of the Inspection Section, and the deputy chief and chief of the Information Research Office under the General Office of Qingdao Municipal People's Government from April 1991 till October 2000, and he held several positions in Qingdao Hongxin Company, including the director of the Investment Department, the director and deputy general manager of the General Office and a member of the Party Committee from October 2000 till February 2008. He acted as deputy general manager, a member of the Party Committee, and director of Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. from February 2008 to August 2017, during which period he served concurrently as the chairman, chief executive officer and general manager of Qingdao Huatong Business Travel & Real Estate Co., Ltd. and the chairman of Qingdao Zhongshan ShoppingMall Co., Ltd.

Mr. SUN also served as the director of Qingdao Aucma Company Limited from April 2014 to August 2016.

Mr. SUN Jigang, aged 48, a bachelor of economics majoring in finance of Xiamen University.

Mr. SUN was appointed as Employee Supervisor of the Bank on 8 July 2006. He has been the general manager of our credit management department since September 2016. Mr. SUN joined the Bank in December 1996 and had served as the assistant to the general manager of our business department, deputy general manager and general manager of our risk control department, general manager of our credit management department, etc. Prior to joining the Bank, he served as a clerk of the Qingdao Check Point office under the Shandong branch of the State Administration of Foreign Exchange from July 1991 to December 1996.

Mr. XU Wansheng, aged 50, a bachelor of engineering majoring in applied mathematics of Shandong Industrial University.

Mr. XU was appointed as Employee Supervisor of the Bank on 23 January 2007. He has been the general manager of our audit department since December 2012. Joining our Company in July 2003, he once served as the deputy general manager of our finance and accounting department. Before joining our Bank, he served various roles at the Bank of China, including head of system sub-division under finance and accounting division of Qingdao branch, deputy head of the Chengyang sub-branch, the principal of the system sub-division under the finance and accounting division and the chief of the computer audit sub-division under the audit division of the Shandong branch from July 1990 to July 2003.

Mr. WANG Jianhua, aged 64, a master of economics majoring in monetary banking of Xiamen University, a senior economist as well as a certified public accountant.

Mr. WANG was appointed as External Supervisor of the Bank on 10 April 2015. He has been a retired cadre of China Cinda Asset Management Co., Ltd. since December 2014. He once served as the deputy chief of the planning division, chief of the credit division, general manager of the international business department, head of the regional center sub-branch, general manager of the trust investment company, chief of the finance and accounting division and deputy head of the Jiangxi branch of China Construction Bank from August 1983 to March 1998, during which he studied in the graduate school of Xiamen University from September 1994 to June 1997. Mr. WANG was the head of the Qingdao branch of China Construction Bank from March 1998 to July 1999, and served various roles at the China Cinda Asset Management Co., Ltd. from August 1999 to August 2007, including the director of its Shenzhen office, the leader of the new business innovation team and supervisor of the First State Cinda Fund. He was also a director of Happy Life Insurance Co., Ltd. from August 2007 to December 2014.

Mr. FU Changxiang, aged 46, a bachelor of economics majoring in national economy management of Lanzhou University, a senior accountant, a Chinese certified public accountant as well as a Chinese certified tax agent.

Mr. FU was appointed as External Supervisor of the Bank on 10 April 2015. He has been working as a deputy general manager in Qingdao Ruize Certified Tax Agents Firm Co., Ltd. since November 1997. He worked at Sinotruk Qingdao Heavy Industry Co., Ltd. from July 1993 to November 1997, and has been serving as the chief accountant in Qingdao Xinyongda Accounting Firm Co., Ltd. since July 2003.

Mr. HU Yanjing, aged 58, a doctor of agronomy majoring in fishery resources of Ocean University of China as well as a professor.

Mr. HU was appointed as External Supervisor of the Bank on 10 April 2015. He has been the associate editor of the "Oriental Forum" since August 2013. He served at the Party School under Gansu Provincial Committee of Communist Party of China from July 1984 to August 1993 and studied at the Department of Economics in Lanzhou University from August 1993 to July 1996. He then served various roles at the Qingdao University from July 1996 to date, including deputy dean of International Finance College and School of Economics and dean of International College, during which he concurrently served as the deputy director of the research committee of society of Shandong University Journals since 2014.

Senior Management

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

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

Ms. WANG Yu, aged 49, a bachelor of economics majoring in enterprise management of Finance and Economic Institute of Tianjin, a master of business administration majoring in business administration of Tongji University in Shanghai as well as a senior economist.

Ms. WANG was appointed as Vice President of the Bank in June 2007. She successively served as a cadre and staff member of the deposit and remittance division of the Huanghai branch, a senior staff member and principal staff member of the credit card division of the Qingdao branch, as well as deputy head of the high-technology park sub-branch of Bank of China from June 1990 to April 2002; and as the deputy head and head of our Hong Kong East Road sub-branch, as well as assistant to our President from April 2002 to June 2007.

Mr. YANG Changde, aged 58, a bachelor of economics majoring in finance of Distance Education College of Renmin University of China.

Mr. YANG was appointed as Vice President of the Bank in August 2012. He successively served as a cadre and principal staff member of the personnel division of the Qingdao branch, deputy head of the Pingdu sub-branch, deputy director and director of the office of Qingdao central sub-branch, as well as the head of the joint-stock banks regulation division of the Qingdao central sub-branch of the People's Bank of China from September 1994 to October 2003; as the principal and chief of the joint-stock banks regulation division of the CBRC Qingdao Office from October 2003 to April 2007; as the chief of the personnel division of the CBRC Qingdao Office from April 2007 to March 2012; and as the assistant to our President from March 2012 to August 2012.

Ms. CHEN Shuang, aged 49, a master of arts majoring in English language and literature of Shanghai International Studies University as well as a master of science majoring in financial investment of the University of Edinburgh in the UK.

Ms. CHEN was appointed as Vice President of the Bank in January 2017. She successively served at the China CITIC Bank as the deputy manager of the trade settlement department of Qingdao branch, assistant to the president of Sifang branch, the vice president of Sifang branch, concurrent posts of deputy general manager of the business department and manager of the international business department and general manager of the capital market division from April 1992 to December 2006. She was then responsible for investment promotion of the Qingdao City Commercial Bank from December 2006 to June 2007, and served as the assistant to our President from June 2007 to January 2017.

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

8.6 REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, details of the remuneration of Directors, Supervisors and senior management of the Bank are set out in "Note 9 to the Financial Statements", "Note 10 to the Financial Statements" and "Note 39(3) to the Financial Statements" of this annual report.

8.7 EMPLOYEES AND HUMAN RESOURCES MANAGEMENT

8.7.1 Details of employees

1. Composition of employees

As at the end of the Reporting Period, our Bank had 3,545 employees, including 601 at the head office, accounting for 16.95%; 1,564 at branches and sub-branches in Qingdao, accounting for 44.12%; and 1,380 at branches and sub-branches outside Qingdao, accounting for 38.93%.

2. Composition by age

As at the end of the Reporting Period, the average age of the employees of the Bank was 34, of which 1,467 were aged 20 (inclusive) to 30, accounting for 41.38%; 1,171 were aged 30 (inclusive) to 40, accounting for 33.03%; 738 were aged 40 (inclusive) to 50, accounting for 20.82%; and 169 were aged above 50 (inclusive), accounting for 4.77%.

3. Composition by education

As at the end of the Reporting Period, there were 597 employees of the Bank with a master's degree or above, accounting for 16.84%, of which 14 were doctoral degree holders; 2,480 were bachelor's degree holders, accounting for 69.96%; and 468 were college graduates or below, accounting for 13.20%.

4. Composition by gender

As at the end of the Reporting Period, there were 1,617 male employees, accounting for 45.61%; and 1,928 female employees, accounting for 54.39%.

8.7.2 Overall management of human resources

During the Reporting Period, 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 Bank continued to aim at "serving business operation, core tasks and every sector", while kept on consolidating the foundation of human resources management, strengthening employee 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 Bank's rapid and solid development.

8.7.3 Policy on employee remuneration

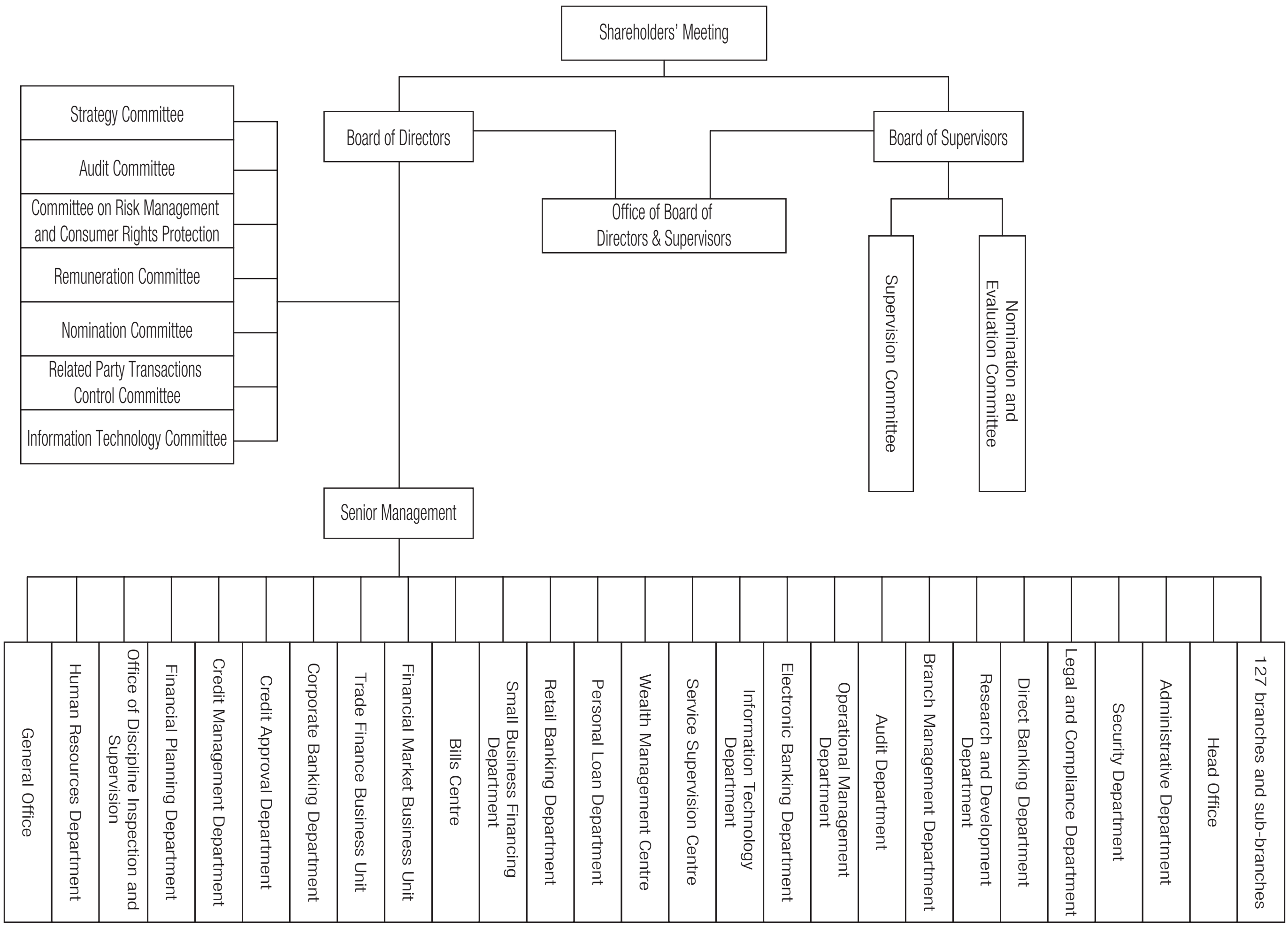
Currently, the Bank has established a market-oriented remuneration system that is based on a post-specific salary regime, under which employee remuneration is linked to the responsibilities, requirements and importance of the position and the results of performance appraisal. Under this remuneration system, remuneration is limited to the position and the performance of the employee. The Bank strictly implements the relevant requirements for supervision of remuneration payment, and implements deferred payment for middle and senior management staff. The formulation and implementation of the annual remuneration scheme of the Bank are determined in strict accordance with the annual salary budget approved by the Board of Directors.

The Bank uses a scientific assessment method to optimize the allocation of resources and actively mobilize the employees' initiatives, so as to improve the overall effectiveness of the Bank. The performance salary of the employee is determined by the overall performance of the Bank, the organization or department of the employee and the employee.

8.7.4 Training for employees

Focusing on the business development plan, the Bank constantly improved the training system setup, improved various training systems and actively explored innovative training forms to enhance the management on the training efficiency of the whole Bank. During the Reporting Period, the Bank held various trainings for middle and senior management, professionals and new employees. In 2017, the Bank organized a total of 2,370 different trainings, with an average of 27 training sessions for each employee.

8.8 ORGANIZATION CHART



8.9 BRANCHES AND SUB-BRANCHES

No.	Name of branch/sub-branch	Business address	Notes
1	In Qingdao	–	1 head office, 1 branch and 73 sub-branches
2	Jinan Branch	Building 6, Yinfeng Fortune Plaza, No. 1 Longaoxi Road, Lixia District, Jinan	There are 15 sub-branches under it
3	Dongying Branch	No. 72 Fuqian Avenue, Dongying District, Dongying	There are 6 sub-branches under it
4	Weihai Branch	No. 112, No. 3-4 Shichang Avenue, Weihai	There are 7 sub-branches under it
5	Zibo Branch	No. 266 Liantong Road, Zhangdian District, Zibo	There are 3 sub-branches under it
6	Dezhou Branch	No. 717 Dexing Middle Avenue, Dezhou	There are 2 sub-branches under it
7	Zaozhuang Branch	No. 215 Qingtan North Road, Shizhong District, Zaozhuang	There are 3 sub-branches under it
8	Yantai Branch	No. 454 Shengli Road, Zhifu District, Yantai	There are 2 sub-branches under it
9	Binzhou Branch	No. 471 Huanghe 8th Road, Bincheng District, Binzhou	There is a sub-branch under it
10	Weifang Branch	No. 124, Building 7, No. 6636 Fushou East Street, Kuiwen District, Weifang	There are 2 sub-branches under it
11	Laiwu Branch	No. 57, Wanfu North Road, Laicheng District, Laiwu	–
12	Linyi Branch	Building 9, Hongxing International Plaza, Intersection of Jinan Road and Xiaohe Road, Beicheng New District, Linyi	–
13	Jining Branch	Welfare Lottery Building, No. 24 Hongxing Middle Road, Jining	–

Chapter IX Corporate Governance Report

In compliance with the domestic and overseas regulations, the Bank has been committed to the establishment of regulated, market-oriented and featured mechanism for check and balance and implementation of corporate governance, continuously improving the corporate governance system, standardizing the operating process of corporate governance, pushing forward the independent operation of and effective check and balance between all governance bodies, as well as uplifting the Bank's core competitiveness, so as to promote the continuous and stable development of various business through effective corporate governance.

During the Reporting Period, the Bank revised the Articles of Association and other regulatory documents for corporate governance in accordance with regulatory requirements and our actual situation; promoted diversity of the Board and completed the change of independent directors and members of the Special Committees; continued to strengthen the core position of the Board of Directors in corporate governance, allowing the Board of Directors to play an active role in strategic leadership, risk management, capital management, incentives and restraints; organized independent directors to carry out special investigation and research, as well as their provision of professional guidance thereafter; increased the frequency of physical meetings of the Special Committees, in order to further exert their expertise in deliberation; deepened the supervisory role of the Board of Supervisors in light of the increasingly stringent regulatory environment.

The Bank's corporate governance has been recognized by the community. As a result, the Bank won the "Best Corporate Governance Award" in the 2017 China Financial Market Award Gala held by the China Financial Market magazine in Hong Kong.

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

9.1 CONVENING OF SHAREHOLDERS' GENERAL MEETING

During the Reporting Period, the Bank convened 3 shareholders' general meetings, the details of which are as follows:

(1) On 15 March 2017, the 2017 First Extraordinary General Meeting, the 2017 First Domestic Shareholders Class Meeting and the 2017 First H Shareholders Class Meeting of the Bank were convened in the conference room on the fourth floor[Note] of the former Head Office.

A total of 32 shareholders attended the 2017 First Extraordinary General Meeting in person or by proxy, representing a total of 3,048,136,835 shares with voting rights, which accounted for 75.10% of the total number of shares of the Bank. A total of 30 domestic shareholders attended the 2017 First Domestic Shareholders Class Meeting in person or by proxy, representing a total of 1,815,236,554 domestic shares with voting rights, which accounted for 79.07% of the total number of domestic shares of the Bank. A total of two H shareholders attended the 2017 First H Shareholders Class Meeting in person or by proxy, representing a total of 1,232,900,281 H shares with voting rights, which accounted for 69.93% of the total number of H shares of the Bank.

A total of three resolutions were considered and passed at the 2017 First Extraordinary General Meeting, namely the resolution on the issuance of tier-two capital bonds by Bank of Qingdao Co., Ltd., the resolution on the plan for the non-public issuance of offshore preference shares by Bank of Qingdao Co., Ltd. and the resolution on authorization to handle relevant matters of the issuance of offshore preference shares.

A total of two resolutions were considered and passed at the 2017 First Domestic Shareholders Class Meeting, namely the resolution on the plan for the non-public issuance of offshore preference shares by Bank of Qingdao Co., Ltd. and the resolution on authorization to handle relevant matters of the issuance of offshore preference shares.

A total of two resolutions were considered and passed at the 2017 First H Shareholders Class Meeting, namely the resolution on the plan for the non-public issuance of offshore preference shares by Bank of Qingdao Co., Ltd. and the resolution on authorization to handle relevant matters of the issuance of offshore preference shares.

Note: The address of former Head Office of the Bank was No. 68, Hong Kong Middle Road, Shinan District, Qingdao, Shandong Province, PRC (same hereinafter).

(2) On 11 May 2017, the 2016 Annual General Meeting, the 2017 Second Domestic Shareholders Class Meeting and the 2017 Second H Shareholders Class Meeting of the Bank were successively convened in the conference room on the fourth floor of the former Head Office.

A total of 32 shareholders attended the 2016 Annual General Meeting in person or by proxy, representing a total of 2,776,850,895 shares with voting rights, which accounted for 68.42% of the total number of shares of the Bank. A total of 29 domestic shareholders attended the 2017 Second Domestic Shareholders Class Meeting in person or by proxy, representing a total of 1,753,913,114 domestic shares with voting rights, which accounted for 76.40% of the total number of domestic shares of the Bank. A total of three H shareholders attended the 2017 Second H Shareholders Class Meeting in person or by proxy, representing a total of 1,022,937,781 H shares with voting rights, which accounted for 58.02% of the total number of H shares of the Bank.

A total of 17 resolutions were considered and passed at the 2016 Annual General Meeting, namely the work report of the Board of Directors of Bank of Qingdao Co., Ltd. for 2016, the work report of the Board of Supervisors of Bank of Qingdao Co., Ltd. for 2016, the final financial accounts of Bank of Qingdao Co., Ltd. for 2016, the profit distribution plan of Bank of Qingdao Co., Ltd. for 2016, the resolution on the engagement of domestic and foreign auditors and their remuneration of Bank of Qingdao Co., Ltd. for 2017, the resolution on the amendments to the three-year dividend return plan after the initial public offering and listing of the A shares of Bank of Qingdao Co., Ltd., the resolution on the amendments to the rules of procedure for the shareholders' general meetings of Bank of Qingdao Co., Ltd., the resolution on the amendments to the rules of procedure for the shareholders' general meetings of Bank of Qingdao Co., Ltd. (A Shares), the resolution on the amendments to the rules of procedure for the Board of Directors of Bank of Qingdao Co., Ltd., the resolution on the amendments to the rules of procedure for the Board of Directors of Bank of Qingdao Co., Ltd. (A Shares), the resolution on change of independent Directors of the sixth session of the Board of Directors of Bank of Qingdao Co., Ltd., the special report on related party transactions of Bank of Qingdao Co., Ltd. for 2016, the resolution on the extension of the validity period of the plan for the initial public offering and listing of the A shares of Bank of Qingdao Co., Ltd., the resolution on the extension of the validity period of the authorization to deal with specific matters in respect of the initial public offering and listing of the A shares, the resolution on the amendments to the Articles of Association of Bank of Qingdao Co., Ltd., the resolution on the amendments to the Articles of Association of Bank of Qingdao Co., Ltd. (A Shares) and the resolution on the general mandate to issue shares of Bank of Qingdao Co., Ltd. In addition, the Evaluation Report on the Performance of Duties by the Board and Directors of Bank of Qingdao Co., Ltd. for 2016 and the Evaluation Report on the Performance of Duties by Supervisors of Bank of Qingdao Co., Ltd. for 2016 were heard at the meeting.

A total of three resolutions were considered and passed at the 2017 Second Domestic Shareholders Class Meeting, namely the resolution on the extension of the validity period of the plan for the initial public offering and listing of the A shares of Bank of Qingdao Co., Ltd., the Resolution on the extension of the validity period of the authorization to deal with specific matters in respect of the initial public offering and listing of the A shares and the Resolution on the amendments to the three-year dividend return plan after the initial public offering and listing of the A shares of Bank of Qingdao Co., Ltd.

A total of three resolutions were considered and passed at the 2017 Second H Shareholders Class Meeting, namely the resolution on the extension of the validity period of the plan for the initial public offering and listing of the A shares of Bank of Qingdao Co., Ltd., the resolution on the extension of the validity period of the authorization to deal with specific matters in respect of the initial public offering and listing of the A shares and the resolution on the amendments to the three-year dividend return plan after the initial public offering and listing of the A shares of Bank of Qingdao Co., Ltd.

(3) On 10 October 2017, the 2017 Second Extraordinary General Meeting of the Bank was convened in the conference room on the fourth floor of the former Head Office. A total of 30 shareholders attended the Meeting in person or by proxy, representing a total of 3,105,732,143 shares with voting rights, which accounted for 76.52% of the total number of shares of the Bank. A total of three resolutions were considered and passed at the Meeting, namely the resolution on the change of domicile of Bank of Qingdao Co., Ltd., the resolution on the amendments to the rules of procedures for the Board of Directors of Bank of Qingdao Co., Ltd. and the resolution on the amendments to the Articles of Association of Bank of Qingdao Co., Ltd.

9.2 BOARD OF DIRECTORS AND SPECIAL COMMITTEES

As the decision-making body of the Bank, the Board is responsible to and reports its work at the general meetings. The Board exercises the following authorities and powers in accordance with the laws and regulations and the Articles of Association: convening and reporting its work at shareholders' general meetings; implementing resolutions passed at shareholders' general meetings; deciding on the Bank's business plans and investment plans; making decisions on the Bank's operational development strategies and supervising the implementation of such development strategies; formulating the Bank's annual financial budgets and final accounts; formulating the Bank's proposals on profit distribution and making up losses; formulating proposals on the increase or reduction of the Bank's registered capital, the issuance of corporate bonds and other securities and the listing plan; formulating plans for significant acquisitions, repurchase of the Bank's shares, or merger, division or dissolution or change in corporate form of the Bank; considering and approving matters within the scope authorized at shareholders' general meetings on the Bank's establishment of legal entities, major mergers and acquisitions, major external investments, major asset acquisitions, major asset disposals, major asset write-off and major external guarantees, etc.; deciding on the establishment of the Bank's internal management entities; appointing or removing the Bank's president and secretary to the Board of Directors; appointing or removing the members of the Bank's senior management including the vice president and chief financial officer in accordance with the recommendations of the president, and determining their remunerations, rewards and punishment; formulating the basic management systems of the Bank; formulating amendments to the Articles of Association, and the rules of procedure of shareholders' general meetings and Board meetings; managing the information disclosure of the Bank and taking ultimate responsibility for the truthfulness, accuracy, completeness and timeliness of the Bank's accounting and financial statements; proposing at shareholders' general meetings the engagement, dismissal or discontinuance of engagement of an accounting firm which undertakes auditing work for the Bank; evaluating regularly and improving continuously the corporate governance of the Bank; listening to the president's work report and inspecting the president's work; exercising other authorities and powers conferred by the laws, administrative regulations, departmental rules, regulatory documents or the Articles of Association and the shareholders' general meetings.

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

During the Reporting Period, the Board strictly implemented the resolutions passed on the general meetings, and conscientiously implemented the resolutions considered and passed on the general meetings in relation to non-public issuance of the offshore preference shares by the Bank, the issuance of tier-two capital bonds, the Profit Distribution Plan for 2016, the change of independent directors and modification of the Articles of Association.

9.2.2 Members of the Board

Directors of the Bank are nominated by the Board and elected in accordance with the qualifications of Directors and election procedures as specified in the Articles of Association. At the end of the Reporting Period, the Board consisted of 15 Directors, including 4 executive Directors, namely GUO Shaoquan, WANG Lin, YANG Fengjiang and LU Lan; 6 non-executive Directors, namely ZHOU Yunjie, Rosario STRANO, WANG Jianhui, TAN Lixia, Marco MUSSITA and CHOI Chi Kin, Calvin; and 5 independent non-executive Directors, namely WANG Zhuquan, WONG Tin Yau, Kelvin, CHEN Hua, DAI Shuping and Simon CHEUNG. The number of members and the composition of the Board complied with the requirements of the laws and regulations.

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

9.2.3 Changes in the Directors

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

9.2.4 Operation of the Board

During the Reporting Period, the Board held a total of 13 meetings, of which four meetings were held in the form of physical meetings and nine meetings were held in the form of circulation of written resolutions. At these meetings, the Board passed resolutions on 50 significant events including non-public issuance of the offshore preference shares, the issuance of tier-two capital bonds, the Work report of the President, Report on Final Financial Accounts, annual operation plans, Proposal on Profit Distribution and the change of independent directors, and also listened to or reviewed 55 special reports including risk management report, internal and external audit report, proposal on external audit management and rectification report, and opinions arising from CBRC's on-site inspection and related rectification report.

The Directors of the Bank have acknowledged their responsibility for preparing the financial statements of the Bank for the year ended 31 December 2017. The Directors are responsible for overseeing the preparation of financial statements for each accounting period to make sure such financial statements give a true and fair view of the financial conditions, operation results and cash flows of the Bank. In preparing the financial statements for the year ended 31 December 2017, the Directors have adopted and consistently applied applicable accounting policies, and exercised prudent and reasonable judgement.

The Board of Directors is also responsible for determining the policy for the corporate governance of the Company and has performed the duties as set out in provision D.3.1 of the Code.

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

	Actual attendance/Number of meetings requiring attendance								
Directors	General meetings	Board meetings	Strategy Committee	Remuneration Committee	Nomination Committee	Related Party Transactions Control Committee	Audit Committee	Risk Management and Consumer Rights Protection Committee	Information Technology Committee
Executive Directors									
GUO Shaoquan	3/3	13/13	3/3	2/2	2/2	–	–	–	2/3
WANG Lin	3/3	13/13	3/3	–	2/2	–	–	5/5	3/3
YANG Fengjiang	3/3	13/13	–	–	–	8/8	–	4/5	–
LU Lan	3/3	13/13	–	–	–	8/8	–	5/5	–
Non-executive Directors									
ZHOU Yunjie	2/3	12/13	3/3	2/2	2/2	–	–	–	–
Rosario STRANO	3/3	11/13	2/3	2/2	–	–	–	–	–
WANG Jianhui	3/3	11/13	2/3	–	–	–	5/8	–	–
TAN Lixia	2/3	13/13	–	–	–	–	8/8	5/5	3/3
Marco MUSSITA	2/3	13/13	–	–	–	–	–	5/5	3/3
CHOI Chi Kin, Calvin	3/3	13/13	3/3	–	–	–	8/8	–	–
Independent Non-executive Directors									
WANG Zhuquan	3/3	13/13	–	2/2	2/2	8/8	8/8	5/5	–
WONG Tin Yau, Kelvin	3/3	13/13	3/3	2/2	2/2	8/8	8/8	–	–
CHEN Hua	3/3	13/13	3/3	2/2	–	8/8	8/8	5/5	–
DAI Shuping	3/3	13/13	3/3	–	2/2	8/8	8/8	–	–
Simon CHEUNG	1/1	6/6	–	–	–	3/3	–	–	1/1

Notes:

1. Mr. ZHOU Yunjie and Ms. TAN Lixia have other work arrangements and Mr. Marco MUSSITA is ordinarily living overseas. As such, Mr. ZHOU Yunjie, Ms. TAN Lixia and Mr. Marco MUSSITA failed to attend some general meetings of the Bank convened during the Reporting Period;

2. The appointment of Mr. Simon CHEUNG as a director commenced from July 2017. Accordingly, Mr. Simon CHEUNG was not included in the counting of the total number of meetings requiring attendance for general meetings, Board meetings and meetings of the Special Committees;

3. Regarding the situations that actual attendance for Board meetings and meetings of the Special Committees was lower than attendance required, the Directors concerned had appointed another Director to attend such meetings on their behalf.

9.2.6 Performance of the independent non-executive Directors

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

During the Reporting Period, the five independent non-executive Directors kept in touch with the Bank through various means such as reviewing the newsletters of Directors and Supervisors and working at the Bank's offices. They participated in the meetings of the Board and the special committees seriously, actively giving their opinions and emphasizing on the interests of minority shareholders. The non-executive independent Directors have fully discharged their responsibilities.

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

9.2.7 Special Committees under the Board

The Bank currently has seven special committees under the Board, including a Strategy Committee, a Remuneration Committee, a Nomination Committee, a Related Party Transactions Control Committee, an Audit Committee, a Risk Management and Consumer Rights Protection Committee, and an Information Technology Committee. During the Reporting Period, the Risk Management Committee was renamed as Risk Management and Consumer Rights Protection Committee.

During the Reporting Period, the special committees under the Board of the Bank exercised their respective authorities and powers in an independent manner according to laws and regulations. They held a total of 31 meetings during the year, at which 33 resolutions were considered, 26 reports of all kinds were reviewed, 15 physical special reports were listened to, which allowed the special committees under the Board to play their professional roles in deliberation, provide support for the scientific decision-making of the Board, and improve the efficiency and quality of scientific decision-making ability of the Board.

9.2.7.1 Strategy Committee

Strategy Committee of the Board consists of 2 executive Directors, 4 non-executive Directors and 3 independent non-executive Directors. The 2 executive Directors are Mr. GUO Shaoquan and Mr. WANG Lin. The 4 non-executive Directors are Mr. ZHOU Yunjie, Mr. Rosario STRANO, Mr. WANG Jianhui and Mr. CHOI Chi Kin, Calvin. The 3 independent non-executive Directors are Mr. WONG Tin Yau, Kelvin, Mr. CHEN Hua and Ms. DAI Shuping. Mr. GUO Shaoquan is the chairman of the committee.

The primary duties of the Strategy Committee include the following:

1. studying and providing advice on our mid- and long-term development strategies;

2. supervising and inspecting the implementation of annual operation plans and investment plans;

3. studying and formulating our capital supplement plans and channels;

4. studying and providing advice on our material investment plans and other material matters which may have an effect on our development;

5. reviewing modification proposals of the Articles of Association;

6. inspecting the implementation of the above items.

During the Reporting Period, our Strategy Committee held three meetings in total, at which resolutions on the 2017 work plan of the Strategy Committee, the Work Report of the President, the general mandate of share issue, modification of the Articles of Association, were considered and approved.

9.2.7.2 Remuneration Committee

Remuneration Committee of the Board consists of an executive Director, 2 non-executive Directors and 4 independent non-executive Directors. The executive Director is Mr. GUO Shaoquan. The 2 non-executive Directors are Mr. ZHOU Yunjie and Mr. Rosario STRANO. The 4 independent non-executive Directors are Mr. WANG Zhuquan, Mr. WONG Tin Yau, Kelvin, Mr. CHEN Hua and Mr. Simon CHEUNG. Mr. WANG Zhuquan is the chairman of the committee.

The primary duties of the Remuneration Committee include the following:

1. studying the criteria for appraising Directors and senior management, conducting the appraisal, and submitting the appraisement reports to the Board;

2. formulating our policy and structure of remuneration management, formulating the policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, and making recommendations to the Board and overseeing the execution of the proposal;

3. reviewing and approving the management's remuneration proposals with reference to the corporate goals and objectives formulated by the Board;

4. reviewing and approving compensations payable to directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

5. reviewing and approving compensation arrangements relating to dismissal or removal of any director for his misconduct to ensure that such arrangements are consistent with contractual terms and are otherwise reasonable and appropriate;

6. ensuring that no director or any of his associates is involved in deciding his own remuneration.

During the Reporting Period, our Remuneration Committee held two meetings in total, at which resolutions on the 2017 work plan of the Remuneration Committee and the 2016 Appropriation of the Staff Bonus and Distribution of the Performance Bonus of Senior Management at Bank Level, were considered and approved.

9.2.7.3 Nomination Committee

Nomination Committee of the Board consists of 2 executive Directors, a non-executive Director and 4 independent non-executive Directors. The 2 executive Directors are Mr. GUO Shaoquan and Mr. WANG Lin. The non-executive Director is Mr. ZHOU Yunjie. The 4 independent non-executive Directors are Mr. WANG Zhuquan, Mr. WONG Tin Yau, Kelvin, Ms. DAI Shuping and Mr. Simon CHEUNG. Mr. WONG Tin Yau, Kelvin is the chairman of the committee.

The primary duties of the Nomination Committee include the following:

1. reviewing the structure, size and composition of the Board annually, and making recommendations on any proposed changes to the Board to complement our strategy;

2. formulating the criteria and procedures for selecting directors and senior management and succession planning for directors, and making recommendations to the Board;

3. extensively identifying qualified candidates for directors and senior management, and making recommendations to the Board;

4. conducting the preliminary examination of qualifications of candidates for directorships and senior management positions, and making recommendations to the Board on the selection;

5. assessing the independence of independent non-executive directors.

During the Reporting Period, our Nomination Committee held two meetings in total, at which resolutions on the 2017 work plan of the Nomination Committee and the change of independent directors of the Sixth Session of the Board of Directors were considered and approved.

9.2.7.4 Related Party Transactions Control Committee

Related Party Transactions Control Committee of the Board consists of 2 executive Directors and 5 independent non-executive Directors. The 2 executive Directors are Mr. YANG Fengjiang and Ms. LU Lan. The 5 independent non-executive Directors are Mr. WANG Zhuquan, Mr. WONG Tin Yau, Kelvin, Mr. CHEN Hua, Ms. DAI Shuping and Mr. Simon CHEUNG. Mr. CHEN Hua is the chairman of the committee.

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

1. identifying related parties and connected persons;

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

During the Reporting Period, our Related Party Transaction Control Committee held eight meetings in total, at which it considered and passed resolutions on the 2017 Work Plan of Related Party Transaction Control Committee, the confirmation of the list of related party, the review of significant related party transactions and the amendments to management system of related party transactions.

9.2.7.5 Audit Committee

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

The primary duties of the Audit Committee include the following:

1. examining our compliance status, accounting policies, financial reporting procedures and financial position, monitoring our financial information, including the integrity of our financial statements and annual reports and accounts, interim reports and quarterly reports (if prepared for publication), and reviewing significant financial reporting judgments contained in such statements and reports;

2. making recommendations to the Board on the appointment, reappointment or removal of the external auditor, and reviewing the fees and terms of engagement of the external auditor;

3. examining and supervising the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

4. formulating and implementing policies on engaging an external auditor to provide non-audit services;

5. reviewing the external auditor's letter to the management, any material queries raised by the external auditor to the management about accounting records, financial accounts or systems of control and management's response;

6. acting as the key representative body for overseeing our relations with the external auditor, overseeing the communication between internal and external auditors, and ensuring coordination between the internal and external auditors;

7. taking charge of the annual audit work;

8. ensuring that the internal audit function is adequately resourced;

9. reviewing our financial reporting system, internal control system and their implementation;

10. discussing the internal control system with management to ensure that management has performed its duty to establish an effective internal control system.

During the Reporting Period, our Audit Committee held eight meetings in total, at which it considered and passed resolutions on our annual report, engagement of external auditor, the self-evaluation report of internal control, the financial report, the proposal on profit distribution, as well as reviewed special audit reports and rectification reports. It communicated with the external auditor and the management regarding the audit opinion and suggestions for internal control as proposed by the external auditor, and pushed forward and made guidance in the optimization and execution of the Bank.

9.2.7.6 Risk Management and Consumer Rights Protection Committee

Risk Management and Consumer Rights Protection Committee of the Board consists of three executive Directors, two non-executive Directors and two independent non-executive Directors. The three executive Directors are Mr. WANG Lin, Mr. YANG Fengjiang and Ms. LU Lan. The two non-executive Directors are Ms. TAN Lixia and Mr. Marco MUSSITA. The two independent non-executive Directors are Mr. WANG Zhuquan and Mr. CHEN Hua. Mr. WANG Lin is the chairman of the committee.

The primary duties of the Risk Management and Consumer Rights Protection Committee include the following:

1. supervising the risk control condition conducted by the senior management of the Bank in credit, marketing, liquidity, operation, compliance, information technology and reputation, and conducting regular reviews of the risk reports;

2. assessing our risk policies, management, tolerance and capacity;

3. supervising our risk management and internal control systems, and making proposals on the improvement plans of our risk management and internal control system;

4. discussing our risk management and internal control system with management to ensure the effectiveness of our risk management systems;

5. conducting regular review of and supervising the effectiveness of our risk management system, and assisting the Board to report the completed reviews to the shareholders;

6. conducting research on major investigation findings in relation to internal control matters and management's response to these findings;

7. formulate the Bank's strategy, policy and target in protecting consumers' rights, to receive the senior management's special report on protection of consumers' rights regularly and submit the reports to the Board for consideration.

During the Reporting Period, our Risk Management and Consumer Rights Protection Committee held five meetings in total, at which it considered and passed the resolutions on the 2017 work plan of the Risk Management and Consumer Rights Protection Committee and the 2017 plan of risk appetite of business operation, and listened to the reports on risk management of credit risk, market risk, liquidity risk and operational risk, and reviewed the reports on risk management of reputational risk and information technology risk, etc.

9.2.7.7 Information Technology Committee

Information Technology Committee of the Board consists of two executive Directors, two non-executive Directors and one independent non-executive Director. The two executive Directors are Mr. GUO Shaoquan and Mr. WANG Lin. The two non-executive Directors are Ms. TAN Lixia and Mr. Marco MUSSITA. The one independent non-executive Director is Mr. Simon CHEUNG. Mr. Simon CHEUNG is the chairman of the committee.

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

1. studying and formulating the strategy of information technology of the Bank, and submitting the strategy to the Board for review;

2. appraising the overall result of the work of information technology, and the process of strategic planning and other material projects of the Bank;

3. instructing and supervising the development and governance of the work of information technology in senior management and relevant management departments, and conducting information technology risk identification, measurement and control;

4. listening to or reviewing the information technology management report, business continuity management report, and special auditor's report in information technology of the Bank, and providing advices.

During the Reporting Period, our Information Technology Committee held three meetings in total, at which it considered and approved the resolutions on the 2017 work plan of the Information Technology Committee, etc., and listened to the report on the management of information technology risk, the report on the management of business continuity and other reports.

9.3 BOARD OF SUPERVISORS

The Board of Supervisors is the supervisory body of the Bank and is responsible to the general meeting. The Board of Supervisors exercises the following authorities and powers in accordance with the laws and regulations and the Articles of Association: supervising the discharge of duties by the Board and the senior management; supervising the conduct of directors and members of senior management in their performance at the Bank, and proposing the removal of such directors and members of senior management violating the laws, administrative regulations, the Articles of Association or the resolutions of the shareholders' general meeting; requiring directors and members of senior management to rectify any acts which are detrimental to the interests of the Bank; conducting exit audits for directors and members of senior management when necessary; inspecting and supervising the financial activities of the Bank; carrying out supervisory inspections on matters such as the business decision-making, risk management and internal controls of the Bank, and supervising the rectification of mistakes; making enquiries towards the directors, the chairman of the Board of Directors and other members of the senior management; proposing the convening of extraordinary general meeting, and convening and presiding over the shareholders' general meeting when the Board of Directors fails to perform this duty in accordance with the Company Law or the Articles of Association; attending the meetings of the Board of Directors; raising proposals to shareholders' general meeting; examining the financial information such as financial reports, business reports, and profit distribution plans proposed to be submitted to the shareholders' general meeting by the Board of Directors; conducting investigations if there are any doubts or irregularities in relation to the Bank's operations; engaging professionals from accountant firms or law firms when necessary to assist its duties at the expenses of the Bank; initiating legal proceedings against directors and members of senior management according to the provisions of the Company Law; making proposals regarding the remuneration (or allowance) of the supervisors; and exercising any powers conferred by the laws, administrative regulations, departmental rules, the regulatory documents, the Articles of Association or the shareholders' general meetings.

9.3.1 Composition of the Board of Supervisors

Shareholder and external supervisors of the Bank are nominated by the Board of Supervisors, while employee supervisors are nominated by labor union committee. All of these supervisors are elected in accordance with the election procedures stipulated in the Articles of Association. The Board of Supervisors of the Bank consists of seven supervisors, including three employee supervisors, namely CHEN Qing, SUN Jigang and XU Wansheng; one shareholder supervisor, namely SUN Guoliang; and three external supervisors, namely WANG Jianhua, FU Changxiang and HU Yanjing. The structure of composition of our Board of Supervisors compiles with the requirements of laws and regulations, and the supervisors are equipped with the required professionalism and independence for performing their duties, which allows the effective performance of supervisory role by the Board of Supervisors.

9.3.2 Changes in the supervisors

During the Reporting Period, there was no change in the supervisors of the Bank.

9.3.3 Operation of the Board of Supervisors

Through various means such as convening meetings of the Board of Supervisors and the Special Committees, considering and approving resolutions, listening to reports, conducting regular business investigation and research and proposing suggestions, participating in general meetings, and attending Board meetings and important meetings of the Bank, the Board of Supervisors supervised and appraised the discharge of duties by the Board and senior management and their members, oversaw the financial activities, risk management and internal controls of the Bank, gave their recommendations after supervising and continuously monitored the implementation of the various recommendations by the Bank.

9.3.4 Meetings of the Board of Supervisors held during the Reporting Period

During the Reporting Period, the Board of Supervisors of the Bank held eight meetings, of which two meetings were held in the form of physical meetings and six meetings were held by way of circulating written resolutions. At these meetings, the Board of Supervisors considered and approved 18 resolutions, listened to or reviewed 50 reports and carried out one themed investigation and research in relation to operation management, final financial accounts, risk management and internal control of the Bank, as well as the performance of directors, supervisors and the senior management. During the Reporting Period, there was no objection raised by the Board of Supervisors to the matters supervised.

The attendance of supervisors at physical meetings of the Board of Supervisors during the Reporting Period is as follows:

Supervisor	Number of meetings requiring attendance	Attendance in person	Attendance by proxy
CHEN Qing	8	8	0
SUN Guoliang	8	8	0
SUN Jigang	8	8	0
XU Wansheng	8	8	0
WANG Jianhua	8	8	0
FU Changxiang	8	8	0
HU Yanjing	8	8	0

9.3.5 Attendance at shareholders' general meetings during the Reporting Period

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

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

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

9.3.7 Operation of the Special Committees under the Board of Supervisors

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

No.	Committees under the Board of Supervisors	Chairman	Members
1	Supervision Committee	FU Changxiang	CHEN Qing, SUN Guoliang, HU Yanjing, XU Wansheng
2	Nomination and Evaluation Committee	HU Yanjing	CHEN Qing, WANG Jianhua, FU Changxiang, SUN Jigang

Supervision Committee

The primary duties of the Supervision Committee include the following:

1. formulating the plans for supervising the Bank's financial affairs, and implementing related examinations;

2. supervising the Board of Directors for the establishment of stable operational principle, value criterion, and formulating the development strategy based on the Bank's actual needs;

3. supervising and examining the Bank's operational decisions, risk management and internal control.

During the Reporting Period, the Supervision Committee held five meetings in total, at which the resolutions on the report of final financial accounts, proposals for profit distribution, annual report, the engagement of external auditor and self-evaluation report on internal control for 2016 were considered and approved, and listened to the work report of internal audit and the major risk management report.

Nomination and Evaluation Committee

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

1. studying the selection standards and procedures of supervisors, and making recommendations to the Board of Supervisors;

2. preliminarily reviewing the qualifications and conditions of candidates for supervisors and making recommendations;

3. supervising the process of election and appointment of Directors and independent Directors;

4. conducting comprehensive evaluation of the duties performance of Directors, supervisors and senior management and reporting to the Board of Supervisors.

During the Reporting Period, the Nomination and Evaluation Committee held two meetings in total, at which the resolutions on the evaluation report on the duties performance of the Board of Directors and Directors, the evaluation report on the duties performance of Supervisors, the evaluation report on duties performance of the senior management and senior executives and the work report of the President were considered and approved.

9.3.8 Work of external supervisors

The Special Committees under the Board of Supervisors of the Bank are all chaired by external supervisors, which strengthened the external supervisors' supervision function, playing a positive role in improving the Bank's management level and governance structure.

During the Reporting Period, external supervisors kept themselves abreast of the status of the Bank's operation and management by carrying out conscientious reviews on the newsletters of Directors and Supervisors and other documents provided by the Bank; attended the meetings of the Board of Supervisors and its Special Committees in compliance with laws and regulations, considered each issue from the interests of the Bank and depositors, and gave their independent and objective opinions and suggestions; actively participated in the themed investigation and research conducted by the Board of Supervisors, put forward constructive suggestions, and performed their duties as external supervisors according to law.

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

During the Reporting Period, all the Directors and supervisors participated in the themed trainings in compliance with major laws, regulations and regulatory requirements in Hong Kong by H-share listed companies and their directors and supervisors, so as to enable them to have a better understanding of the responsibilities and duties of Directors and supervisors conferred by relevant laws and regulations.

During the Reporting Period, Ms. DAI Shuping and Mr. Simon CHEUNG, independent directors of the Bank, commenced special investigations and research on risk management and information technology respectively, and gave suggestions on establishment and continuous improvement of comprehensive risk management system, formation of highly competitive credit approval process and quality and efficiency enhancement of audit inspections in respect of risk management, as well as advices on the proportion of information technology investment in the total revenue of the Bank and its development tendency, ratio of coordinating and planning personnel, reasonable outsourcing and maintenance of independence by information security, quality management and other departments in terms of information technology development.

The Board of Supervisors conducted investigations and research on credit approval authorization of cross-region branches, and gave suggestions on formulation of more centralized credit approval system, refinement of supporting system establishment and organization and implementation of risk controls.

9.5 SENIOR MANAGEMENT

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

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

(I) take charge of the operation and management of the Bank, make arrangements for the implementation of the resolutions of the Board of Directors and report the work to the Board of Directors;

(II) submit business plans and investment proposals to the Board of Directors on behalf of the members of senior management, and make arrangements for the implementation upon approval by the Board of Directors;

(III) make arrangements for the formulation and implementation of the Bank's various rules and regulations, development plans and annual operation plans;

(IV) authorize members of senior management and persons in charge of internal departments and branches to conduct operating activities;

(V) draft proposals on the establishment of the Bank's internal management entities;

(VI) propose to the Board of Directors to engage or dismiss the vice presidents, chief financial officers and other members of senior management of the Bank;

(VII) engage or dismiss persons in charge of the internal departments and branches of the Bank other than those to be engaged or dismissed by the Board of Directors;

(VIII) draw up wages, benefits, rewards and punishment of the employees of the Bank, and decide on their appointment and dismissal;

(IX) propose the convening of an extraordinary meeting of the Board of Directors;

(X) adopt emergency measures when any major emergency, such as bank run, arises in the Bank and promptly report them to the banking regulatory authorities of the State Council as well as the Board of Directors and the Board of Supervisors;

(XI) other duties and powers conferred by the laws, administrative regulations, departmental rules, regulatory documents, the regulations of the relevant regulatory authorities, the Articles of Association and by the Board of Directors.

9.5.1 Delegation of authority by the Board of Directors

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

9.5.2 Chairman and President

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

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

9.5.3 Securities transactions by Directors and Supervisors

The Bank has adopted the required standard set by the Model Code set out in Appendix 10 of the Hong Kong Listing Rules as the code of conduct for securities transactions by directors and supervisors of the Bank. Having made enquiries to all Directors and Supervisors, the Bank confirmed that they had complied with the above Model Code during the Reporting Period.

9.5.4 External auditors and auditors' remuneration

The domestic and overseas auditors of the Bank for 2017 were KPMG Huazhen LLP and KPMG respectively. The Bank has not changed its auditing firm in the past three years. For the year ended 31 December 2017, the Bank has paid RMB4.95 million and RMB0.54 million to KPMG Huazhen LLP and KPMG for audit services and non-audit services, respectively.

9.5.5 Risk Management and Internal Control

The Board of Directors of the Bank is responsible for ensuring the establishment and implementation of an adequate and effective internal control system and the Bank's prudential operation under the framework set by laws and policies and has reviewed the risk management and internal control system for the year ended 31 December 2017. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board of Directors is also responsible for clearly determining the acceptable risk level, ensuring the senior management to adopt necessary risk control measures, and supervising the senior management on their monitoring and assessment of the adequacy and effectiveness of the internal control system. The Board of Directors of the Bank considered and approved the Self-evaluation Report on Internal Control of Bank of Qingdao Co., Ltd. for the first half of 2017 and the 2017 Self-evaluation Report on Internal Control of Bank of Qingdao Co., Ltd. and assessed the interim and annual risk management and internal controls of the Company. The Board of Directors is in the opinion that risk management and internal controls of the Bank is effective.

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 internal control and the self-assessment of internal control, the coordination of audit on internal control and other relevant matters.

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

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

Based on the provisions of rules and regulations including the “Basic Standards for Corporate Internal Control” and the accompanying guidelines and the “Guidelines on Internal Control of Commercial Banks”, as well as the relevant requirements of the Hong Kong Stock Exchange, the 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 Bank has continued to launch activities including “Year of Establishment”, “Year of Implementation”, “Year of Assessment”, “Year of Optimization”, “Year of Improvement” and “Development of standardized system” for rules and regulations to formulate smooth and useful systems and structures. The Bank 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 Bank has enhanced the awareness of risk prevention and control at all levels, which in turn ensures the early identification and timely rectification of risks as well as edges up the standards of its risk management and control.

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

9.5.6 Company Secretaries

During the Reporting Period, Ms. LU Lan, a joint company secretary of the Bank and Ms. LAI Siu Kuen, an associate director of TMF Hong Kong Limited (company secretary service provider), both had undertaken not less than 15 hours of continuing professional training in compliance with the requirements of Rule 3.29 of the Hong Kong Listing Rules. Ms. LU Lan, one of the joint company secretaries of the Bank, is the chief liaison person of the Bank.

9.6 INFORMATION DISCLOSURE AND TRANSPARENCY

In strict compliance with the provisions of laws and regulations, the Bank released various periodic reports and temporary announcements in compliance with laws and regulations to ensure that the information disclosed is true, accurate, complete, timely and standardized to protect the lawful rights and interests of shareholders. During the Reporting Period, 17 periodic reports, 41 statutory temporary announcements and 3 voluntary temporary announcements were released on the website of the Bank (http://www.qdccb.com/) and HKExnews website of the Hong Kong Stock Exchange (http://www.hkexnews.hk/).

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

9.7 AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Reporting Period, in light of completion of the issuance of offshore preference shares by the Bank, as well as the general requirements to incorporate the Party building work in the Articles of Association by the Central Committee of the Communist Party of China, the Bank carried out two rounds of amendments to the Articles of Association in accordance with domestic and foreign laws and regulations, regulatory documents and the actual situation of the Bank. The Bank held the 2016 annual general meeting and the 2017 second extraordinary general meeting on 11 May 2017 and 10 October 2017 respectively, during which the relevant proposals were considered and approved. The amended Articles of Association had been examined and approved by the CBRC Qingdao Office. For details of the amendments, please refer to the circulars dated 13 April 2017 and 21 August 2017 published on the websites of the Bank and HKExnews of the Hong Kong Stock Exchange.

9.8 SHAREHOLDERS' RIGHTS

9.8.1 Convening of extraordinary general meetings on requisition by shareholders

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

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

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

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

9.8.2 Proposals of shareholders' general meetings

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

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

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

9.9 INVESTOR RELATIONS

The Bank attaches importance to the comments and recommendations of shareholders, and proactively hosts various communication activities with investors and analysts, and satisfies the reasonable requests of shareholders in a timely manner. Shareholders may propose their request for information enquiry to the Board of Directors through the Office of Board of Directors & Supervisors of the Bank. Contact details of the Office of Board of Directors & Supervisors of the Bank are as follows:

Address:	No. 6, Qinling Road, Laoshan District, Qingdao, Shandong Province, PRC
Postal code:	266061
Telephone number:	+86 (532) 85709728
Facsimile number:	+86 (532) 85783866
E-mail:	ir@qdbankchina.com

9.10 OTHER INFORMATION

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

Chapter X Report of the Board of Directors

PRINCIPAL ACTIVITIES

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

OPERATIONS IN COMPLIANCE WITH LAWS AND REGULATIONS

During the Reporting Period, the Bank had been operating in compliance with relevant laws and regulations. Its decision-making procedures complied with laws, regulations and the Articles of Association.

BUSINESS REVIEW AND OUTLOOK

The business review and financial indicator of the Company for the year ended 31 December 2017 and its development outlook for 2018 are set out in "Chapter II Financial Highlights" and "Chapter V Management Discussion and Analysis" of this annual report.

EXPOSURE TO MAJOR RISKS

Please refer to "Chapter V Management Discussion and Analysis – Risk Management" for the major risks the Bank had exposed to during the Reporting Period.

EARNINGS AND DIVIDENDS

The revenue of the Company for the year ended 31 December 2017 and the financial position of the Company on the same date are set out in the financial statements of this annual report.

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

2. The Board of the Bank has proposed a final dividend in cash of RMB0.20 per share (tax inclusive) for the year ended 31 December 2017 in an aggregate amount of RMB811,742,549.80 (tax inclusive) to all shareholders of the Bank. The dividend distribution proposal will be submitted to the 2017 annual general meeting for consideration and approval.

If the proposal is approved by the 2017 annual general meeting, the dividend will be distributed to holders of domestic shares and holders of H shares whose names appear on the register of members on 24 May 2018. The proposed dividend mentioned above will be denominated in RMB. Dividends to holders of domestic shares shall be paid in RMB, and dividends to holders of H shares shall be paid in Hong Kong dollars. The exchange rate of RMB to HK$ to be adopted shall be the average of the central parity rates in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends by the Bank at the 2017 annual general meeting (including the day the annual general meeting to be held) as announced by the People's Bank of China. The register of members of the Bank will be closed from Saturday, 19 May 2018 to Thursday, 24 May 2018 (both days inclusive), during such period no transfer of domestic shares or H shares will be registered. In order to be entitled to the final dividend payment for 2017, holders of H shares of the Bank who have not registered the related transfer documents are required to lodge the transfer documents together with the relevant share certificates with the Bank's Registrar for H shares, Computershare Hong Kong Investor Services Limited at Shops 1712 to 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Friday, 18 May 2018.

The Board of the Bank intends to distribute the final dividends for 2017 on or before Wednesday, 13 June 2018. If there are any changes to the expected date for dividend payment, an announcement will be published.

TAXATION APPLYING TO DIVIDENDS ON ORDINARY SHARES

(1) For Holders of Domestic Shares

The Bank's institutional holders of domestic shares shall handle their income tax by themselves. According to the Individual Income Tax Law of the People's Republic of China, the Bank shall withhold and pay individual income tax at the rate of 20% for natural person shareholders whose names appear on the register of holders of domestic shares on 24 May 2018.

(2) For Holders of H Shares

In accordance with the Enterprise Income Tax Law of the People's Republic of China and the related implementation provisions effective from 1 January 2008, the Bank shall withhold and pay enterprise income tax at the rate of 10% for non-resident enterprise shareholders whose names appear on the register of holders of H shares on 24 May 2017.

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

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

ANNUAL GENERAL MEETING OF 2017 AND CLOSURE OF REGISTER OF MEMBERS

The Bank's 2017 annual general meeting is scheduled to be held on Tuesday, 15 May 2018. In order to determine the list of shareholders who are entitled to attend and vote at the 2017 annual general meeting, the H-share register of members of the Bank will be closed from Sunday, 15 April 2018 to Tuesday, 15 May 2018 (both days inclusive), during which period no share transfer will be registered. Holders of H Shares of the Bank who intend to attend and vote at the annual general meeting must lodge all the transfer documents accompanied by the relevant share certificates with the Bank's H-share registrar, Computershare Hong Kong Investor Services Limited (address: Shops 1712 to 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) no later than 4:30 p.m. on Friday, 13 April 2018.

DISTRIBUTABLE RESERVES

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

FINANCIAL HIGHLIGHTS

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

DONATIONS

The Company made charity and other donations of approximately RMB7,380,000 in total during the Reporting Period.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Please refer to "Chapter V Management Discussion and Analysis – Social Responsibilities" for the details of the environmental policies and performance of the Bank during the Reporting Period. For further information of the environmental policies and performance of the Bank during the Reporting Period, please refer to the 2017 environmental, social and governance report to be published by the Bank on the websites of the Bank and the Hong Kong Stock Exchange in due course.

PROPERTY AND EQUIPMENT

The details of the changes in the property and equipment of the Company during the Reporting Period are set out in "Note 24 to the Financial Statements" of this annual report.

ACQUISITIONS, 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 BQD Financial Leasing Company Limited with a registered capital of RMB1 billion. Please see "Note 22 to the Financial Statements" of this annual report for details.

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

RETIREMENT BENEFITS

The retirement benefits provided by the Company to employees includes defined contribution plan and defined benefit plan. As for defined contribution plan, forfeited contributions may not be used by the Company to reduce the existing level of contributions. As for defined benefit plan, a qualified staff (a member of society of Actuaries in America) of an independent actuary: Towers Watson Management Consulting Co., Ltd. (韜睿惠悅管理諮詢有限公司) was engaged by the Company to assess this plan and this plan has not corresponding asset and contribution. No significant changes incurred at the end of the Reporting Period. Details please refer to "Note 2 to the Financial Statements" and "Note 33 to the Financial Statements" of this annual report.

SUBSTANTIAL SHAREHOLDERS

Details of the Bank's substantial shareholders as at the end of the Reporting Period are set out in "Chapter VII Changes in Share Capital and Information on Shareholders – Interests and Short Positions of Substantial Shareholders under Hong Kong Regulations" and the relevant parts of the "Notes to the Financial Statements".

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

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

EMPLOYEES AND MAJOR CUSTOMER

Please refer to "Chapter VIII Directors, Supervisors, Senior Management, Employees and Institutions – Employees and Human Resources Management" and the 2017 environmental, social and governance report to be published by the Bank on the websites of the Bank and the Hong Kong Stock Exchange in due course for details of employees and employment policies of the Bank.

During the Reporting Period, the aggregate interest income and other operating income from the top five customers of the Bank did not exceed 30% of the total interest income and other operating income of the Bank for the year.

ISSUANCE OF DEBENTURE

During the Reporting Period, the Company issued tier-two capital bonds with a total issuing size of RMB5 billion by two tranches in the national interbank bond market in June and July 2017, respectively. The proceeds raised thereof are used for supplementing the tier-two capital of the Bank.

The Company issued the first tranche of the tier-two capital bonds for 2017 in June 2017. The bonds are ten-year fixed rate bonds with the maturity date on 28 June 2027 in the size of RMB3 billion and are conditionally redeemable on the last day of the fifth year by the issuer.

The Company issued the second tranche of the tier-two capital bonds of 2017 in June 2017. The bonds are ten-year fixed rate bonds with the maturity date on 14 July 2027 in the size of RMB2 billion and are conditionally redeemable on the last day of the fifth year by the issuer.

EQUITY-LINKED AGREEMENT

During the Reporting Period, the Bank did not enter into or renew any other equity-linked agreement.

USE OF RAISED FUNDS

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

Subject to applicable laws and regulations and the approvals by the relevant regulatory authorities, the proceeds raised from the issuance of the Offshore Preference Shares, after deduction of the expenses relating to the issuance, were used to replenish the Bank's Additional Tier-one Capital.

UNDERTAKINGS REGARDING THE LISTING OF H SHARES

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

SHARE CAPITAL

Details of the change in share capital of the Bank during the Reporting Period are set out in the "Chapter VII Changes in Share Capital and Information on Shareholders – Statement of Changes in Total Ordinary Share Capital."

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please refer to "Chapter VIII Directors, Supervisors, Senior Management, Employees and Institutions" of this report for details.

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at the end of the Reporting Period, in so far as the directors, supervisors and chief executives of the Bank are aware, 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 for Securities Transactions by Directors of Listed Issuers, are as follows:

Name of director/ supervisor/ chief executive	Type of share	Capacity	Number of shares held	Percentage of the total number of ordinary shares Note	Percentage of the total number of domestic shares Note	Long position/ Short position
GUO Shaoquan	Domestic share	Beneficial owner	500,000	0.01%	0.02%	Long position
WANG Lin	Domestic share	Beneficial owner	500,000	0.01%	0.02%	Long position
CHEN Qing	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
SUN Jigang	Domestic share	Beneficial owner	272,822	0.01%	0.01%	Long position
XU Wansheng	Domestic share	Beneficial owner	196,021	0.005%	0.01%	Long position

Note: The above percentages are calculated based on the total number of ordinary shares of 4,058,712,749 shares and total 2,295,677,769 domestic shares of the Bank as at the end of the Reporting Period.

Save as disclosed above, in so far as the directors, supervisors and senior management personnel of the Bank are aware, as at the end of the Reporting Period, no one had any interests or short positions in the shares, debentures or equity derivatives of the 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 for Securities Transactions by Directors of Listed Issuers.

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

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

Save for the continuing connected transactions which are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, as at 31 December 2017 and at any time during the year, none of the directors or supervisors of the Bank or any entity connected with the directors or supervisors had any interest, whether directly or indirectly, in any transaction, arrangement or contract of significance (excluding service contracts) in relation to the Bank's business to which the Bank is a party. None of the directors or supervisors have entered into any service contracts with the Bank, under which the Bank should pay compensation (other than statutory compensation) if the Bank terminates the contracts within one year.

PERMITTED INDEMNITY PROVISIONS AND INSURANCE FOR DIRECTORS

During the Reporting Period, the Bank bought effective liability insurance for all of the Directors in respect of legal actions against Directors arising from corporate events.

MANAGEMENT CONTRACTS

During the Reporting Period, the Bank did not enter into any management contract.

DIRECTORS AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

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

CORPORATE GOVERNANCE

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

CONNECTED TRANSACTIONS

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

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

REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

PUBLIC FLOAT

Based on the public information available to the Bank and to the knowledge of the Directors, during the Reporting Period and as of the date of this annual report, the Bank has maintained sufficient public float as required by the Hong Kong Stock Exchange.

AUDITORS

The domestic and overseas auditors of the Bank for 2017 were KPMG Huazhen LLP and KPMG respectively. The 2017 financial report of the Bank prepared in accordance with International Financial Reporting Standards has been audited by KPMG, with unqualified auditor's report issued.

By Order of the Board of Directors

GUO Shaoquan
Chairman

Chapter XI Report of the Board of Supervisors

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

In 2017, the Board of Supervisors held a total of 8 meetings, of which 2 were on-site meetings and 6 were written resolution meetings; and considered proposals including the 2016 report on the work of the Board of Supervisors, 2016 annual financial report and 2017 interim financial report, 2016 annual report, 2016 annual and 2017 interim reports on the work of the President, 2016 evaluation report on the performance of duties by the Board of Directors, senior management and their members, 2016 self-evaluation report on internal control; and received reports including the audit reports issued by internal and external auditors, report on financial regulation notification and rectification, and risk management reports on major risks including credit risk, operation risk, market risk.

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

COMPLIANT OPERATIONS OF THE COMPANY

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

AUTHENTICITY OF FINANCIAL REPORT

KPMG Huazhen LLP and KPMG respectively audited the 2017 annual financial report prepared by the Company in accordance with PRC accounting standards and international financial reporting standards, and respectively issued unqualified audit reports. The financial report has truly, objectively and accurately reflected the financial position and operating results of the Company.

ACQUISITION AND DISPOSAL OF ASSETS

On 15 February 2017, BQD Financial Leasing Company Limited, with a registered capital of RMB1.00 billion, was co-established by the Bank, Qingdao Hanhe Cable Co., Ltd., Qingdao Port International Co., Ltd. and Qingdao Qianwan Container Terminal Co., Ltd. For details, please refer to "Note 22 to the Financial Statements" of this annual report.

Save as disclosed above, during the Reporting Period, the Bank had no other material acquisitions or disposal of assets.

RELATED PARTY TRANSACTIONS

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

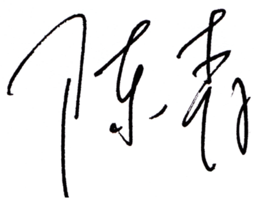
IMPLEMENTATION OF RESOLUTIONS OF THE SHAREHOLDERS' GENERAL MEETING

The Board of Supervisors had no objection to the reports and proposals submitted by the Board of Directors of the Bank to the general shareholders' meeting in 2017; supervised the implementation of the resolutions of the shareholders' general meeting, and considered that the Board of Directors had conscientiously implemented the relevant resolutions of the shareholders' general meeting.

INTERNAL CONTROL

The Bank attaches importance to the establishment of internal control systems for continuous improvement of its standards of internal control. During the Reporting Period, the Board of Supervisors reviewed the 2017 Self-evaluation Report on Internal Control of Bank of Qingdao Co., Ltd., and considered that the internal control systems of the Bank were regulated, comprehensive and effective, and the implementation of the internal control mechanisms and systems was relatively sound.

By Order of the Board of Supervisors



Chen Qing
Chief Supervisor

Chapter XII Internal Control

12.1 INTERNAL CONTROL

During the Reporting Period, the Bank placed emphasis on the implementation and improvement of internal control. Adhering to lawful, compliant and sound guiding principles in operational management, the Bank continued to enhance the level of internal control management through optimizing process, refining management measures, strengthening risk prevention and improving the management structure, and effectively promoted the implementation of its development strategy and the achievement of its business objectives.

The Bank issued the Opinions on Strengthening the Construction of Compliance Management System to Promote the Constant and Steady Development of Business (《關於加強合規管理體系建設促進業務持續穩健發展的意見》) as a "No. 1 document", to raise multiple opinions and requirements on compliance and internal control, in order to promote the sustainable and sound development of the business through compliance; the Bank formulated the Negative List (2nd Issue) for Conducts of Employees, which involves 8 chapters, 40 positions and 437 prohibitions, with compliance risk cases and compliance cartoons to set violation redlines for employee operations; the Bank released the Notice on Establishing a "Good System" Campaign through Standardization, through the formulation of institutional standardization templates and the addition of operational guidelines for the system, standardizing the institutional system and system formulation, implementing the system inspection and system evaluation, and making effort to build good systems; the Bank organized special governance such as "three violations", "three arbitrages", "four improper", "the Board of Directors, the Board of Supervisors and the senior management", financial market business, and market turmoil in the banking industry. The Bank further deepened the internal management and control under regulatory requirements; the Bank engaged KPMG Huazhen LLP to review internal control related to financial report of the Bank, to comprehensively improve the level of internal control management by constantly identifying and solving problems; the Bank executed strict legal review system, having reviewed 2,032 legal documents and provided 8,386 reviewing comments; the Bank timely tracked legislation amendments on the laws and regulations and regulatory systems closely related to banking business, and issued totally 30 articles on risk cautions through the Bank's magazine and intranet; the Bank further refined anti-money laundering requirements, amended and issued the Requirements of Anti-money Laundering of the Bank of Qingdao (4th Version) to promote the optimization and upgrading of the system and enhance the effectiveness of anti-money laundering monitoring.

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

12.2 INTERNAL AUDIT

The Bank has established an audit department as its internal auditor, which is responsible for independent and comprehensive examination and evaluation of all businesses and operational management activities and operational conditions of the Bank. The Chairman directly takes charge of the work of the audit department, and material audit findings will be reported to the Board of Directors and Board of Supervisors via the Office of Board of Directors & Supervisors so as to achieve the independence of internal audit. The audit team of the Bank consists of a total of 36 staff in six branches of the Head Office's Audit Department and Jinan Branch, Weihai Branch, and Dongying Branch. The Bank continued to improve the internal audit management by improving the inspection mechanism, strengthening the system construction, and standardizing the work flow. The Bank has been awarded the title of Advanced Internal Auditing Unit of Shandong Province for years.

During the Reporting Period, the Bank rationally planned audit projects around the hotspots in industry risk and the regulatory requirements in combination of the precautionary focus on cases, and constantly expanded its audit scope and strengthened its auditing efforts by combining its on-site audit and off-site audit. The risk management and internal control systems are reviewed at least once a year.

During the Reporting Period, the Bank successively conducted on-site audits such as regular audits, special audits of trade finance businesses, performance appraisals and special audits of steady compensation, and special audits of financial market business; the Bank conducted post-evaluations of new business, post-evaluations of new institution, internal management supervision, and audit of virtual branches, organized the Bank's internal control review meeting, and effectively implemented the management concept of proactive compliance and strict risk control. The Bank newly formulated the Measures on Administration of Qingdao Bank Consumer Rights Protection Internal Audit to improve the audit system management system. In response to the problems found in the audit, the Bank carefully analyzed the causes of the problems, formulated and implemented rectification measures, and put forward audit suggestions from the aspects of improving the system and optimizing the procedures to further strengthen the internal control management of the Bank. During the Reporting Period, each of the internal audit mechanisms of the Bank has been effectively implemented, which gave effective play to the important role of internal audit as the "third line of defense", and provided powerful protection for promoting the perfection of the internal control system of the Bank.

To the shareholders of Bank of Qingdao Co., Ltd.
(A joint stock company incorporated in the People's Republic of China (the "PRC") with limited liability)

OPINION

We have audited the consolidated financial statements of Bank of Qingdao Co., Ltd. (the "Bank") and its subsidiary (the "Group") set out on pages 107 to 202, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

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

KEY AUDIT MATTERS

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

Impairment of loans and receivables

Refer to note 20 and note 21(3) to the consolidated financial statements and the accounting policies on pages 117-119.

The Key Audit Matter	How the matter was addressed in our audit
Loans and receivables include both loans and advances to customers and financial investments classified as receivables. Impairment of loans and receivables is a subjective area due to the level of judgement applied by management in determining provisions for impairment. From the Group’s perspective, the portfolios which gave rise to the greatest uncertainty in determining provisions for impairment were those where impairment was derived from collective assessment models and individual assessments, where the loans and receivables were unsecured or where the loans and receivables were subject to potential collateral shortfalls. Individual provisions for impairment losses are estimated by management once objective evidence of impairment becomes apparent in a corporate loan. Management exercises judgement in determining the quantum of loss based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. The Group refers to valuation reports issued by qualified third party valuers and considers the influence of various factors including the market price, location and use when assessing the value of property held a collateral. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of provisions for impairment as at the end of the Reporting Period. The determination of the collective provisions for impairment is heavily dependent on the external macro environment and the Group’s internal credit risk management strategy. The Group’s collective provisions for impairment for corporate loans and receivables are derived from estimates including the Group’s historical losses, the historical emergence period for corporate loans and receivables (i.e. the time lapse between the occurrence of the event causing eventual default to the actual recording of a loss) and other adjustment factors. The Group’s collective provisions for impairment for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors. We identified impairment of loans and receivables as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Group.	Our audit procedures to assess impairment of loans and receivables included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and receivables, the credit grading process and the measurement of provisions for impairment. • comparing the total balance of the loan list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan information with the underlying loan agreements and other related documentation to assess the accuracy of compilation of the loan list. • selecting risk-based samples for credit review. We analysed the loan portfolio by industry sector to select samples for credit review in industries more vulnerable to the current economic situation with reference to other borrowers with potential credit risk. We also selected samples from overdue but performing loans and non-performing loans. We involved our IT specialists to assess the logic and compilation of the overdue information. • performing credit review procedures for the sample of loans and receivables selected as mentioned above, which included making enquiries of the credit managers about the borrowers’ business operations, reviewing borrowers’ financial information and researching market information about borrowers’ businesses. For impaired loans and receivables, we evaluated management’s assessment of the value of any property collateral held by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, challenged the viability of the Group’s recovery plans and considered other sources of repayment asserted by management. • evaluating the validity of the models used and assumptions adopted in management’s calculation of collective provisions for impairment by critically assessing input parameters involving subjective judgement, seeking collaborative evidence from external sources and comparing to the Group’s internal records including historical loss experience, type of collateral, etc. As part of these procedures, we challenged the Group’s revisions to estimates and input parameters compared with prior period and considered the consistency of judgement applied in the use of economic factors, the historical emergence period and the observation period for historical losses. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development. We also assessed the emergence period by tracing the lifecycle of overdue accounts from the event causing eventual default to recognizing the accounts to impaired loans and receivables. Having considered the above, we reviewed and assessed the calculation of collective provisions for impairment.

Consolidation of structured entities

Refer to note 44 to the consolidated financial statements and the accounting policies on page 133.

The Key Audit Matter	How the matter was addressed in our audit
Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity through issuing a wealth management product, an asset management plan, a trust plan, an asset-backed security or an investment fund. In determining whether the Group should retain any partial interests in a structured entity or should consolidate a structured entity, management is required to consider the risks and rewards retained, the power the Group is able to exercise over the activities of the entity and its ability to influence the Group's own returns from the entity. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions. We identified the consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and because of the judgement exercised by management in the qualitative assessment of the terms and nature of each entity.	Our audit procedures to assess the consolidation of structured entities included the following: • understanding and assessing the design and implementation of key internal controls of financial reporting over consolidation of structured entities. • selecting significant structured entities of each key product type and performing the following procedures for each entity selected: — inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity. – reviewing the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity. — reviewing management's analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity. — assessing management's judgement over whether the structured entity should be consolidated or not. • assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Lok Man.

KPMG
Certified Public Accountants

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

23 March 2018

Consolidated Statement of profit or loss and other comprehensive income

for the year ended 31 December 2017 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2017	2016
Interest income		11,749,719	9,664,474
Interest expense		(6,947,311)	(4,656,519)
Net interest income	3	4,802,408	5,007,955
Fee and commission income		889,309	952,124
Fee and commission expense		(60,340)	(63,991)
Net fee and commission income	4	828,969	888,133
Net trading (losses)/gains	5	(187,764)	47,594
Net gains arising from investments	6	100,330	52,860
Other operating income/(losses)	7	23,650	(397)
Operating income		5,567,593	5,996,145
Operating expenses	8	(1,818,922)	(2,213,521)
Impairment losses	11	(1,378,904)	(1,108,874)
Profit before taxation		2,369,767	2,673,750
Income tax expense	12	(466,160)	(585,145)
Net profit for the year		1,903,607	2,088,605
Profit attributable to:			
Equity shareholders of the Bank		1,900,252	2,088,605
Non-controlling interests		3,355	–
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability		30	(398)
Items that may be reclassified subsequently to profit or loss			
– Available-for-sale financial assets：			
– Net movement in the investment revaluation reserve	36(4)	(948,623)	(419,582)
Other comprehensive income, net of tax		(948,593)	(419,980)
Total comprehensive income		955,014	1,668,625
Total comprehensive income attributable to:			
Equity shareholders of the Bank		951,659	1,668,625
Non-controlling interests		3,355	–
Basic and diluted earnings per share (in RMB)	13	0.47	0.51

The notes on pages 114 to 202 form part of these financial statements.

Consolidated Statement of financial position

as at 31 December 2017 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2017	31 December 2016
Assets			
Cash and deposits with central bank	14	27,097,814	22,697,997
Deposits with banks and other financial institutions	15	1,107,946	6,421,827
Placements with banks and other financial institutions	16	2,882,727	619,210
Financial assets at fair value through profit or loss	17	179,078	320,315
Financial assets held under resale agreements	19	3,584,200	3,957,206
Loans and advances to customers	20	95,514,680	84,864,849
Financial investments:			
Available-for-sale financial assets	21	79,086,556	58,410,672
Held-to-maturity investments	21	38,644,926	31,324,703
Receivables	21	46,678,869	62,871,938
Long-term receivables	23	4,076,396	–
Property and equipment	24	3,089,017	1,221,493
Deferred tax assets	25	1,084,286	602,519
Other assets	26	3,249,597	4,675,377
Total assets		306,276,092	277,988,106
Liabilities			
Borrowings from central bank	27	584,215	3,432,407
Deposits from banks and other financial institutions	28	24,901,934	45,018,569
Placements from banks and other financial institutions	29	5,774,299	6,925,270
Derivative financial liabilities	18	353,220	–
Financial assets sold under repurchase agreements	30	11,899,583	17,043,065
Deposits from customers	31	160,083,783	141,604,761
Income tax payable		57,167	211,940
Debt securities issued	32	68,632,691	41,786,221
Other liabilities	33	7,865,991	4,329,900
Total liabilities		280,152,883	260,352,133

The notes on pages 114 to 202 form part of these financial statements.

Consolidated Statement of financial position (continued)

as at 31 December 2017 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2017	31 December 2016
Equity			
Share capital	34	4,058,713	4,058,713
Other equity instrument			
Including: preference shares	35	7,853,964	–
Capital reserve	36(1)	6,826,276	6,826,276
Surplus reserve	36(2)	1,203,325	1,013,649
General reserve	36(3)	3,969,452	3,696,090
Investment revaluation reserve	36(4)	(882,006)	66,617
Other reserve	36(5)	(3,443)	(3,473)
Retained earnings	37	2,603,573	1,978,101
Total equity attributable to equity shareholders of the Bank		25,629,854	17,635,973
Non-controlling interests		493,355	–
Total equity		26,123,209	17,635,973
Total liabilities and equity		306,276,092	277,988,106

Approved and authorised for issue by the board of directors on 23 March 2018.

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 114 to 202 form part of these financial statements.

Consolidated Statement of changes in equity

for the year ended 31 December 2017 (Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank										
	Note	Share capital	Other equity instrument	Capital reserve Note 36(1)	Surplus reserve Note 36(2)	General reserve Note 36(3)	Investment revaluation reserve Note 36(4)	Other reserve Note 36(5)	Retained earnings	Total	Non-controlling interests	Total equity
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 year		–	–	–	–	–	–	–	1,900,252	1,900,252	3,355	1,903,607
Other comprehensive income		–	–	–	–	–	(948,623)	30	–	(948,593)	–	(948,593)
Total comprehensive income		–	–	–	–	–	(948,623)	30	1,900,252	951,659	3,355	955,014
Contribution by shareholders												
– Non-controlling interests of a new subsidiary		–	–	–	–	–	–	–	–	–	490,000	490,000
– Capital injection by other equity shareholders	35	–	7,853,964	–	–	–	–	–	–	7,853,964	–	7,853,964
Appropriation of profit:												
– Appropriation to surplus reserve	37	–	–	–	189,676	–	–	–	(189,676)	–	–	–
– Appropriation to general reserve	37	–	–	–	–	273,362	–	–	(273,362)	–	–	–
– Cash dividends	37	–	–	–	–	–	–	–	(811,742)	(811,742)	–	(811,742)
Balance at 31 December 2017		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(882,006)	(3,443)	2,603,573	25,629,854	493,355	26,123,209

The notes on pages 114 to 202 form part of these financial statements.

Consolidated Statement of changes in equity (continued)

for the year ended 31 December 2017 (Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank									
	Note	Share capital	Capital reserve Note 36(1)	Surplus reserve Note 36(2)	General reserve Note 36(3)	Investment revaluation reserve Note 36(4)	Other reserve Note 36(5)	Retained earnings	Total	Non-controlling interests	Total equity
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 year		–	–	–	–	–	–	2,088,605	2,088,605	–	2,088,605
Other comprehensive income		–	–	–	–	(419,582)	(398)	–	(419,980)	–	(419,980)
Total comprehensive income		–	–	–	–	(419,582)	(398)	2,088,605	1,668,625	–	1,668,625
Contribution by shareholders											
– Capital injection by ordinary shareholders	34	47,180	118,258	–	–	–	–	–	165,438	–	165,438
Appropriation of profit:											
– Appropriation to surplus reserve	37	–	–	208,860	–	–	–	(208,860)	–	–	–
– Appropriation to general reserve	37	–	–	–	1,304,908	–	–	(1,304,908)	–	–	–
– Cash dividends	37	–	–	–	–	–	–	(811,742)	(811,742)	–	(811,742)
Balance at 31 December 2016		4,058,713	6,826,276	1,013,649	3,696,090	66,617	(3,473)	1,978,101	17,635,973	–	17,635,973

The notes on pages 114 to 202 form part of these financial statements.

Consolidated Cash flow statement

for the year ended 31 December 2017 (Expressed in thousands of Renminbi, unless otherwise stated)

	2017	2016
Cash flows from operating activities		
Profit before taxation	2,369,767	2,673,750
Adjustments for:		
Impairment losses	1,378,904	1,108,874
Depreciation and amortisation	315,450	299,671
Un-winding of interest	(30,730)	(22,504)
Unrealised foreign exchange gains	(187,710)	(23,331)
Net losses on disposal of long-term assets	417	2,292
Losses from changes in fair value	354,629	4,376
Dividends from available-for-sale equity investments	(700)	(650)
Net gains arising from investment except dividends	(99,630)	(52,210)
Interest expense on debt securities issued	2,356,747	989,802
Interest income on financial investments	(6,258,325)	(4,739,188)
	198,819	240,882
Changes in operating assets		
Net increase in deposits with central bank	(2,433,202)	(2,240,253)
Net decrease/(increase) in deposits with banks and other financial institutions	2,150,470	(1,530,470)
Net increase in placements with banks and other financial institutions	(168,013)	(200,000)
Net increase in loans and advances to customers	(11,919,060)	(15,192,194)
Net (increase)/decrease in financial assets held under resale agreements	(1,212,163)	74,940
Net decrease in financial assets at fair value through profit or loss	139,828	–
Net increase in long-term receivables	(4,144,785)	–
Net increase in other operating assets	(298,342)	(399,792)
	(17,885,267)	(19,487,769)
Changes in operating liabilities		
Net (decrease)/increase in borrowings from central bank	(2,848,192)	2,903,498
Net (decrease)/increase in deposits from banks and other financial institutions	(20,116,635)	17,682,699
Net (decrease)/increase in placements from banks and other financial institutions	(1,150,971)	3,873,278
Net (decrease)/increase in financial assets sold under repurchase agreements	(5,143,482)	15,043,065
Net increase in deposits from customers	18,479,022	26,282,764
Income tax paid	(786,502)	(664,086)
Net increase/(decrease) in other operating liabilities	3,606,979	(1,713,764)
	(7,959,781)	63,407,454
Net cash flows (used)/generated from operating activities	(25,646,229)	44,160,567

The notes on pages 114 to 202 form part of these financial statements.

Consolidated Cash flow statement (continued)

for the year ended 31 December 2017 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2017	2016
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		85,452,509	43,084,926
Net cash received from investment gains and interest		5,642,624	4,097,319
Proceeds from disposal of property and equipment, intangible assets and other assets		418	72,290
Payments on acquisition of investments		(120,184,820)	(89,555,697)
Cash prepaid for establishment of a subsidiary		–	(510,000)
Payments on acquisition of property and equipment, intangible assets and other assets		(610,155)	(564,209)
Net cash flows used in investing activities		(29,699,424)	(43,375,371)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		–	165,438
Proceeds from issuance of other equity instrument		7,853,964	–
Capital contribution from investment to subsidiary		1,000,000	–
Net proceeds from debt securities issued	38(2)	193,058,940	54,606,739
Repayment of debt securities issued	38(2)	(167,920,000)	(29,730,000)
Interest paid on debt securities issued	38(2)	(525,930)	(358,780)
Dividends paid		(810,407)	(809,879)
Net cash flows generated from financing activities		32,656,567	23,873,518
Effect of foreign exchange rate changes on cash and cash equivalents		(31,031)	44,714
Net (decrease)/increase in cash and cash equivalents		(22,720,117)	24,703,428
Cash and cash equivalents as at 1 January		32,398,447	7,695,019
Cash and cash equivalents as at 31 December	38(1)	9,678,330	32,398,447
Net cash flows generated from operating activities include:			
Interest received		5,712,275	5,027,984
Interest paid		(4,464,323)	(3,288,499)

The notes on pages 114 to 202 form part of these financial statements.

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 Building No. 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC. The share capital of the Bank is RMB4.059 billion as at 31 December 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 13 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Qingdao Westcoast, Laiwu, Linyi and Jining as at 31 December 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 22. The Bank mainly operates in Shandong Province.

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

2 SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance and basis of preparation

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

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

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements that have a significant effect on the Financial Statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(24).

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(2) Translation of foreign currencies

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

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

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

(3) Cash and cash equivalents

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

(4) Financial instruments

(i) Recognition and measurement of financial assets and liabilities

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

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

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

- ***Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)***

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

  Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

  (a) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

  (b) those that meet the definition of loans and receivables.

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

- ***Loans and receivables***

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

  (a) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;

  (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

  (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

- ***Other financial liabilities***

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

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

(ii) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the Reporting Period to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised.

Objective evidence includes the following loss events:

– significant financial difficulty of the issuer or borrower;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– disappearance of an active market for financial assets because of financial difficulties;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer, indicating that the cost of an investment in an equity instrument may not be recovered by the investor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

- ***Loans and receivables***

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

Individual assessment

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

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

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

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

Collective assessment

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

The collective impairment loss is assessed after taking into account:

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

(iii) Fair value measurement principles

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Derecognition of financial assets and financial liabilities

- ***Derecognition***

A financial asset is derecognised when one of the following conditions is met:\

– the Group's contractual rights to the cash flows from the financial asset expire;

– the financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or

– the financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

– the carrying amount of the financial asset transferred;

– the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in shareholders' equity.

The Group derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is discharged or cancelled or expires.

- ***Securitisation***

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Offsetting

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

(vi) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in profit or loss.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to profit or loss.

For less complex derivative products, the fair values are principally determined by valuation models which are commonly used by market participants. Inputs to valuation models are determined from observable market data wherever possible, including foreign exchange spot and forward rates and interest rate yield curves. For more complex derivative products, the fair values are mainly determined by quoted prices from dealers.

(vii) Preference share

At initial recognition, the Group classifies the preference shares issued or their components as financial assets, financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial assets, financial liabilities and equity instruments.

Preference shares issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the preference shares are redeemed according to the contractual terms, the redemption price is charged to equity.

(5) Financial assets held under resale and repurchase agreements (including securities borrowing and lending)

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

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

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

Securities borrowing and lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(6) Property and equipment

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

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (see Note 2(11)).

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

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

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

Any subsequent costs including the cost of replacing part of an item of property and equipment are recognised as assets when it is probable that the economic benefits associated with the costs will flow to the Group, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Property and equipment assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses.

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

(7) Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(i) Operating leases

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

(ii) Finance leases

When the Group is a lessor under finance lease, at the leasing commencement date, the minimum lease payments receivables and initial direct costs are recognised as finance lease receivables and any unguaranteed residual value is recognised at the same time. The difference between the sum of minimum lease payments receivables, initial direct costs, the unguaranteed residual value and their present value is accounted for as unearned finance income. The unearned finance income is amortised using the effective interest method over the lease period.

(8) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated in the statements of financial position at cost less accumulated amortisation and impairment losses (see Note 2(11)). The cost of intangible assets less residual value and impairment losses is amortised on a straight-line basis over the estimated useful lives.

The amortisation period for intangible assets is as follows:

Software	3–5 years

(9) Long-term deferred expenses

Long-term deferred expenses are amortised using a straight-line method within the expected benefit period and stated in “other assets” at actual cost less accumulated amortisation and impairment losses (see Note 2(11)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(10) Repossessed assets

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

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

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

– property and equipment

– intangible assets

– investments in subsidiaries, associates and joint ventures

– Long-term deferred expenses, etc.

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

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

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the greater of its fair value less costs of disposal and value in use.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(12) Employee benefits

(i) Short-term employee benefits

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

(ii) Post-employment benefits–Defined contribution plans

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

(iii) Post-employment benefits–Defined benefit plans

In accordance with the projected unit credit method, the Group measures the obligations under defined benefit plans using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, and discount obligations under the defined benefit plans to determine the present value of the defined benefit liability.

The Group attributes benefit obligations under a defined benefit plan to periods of service provided by respective employees. Service cost and interest expense on the defined benefit liability are charged to profit or loss or recognised as part of the cost of assets, and remeasurements of defined benefit liability are recognised in other comprehensive income.

(iv) Termination benefits

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

– When the Group can no longer withdraw an offer of those benefits;

– When the Group has a specific, formal restructure plan involving payment of termination benefits, and the plan has started or been informed each affected party about the influence of the plan, therefore each party formed reasonable expectations.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(13) Income tax

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

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

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

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

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

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

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

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

- the taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

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

(14) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

Financial guarantees are contracts that require the issuer (the "guarantor") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in other liabilities. The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statements of financial position as stated in Note 2(14)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Provisions and contingent liabilities

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

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

(15) Fiduciary activities

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

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

(16) Income recognition

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

(i) Interest income

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Fee and commission income

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

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate.

(iii) Other income

Other income is recognised on an accrual basis.

(17) Government grants

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

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

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

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Grants related to income are government grants other than those related to assets. A government grant related to an asset is offset against the carrying amount of the related asset or recognised as deferred income and amortised to profit or loss over the useful life of the related asset on a reasonable and systematic manner. A grant that compensates the Group for expenses to be incurred in the future is recognised as deferred income and offset against the related expenses or recognised in profit or loss in the same periods in which the expenses are recognized. Or recognised in profit or loss or offset against the related expenses directly.

(18) Expenses recognition

(i) Interest expenses

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

(ii) Other expenses

Other expenses are recognised on an accrual basis.

(19) Dividends

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(20) Related parties

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

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

(a) has significant influence over the Group; or

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

(ii) An entity, if that entity:

(a) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(b) has significant influence over the Group;

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

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

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

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

(21) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system after taking the materiality principle into account. Two or more operating segments may be aggregated into a single operating segment if the segments have the similar economic characteristics and are same or similar in respect of the nature of each segment's products and services, the nature of production processes, the types or classes of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of the actual transaction prices for such transactions for segment reporting. Segment accounting policies are consistent with those for the consolidated financial statements.

(22) Subsidiaries and non-controlling interests

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

In the Bank's statements of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 2(11)).

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

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

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

(23) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements of the Group under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 2(11)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the period are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income of the Group. The Group's interest in associate or joint venture is included in the consolidated financial statements from the date that significant influence or joint control commences until the date that significant influence or joint control ends.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(24) Significant accounting estimates and judgements

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

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

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

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

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

(ii) Fair value of financial instruments

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

(iii) Classification of held-to-maturity investments

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Income taxes

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

(v) Impairment of non-financial assets

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

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

(vi) Depreciation and amortisation

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

(vii) Determination of control over structured entities

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

3 NET INTEREST INCOME

	2017	2016
Interest income arising from		
Deposits with central bank	340,988	299,027
Deposits with banks and other financial institutions	35,502	39,367
Placements with banks and other financial institutions	73,835	11,674
Financial assets at fair value through profit or loss	8,938	13,853
Loans and advances to customers		
– Corporate loans and advances	3,037,711	3,073,933
– Personal loans and advances	1,269,611	1,062,794
– Discounted bills	152,456	106,421
Financial assets held under resale agreements	427,684	318,217
Financial investments	6,258,325	4,739,188
Long-term receivables	144,669	–
Sub-total	11,749,719	9,664,474
Interest expense arising from		
Deposits from banks and other financial institutions	(1,049,733)	(938,553)
Placements from banks and other financial institutions	(203,201)	(57,891)
Deposits from customers	(2,605,748)	(2,226,519)
Financial assets sold under repurchase agreements	(698,102)	(387,376)
Debt securities issued	(2,356,747)	(989,802)
Others	(33,780)	(56,378)
Sub-total	(6,947,311)	(4,656,519)
Net interest income	4,802,408	5,007,955
Of which:		
Interest income arising from impaired financial assets identified	30,730	22,504

Notes:

(1) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on tier-two capital bonds issued.

(2) Total interest income arising from financial assets that are not at fair value through profit or loss for the year ended 31 December 2017 amounted to RMB11,741 million (2016: RMB9,651 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the year ended 31 December 2017 amounted to RMB6,947 million (2016: RMB4,657 million).

(Expressed in thousands of Renminbi, unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

	2017	2016
Fee and commission income		
Wealth management service fees	376,949	311,613
Agency service fees	258,094	314,543
Settlement fees	80,344	202,467
Custody and bank card service fees	46,081	90,987
Others	127,841	32,514
Sub-total	889,309	952,124
Fee and commission expense	(60,340)	(63,991)
Net fee and commission income	828,969	888,133

5 NET TRADING (LOSSES)/GAINS

	Note	2017	2016
Change in fair value of derivative financial instruments		(353,220)	–
Net foreign exchange gains	(i)	167,124	54,974
Net losses from debt securities and others	(ii)	(1,668)	(7,380)
Total		(187,764)	47,594

Notes:

(i) Net foreign exchange gains include gains from the purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into RMB, etc.

(ii) Net losses from debt securities mainly include gains arising from the buying and selling of, and changes in the fair value of financial assets at fair value through profit or loss.

6 NET GAINS ARISING FROM INVESTMENTS

	2017	2016
Net gains on disposal of available-for-sale financial assets	98,830	53,399
Others	1,500	(539)
Total	100,330	52,860

(Expressed in thousands of Renminbi, unless otherwise stated)

7 OTHER OPERATING INCOME/(LOSSES)

	2017	2016
Government grants	25,542	3,580
Net losses on disposal of property and equipment	(417)	(126)
Rental income	1,454	1,506
Others	(2,929)	(5,357)
Total	23,650	(397)

8 OPERATING EXPENSES

	2017	2016
Staff costs		
– Salaries, bonuses and allowances	448,987	844,577
– Social insurance and housing allowances	76,046	115,456
– Staff welfare expenses	114,812	104,157
– Staff education expenses	11,344	21,831
– Labor union expenses	9,075	17,475
– Post-employment benefits - defined contribution plans	138,098	126,409
– Supplementary retirement benefits	5,200	11,840
Sub-total	803,562	1,241,745
Property and equipment expenses		
– Depreciation and amortization	315,450	299,671
– Electronic equipment operating expenses	83,577	60,061
– Maintenance	88,122	72,059
Sub-total	487,149	431,791
Tax and surcharges	54,898	132,498
Other general and administrative expenses (Note (i))	473,313	407,487
Total	1,818,922	2,213,521

Note:

(i) Other general and administrative expenses include audit remunerations for auditors which amounted to RMB3.51 million for the year ended 31 December 2017 (2016: RMB3.02 million).

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments before individual income tax in respect of the directors and supervisors of the Bank during the Reporting Period are as follows:

Unit: RMB'000

	Year ended 31 December 2017					
Name	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	Total emoluments before tax
Executive directors						
GUO Shaoquan	–	1,032	748	402	217	2,399
WANG Lin	–	940	748	325	214	2,227
YANG Fengjiang	–	682	600	221	160	1,663
LU Lan	–	587	505	170	158	1,420
Non-executive directors						
ZHOU Yunjie	119	–	–	–	–	119
Rosario STRANO	–	–	–	–	–	–
WANG Jianhui	113	–	–	–	–	113
TAN Lixia	125	–	–	–	–	125
Marco MUSSITA	–	–	–	–	–	–
CHOI Chi Kin, Calvin	125	–	–	–	–	125
Independent non-executive directors						
WANG Zhuquan	188	–	–	–	–	188
DU Wenhe	–	–	–	–	–	–
WONG Tin Yau, Kelvin	182	–	–	–	–	182
CHEN Hua	182	–	–	–	–	182
DAI Shuping	188	–	–	–	–	188
ZHANG Siming	91	–	–	–	–	91
Supervisors						
CHEN Qing	–	682	600	221	217	1,720
SUN Guoliang	82	–	–	–	–	82
SUN Jigang	–	418	426	134	129	1,107
XU Wansheng	–	419	355	134	129	1,037
WANG Jianhua	119	–	–	–	–	119
FU Changxiang	131	–	–	–	–	131
HU Yanjing	131	–	–	–	–	131
Total	1,776	4,760	3,982	1,607	1,224	13,349

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Unit: RMB'000

	Year ended 31 December 2016					
Name	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	Total emoluments before tax
Executive directors						
GUO Shaoquan	–	949	1,131	340	252	2,672
WANG Lin	–	864	1,026	281	249	2,420
YANG Fengjiang	–	624	705	198	195	1,722
LU Lan	–	470	593	152	176	1,391
Non-executive directors						
ZHOU Yunjie	118	–	–	–	–	118
Rosario STRANO	–	–	–	–	–	–
WANG Jianhui	118	–	–	–	–	118
TAN Lixia	124	–	–	–	–	124
Marco MUSSITA	–	–	–	–	–	–
CHOI Chi Kin, Calvin	6	–	–	–	–	6
Independent non-executive directors						
WANG Zhuquan	194	–	–	–	–	194
DU Wenhe	91	–	–	–	–	91
WONG Tin Yau, Kelvin	188	–	–	–	–	188
CHEN Hua	182	–	–	–	–	182
DAI Shuping	6	–	–	–	–	6
Supervisors						
CHEN Qing	–	624	720	193	198	1,735
ZOU Junqiu	–	624	738	198	249	1,809
SUN Guoliang	47	–	–	–	–	47
FAN Jianjun	39	–	–	–	–	39
SUN Jigang	–	374	426	92	65	957
XU Wansheng	–	374	426	92	65	957
WANG Jianhua	119	–	–	–	–	119
FU Changxiang	127	–	–	–	–	127
HU Yanjing	127	–	–	–	–	127
Total	1,486	4,903	5,765	1,546	1,449	15,149

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Notes:

(1) The emoluments of non-executive directors ("NED"), independent non-executive directors ("INED"), shareholder supervisors and external supervisors were affected by the time of service during the Reporting Period. Directors and supervisors received emoluments since their assumption of duty until their departure. The changes in directors and supervisors during the Reporting Period are as follows:

(i) In May 2016, Mr. SUN Guoliang, shareholder supervisor of the Bank, began to assume his duty. Mr. FAN Jianjun no longer served as shareholder supervisor of the Bank.

(ii) In December 2016, Mr. CHOI Chi Kin, Calvin, NED of the Bank, Ms. LU Lan, executive director of the Bank, and Ms. DAI Shuping, INED of the Bank, began to assume their duties.

(iii) In December 2016, Ms. CHEN Qing, employee supervisor and chief supervisor of the Bank, began to assume her duty. Ms. ZOU Junqiu no longer served as employee supervisor and chief supervisor of the Bank.

(iv) In July 2017, Mr. ZHANG Siming, INED of the Bank, began to assume his duty. DU Wenhe no longer served as INED of the Bank.

(2) The emoluments of Mr. Rosario STRANO and Mr. Marco MUSSITA were waived with their authorization. In August 2016, Mr. DU Wenhe submitted a resignation report to the Bank's board of directors and confirmed that he would not receive further emolument before the formal departure. There was no other arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the Reporting Period.

(3) There were no amounts paid during the Reporting Period to the directors and supervisors in connection with their retirement from employment or as compensation for loss of office with the Bank or as inducement to join.

(4) The total compensation package for certain directors and supervisors for the year ended 31 December 2017 have not yet been finalized. The difference in emoluments is not expected to have any significant impact on the financial statements for the year ended 31 December 2017.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2017, the five individuals with the highest emoluments included three directors and one supervisor of the Bank (31 December 2016: three directors and two supervisors), whose emoluments are disclosed in Note 9. The emoluments before individual income tax for the rest of the five highest paid individuals for the Reporting Period are as follows:

	2017	2016
Salaries and other emoluments	842	–
Discretionary bonuses	600	–
Contributions to pension schemes	217	–
Total	1,659	–

(Expressed in thousands of Renminbi, unless otherwise stated)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS (continued)

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

	2017	2016
HKD nil-1,000,000	–	–
HKD1,000,001-1,500,000	–	–
HKD1,500,001-2,000,000	1	–

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

11 IMPAIRMENT LOSSES

	2017	2016
Loans and advances to customers	1,284,514	1,000,481
Financial investments:		
Receivables	20,000	105,500
Long-term receivables	68,389	–
Others	6,001	2,893
Total	1,378,904	1,108,874

12 INCOME TAX EXPENSE

(1) Income tax for the Reporting Period:

	Note	2017	2016
Current tax		631,729	768,268
Deferred tax	25(2)	(165,569)	(183,123)
Total		466,160	585,145

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

	2017	2016
Profit before taxation	2,369,767	2,673,750
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	592,442	668,438
Tax effect of non-deductible expenses for tax purpose		
– Annuity	11,043	4,393
– Entertainment expenses	3,548	2,699
– Others	9,809	137
	24,400	7,229
Tax effect of non-taxable income for tax purpose (Note (i))	(150,682)	(90,522)
Income tax	466,160	585,145

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.

13 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share was computed by dividing the profit for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue. Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the Reporting Period.

	Note	2017	2016
Weighted average number of ordinary shares (in thousands)	13(1)	4,058,713	4,058,197
Net profit attributable to equity shareholders of the Bank		1,900,252	2,088,605
Less：dividends on preference shares declared		–	–
Net profit attributable to ordinary shareholders of the Bank		1,900,252	2,088,605
Basic and diluted earnings per share (in RMB)		0.47	0.51

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

	2017	2016
Number of ordinary shares as at 1 January	4,058,713	4,011,533
Increase in weighted average number of ordinary shares	–	46,664
Weighted average number of ordinary shares	4,058,713	4,058,197

14 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	31 December 2017	31 December 2016
Cash on hand		608,001	442,304
Deposits with central bank			
– Statutory deposit reserves	14(1)	21,000,530	18,576,968
– Surplus deposit reserves	14(2)	5,447,669	3,646,751
– Fiscal deposits		41,614	31,974
Sub-total		26,489,813	22,255,693
Total		27,097,814	22,697,997

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

	31 December 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2017	31 December 2016
In Mainland China		
– Banks	759,466	5,947,601
Outside Mainland China		
– Banks	348,480	474,226
Total	1,107,946	6,421,827

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2017	31 December 2016
In Mainland China		
–Banks	2,785,667	616,220
– Other financial institutions	97,060	2,990
Total	2,882,727	619,210

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 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	138,232	141,756
– Corporate entities	40,846	48,959
Total	179,078	320,315
Unlisted	179,078	320,315

18 DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2017			31 December 2016		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange rate derivatives:						
– Currency swap	8,233,092	–	(353,220)	–	–	–
Total	8,233,092	–	(353,220)	–	–	–

(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2017	31 December 2016
In Mainland China		
– Banks	3,384,400	3,720,287
– Other financial institutions	199,800	236,919
Total	3,584,200	3,957,206

(2) Analysed by type of security held

	31 December 2017	31 December 2016
Debt securities	3,584,200	2,001,819
Discounted bills	–	1,955,387
Total	3,584,200	3,957,206

20 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	31 December 2017	31 December 2016
Corporate loans and advances		
– Corporate loans	64,363,848	58,589,447
– Discounted bills	2,951,203	3,874,462
Sub-total	67,315,051	62,463,909
Personal loans and advances		
– Residential mortgage	24,128,570	18,264,561
– Personal business loans	3,265,881	4,196,778
– Personal consumption loans	1,746,965	1,048,217
– Others	1,604,912	1,194,830
Sub-total	30,746,328	24,704,386
Gross loans and advances to customers	98,061,379	87,168,295
Less: Provision for impairment losses		
– Individually assessed	(559,720)	(420,904)
– Collectively assessed	(1,986,979)	(1,882,542)
Total provision for impairment losses	(2,546,699)	(2,303,446)
Net loans and advances to customers	95,514,680	84,864,849

(Expressed in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by industry

	31 December 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	16,870,734	17.20%	3,387,238
Construction	9,192,196	9.37%	2,767,280
Water, environment and public utility management	8,757,857	8.93%	3,904,059
Renting and business activities	8,184,724	8.35%	4,224,272
Wholesale and retail trade	7,275,598	7.42%	4,378,321
Financial services	4,288,439	4.37%	633,272
Real estate	4,148,613	4.23%	2,724,513
Production and supply of electric and heating power, gas and water	3,838,368	3.91%	820,120
Transportation, storage and postal services	1,950,773	1.99%	399,744
Others	2,807,749	2.88%	876,795
Sub-total of corporate loans and advances	67,315,051	68.65%	24,115,614
Personal loans and advances	30,746,328	31.35%	27,532,642
Gross loans and advances to customers	98,061,379	100.00%	51,648,256

	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

(Expressed in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	31 December 2017				
	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	748,086	277,897	786,625	1,150,544	825,124

	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

	31 December 2017	31 December 2016
Unsecured loans	10,323,398	6,569,160
Guaranteed loans	36,089,725	34,549,877
Loans secured by tangible assets other than monetary assets	40,096,655	35,149,440
Loans secured by intangible assets or monetary assets	11,551,601	10,899,818
Gross loans and advances to customers	98,061,379	87,168,295
Less: Provision for impairment losses		
– Individually assessed	(559,720)	(420,904)
– Collectively assessed	(1,986,979)	(1,882,542)
Total provision for impairment losses	(2,546,699)	(2,303,446)
Net loans and advances to customers	95,514,680	84,864,849

(Expressed in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (continued)

(4) Overdue loans analysed by overdue period

	31 December 2017				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	47,859	2,632	18,101	30,085	98,677
Guaranteed loans	1,329,060	764,837	615,209	32,725	2,741,831
Loans secured by tangible assets other than monetary assets	174,270	148,777	299,047	50,167	672,261
Total	1,551,189	916,246	932,357	112,977	3,512,769
As a percentage of gross loans and advances to customers	1.58%	0.93%	0.95%	0.12%	3.58%

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	31 December 2017				
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))			Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed	Total	
Gross loans and advances to customers	96,402,546	365,158	1,293,675	98,061,379	1.69%
Less: Provision for impairment losses	(1,771,585)	(215,394)	(559,720)	(2,546,699)	
Net loans and advances to customers	94,630,961	149,764	733,955	95,514,680	

	31 December 2016				
	Loans and advances for which provision are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))			Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed	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 41(1).

(Expressed in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (continued)

(6) Movements of provision for impairment losses

	2017			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are collectively assessed	Provision for impaired loans and advances which are individually assessed	
As at 1 January	1,759,832	122,710	420,904	2,303,446
Charge for the year	11,753	126,580	1,236,492	1,374,825
Release for the year	–	–	(90,311)	(90,311)
Unwinding of discount	–	–	(30,730)	(30,730)
Write-offs and transfer out	–	(58,917)	(983,845)	(1,042,762)
Recoveries of loans and advances written off and others	–	25,021	7,210	32,231
As at 31 December	1,771,585	215,394	559,720	2,546,699

	2016			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are collectively assessed	Provision for impaired loans and advances which are individually assessed	Total
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

The Group enters into securitization transactions in the normal course of business. See note 45 for details.

In addition, in 2017 and 2016, the Group transferred loans and advances with gross amount of RMB1.475 billion and RMB0.157 billion respectively to independent third parties, and the transfer price was RMB0.592 billion and RMB0.106 billion respectively.

(Expressed in thousands of Renminbi, unless otherwise stated)

21 FINANCIAL INVESTMENTS

	Note	31 December 2017	31 December 2016
Available-for-sale financial assets	21(1)	79,086,556	58,410,672
Held-to-maturity investments	21(2)	38,644,926	31,324,703
Receivables	21(3)	46,678,869	62,871,938
Total		164,410,351	152,607,313

(1) Available-for-sale financial assets

	Note	31 December 2017	31 December 2016
Debt securities	(i)	30,332,516	30,584,602
Wealth management products issued by financial institutions	(ii)	20,997,129	1,502,025
Asset management plans	(ii)	13,912,231	4,595,499
Investment funds	(ii)	8,634,391	20,314,636
Trust fund plans	(ii)	5,187,039	1,390,660
Equity investments	(iii)	23,250	23,250
Total		79,086,556	58,410,672

(i) Debt securities issued by the following institutions:

	31 December 2017	31 December 2016
In Mainland China		
– Government	2,708,237	1,447,726
– Policy banks	11,024,741	9,379,448
– Banks and other financial institutions	10,963,707	15,199,065
– Corporate entities	5,635,831	4,558,363
Total	30,332,516	30,584,602
Unlisted	30,332,516	30,584,602

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

21 FINANCIAL INVESTMENTS (continued)

(2) Held-to-maturity investments

	31 December 2017	31 December 2016
Debt securities issued by the following institutions in Mainland China		
– Government	11,244,166	10,042,362
– Policy banks	14,748,401	11,792,171
– Banks and other financial institutions	10,888,829	8,070,558
– Corporate entities	1,763,530	1,419,612
Carrying value	38,644,926	31,324,703
Unlisted	38,644,926	31,324,703

(3) Receivables

	31 December 2017	31 December 2016
Asset management plans	29,459,861	31,240,341
Trust fund plans	13,530,830	10,911,401
Beneficiary certificates	3,322,063	1,500,000
Beneficiary rights in margin financing	505,720	500,000
Wealth management products issued by financial institutions	–	18,855,505
Others	76,395	60,691
Gross amount	46,894,869	63,067,938
Less: provision for impairment losses	(216,000)	(196,000)
Total	46,678,869	62,871,938

22 INVESTMENT IN SUBSIDIARY

As at 31 December 2017, the subsidiary is as follows:

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

Note:

(i) BQD 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.

23 LONG-TERM RECEIVABLES

	31 December 2017	31 December 2016
Minimum finance lease receivables	4,631,532	–
Less: Unearned finance lease income	(486,747)	–
Present value of finance lease receivables	4,144,785	–
Less: Provision for impairment losses		
– Individually assessed	–	–
– Collectively assessed	(68,389)	–
Net balance	4,076,396	–

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

	31 December 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	1,324,449	(191,009)	1,133,440	–	–	–
1 year to 2 years	1,121,668	(140,598)	981,070	–	–	–
2 years to 3 years	977,168	(92,158)	885,010	–	–	–
3 years to 5 years	1,208,247	(62,982)	1,145,265	–	–	–
Total	4,631,532	(486,747)	4,144,785	–	–	–

(Expressed in thousands of Renminbi, unless otherwise stated)

24 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	Construction in progress	Total
Cost						
As at 1 January 2016	999,619	377,854	50,379	59,911	–	1,487,763
Increase	219,827	56,035	4,496	7,837	–	288,195
Decrease	(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
Increase	1,874,945	67,116	6,167	12,151	2,065,954	4,026,333
Decrease	(218,152)	(12,299)	–	(379)	(1,855,691)	(2,086,521)
As at 31 December 2017	2,875,112	484,861	59,653	79,267	210,263	3,709,156
Accumulated depreciation						
As at 1 January 2016	(192,147)	(210,045)	(29,683)	(34,731)	–	(466,606)
Increase	(24,317)	(46,884)	(6,274)	(8,545)	–	(86,020)
Decrease	–	3,257	1,348	170	–	4,775
As at 31 December 2016	(216,464)	(253,672)	(34,609)	(43,106)	–	(547,851)
Increase	(29,367)	(48,436)	(6,310)	(7,906)	–	(92,019)
Decrease	7,765	11,612	–	354	–	19,731
As at 31 December 2017	(238,066)	(290,496)	(40,919)	(50,658)	–	(620,139)
Net book value						
As at 31 December 2017	2,637,046	194,365	18,734	28,609	210,263	3,089,017
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 of the Group as at 31 December 2017 was RMB1,869 million (31 December 2016: RMB13.73 million). As at 31 December, 2017, the Group's premises with incomplete title deeds included the head office building located in Building No. 3, No. 6 Qinling Road, Laoshan District, Qingdao with the carrying amount of RMB1.660 billion which was transferred to premises in 2017 and the office building of Jinan branch located in No. 1 Long'ao West Road, Lixia District, Jinan with the carrying amount of RMB185 million which was transferred to premises in 2017. Management is in the opinion that there would be no significant cost for obtaining the title deeds.

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

	31 December 2017	31 December 2016
Held in Mainland China		
– Long-term leases (over 50 years)	17,867	18,258
– Medium-term leases (10–50 years)	2,616,327	980,374
– Short-term leases (less than 10 years)	2,852	3,223
Total	2,637,046	1,001,855

(Expressed in thousands of Renminbi, unless otherwise stated)

25 DEFERRED INCOME TAX ASSETS

(1) Analysed by nature

	31 December 2017		31 December 2016	
	Deductible temporary differences	Deferred Income tax assets	Deductible/ (taxable) temporary differences	Deferred Income tax assets/ (liabilities)
Provision for impairment losses	2,575,636	643,909	2,318,424	579,606
Deferred interest income from discounted bills	66,336	16,584	66,448	16,612
Change in fair value	1,528,548	382,137	(90,908)	(22,727)
Others	166,624	41,656	116,112	29,028
Total	4,337,144	1,084,286	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	64,303	(28)	88,656	12,638	165,569
Recognised in other comprehensive income	–	–	316,208	(10)	316,198
As at 31 December 2017	643,909	16,584	382,137	41,656	1,084,286

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 and other accrued expenses, which are deductible against taxable income when actual payment occurs.

(Expressed in thousands of Renminbi, unless otherwise stated)

26 OTHER ASSETS

	Note	31 December 2017	31 December 2016
Interest receivable	26(1)	2,039,205	1,597,870
Long-term deferred expense		574,964	184,559
Intangible assets	26(2)	197,454	171,661
Prepayments		95,001	1,840,503
Deferred expense		55,941	48,940
Precious metals		114,001	39,314
Repossessed assets		5,931	22,151
Others (Note (i))		167,999	770,573
Sub-total		3,250,496	4,675,571
Less: Provision for impairment losses		(899)	(194)
Total		3,249,597	4,675,377

Note:

(i) As at 31 December 2016, others include the Bank's contributed capital for establishing BQD Financial Leasing Company Limited, amounting to RMB510 million. The company registration of BQD Financial Leasing Company Limited was completed in February 2017.

(1) Interests receivable

	31 December 2017	31 December 2016
Interest receivable arising from:		
– Investments	1,598,609	1,251,859
– Loans and advances to customers	378,281	319,956
– Others	62,315	26,055
Total	2,039,205	1,597,870

(Expressed in thousands of Renminbi, unless otherwise stated)

26 OTHER ASSETS (continued)

(2) Intangible assets

	2017	2016
Cost		
As at 1 January	326,820	267,639
Additions	91,066	75,181
Decrease	(35,605)	(16,000)
As at 31 December	382,281	326,820
Accumulated amortisation		
As at 1 January	(155,159)	(102,009)
Additions	(65,273)	(56,350)
Decrease	35,605	3,200
As at 31 December	(184,827)	(155,159)
Net value		
As at 1 January	171,661	165,630
As at 31 December	197,454	171,661

Intangible assets of the Group mainly represent software.

27 BORROWINGS FROM CENTRAL BANK

	31 December 2017	31 December 2016
Re-discounted bills	584,215	432,407
Borrowings	–	3,000,000
Total	584,215	3,432,407

28 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2017	31 December 2016
In Mainland China		
– Banks	10,034,365	13,588,273
– Other financial institutions	14,867,569	31,430,296
Total	24,901,934	45,018,569

(Expressed in thousands of Renminbi, unless otherwise stated)

29 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2017	31 December 2016
In Mainland China		
– Banks	5,251,563	6,717,160
Outside Mainland China		
– Banks	522,736	208,110
Total	5,774,299	6,925,270

30 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2017	31 December 2016
In Mainland China		
– Banks	11,599,613	14,105,065
– Other financial institutions	299,970	2,938,000
Total	11,899,583	17,043,065

(2) Analysed by types of collaterals

	31 December 2017	31 December 2016
Debt securities	11,899,583	16,532,140
Discounted bills	–	510,925
Total	11,899,583	17,043,065

(Expressed in thousands of Renminbi, unless otherwise stated)

31 DEPOSITS FROM CUSTOMERS

	31 December 2017	31 December 2016
Demand deposits		
– Corporate deposits	65,421,504	54,911,942
– Personal deposits	17,935,483	10,093,140
Sub-total	83,356,987	65,005,082
Time deposits		
– Corporate deposits	41,852,651	37,737,200
– Personal deposits	34,290,017	38,572,531
Sub-total	76,142,668	76,309,731
Outward remittance and remittance payables	566,193	268,881
Fiscal deposits to be transferred	17,935	21,067
Total	160,083,783	141,604,761
Including:		
Pledged deposits	9,140,837	9,817,564

32 DEBT SECURITIES ISSUED

	31 December 2017	31 December 2016
Debt securities issued (Note (i))	18,085,491	13,087,167
Certificates of interbank deposit issued (Note (ii))	50,547,200	28,699,054
Total	68,632,691	41,786,221

32 DEBT SECURITIES ISSUED (continued)

Note:

(i) Financial debts with fixed interest rates were issued by the Group. The details are as follows:

(a) 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 31 December 2017, the fair value of the debts was RMB2.895 billion (31 December 2016: RMB2.915 billion).

(b) 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 31 December 2017, the fair value of the debts was RMB2.133 billion (31 December 2016: RMB2.218 billion).

(c) 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 31 December 2017, the fair value of the debts was RMB3.410 billion (31 December 2016: RMB3.423 billion).

(d) 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 31 December 2017, the fair value of the debts was RMB0.468 billion (31 December 2016: RMB0.481 billion).

(e) 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 31 December 2017, the fair value of the debts was RMB2.882 billion (31 December 2016: RMB2.923 billion).

(f) 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 31 December 2017, the fair value of the debts was RMB0.922 billion (31 December 2016: RMB0.959 billion).

(g) Ten-year debts 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 31 December 2017, the fair value of the debts was RMB2.758 billion.

(h) Ten-year debts were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB2.0 billion in July 2017. The debts will mature on 14 July 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 31 December 2017, the fair value of the debts was RMB1.838 billion.

(ii) The Group issued a number of certificates of interbank deposit with duration between 1 month to 1 year. As at 31 December 2017 and 2016, the outstanding fair value of certificates of interbank deposit was RMB50.479 billion and RMB28.620 billion respectively.

(Expressed in thousands of Renminbi, unless otherwise stated)

33 OTHER LIABILITIES

	Note	31 December 2017	31 December 2016
Interest payable	33(1)	2,797,902	2,548,373
Financial liabilities related to precious metals		2,859,395	–
Employee benefits payable	33(2)	699,855	1,061,805
Payable raising from fiduciary activities		299,583	262,448
Settlement payable		241,646	144,019
Dividend payable		18,517	17,182
Taxes payable	33(3)	17,027	65,953
Others		932,066	230,120
Total		7,865,991	4,329,900

(1) Interest payable

	31 December 2017	31 December 2016
Interest payable arising from:		
– Deposits from customers	2,094,557	1,878,174
– Debt securities issued	459,019	335,732
– Deposits and placements from banks and other financial institutions	235,883	328,375
– Financial assets sold under repurchase agreements	2,773	6,092
– Others	5,670	–
Total	2,797,902	2,548,373

(2) Employee benefits payable

	31 December 2017	31 December 2016
Salaries, bonuses and allowances payable	582,381	925,066
Social insurance and housing allowances payable	43,992	43,850
Staff welfare expenses	1,751	1,751
Staff education expenses	2,781	14,081
Labor union expenses	12,325	16,637
Post-employment benefits-defined contribution plans	145	–
Supplementary retirement benefits (Note (i))	56,480	60,420
Total	699,855	1,061,805

33 OTHER LIABILITIES (continued)

Note:

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

Early retirement plan

The Group 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 Group accounts for the respective obligations in accordance with the accounting policies in Note 2(12).

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees. The Group accounted for the respective obligations in accordance with the accounting policies in Note 2(12).

(3) Taxes payable

	31 December 2017	31 December 2016
Value added tax payable	12,192	58,034
Business tax payable	–	(48)
Urban construction tax and surcharges payable	4,586	7,967
Others	249	–
Total	17,027	65,953

34 SHARE CAPITAL

Authorised and issued share capital

	31 December 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 "H-share offering"). The premium arising from the H-share offering amounting to RMB0.118 billion was recorded in capital reserve.

35 PREFERENCE SHARES

(1) Preference shares outstanding at the end of the year

Financial instrument outstanding	Issue date	Accounting classification	Dividend rate	Issue price	Amount	In original currency	In RMB	Maturity	Conversion
					(in thousands of shares)	(in thousands)	(in thousands)		
Overseas Preference Shares	19 Sep 2017	Equity	5.5%	20USD/Share	60,150	1,203,000	7,883,259	None	None
Total							7,883,259		
Less: Issue fees							(29,295)		
Book value							7,853,964		

(2) Main Clauses

(a) Dividend

There is a fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. Dividends will be paid annually.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends. The Bank may elect to cancel any dividend, but such cancellation will require a shareholder's resolution to be passed.

(c) Dividend stopper

If the Bank cancels all or part of the dividends to the preference shareholders, the Bank shall not make any dividend distribution to ordinary shareholders before the Bank pays the dividends for the current dividend period to the preference shareholders in full.

(d) Order of distribution and liquidation method

The USD preference shareholders will rank equally for payment. The preference shareholders will be subordinated to the depositors, ordinary creditors and holders of Tier 2 capital bonds, but will be senior to the ordinary shareholders.

(e) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier 1 Capital Trigger Event (Core Tier 1 Capital Adequacy Ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert all or part of the preference shares into H shares, having notified and obtained the consent of CBRC but without the need for the consent of preference shareholders or ordinary shareholders, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Bank to above 5.125%; If preference shares were converted to H shares, it could not be converted to preference shares again.

35 PREFERENCE SHARES (continued)

Upon the occurrence of a Tier 2 Capital Trigger Event (Earlier of the two situations: (1) CBRC has determined that the Bank would become non-viable if there is no conversion or write-down of capital; (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable), the Bank shall have the right to convert all preference shares into H shares, having notified and obtained the consent of CBRC but without the need for the consent of preference shareholders or ordinary shareholders. If preference shares were converted to H shares, it could not be converted to preference shares again.

(f) Redemption

Under the premise of obtaining the approval of the CBRC and condition of redemption, the Bank has right to redeem all or some of oversee preferred stocks in first call date and subsequent any dividend payment date. The first call date after issuance and subsequent any dividend payment date (redemption price is equal to issue price plus accrued dividend in current period).

The first redemption date of USD preference shares is five years after issuance.

(g) Dividend setting mechanism

Non-cumulative dividend is a dividend on preference shares which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, preference shareholders of the Bank will not participate the distribution of residual profits with ordinary shareholders.

(3) Changes in preference shares outstanding

1 January 2017		Increase during the year		31 December 2017	
Amount (in thousands of shares)	Book value (in thousands of yuan)	Amount (in thousands of shares)	Book value (in thousands of yuan)	Amount (in thousands of shares)	Book value (in thousands of yuan)
–	–	60,150	7,853,964	60,150	7,853,964

(4) Interests attribute to equity instruments' holders

Item	31 December 2017	31 December 2016
Total equity attribute to equity holders of the Bank	25,629,854	17,635,973
– Equity attribute to ordinary shareholders of the Bank	17,775,890	17,635,973
– Equity attribute to preference shareholders of the Bank	7,853,964	–
Total equity attribute to non-controlling interests	493,355	–
– Equity attribute to non-controlling interests of ordinary shares	493,355	–
– Equity attribute to non-controlling interests of preference shares	–	–

(Expressed in thousands of Renminbi, unless otherwise stated)

36 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.

The Bank set aside a general reserve upon approval by the shareholders in general meetings. The general reserve balance of the Bank as at 31 December 2017 amounted to RMB3.969 billion, which has reached 1.5% of the year ending balance of the Bank's gross risk-bearing assets.

(4) Investment revaluation reserve

	2017	2016
As at 1 January	66,617	486,199
Change in fair value recognised in other comprehensive income	(1,166,001)	(506,044)
Transfer to profit or loss upon disposal	(98,830)	(53,399)
Less: income tax	316,208	139,861
As at 31 December	(882,006)	66,617

(5) Other reserve

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

(Expressed in thousands of Renminbi, unless otherwise stated)

36 RESERVES (continued)

(6) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserve	Retained earnings	Total equity
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
Profit for the year		–	–	–	–	–	–	–	1,896,760	1,896,760
Other comprehensive income		–	–	–	–	–	(948,623)	30	–	(948,593)
Total comprehensive income		–	–	–	–	–	(948,623)	30	1,896,760	948,167
Contribution by shareholders										
– Capital injection by other equity shareholders	35	–	7,853,964	–	–	–	–	–	–	7,853,964
Appropriation of profit:										
– Appropriation to surplus reserve	37	–	–	–	189,676	–	–	–	(189,676)	–
– Appropriation to general reserve	37	–	–	–	–	273,362	–	–	(273,362)	–
– Cash dividends	37	–	–	–	–	–	–	–	(811,742)	(811,742)
Balance at 31 December 2017		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(882,006)	(3,443)	2,600,081	25,626,362

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserve	Retained earnings	Total equity
Balance at 1 January 2016		4,011,533	6,708,018	804,789	2,391,182	486,199	(3,075)	2,215,006	16,613,652
Profit for the year		–	–	–	–	–	–	2,088,605	2,088,605
Other comprehensive income		–	–	–	–	(419,582)	(398)	–	(419,980)
Total comprehensive income		–	–	–	–	(419,582)	(398)	2,088,605	1,668,625
Contribution by shareholders									
– Capital injection by ordinary shareholders	34	47,180	118,258	–	–	–	–	–	165,438
Appropriation of profit:									
– Appropriation to surplus reserve	37	–	–	208,860	–	–	–	(208,860)	–
– Appropriation to general reserve	37	–	–	–	1,304,908	–	–	(1,304,908)	–
– Cash dividends	37	–	–	–	–	–	–	(811,742)	(811,742)
Balance at 31 December 2016		4,058,713	6,826,276	1,013,649	3,696,090	66,617	(3,473)	1,978,101	17,635,973

(Expressed in thousands of Renminbi, unless otherwise stated)

37 PROFIT APPROPRIATION

(1) At the Bank's board of directors meeting held on 23 March 2018, the directors approved the following profit appropriation for the year ended 31 December 2017:

- Appropriated RMB190 million to surplus reserve;
- Appropriated RMB273 million to general reserve;
- Declared cash dividends to all ordinary shareholders of RMB812 million representing RMB0.20 per share (before tax).

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

(2) At the 2016 annual general meeting 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;
- Declared cash dividends to all shareholders of RMB812 million representing RMB0.20 per share (before tax).

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

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

38 NOTES TO CASH FLOW STATEMENT

(1) Cash and cash equivalents:

	31 December 2017	31 December 2016
Cash	608,001	442,304
Surplus deposit reserves with central bank	5,447,669	3,646,751
Original maturity within three months:		
– Deposits with banks and other financial institutions	1,107,946	4,271,357
– Placements with banks and other financial institutions	2,514,714	419,210
– Investments	–	22,033,656
– Financial assets held under resale agreements	–	1,585,169
Total	9,678,330	32,398,447

38 NOTES TO CASH FLOW STATEMENT (continued)

(2) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Debt securities issued	Interest payable arising from debt securities issued	Total
Balance at 1 January 2017	41,786,221	335,732	42,121,953
Changes from financing cash flows:			
– Net proceeds from debt securities issued	193,058,940	–	193,058,940
– Interest paid on debt securities issued	–	(525,930)	(525,930)
– Repayment of debt securities issued	(167,920,000)	–	(167,920,000)
Total changes from financing cash flows	25,138,940	(525,930)	24,613,010
Other changes:			
– Interest expense	1,707,530	649,217	2,356,747
Balance at 31 December 2017	68,632,691	459,019	69,091,710

39 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.

Major shareholders' information

Company name	Amount of ordinary shares of the Bank held by the Company (in thousands)	Proportion of ordinary shares of the Bank held by the Company	Registered location	Business	Legal form	Legal representative
Intesa Sanpaolo S.p.A. ("ISP")	623,909	15.37%	Italy	Commercial banking	Joint stock limited company	Gian Maria GROS-PIETRO
Qingdao Conson Industrial Co., Ltd. ("Qingdao Conson")	503,556	12.41%	Qingdao	State-owned assets operation	Limited company	WANG Jianhui
Qingdao Haier Investment and Development Co., Ltd. ("Haier Investment")	409,693	10.09%	Qingdao	Investment consulting and financial consulting	Limited company	ZHANG Ruimin
AMTD Strategic Investment Limited ("AMTD")	301,800	7.44%	Hong Kong	Outbound investment	Limited company	YAU Wai Man, Philip
Qingdao Haier Air-Conditioning Electronic Co., Ltd. ("Haier Air-Conditioning")	218,692	5.39%	Qingdao	Production, sales and service of air conditioners and refrigeration equipment	Limited company	WANG Li

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Changes in ordinary shares of the Bank held by major shareholders

	ISP		Qingdao Conson		Haier Investment		AMTD		Haier Air-Conditioning	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
As at 1 January 2016	622,307	15.51%	507,118	12.64%	409,693	10.21%	–	–	218,692	5.45%
Decrease	–	(0.18%)	(3,562)	(0.23%)	–	(0.12%)	–	–	–	(0.06%)
As at 31 December 2016	622,307	15.33%	503,556	12.41%	409,693	10.09%	–	–	218,692	5.39%
Increase	1,602	0.04%	–	–	–	–	301,800	7.44%	–	–
As at 31 December 2017	623,909	15.37%	503,556	12.41%	409,693	10.09%	301,800	7.44%	218,692	5.39%

Changes in registered capital of major shareholders

	Currency	31 December 2017	31 December 2016
ISP	EUR	8,732 Million	8,732 Million
Qingdao Conson	RMB	2,000 Million	2,000 Million
Haier Investment	RMB	252 Million	252 Million
AMTD(Note(i))	HKD	1 HKD	–
Haier Air-Conditioning	RMB	356 Million	356 Million

Note:

(i) AMTD was established on 26 June 2017.

(b) Subsidiary of the Bank

The detailed information of the Bank's subsidiary is set out in Note 22.

(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.

(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.

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(a) Transactions with the related parties except subsidiary (excluding remuneration of key management personnel)

	ISP and its group	Qingdao Conson and its group	Haier Investment/ Haier Air-conditioning and its group	AMTD and its group (Note(i))	Companies controlled by key management personnel (Note(ii)) (Other than shareholders and its group above)	Others	Total	Proportion to gross amount/ balance of similar transactions
As at 31 December 2017								
On-balance sheet items:								
Loans and advances to customers (Note(iii))	–	1,279,000	–	–	515,000	6,851	1,800,851	1.84%
Receivables (Note(iv))	–	–	1,780,000	–	–	–	1,780,000	3.80%
Available-for-sale financial assets	–	–	–	2,239,147	137,537	–	2,376,684	3.01%
Deposits with banks and other financial institutions	4,373	–	–	–	–	–	4,373	0.39%
Placements with banks and other financial institutions	270,000	–	–	–	–	–	270,000	9.37%
Interest receivable	11,025	1,993	2,559	–	2,160	10	17,747	0.87%
Deposits from customers	82,757	88,693	134,728	–	187,387	118,490	612,055	0.38%
Deposits from banks and other financial institutions	–	–	12,293	–	–	–	12,293	0.05%
Interest payable	36	87	172	–	94	2,282	2,671	0.10%
Off-balance sheet items:								
Letters of guarantees (Note(v))	–	–	177,727	–	56	–	177,783	8.45%
2017								
Interest income	26,653	55,282	81,762	114,259	29,064	317	307,337	2.62%
Interest expense	1,396	1,495	501	–	2,372	1,677	7,441	0.11%
Fee and commission income	–	–	24,491	–	–	–	24,491	2.75%
Operating expenses	–	1,981	–	–	–	–	1,981	0.11%
Other operating losses	–	–	–	–	2,200	–	2,200	27.86%

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

	ISP and its group	Qingdao Conson and its group	Haier Investment/Haier Air-conditioning and its group	Companies controlled by key management personnel (Note(ii)) (Other than shareholders and its group above)	Others	Total	Proportion to gross amount/ balance of similar transactions
As at 31 December 2016							
On-balance sheet items:							
Loans and advances to customers(Note(iii))	–	500,000	–	623,000	5,933	1,128,933	1.30%
Receivables(Note(iv))	–	–	1,950,000	–	–	1,950,000	3.09%
Available-for-sale financial assets	–	–	–	2,091,753	–	2,091,753	3.58%
Deposits with banks and other financial institutions	1,568	–	–	–	–	1,568	0.02%
Placements with banks and other financial institutions	200,000	–	–	–	–	200,000	32.30%
Interest receivable	2,588	714	2,501	9,842	6	15,651	0.98%
Deposits from customers	144,872	55,156	27,874	59,610	60,808	348,320	0.25%
Deposits from banks and other financial institutions	–	–	8,745	–	–	8,745	0.02%
Interest payable	15	38	17	51	1,295	1,416	0.06%
Off-balance sheet items:							
Letters of guarantees(Note(v))	–	–	272,058	56	–	272,114	11.71%
2016							
Interest income	2,588	16,186	80,184	52,381	142	151,481	1.57%
Interest expense	33	7,874	106	1,070	2,722	11,805	0.25%
Fee and commission income	–	590	18,215	183	–	18,988	1.99%

Note:

(i) In 2017, AMTD Asset Management Limited, the Group's related party, as one of the Joint Global Coordinator of the Bank's issuance of offshore non-public preference shares, received an underwriting commission from the Group, the amount of which is not significant. The above underwriting commission is capitalized as issuance costs of preference shares.

(ii) Companies controlled by key management personnel include entities that key management personnel or a close member of that person's family controls or jointly controls, or serves as director and senior management.

(iii) Loans of related parties

	31 December 2017	31 December 2016
Qingdao Conson Financial Holdings Co., Ltd.	1,279,000	500,000
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	450,000	558,000
Aucma Co., Ltd.	65,000	65,000
Individuals	6,851	5,933
Total	1,800,851	1,128,933

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(iv) Receivables of related parties

	31 December 2017	31 December 2016
Qingdao Changyuan Land Co., Ltd.	980,000	300,000
Qingdao Haier Real Estate Group Co., Ltd.	800,000	1,500,000
Qingdao Haier Venture & Investment Information Co., Ltd.	–	150,000
Total	1,780,000	1,950,000

(v) Letters of guarantees of related parties

	31 December 2017	31 December 2016
Qingdao Haier Home Integration Co., Ltd.	177,227	272,058
Haier Information Technology (Shenzhen) Co. Limited	500	–
Aucma Co., Ltd.	56	56
Total	177,783	272,114

(b) Transactions with subsidiary

	31 December 2017	31 December 2016
Balances at the end of the year:		
On-balance sheet items:		
Deposits from banks and other financial institutions	127,841	–
Interest payable	27	–

	2017	2016
Transactions during the year:		
Interest expense	937	–
Fee and commission income	12	–

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(3) Key management personnel

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

	2017	2016
Remuneration of key management personnel	18,274	18,560

As at 31 December 2017, outstanding loans to the key management personnel amounted to RMB1.19 million (31 December 2016: RMB1.08 million), which have been included in loans and advances to related parties stated in Note 39(2).

40 SEGMENT REPORTING

Segment reporting is disclosed in accordance with the accounting policy set out in Note 2(21).

The Group manages its business by 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-group balances, and intra-group 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 the Group's financial market operations. The financial market business enters into inter-bank money market transactions, repurchases transactions, investments in debt securities, and non-standardized debt investments, etc.

Un-allocated items and others

This segment contains related business of the subsidiary, head office assets, liabilities, income and expenses that are not directly attributable to a segment.

(Expressed in thousands of Renminbi, unless otherwise stated)

40 SEGMENT REPORTING (continued)

	Year ended 31 December 2017				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	1,958,337	236,682	2,546,823	60,566	4,802,408
Internal net interest income/(expense)	919,154	632,903	(1,550,098)	(1,959)	–
Net interest income	2,877,491	869,585	996,725	58,607	4,802,408
Net fee and commission income	129,953	295,601	326,401	77,014	828,969
Net trading losses	–	–	(187,764)	–	(187,764)
Net gains arising from investments	–	–	100,330	–	100,330
Other operating income	1,240	1,691	91	20,628	23,650
Operating income	3,008,684	1,166,877	1,235,783	156,249	5,567,593
Operating expenses	(941,258)	(461,355)	(358,656)	(57,653)	(1,818,922)
Impairment losses	(1,222,366)	(68,149)	(20,000)	(68,389)	(1,378,904)
Profit before taxation	845,060	637,373	857,127	30,207	2,369,767
Other segment information					
– Depreciation and amortisation	(129,233)	(176,398)	(9,508)	(311)	(315,450)
– Capital expenditure	248,416	339,076	18,276	4,387	610,155

	31 December 2017				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	85,404,515	41,750,418	173,894,074	4,142,799	305,191,806
Deferred tax assets					1,084,286
Total assets					306,276,092
Segment liabilities/Total liabilities	108,835,812	55,028,688	113,004,905	3,283,478	280,152,883
Credit commitments	19,013,368	407,964	–	–	19,421,332

(Expressed in thousands of Renminbi, unless otherwise stated)

40 SEGMENT REPORTING (continued)

	Year ended 31 December 2016				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	2,315,378	279	2,692,298	–	5,007,955
Internal net interest income/(expense)	488,712	895,800	(1,384,512)	–	–
Net interest income	2,804,090	896,079	1,307,786	–	5,007,955
Net fee and commission income	234,308	337,265	316,560	–	888,133
Net trading gains	–	–	47,594	–	47,594
Net gains arising from investments	–	–	52,860	–	52,860
Other operating income/(losses)	1,216	1,601	99	(3,313)	(397)
Operating income	3,039,614	1,234,945	1,724,899	(3,313)	5,996,145
Operating expenses	(1,104,564)	(593,426)	(515,531)	–	(2,213,521)
Impairment losses	(813,734)	(189,640)	(105,500)	–	(1,108,874)
Profit before taxation	1,121,316	451,879	1,103,868	(3,313)	2,673,750
Other segment information					
– Depreciation and amortisation	(125,018)	(164,514)	(10,139)	–	(299,671)
– Capital expenditure	235,379	309,741	19,089	–	564,209

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

41 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.

41 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 Note43 (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 43 (1).

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (continued)

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

	31 December 2017				
	Loans and advances to customers	Long-term receivables	Balances with banks and other financial institutions	Financial assets held under resale agreements	Investments Note (ii)
Impaired (Note (i))					
Individually assessed					
Gross balance	1,293,675	–	–	–	–
Provision for impairment losses	(559,720)	–	–	–	–
Net balance	733,955	–	–	–	–
Collectively assessed					
Gross balance	365,158	–	–	–	–
Provision for impairment losses	(215,394)	–	–	–	–
Net balance	149,764	–	–	–	–
Overdue but not impaired (Note (i))					
Within 3 months (inclusive)	1,551,189	–	–	–	–
Between 3 months and 1 year (inclusive)	277,156	–	–	–	–
Over 1 year	54,500	–	–	–	–
Gross balance	1,882,845	–	–	–	–
Provision for impairment losses	(215,614)	–	–	–	–
Net balance	1,667,231	–	–	–	–
Neither overdue nor impaired					
Gross balance	94,519,701	4,144,785	3,990,673	3,584,200	164,782,179
Provision for impairment losses	(1,555,971)	(68,389)	–	–	(216,000)
Net balance	92,963,730	4,076,396	3,990,673	3,584,200	164,566,179
Book value	95,514,680	4,076,396	3,990,673	3,584,200	164,566,179

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (continued)

	31 December 2016				
	Loans and advances to customers	Long-term receivables	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

41 RISK MANAGEMENT (continued)

Notes:

(i) As at 31 December 2017, the principal amount of the Group's impaired corporate loans and advances to customers was RMB1,294 million (31 December 2016: RMB917 million). The fair value of collaterals held against these loans and advances was RMB186 million (31 December 2016: RMB188 million).

As at 31 December 2017, the principal amount of the Group's corporate loans and advances to customers overdue but not impaired was RMB1,671 million (31 December 2016: RMB2,164 million). The secured portion of these loans and advances were RMB164 million (31 December 2016: RMB56 million). The fair value of collaterals held against these loans and advances was RMB388 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (continued)

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

	31 December 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	27,097,814	649,615	26,448,199	–	–	–
Deposits with banks and other financial institutions	1,107,946	–	1,107,946	–	–	–
Placements with banks and other financial institutions	2,882,727	–	2,882,727	–	–	–
Financial assets held under resale agreements	3,584,200	–	3,584,200	–	–	–
Loans and advances to customers (Note (i))	95,514,680	–	36,438,832	51,670,361	6,302,961	1,102,526
Investments (Note (ii))	164,589,429	23,250	39,103,753	35,736,298	57,488,210	32,237,918
Long-term receivables	4,076,396	–	2,986,142	1,090,254	–	–
Others	7,422,900	7,422,900	–	–	–	–
Total assets	306,276,092	8,095,765	112,551,799	88,496,913	63,791,171	33,340,444
Liabilities						
Borrowings from central bank	584,215	–	357,574	226,641	–	–
Deposits from banks and other financial institutions	24,901,934	–	9,657,447	15,094,487	150,000	–
Placements from banks and other financial institutions	5,774,299	–	2,790,749	2,983,550	–	–
Financial assets sold under repurchase agreements	11,899,583	–	11,899,583	–	–	–
Deposits from customers	160,083,783	566,192	111,515,751	25,814,192	22,043,234	144,414
Debt securities issued	68,632,691	–	28,336,567	25,109,813	7,997,034	7,189,277
Others	8,276,378	5,063,763	99,972	3,112,643	–	–
Total liabilities	280,152,883	5,629,955	164,657,643	72,341,326	30,190,268	7,333,691
Asset-liability gap	26,123,209	2,465,810	(52,105,844)	16,155,587	33,600,903	26,006,753

(Expressed in thousands of Renminbi, unless otherwise stated)

41 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 31 December 2017 includes overdue loans and advances (net of provision for impairment losses) of RMB2,527 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

41 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.

	31 December 2017 Increase/(Decrease)	31 December 2016 Increase/(Decrease)
Changes in annualized net interest income		
Interest rates increase by 100 bps	(399,892)	(539,852)
Interest rates decrease by 100 bps	399,892	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.

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (continued)

(b) Currency risk

The Group's currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary 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:

	31 December 2017			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	26,803,791	289,409	4,614	27,097,814
Deposits with banks and other financial institutions	570,178	490,950	46,818	1,107,946
Placements with banks and other financial institutions	367,060	2,515,667	–	2,882,727
Financial assets held under resale agreements	3,584,200	–	–	3,584,200
Loans and advances to customers	95,257,264	257,416	–	95,514,680
Investments (Note (i))	159,608,961	4,980,468	–	164,589,429
Long-term receivables	4,076,396	–	–	4,076,396
Others	7,391,806	30,731	363	7,422,900
Total assets	297,659,656	8,564,641	51,795	306,276,092
Liabilities				
Borrowings from central bank	584,215	–	–	584,215
Deposits from banks and other financial institutions	20,001,284	4,900,650	–	24,901,934
Placements from banks and other financial institutions	3,520,000	2,254,299	–	5,774,299
Financial assets sold under repurchase agreements	11,899,583	–	–	11,899,583
Deposits from customers	159,124,431	921,244	38,108	160,083,783
Debt securities issued	68,632,691	–	–	68,632,691
Others	8,164,069	110,881	1,428	8,276,378
Total liabilities	271,926,273	8,187,074	39,536	280,152,883
Net position	25,733,383	377,567	12,259	26,123,209
Off-balance sheet credit commitments	18,517,226	591,367	312,739	19,421,332
Derivative financial instruments (Note (ii))	(8,487,478)	8,233,092	–	(254,386)

(Expressed in thousands of Renminbi, unless otherwise stated)

41 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.

(ii) Derivative financial instruments represent the net notional amount of currency derivatives, mainly including undelivered currency swap.

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (continued)

	31 December 2017 Increase/(Decrease)	31 December 2016 Increase/(Decrease)
Changes in annualized net profit		
Foreign exchange rate increase by 100 bps	9,747	999
Foreign exchange rate decrease by 100 bps	(9,747)	(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.

(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 bank 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

41 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:

	31 December 2017							
	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	21,042,144	6,055,670	–	–	–	–	–	27,097,814
Deposits with banks and other financial institutions	–	1,107,946	–	–	–	–	–	1,107,946
Placements with banks and other financial institutions	–	–	2,514,714	368,013	–	–	–	2,882,727
Financial assets held under resale agreements	–	–	3,584,200	–	–	–	–	3,584,200
Loans and advances to customers	2,080,239	447,565	2,484,067	13,397,554	27,588,041	19,748,653	29,768,561	95,514,680
Investments (Note (i))	23,250	–	5,604,184	33,369,842	35,387,024	57,967,211	32,237,918	164,589,429
Long-term receivables	–	–	69,460	211,489	833,788	2,961,659	–	4,076,396
Others	5,383,696	1,915	801,519	355,772	828,293	51,705	–	7,422,900
Total assets	28,529,329	7,613,096	15,058,144	47,702,670	64,637,146	80,729,228	62,006,479	306,276,092
Liabilities								
Borrowings from central bank	–	–	79,889	277,685	226,641	–	–	584,215
Deposits from banks and other financial institutions	–	1,570,147	4,643,480	3,443,820	15,094,487	150,000	–	24,901,934
Placements from banks and other financial institutions	–	–	1,296,710	1,494,039	2,983,550	–	–	5,774,299
Financial assets sold under repurchase agreements	–	–	11,899,583	–	–	–	–	11,899,583
Deposits from customers	–	84,605,945	15,939,853	11,536,145	25,814,192	22,043,234	144,414	160,083,783
Debt securities issued	–	–	5,816,043	22,520,524	25,109,813	7,997,034	7,189,277	68,632,691
Others	16,174	291,126	632,787	827,526	4,724,508	1,727,777	56,480	8,276,378
Total liabilities	16,174	86,467,218	40,308,345	40,099,739	73,953,191	31,918,045	7,390,171	280,152,883
Net position	28,513,155	(78,854,122)	(25,250,201)	7,602,931	(9,316,045)	48,811,183	54,616,308	26,123,209
Notional amount of derivatives	–	–	392,052	1,306,840	6,534,200	–	–	8,233,092

(Expressed in thousands of Renminbi, unless otherwise stated)

41 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
Net 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".

(Expressed in thousands of Renminbi, unless otherwise stated)

41 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:

	31 December 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	–	–	80,000	278,880	230,000	–	–	588,880	584,215
Deposits from banks and other financial institutions	–	1,570,147	4,653,266	3,472,332	15,437,299	177,536	–	25,310,580	24,901,934
Placements from banks and other financial institutions	–	–	1,299,346	1,509,562	3,028,511	–	–	5,837,419	5,774,299
Financial assets sold under repurchase agreements	–	–	11,902,034	–	–	–	–	11,902,034	11,899,583
Deposits from customers	–	84,605,945	15,958,670	11,584,685	26,178,569	23,857,402	152,146	162,337,417	160,083,783
Debt securities issued	–	–	5,830,000	23,122,930	26,063,000	9,857,670	8,818,940	73,692,540	68,632,691
Others	16,174	291,126	628,215	732,125	4,608,648	1,727,777	56,480	8,060,545	7,923,158
Total non-derivative liabilities	16,174	86,467,218	40,351,531	40,700,514	75,546,027	35,620,385	9,027,566	287,729,415	279,799,663

	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 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 liabilities by contractual undiscounted cash flow might differ from actual results.

(Expressed in thousands of Renminbi, unless otherwise stated)

41 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:

	31 December 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
Cash flows of derivatives								
Derivatives settled on a gross basis								
Of which: cash inflow	–	–	391,633	1,332,307	6,727,493	–	–	8,451,433
cash outflow	–	–	(396,460)	(1,432,512)	(6,990,066)	–	–	(8,819,038)
Total derivative financial instruments	–	–	(4,827)	(100,205)	(262,573)	–	–	(367,605)

(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 of the Bank is ultimately responsible for the operational risk management, and the Bank'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 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 periodically.

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RISK MANAGEMENT (continued)

As at 31 December 2016 and 2017, 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:

	31 December 2017	31 December 2016
Total core tier-one capital	17,931,217	17,635,973
– Share capital	4,058,713	4,058,713
– Qualifying portion of capital reserve	6,826,276	6,826,276
– Surplus reserve	1,203,325	1,013,649
– General reserve	3,969,452	3,696,090
– Retained earnings	2,603,573	1,978,101
– Investment revaluation reserve and others	(885,449)	63,144
– Qualifying portion of non-controlling interests	155,327	–
Core tier-one capital deductions	(197,454)	(171,661)
Net core tier-one capital	17,733,763	17,464,312
Other tier-one capital	7,874,674	–
Net tier-one capital	25,608,437	17,464,312
Tier two capital	8,197,676	3,319,322
– Qualifying portions of tier-two capital instruments issued	7,200,000	2,200,000
– Surplus provision for loan impairment	956,255	1,119,322
– Qualifying portion of non-controlling interests	41,421	–
Net capital base	33,806,113	20,783,634
Total risk weighted assets	203,708,884	173,267,933
Core tier-one capital adequacy ratio	8.71%	10.08%
Tier-one capital adequacy ratio	12.57%	10.08%
Capital adequacy ratio	16.60%	12.00%

42 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, etc. 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

42 FAIR VALUE (continued)

(2) Financial instruments recorded at fair value

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

	31 December 2017			
	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	–	179,078	–	179,078
Available-for-sale financial assets				
– Debt securities	–	30,332,516	–	30,332,516
– Investment funds	–	8,634,391	–	8,634,391
– Trust fund plans	–	372,006	4,815,033	5,187,039
– Asset management plans	–	10,722,259	3,189,972	13,912,231
– Wealth management products issued by financial institutions	–	–	20,997,129	20,997,129
Total	–	50,240,250	29,002,134	79,242,384
Derivative financial liabilities	–	353,220	–	353,220
Total	–	353,220	–	353,220

	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

Note:

(i) During the Reporting Period, there were no significant transfers among each level.

(Expressed in thousands of Renminbi, unless otherwise stated)

42 FAIR VALUE (continued)

(ii) Movements in Level 3 of the fair value hierarchy

2017	As at 1 January	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year: In profit or loss	Total gains or losses for the year: In other comprehensive income	Purchases, issues, disposals and settlements: Purchases	Purchases, issues, disposals and settlements: Issues	Purchases, issues, disposals and settlements: Disposals and settlements	As at 31 December	Total gains or losses for the year included in profit or loss for assets held at the end of the year
Available-for-sale financial assets										
– Asset management plans	2,003,746	–	–	146,267	–	2,900,000	–	(1,860,041)	3,189,972	89,131
– Wealth management products issued by financial institutions	1,502,025	–	–	455,001	(40,197)	20,600,000	–	(1,519,700)	20,997,129	437,326
– Trust fund plans	1,001,753	–	–	129,751	–	4,700,000	–	(1,016,471)	4,815,033	115,033
Total	4,507,524	–	–	731,019	(40,197)	28,200,000	–	(4,396,212)	29,002,134	641,490

2016	As at 1 January	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year: In profit or loss	Total gains or losses for the year: In other comprehensive income	Purchases, issues, disposals and settlement: Purchases	Purchases, issues, disposals and settlement: Issues	Purchases, issues, disposals and settlement: Disposals and settlements	As at 31 December	Total gains or losses for the year included in profit or loss for assets held at the end of the year
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.

42 FAIR VALUE (continued)

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

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

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

(ii) Loans and advances to customers, receivables and long-term receivables

Loans and advances to customers, receivables and long-term 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

42 FAIR VALUE (continued)

(vi) Debt securities issued

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

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

	31 December 2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	38,644,926	36,656,311	–	36,656,311	–
Total	38,644,926	36,656,311	–	36,656,311	–
Financial liabilities					
Securities issued					
– Debt securities	18,085,491	17,306,718	–	17,306,718	–
– Certificates of interbank deposit	50,547,200	50,478,993	–	50,478,993	–
Total	68,632,691	67,785,711	–	67,785,711	–

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

(Expressed in thousands of Renminbi, unless otherwise stated)

43 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.

	31 December 2017	31 December 2016
Bank acceptances	14,892,929	17,084,672
Letters of credit	1,887,946	2,750,188
Letters of guarantees	2,103,693	2,324,330
Unused credit card commitments	407,964	371,657
Loan commitments	128,800	195,000
Total	19,421,332	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

	31 December 2017	31 December 2016
Credit risk-weighted amount of contingent liabilities and commitments	9,734,322	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.

(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:

	31 December 2017	31 December 2016
Within one year (inclusive)	110,311	109,494
After one year but within five years (inclusive)	277,915	277,007
After five years	84,216	109,968
Total	472,442	496,469

(Expressed in thousands of Renminbi, unless otherwise stated)

43 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(4) Capital commitments

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

	31 December 2017	31 December 2016
Contracted but not paid for	295,637	476,479
Total	295,637	476,479

(5) Outstanding litigations and disputes

As at 31 December 2017 and 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.

(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 end of the Reporting Period:

	31 December 2017	31 December 2016
Bonds redemption obligations	3,834,175	3,390,234

(7) Pledged assets

	31 December 2017	31 December 2016
Investment securities	14,062,133	22,704,450
Discounted bills	–	510,925
Total	14,062,133	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 (Note14). 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. As at 31 December 2017, the Group did not have these pledged assets. The fair value of such pledged assets was RMB1,955 million as at 31 December 2016. As at 31 December 2017 and 31 December 2016, the Group did not sell or repledge any pledged assets which it has an obligation to repurchase when they are due.

(Expressed in thousands of Renminbi, unless otherwise stated)

44 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 31 December 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:

	31 December 2017			
	Available for sale financial assets	Receivables	Carrying amount	Maximum exposure
Asset management plans	13,912,231	29,267,790	43,180,021	43,180,021
Trust fund plans	5,187,039	13,507,342	18,694,381	18,694,381
Wealth management products issued by financial institutions	20,997,129	–	20,997,129	20,997,129
Asset-backed securities	1,136,007	–	1,136,007	1,136,007
Investment funds	8,634,391	–	8,634,391	8,634,391
Total	49,866,797	42,775,132	92,641,929	92,641,929

	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.

44 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 31 December 2017 and 31 December 2016, the carrying amounts of the management fee receivables being recognized are not material in the statement of financial position.

As at 31 December 2017, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB51.044 billion (31 December 2016: RMB50.793 billion).

In addition, the unconsolidated structured entities sponsored by the Group also include asset-backed securities. As at 31 December 2017, the balances of these asset-backed securities was RMB24 million (31 December 2016: RMB45 million).

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

During the year ended 31 December 2017, the amount of fee and commission income recognised from the above mentioned structured entities by the Group was RMB78 million (2016: RMB91 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 31 December 2017 was RMB137.437 billion (2016: RMB118.327 billion).

45 ASSET SECURITIZATION

The Group enters into securitization transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors, or carries out trust beneficial rights registration and transfer business in China Credit Assets Registry & Exchange Co., Ltd ("Yindeng Center").

In August 2017, the Group entrusted a portfolio of customer loans with a book value of RMB2.000 billion to an independent trust company for setting up an unconsolidated securitization vehicle. The Group obtained the trust beneficiary rights, and subsequently transferred all the initial holding trust beneficiary rights via Yindeng Center. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognized.

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

46 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 31 December 2017, the entrusted loans balance of the Group was RMB9.386 billion (31 December 2016: RMB10.886 billion).

(Expressed in thousands of Renminbi, unless otherwise stated)

47 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2017	31 December 2016
Assets		
Cash and deposits with central bank	27,097,814	22,697,997
Deposits with banks and other financial institutions	1,088,521	6,421,827
Placements with banks and other financial institutions	2,882,727	619,210
Financial assets at fair value through profit or loss	179,078	320,315
Financial assets held under resale agreements	3,584,200	3,957,206
Loans and advances to customers	95,514,680	84,864,849
Financial investments:		
Available-for-sale financial assets	79,086,556	58,410,672
Held-to-maturity investments	38,644,926	31,324,703
Receivables	46,678,869	62,871,938
Investment in subsidiary	510,000	–
Property and equipment	3,087,317	1,221,493
Deferred tax assets	1,064,602	602,519
Other assets	3,204,319	4,675,377
Total assets	302,623,609	277,988,106

	31 December 2017	31 December 2016
Liabilities		
Borrowings from central bank	584,215	3,432,407
Deposits from banks and other financial institutions	25,029,775	45,018,569
Placements from banks and other financial institutions	2,754,299	6,925,270
Derivative financial liabilities	353,220	–
Financial assets sold under repurchase agreements	11,899,583	17,043,065
Deposits from customers	160,083,783	141,604,761
Income tax payable	37,057	211,940
Debt securities issued	68,632,691	41,786,221
Other liabilities	7,622,624	4,329,900
Total liabilities	276,997,247	260,352,133

(Expressed in thousands of Renminbi, unless otherwise stated)

47 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (continued)

	31 December 2017	31 December 2016
Equity		
Share capital	4,058,713	4,058,713
Other equity instrument		
Including: preference shares	7,853,964	–
Capital reserve	6,826,276	6,826,276
Surplus reserve	1,203,325	1,013,649
General reserve	3,969,452	3,696,090
Investment revaluation reserve	(882,006)	66,617
Other reserve	(3,443)	(3,473)
Retained earnings	2,600,081	1,978,101
Total equity	25,626,362	17,635,973
Total liabilities and equity	302,623,609	277,988,106

Approved and authorised for issue by the board of directors on 23 March 2018.

Guo Shaoquan	Wang Lin
Legal Representative (Chairman)	President
Yang Fengjiang	Wang Bo
Vice President in charge of finance function	Head of the Planning & Finance Department

(Expressed in thousands of Renminbi, unless otherwise stated)

48 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the financial statements, the Group has adopted all the new and revised IFRSs in issue which are relevant to the Group for the Reporting Period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2017. The revised and new accounting standards and interpretations probably related to the Group, which are issued but not yet effective for the accounting period ended 31 December 2017, are set out below:

	Effective for accounting periods beginning on or after
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of assessing the impact of the new standards and amendments on the financial statements. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements except for IFRS 9 Financial Instruments.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVOCI):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. On initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL. If a debt instrument is classified as FVOCI then interest revenue, impairment, foreign exchange gains/losses and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVOCI. If an equity security is designated as FVOCI then only dividend income on that security will be recognised in profit or loss. Gains and losses on that security will be recognised in other comprehensive income without recycling.

48 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

The standard will affect the classification and measurement of financial assets held as at 1 January 2018.The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). Based on its assessment, the Group does not believe that the requirements will have a material impact on its financial liabilities.

Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. The group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

The Group is required to adopt IFRS 9, *Financial instruments* from 1 January 2018. Based on the current assessment, the implementation of IFRS 9 is expected to have a negative impact of less than 20 bps on the core tier-one capital adequacy ratio.

The above impact is only the estimated results, and the actual impact may be changed as the Group has not finalised all the transition work.

49 SUBSEQUENT EVENTS

The profit appropriation of the Bank was proposed in accordance with the resolution of the Bank's board of directors meeting as disclosed in Note 37.

Up to the approval date of the financial statements, except for the above, the Group has no other significant non-adjusted events subsequent to the end of the Reporting Period.

(Expressed in thousands of Renminbi, unless otherwise stated)

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

In accordance with the Listing Rules and Banking (Disclosure) Rules, the 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 31 December 2017	As at 31 December 2016
Qualified and high-quality current assets	51,274,632	35,122,080
Net cash outflows in next 30 days	29,629,985	34,693,024
Liquidity coverage ratio (RMB and foreign currency)	173.05%	101.24%

(2) Leverage ratio

	As at 31 December 2017	As at 31 December 2016
Leverage ratio	7.88%	5.82%

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

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with the Accounting Standards for Business Enterprises issued by the MOF.

(Expressed in thousands of Renminbi, unless otherwise stated)

2 CURRENCY CONCENTRATIONS

	31 December 2017			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	8,564,641	32,985	18,810	8,616,436
Spot liabilities	(8,187,074)	(26,429)	(13,107)	(8,226,610)
Net long position	377,567	6,556	5,703	389,826

	31 December 2016			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	7,108,125	12,828	25,696	7,146,649
Spot liabilities	(6,216,080)	(5,810)	(492)	(6,222,382)
Net long position	892,045	7,018	25,204	924,267

The Group has no structural position at the Reporting Periods.

(Expressed in thousands of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

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

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

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

	31 December 2017			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	289,623	7,745,205	264,135	8,298,963
– of which attributed to Hong Kong	–	2,958,528	–	2,958,528
– North and South America	–	277,939	–	277,939
– Europe	–	10,759	–	10,759
	289,623	8,033,903	264,135	8,587,661

	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

(Expressed in thousands of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	31 December 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)	280,804	225,537
– between 6 months and 1 year (inclusive)	635,442	623,854
– over 1 year	1,045,334	635,415
Total	1,961,580	1,484,806
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.29%	0.26%
– between 6 months and 1 year (inclusive)	0.64%	0.71%
– over 1 year	1.07%	0.73%
Total	2.00%	1.70%

Definitions

Company:	Bank of Qingdao Co., Ltd. and its subsidiaries and branches
Bank:	Bank of Qingdao Co., Ltd. and its branches
CBRC:	China Banking Regulatory Commission
Hong Kong Stock Exchange:	The Stock Exchange of Hong Kong Limited
CBRC Qingdao Office:	Qingdao Supervisory Commission 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 the Bank of Qingdao Co., Ltd.
SFO:	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Reporting Period:	the year ended 31 December 2017
RMB:	the lawful currency of the PRC
Model Code:	Model Code for 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
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
Green credit:	The Bank commenced energy saving and environmental protection project and service loans as well as loans comply with Catalog of Projects Backed by Green Bonds (2015 version) 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 the 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)

Definitions

"High pollution, high energy-consumption and over-capacity" industries:	Namely "high energy-consumption, high pollution and over-capacity" industries, mainly including steel, cement, oil high energy-consumption refining, tyres, electrolytic aluminium, ships, papermaking and caustic soda industry and over-capacity" industries:
MPA:	Macro Prudential Assessment
Small and micro enterprises:	including small and micro enterprises, individual business owners, and the owners of small and micro enterprises

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