BQD
青岛银行

2018 Interim Report

Bank of Qingdao Co., Ltd.
青島銀行股份有限公司

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

(H Shares Stock Code: 3866)
(Preference Shares Stock Code: 4611)

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 proposal on the 2018 Interim Report of Bank of Qingdao Co., Ltd. was considered and approved at the sixth meeting of the seventh session of the Board of Directors of the Bank held on 24 August 2018. There were 14 Directors eligible for attending the meeting, of whom 9 Directors attended the meeting.

3. The interim financial report for the six months ended 30 June 2018 is prepared in accordance with the applicable disclosure provisions of the Hong Kong Listing Rules and the International Accounting Standard 34, Interim Financial Reporting and has been reviewed by the audit committee of the Board of Directors of the Bank and by KPMG in accordance with the Hong Kong Standard on Review Engagements 2410. The interim financial report for the six months ended 30 June 2018 has not been audited.

4. The financial information set out in this report is prepared on a consolidated basis in accordance with the International Financial Reporting Standards and expressed in Renminbi, unless otherwise stated.

5. The Bank's chairman Mr. Guo Shaoquan, president Mr. Wang Lin, vice president in charge of financial work Mr. Yang Fengjiang and head of planning and finance Mr. Meng Dageng assure the authenticity and completeness of this report.

6. No dividend distribution for ordinary shares and no transfer from capital reserve to share capital were made by the Bank in 2018 during the interim period.

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

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

Contents

CHAPTER I CORPORATE INFORMATION

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

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

Legal representative: Guo Shaoquan
Authorized representatives: Guo Shaoquan, Lu Lan
Secretary to the Board: Lu Lan
Joint company secretaries: Lu Lan, Lai Siu Kuen

Registered and office address:
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
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Email: ir@qdbankchina.com

Hong Kong registered office address:
31st 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 license institutional 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 advisor as to PRC law:
King & Wood Mallesons Beijing

Legal advisor as to Hong Kong law:
Clifford Chance

Registrar for H shares:
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Registrar for domestic shares:
China Securities Depository and Clearing Corporation Limited
No. 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/)

2.1 FINANCIAL DATA

Item	January to June 2018	January to June 2017	Year-on-year change
Business performance (RMB'000)			**Change (%)**
Net interest income	**1,736,292**	2,344,567	(25.94)
Net non-interest income	**1,393,819**	490,627	184.09
Operating income	**3,130,111**	2,835,194	10.40
Operating expenses	**(964,113)**	(792,826)	21.60
Impairment losses	**(516,515)**	(400,050)	29.11
Profit before taxation	**1,649,483**	1,642,318	0.44
Net profit	**1,330,876**	1,278,760	4.08
Net profit attributable to equity shareholders of the Bank	**1,321,444**	1,275,799	3.58
Per share (RMB)			**Change**
Basic earnings per share	**0.33**	0.31	0.02
Diluted earnings per share	**0.33**	0.31	0.02

Note: The changes in net interest income and net non-interest income were primarily due to the decrease in assets from which recognized interest income and the increase in assets from which recognized gains arising from investments as a result of the change of classification of financial assets after the Company adopted the new accounting standards for financial instruments for the first time, which resulted in the decrease in net interest income and the increase in net non-interest income.

2.2 FINANCIAL INDICATORS

Item	30 June 2018	31 December 2017	Change from the end of last year
Scale indicators (RMB'000)			**Change (%)**
Total assets	**302,159,196**	306,276,092	(1.34)
Of which: loans and advances to customers, net(1)	**104,310,963**	95,514,680	9.21
Total liabilities	**275,465,759**	280,152,883	(1.67)
Of which: deposits from customers	**166,199,611**	160,083,783	3.82
Share capital	**4,058,713**	4,058,713	–
Equity attributable to the equity shareholders of the Bank	**26,192,291**	25,629,854	2.19
Total equity	**26,693,437**	26,123,209	2.18
			Change
Net assets per share attributable to shareholders of the Bank(2) (RMB)	**4.52**	4.38	0.14

Item	January to June 2018	January to June 2017	Year-on-year change
Profitability indicators (%)			**Change**
Return on average total asset[3] (annualised)	**0.88**	0.91	(0.03)
Return on average equity[4] (annualised)	**14.79**	14.44	0.35
Net interest spread[5] (annualised)	**1.47**	1.62	(0.15)
Net interest margin[6] (annualised)	**1.35**	1.79	(0.44)
Net fee and commission income to operating income ratio[7]	**10.94**	18.28	(7.34)
Cost-to-income ratio[8]	**29.67**	26.94	2.73

Item	30 June 2018	31 December 2017	Change from the end of last year
Asset quality indicators (%)			**Change**
Non-performing loan ratio	**1.69**	1.69	–
Provision coverage ratio	**160.07**	153.52	6.55
Loan provision ratio	**2.70**	2.60	0.10
Indicators of capital adequacy ratio (%)			**Change**
Core tier-one capital adequacy ratio[9]	**8.90**	8.71	0.19
Tier-one capital adequacy ratio[9]	**12.72**	12.57	0.15
Capital adequacy ratio[9]	**16.79**	16.60	0.19
Total equity to total assets ratio	**8.83**	8.53	0.30
Other indicators (%)			**Change**
Liquidity coverage ratio	**139.30**	173.05	(33.75)
Liquidity ratio	**49.40**	56.36	(6.96)

Notes: (1) Net loans and advances to customers = total loan and advances to customers – provision for impairment of loans and advances to customers measured at amortized cost.

(2) 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.

(3) Return on average total assets = net profit/average balance of total assets at the beginning and at the end of the period, of which the total assets at the beginning of 2018 are the balances after the adoption of new financial instruments standard.

(4) 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, of which the equity attributable to the ordinary shareholders of the Bank at the beginning of 2018 is the balance after adoption of new financial instruments standard.

(5) Net interest spread = average yield on interest-earning assets – average cost rate of interest-bearing liabilities. The change in net interest spread was primarily because the gains relating to some financial assets were no longer stated as interest income after the Company adopted the new accounting standards for financial instruments for the first time. On a comparable basis, the net interest spread was 1.57%, representing a decrease of 0.05 percentage point as compared with the same period of previous year and remaining flat as compared with the previous year.

(6) Net interest margin = net interest income/average interest-earning assets. The change in net interest margin was primarily because the gains relating to some financial assets were no longer stated as interest income after the Company adopted the new accounting standards for financial instruments for the first time. On a comparable basis, the net interest margin was 1.73%, representing a decrease of 0.06 percentage point as compared with the same period of previous year and an increase of 0.01 percentage point as compared with the previous year.

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

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

(9) 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.

(10) During the Reporting Period, the Bank initially adopted the new financial instrument standards, but the data during the comparative period is not restated. Please refer to Note 2 Basis of preparation and changes in accounting policies of the unaudited interim financial report.

3.1 REVIEW OF THE ECONOMY FINANCE AND POLICY ENVIRONMENT

In the first half of 2018, the global economy posted a growth momentum on the whole. In particular, the US economy maintained a steady growth under the combined effects of several measures including the tax reform plan, infrastructure expansion and manufacturing revitalization. Under the influence of Sino-US trade wars and geopolitical conflicts, China was under pressure on export comparative advantages, manufacturing industry upgrades and global liquidity. China's economic and financial markets were facing tremendous shocks. However, these pressures and shocks had forced China to accelerate its pace in promoting structural deleveraging and reform policies.

In general, China's economy rendered a benign pattern featuring enhanced quality amid stable volume, increased employment, moderate inflation and better balance of international payments. With steady progress of the supply-side reform, economic development became more coordinated and industrial structure was gradually improved. A range of measures taken by the regulatory authorities to prevent risks, enhance supervision and shore up weakness yielded results as macro-economic risks became more controllable, shadow banks grew at a slowed pace and businesses including trust and outsourcing credit began to shrink. But this also made commercial banks bear the burden of business restructuring and asset and liability management.

In the context of gradual increase in pressures and challenges both domestically and overseas, the economic growth of Shandong Province has gradually slowed down in the first half of 2018. The economic slowdown has directly led to difficult development of the banking industry. The transformation and upgrading of the banking industry were still in a period of pain. The economic growth rate of Qingdao has also experienced a corresponding decline. However, supported by the meeting of Shanghai Cooperation Organization and strategy of replacing traditional drivers with new ones, the industries and service industry were growing amid stability, industrial structure was adjusted to be more optimal, new drivers kept emerging, and positive factors continued to increase.

3.2 SUMMARY OF OVERALL OPERATIONS

3.2.1 Status of key operational indicators achievement

(1) Total assets amounted to RMB302.159 billion, representing a decrease of RMB4.117 billion or 1.34% as compared with that at the end of the previous year;

(2) Total deposits amounted to RMB166.2 billion, representing an increase of RMB6.116 billion or 3.82% as compared with that at the end of the previous year;

(3) Total loans amounted to RMB107.184 billion, representing an increase of RMB9.123 billion or 9.30% as compared with that at the end of the previous year;

(4) Net profit amounted to RMB1.331 billion, representing a year-on-year increase of RMB52 million or 4.08%;

(5) Non-performing loan ratio was 1.69%, remaining flat as compared with that at the end of previous year; and provision coverage ratio and capital adequacy ratio were 160.07% and 16.79% respectively, both of which have increased as compared with that at the end of previous year;

(6) Return on average total assets was 0.88%, representing a year-on-year decrease of 0.03 percentage point, which was primarily due to the year-on- year increase of the Company's total assets, resulting in the increase of the average total assets for the current period; and

(7) Return on average equity was 14.79%, representing a year-on-year increase of 0.35 percentage point, which was primarily due to the increase in net profit attributable to ordinary shareholders of the Bank.

3.2.2 Major tasks of operational management

(1) Sound improvement of quality and efficiency of operation, and further improvement of brand reputation

During the Reporting Period, the Bank launched "improvement" program, firmly promoted the construction of interface banking, mobile finance, transaction banking and "investment banking+" ecological financial service platform, continuously expanded, consolidated and adjusted customer base, and drove the growth of liability business from the source. At the end of the Reporting Period, the Bank had 55 newly signed cash management accounts, and 193,300 retail customers and 184,600 mobile banking customers were newly added. More than 300 cloud payment customers were signed up or put online.

The Bank received recognition and compliment from social public attributable to its remarkable operating performance. In the World Bank Top 1000 List released by UK Bankers magazine, the Bank ranked No. 286, up 86 places as compared with that of the last year to make it into the top 300 for the first time. The Bank was ranked among the "China's 500 Most Valuable Brands" for 2018 issued by World Brand Lab once again, which made it the only financial institution from Shandong province ranked in the list for two consecutive years.

(2) Professional management of assets and liabilities, and transformation from scale growth to efficiency improvement

During the Reporting Period, the Bank specially established Asset and Liability Management Department under the Planning and Finance Department to further enhance the decision-making mechanism of Asset and Liability Management Committee, built monthly meeting system, and conduct overall management of the Bank's asset and liability structure. At the end of the Reporting Period, all major liquidity indicators of the Bank met regulatory standards, and the medium and long-term liquidity indicators continued to be optimized.

Meanwhile, the Company's profitability indicators improved significantly. By adjusting the listed deposits rate, arranging asset replacement cycles, and optimizing the proportion of various types of loans, during the Reporting Period, based on comparable caliber of last year, the Company's net interest margin increased by 1 base point from the last year. By optimizing the investment structure of financial market business, revitalizing the stock assets, and reducing investment and interbank liabilities, under the condition of meeting regulatory requirements, the line profit contribution[1] in the Company's financial market has not decreased but increased, with a year-on-year growth of 2.67 percentage points.

(3) Acceleration of credit supply to serve the real economy and full implementation of inclusive finance

The Bank closely focused on the significant project of conversion of new and old drivers in Shandong Province, increased credit supply and provided enterprises with direct financing through ways of structured financing and bond underwriting. As at the end of the Reporting Period, the balance of our loans increased by RMB9.123 billion as compared with that as at the end of the previous year. During the Reporting Period, the Bank also underwrote ten enterprise bonds with total sum of RMB6.270 billion. The Bank actively responded to the national policy, excavated the advantages of Shandong Province's manufacturing industry, found enterprises with new drivers in the traditional industry, and continuously increased the credit supply for the customers from high quality manufacturing industry. As at the end of the Reporting Period, the Bank's balance of manufacturing industry loans reached RMB19.717 billion, which increased by RMB2.846 billion as compared with that at the beginning of the year. The Bank actively implemented inclusive finance, deepened cooperation with Qingdao Science and Technology Bureau and financing guarantee company and launched new business models such as "guaranteed loan for technological enterprise" (見保即貸) and risk sharing. The Bank launched "Business Benefit Loan" (惠營貸), "Agriculture Benefit Loan" (惠農貸), "Chuangyi finance" (創易融) and other products, and issued small-amount consumption loans of RMB1.667 billion.

1 Profit contribution represents the ratio of profit before tax of the line to the Company's profit before tax.

(4) *Prominent demonstration effect of technology finance and full implementation of special branches construction*

During the Reporting Period, the Bank handled the first business of technology finance "insurance loan", and launched "technology innovation loan", "easy loan for technology innovation", "insurance loan" and other new types of businesses one after another, resulting in further improving the product system. As at the end of the Reporting Period, technology finance credit balance amounted to RMB4.817 billion, derivative deposits balance amounted to RMB1.5 billion. After over six months of exploration, we gradually found out the business focus for culture finance to provide culture & creative enterprises with customized financial products and services. We have expanded coverage of our special branches, and the business specialties including listed finance, Huinong finance and service trade finance, have been gradually established.

(5) *Acceleration of the development of financial technologies and vigorous support for business development*

The Bank deeply integrated business and scientific and technological resources to improve business response efficiency and developing quality and efficiency of projects. We have completed the construction of 21 significant projects such as the phase I of paperless counters and the access to the NetsUnion Clearing platforms, which provided strong supporting for business development. In the revision of mobile financial 3.0, the "Face Recognition" platform project was officially put into production, the transfer limit of mobile banking was raised to RMB1 million, and the customer experience continued to be optimized. At the end of the Reporting Period, the number of mobile banking users reached 1.2879 million.

(6) *Unswervingly implementation of new regulatory policies and remarkable results for risk management*

Taking compliance operation as its focus of work and "active compliance" as its code of conduct, the Bank actively adapted to various new regulations while attaching equal importance to chaos governance and transformation development. Through comprehensive consideration of financial chaos inspection, during the Reporting Period, the Bank revised and formulated 61 regulations to further improve its internal control management system. By figuring out the credit risk background and having an active recourse of written-off loans, it established asset preservation and rapid disposal mechanism. It also fully promoted the management and control of non-accrual loans and actively promoted the progress of key risks mitigation. In accordance with the new requirements of asset management, the Bank vigorously promoted system upgrades, fully optimized asset allocation and enhanced product innovation and sales capabilities.

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

3.3.1 Financial performance summary

Unit: RMB'000

Item	January to June 2018	January to June 2017
Net interest income	**1,736,292**	2,344,567
Net fee and commission income	**342,487**	518,194
Net trading gains/(losses), net gains/(losses) arising from investments and other operating income, net	**1,051,332**	(27,567)
Operating expenses	**(964,113)**	(792,826)
Impairment losses	**(516,515)**	(400,050)
Profit before taxation	**1,649,483**	1,642,318
Income tax	**(318,607)**	(363,558)
Net profit	**1,330,876**	1,278,760
Of which: net profit attributable to shareholders of the Bank	**1,321,444**	1,275,799
net profit attributable to non-controlling interest	**9,432**	2,961

During the Reporting Period, the Company's profit before taxation amounted to RMB1.649 billion, representing a year-on-year increase of RMB7 million or 0.44%; net profit amounted to RMB1.331 billion, representing a year-on-year increase of RMB52 million or 4.08%; and effective income tax rate was 19.32%, representing a year-on-year decrease of 2.82 percentage points. The following table sets forth the impact of changes in our significant profit or loss items on the profit before taxation during the Reporting Period.

Unit: RMB'000

Item	Amount
Profit before taxation in the first half of 2017	1,642,318
Change in the first half of 2018	
Net interest income	(608,275)
Net fee and commission income	(175,707)
Net trading gains/(losses), net gains/(losses) arising from investments and other operating income, net	1,078,899
Operating expenses	(171,287)
Impairment losses	(116,465)
Profit before taxation in the first half of 2018	1,649,483

3.3.2 Operating income

During the Reporting Period, the Company's operating income amounted to RMB3.13 billion, representing a year-on-year increase of RMB295 million or 10.40%, of which, net interest income accounted for 55.47%, representing a year-on-year decrease of 27.23 percentage points, and net non-interest income accounted for 44.53%. The remarkable change in the composition of operating income is mainly due to the increase in financial assets at fair value through profit or loss and the decrease in financial assets from which recognized interest income according to provisions on classification and measurement of financial assets after the Company's adoption of the new accounting standards for financial instruments, which resulted in the corresponding increase in net gains arising from investments and the decrease in interest income. The following table sets forth the year-on-year comparison of the composition of our operating income during the Reporting Period.

Unit: %

Item	**January to June 2018**	January to June 2017
Net interest income	**55.47**	82.70
Net fee and commission income	**10.94**	18.27
Net trading gains/(losses), net gains/(losses) arising from investments and other operating income, net	**33.59**	(0.97)
Total	**100.00**	100.00

3.3.3 Net interest income

During the Reporting Period, the Company had net interest income of RMB1.736 billion, representing a year-on-year decrease of RMB608 million or 25.94%. The following table sets forth the average balance, interest income/expense and average annualised yield/cost rate of the assets and liabilities items of the Company for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities were daily average balances.

Unit: RMB'000

Item	January to June 2018			January to June 2017		
	Average balance	**Interest income/ expense**	**Average annualised yield/cost (%)**	Average balance	Interest income/ expense	Average annualised yield/cost (%)
Interest-earning assets						
Loans and advances to customers	**101,107,742**	**2,412,614**	**4.81**	91,563,093	2,155,414	4.75
Investment[1]	**113,377,563**	**2,534,605**	**4.51**	130,601,393	2,833,578	4.38
Deposits and placements with banks and other financial institutions[2]	**14,618,405**	**185,973**	**2.57**	19,946,462	261,680	2.65
Deposits with central bank	**24,971,505**	**188,787**	**1.52**	21,460,059	162,770	1.53
Long-term receivables	**5,064,684**	**131,266**	**5.23**	1,267,049	30,316	4.82
Total	**259,139,899**	**5,453,245**	**4.24**	264,838,056	5,443,758	4.15
Interest-bearing liabilities						
Deposits from customers	**160,024,453**	**1,432,119**	**1.80**	141,828,218	1,239,495	1.76
Deposits and placements from banks and other financial institutions[3]	**49,744,286**	**869,619**	**3.53**	60,418,480	976,052	3.26
Debt securities issued	**56,866,676**	**1,328,313**	**4.71**	43,740,667	866,929	4.00
Others	**3,971,042**	**86,902**	**4.41**	797,732	16,715	4.23
Total	**270,606,457**	**3,716,953**	**2.77**	246,785,097	3,099,191	2.53
Net interest income		**1,736,292**			2,344,567	

Notes:

(1) In Section 3.3.3, investments for the period include debt investments held for trading, financial investments at fair value through other comprehensive income and financial investments measured at amortized cost; investments for the previous period include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and receivables.

(2) In Section 3.3.3, deposits and placements with banks and other financial institutions include financial assets held under resale agreements.

(3) In Section 3.3.3, deposits and placements from banks and other financial institutions include financial assets sold under repurchase agreements.

During the Reporting Period, average balance of interest-earning assets were RMB259.14 billion, representing a year-on-year decrease of RMB5.698 billion or 2.15%, mainly due to the decrease in investments from which recognized interest income according to provisions on classification and measurement of financial assets after the adoption of the new accounting standards for financial instruments, resulting in the corresponding decrease in investments stated as interest-bearing assets.

The following table sets forth the breakdown of changes in the Company's interest income and interest expense due to volume and rate changes for the periods indicated: the volume changes were measured by changes in average balance; rate changes were measured by changes in average rate, and changes in interest income and expense due to volume and rate changes were included in the impact of volume changes on changes in interest income and expense.

Unit: RMB'000

	January to June 2018 vs. January to June 2017		
Item	**Due to volume**	**Due to rate**	**Net increase/ (decrease)**
Assets			
Loans and advances to customers	229,957	27,243	257,200
Investment	(383,166)	84,193	(298,973)
Deposits and placements with banks and other financial institutions	(67,794)	(7,913)	(75,707)
Deposits with central bank	27,081	(1,064)	26,017
Long-term receivables	98,374	2,576	100,950
Change in interest income	**(95,548)**	**105,035**	**9,487**
Liabilities			
Deposits from customers	164,491	28,133	192,624
Deposits and placements from banks and other financial institutions	(187,328)	80,895	(106,433)
Debt securities issued	307,381	154,003	461,384
Others	69,475	712	70,187
Change in interest expense	**354,019**	**263,743**	**617,762**
Change in net interest income	**(449,567)**	**(158,708)**	**(608,275)**

3.3.4 Interest income

During the Reporting Period, the Company's interest income was RMB5.453 billion, representing a year-on-year increase of RMB9 million or 0.17%, mainly due to an increase in the yield on 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 Reporting Period, the Company's interest income of the loans and advances to customers was RMB2.413 billion, representing a year-on-year increase of RMB257 million or 11.93%. The following table sets forth the average balance, interest income and average annualized yield of each component of the loans and advances to customers of the Company for the periods indicated.

Unit: RMB'000

Item	January to June 2018			January to June 2017		
	Average balance	Interest income	Average annualized yield (%)	Average balance	Interest income	Average annualized yield (%)
Corporate loans	70,432,273	1,701,352	4.87	65,019,450	1,555,709	4.83
Personal loans	30,675,469	711,262	4.68	26,543,643	599,705	4.56
Total loans to customers	**101,107,742**	**2,412,614**	**4.81**	91,563,093	2,155,414	4.75

Interest income from investments

During the Reporting Period, the Company's interest income from investments amounted to RMB2.535 billion, representing a year-on-year decrease of RMB299 million or 10.55%, mainly due to the decrease in investments from which recognized interest income according to provisions on classification and measurement of financial assets after the adoption of the new accounting standards for financial instruments, resulting in the corresponding decrease in volume of investments.

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

During the Reporting Period, the Company's interest income from deposits and placements with banks and other financial institutions amounted to RMB186 million, representing a year-on-year decrease of RMB76 million or 28.93%, mainly due to a decrease in the volume of deposits and placements with banks and other financial institutions.

3.3.5 Interest expense

During the Reporting Period, the Company's interest expense was RMB3.717 billion, representing a year-on-year increase of RMB618 million or 19.93%, mainly due to an increase in the volume of interest-bearing liabilities and increase in cost rate of market funds. Interest expenses on deposits from customers and issued debt securities were a major part of interest expense of the Company.

Interest expense on deposits from customers

During the Reporting Period, the Company's interest expense on deposits from customers amounted to RMB1.432 billion, representing a year-on-year increase of RMB193 million or 15.54%. The following table sets forth the average balance, interest expense and average annualized cost rate of the Company's corporate deposits and personal deposits for the periods indicated.

Unit: RMB'000

	January to June 2018			January to June 2017		
Item	**Average balance**	**Interest expense**	**Average annualized cost rate (%)**	Average balance	Interest expense	Average annualized cost rate (%)
Corporate deposits from customers						
Demand	**59,739,406**	**210,696**	**0.71**	51,288,492	162,951	0.64
Time	**46,608,814**	**637,029**	**2.76**	40,473,561	498,551	2.48
Subtotal	**106,348,220**	**847,725**	**1.61**	91,762,053	661,502	1.45
Personal deposits from customers						
Demand	**17,913,853**	**28,606**	**0.32**	10,647,373	18,702	0.35
Time	**35,762,380**	**555,788**	**3.13**	39,418,792	559,291	2.86
Subtotal	**53,676,233**	**584,394**	**2.20**	50,066,165	577,993	2.33
Total deposits from customers	**160,024,453**	**1,432,119**	**1.80**	141,828,218	1,239,495	1.76

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

During the Reporting Period, the Company's interest expense on deposits and placements from banks and other financial institutions amounted to RMB870 million, representing a year-on-year decrease of RMB106 million or 10.90%, mainly due to a decrease in the volume of deposits and placements from banks and other financial institutions.

Interest expense on debt securities issued

During the Reporting Period, the Company's interest expense on debt securities issued amounted to RMB1.328 billion, representing a year-on-year increase of RMB461 million or 53.22%, mainly due to an increase in the volume and the cost rate of debt securities issued.

3.3.6 Net non-interest income

During the Reporting Period, the Company's net non-interest income amounted to RMB1.394 billion, representing a year-on-year increase of RMB903 million or 184.09%, mainly due to an increase in the financial assets at fair value through profit or loss according to provisions on classification and measurement of financial assets after the adoption of the new accounting standards for financial instruments, which resulted in the corresponding increase in net gains arising from investments. The net gains arising from investments in the period amounted to RMB951 million, representing an increase of RMB959 million as compared with -RMB8 million for the same period of last year.

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

Unit: RMB'000

Item	**January to June 2018**	January to June 2017
Fee and commission income	**373,336**	537,258
Less: fee and commission expense	**(30,849)**	(19,064)
Net fee and commission income	**342,487**	518,194
Net trading gains/(losses), net gains/(losses) arising from investments and other operating income, net	**1,051,332**	(27,567)
Total net non-interest income	**1,393,819**	490,627

3.3.7 Net fee and commission income

During the Reporting Period, the Company's net fee and commission income amounted to RMB342 million, representing a year-on-year decrease of RMB176 million or 33.91%, mainly due to a decrease in income of wealth management service fees.

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

Unit: RMB'000

Item	January to June 2018	January to June 2017
Fee and commission income		
Wealth management service fees	**144,994**	285,869
Agency service fees	**128,835**	105,372
Settlement fees	**16,423**	50,009
Custody and bank card service fees	**17,402**	25,044
Others	**65,682**	70,964
Total	**373,336**	537,258
Fee and commission expense	**(30,849)**	(19,064)
Net fee and commission income	**342,487**	518,194

During the Reporting Period, the Company's wealth management service fees amounted to RMB145 million, representing a year-on-year decrease of RMB141 million or 49.28%, mainly due to a decrease in the management fee for wealth management products issued by the Company; agency service fees amounted to RMB129 million, representing a year-on-year increase of RMB23 million or 22.27%, mainly due to an increase in the volume of asset management plans of structured financing business; settlement fees amounted to RMB16 million, representing a year-on-year decrease of RMB34 million or 67.16%, mainly due to a decrease in the volume of trade finance settlement business; custody and bank card service fees amounted to RMB17 million, representing a year-on-year decrease of RMB8 million or 30.51%, mainly due to a decrease in the volume of trust plans of structured financing business.

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

During the Reporting Period, the Company's net trading gains/(losses), net gains/(losses) arising from investments and other operating income, net amounted to RMB1.051 billion, representing a year-on-year increase of RMB1.079 billion. In particular, net trading gains amounted to RMB95 million, representing a year-on-year increase of RMB116 million, mainly due to the changes in exchange rate; net gains arising from investments amounted to RMB951 million, representing a year-on-year increase of RMB959 million, mainly due to an increase in the financial assets at fair value through profit or loss according to provisions on classification and measurement of financial assets after the adoption of the new accounting standards for financial instruments. The following table sets forth the major components of the Company's net trading gains/(losses), net gains/(losses) arising from investments and other operating income, net for the periods indicated.

Unit: RMB'000

Item	**January to June 2018**	January to June 2017
Net trading gains/(losses)	**94,640**	(21,068)
Net gains/(losses) arising from investments	**951,247**	(7,849)
Other operating income, net	**5,445**	1,350
Total	**1,051,332**	(27,567)

3.3.9 Net interest spread and Net interest margin

During the Reporting Period, the Company's net interest spread was 1.47%, representing a decrease of 0.15 percentage point over the same period of last year, and the net interest margin was 1.35%, representing a decrease of 0.44 percentage point over the same period of last year, mainly due to the decrease in assets from which recognized interest income and the increase in assets from which recognized gains arising from investments as a result of the change of classification of financial assets after the Company adopted the new accounting standards for financial instruments, which resulted in the decrease in the volume of investment included in interest-earning assets and the increase in the volume of interest-bearing liabilities, as well as the increased cost rate of market funds.

Calculated in comparable terms of last year, after the business income of some financial assets at fair value through profit or loss under the new standards was returned to interest income, net interest income amounted to RMB2.471 billion, representing a year-on-year increase of RMB126 million or 5.39%, the net interest margin stood at 1.57%, representing an year-on-year decrease of 0.05 percentage point and remaining flat as compared with the previous year. Net interest margin was 1.73%, representing a year-on-year decrease of 0.06 percentage point and an increase of 0.01 percentage point as compared with the previous year.

3.3.10 Operating expenses

During the Reporting Period, the Company's operating expenses amounted to RMB964 million, representing a year-on-year increase of RMB171 million or 21.60%; the cost-to-income ratio was 29.67%, representing a year-on-year increase of 2.73 percentage points. In particular, staff costs increased by RMB87 million or 22.48% on a year-on-year basis, mainly due to an increase in the staff number and personnel expenses; property and equipment expenses increased by RMB67 million or 33.39% on a year-on-year basis, mainly due to an increase in the original value of houses and buildings, resulting in an increase in provision for depreciation; tax and surcharges increased by RMB7 million or 22.70% on a year-on-year basis, mainly due to an increase in housing property tax. The following table sets forth the major components of the Company's operating expenses for the periods indicated.

Unit: RMB'000

Item	January to June 2018	January to June 2017
Staff costs	**473,897**	386,918
Property and equipment expenses	**267,798**	200,762
Tax and surcharges	**35,454**	28,894
Other general and administrative expenses	**186,964**	176,252
Total operating expenses	**964,113**	792,826

3.3.11 Impairment losses

During the Reporting Period, the Company's impairment losses amounted to RMB517 million, representing an increase of RMB116 million or 29.11% over the same period of last year. The following table sets forth the major components of the Company's impairment losses for the periods indicated.

Unit: RMB'000

Item	January to June 2018	January to June 2017
Deposits with banks and other financial institutions	474	–
Placements with banks and other financial institutions	8,089	–
Financial assets held under resale agreements	(362)	–
Loans and advances to customers	526,238	349,636
Receivables	–	20,000
Financial investments measured at amortized cost	(36,311)	–
Financial investments at fair value through other comprehensive income	7,438	–
Long-term receivables	16,135	27,226
Credit commitments	(15,836)	–
Others	10,650	3,188
Total impairment losses	**516,515**	400,050

Impairment losses from loans and advances to customers constituted the largest component of impairment losses. During the Reporting Period, the loan impairment losses amounted to RMB526 million, representing an increase of RMB177 million or 50.51% over the same period of last year, mainly corresponding to the situation of loan risks.

3.4 ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF FINANCIAL POSITION

3.4.1 Assets

As at the end of the Reporting Period, the Company's total assets amounted to RMB302.159 billion, representing a decrease of RMB4.117 billion or 1.34% as compared with that at the end of last year. The following table sets forth, as at the dates indicated, the components of the Company's total assets.

Unit: RMB'000

	30 June 2018		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total
Total loans and advances to customers	**107,184,370**	**35.47**	98,061,379	32.02
Provision for impairment on loans and advances to customers measured at amortized cost	**(2,873,407)**	**(0.95)**	(2,546,699)	(0.83)
Net loans and advances to customers	**104,310,963**	**34.52**	95,514,680	31.19
Financial investments at fair value through other comprehensive income	**43,339,816**	**14.34**	–	–
Financial investments measured at amortized cost	**75,044,780**	**24.84**	–	–
Available-for-sale financial assets	**–**	**–**	79,086,556	25.82
Held-to-maturity investments	**–**	**–**	38,644,926	12.62
Receivables	**–**	**–**	46,678,869	15.24
Cash and deposits with central bank	**30,077,660**	**9.95**	27,097,814	8.85
Deposits with banks and other financial institutions	**2,467,172**	**0.82**	1,107,946	0.36
Placements with banks and other financial institutions	**3,695,341**	**1.22**	2,882,727	0.94
Financial assets held under resale agreements	**2,723,551**	**0.90**	3,584,200	1.17
Financial assets at fair value through profit or loss	**26,759,067**	**8.86**	179,078	0.06
Long-term receivables	**6,058,862**	**2.01**	4,076,396	1.33
Derivative financial assets	**15,118**	**0.01**	–	–
Property and equipment	**3,061,334**	**1.01**	3,089,017	1.01
Deferred tax assets	**1,079,808**	**0.36**	1,084,286	0.35
Other assets	**3,525,724**	**1.16**	3,249,597	1.06
Total assets	**302,159,196**	**100.00**	306,276,092	100.00

3.4.1.1 *Loans and advances to customers*

As at the end of the Reporting Period, the Company's loans and advances to customers amounted to RMB107.184 billion, representing an increase of RMB9.123 billion or 9.30% as compared with that at the end of last year; net loans and advances to customers amounted to RMB104.311 billion, representing an increase of RMB8.796 billion or 9.21% as compared with that at the end of last year. The following table sets forth, as at the dates indicated, the loans and advances to customers of the Company by product type.

Unit: RMB'000

	30 June 2018		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total
Corporate loans	**69,941,382**	**65.26**	64,363,848	65.64
Discounted bills	**4,935,451**	**4.60**	2,951,203	3.01
Personal loans	**32,307,537**	**30.14**	30,746,328	31.35
Total loans and advances to customers	**107,184,370**	**100.00**	98,061,379	100.00
Less: Provision for impairment on loans and advances to customers measured at amortized cost	**(2,873,407)**	**/**	(2,546,699)	/
Net loans and advances to customers	**104,310,963**	**/**	95,514,680	/

Corporate loans

As at the end of the Reporting Period, the Company's total corporate loans amounted to RMB69.941 billion, representing an increase of RMB5.578 billion or 8.67% as compared with that at the end of last year, and accounted for 65.26% of the total loans and advances to customers, representing a decrease of 0.38 percentage point as compared with that at the end of last year. During the Reporting Period, the Company paid close attention to the economic development trends and made more efforts to prepare for quality projects in line with national industrial development policies. While supporting the development of real economy, the Company ensured effective prevention and control of risks and extended corporate loans preferentially to the transformation and upgrading of equipment manufacturing industry which is supported by the state, and to key economic sectors such as emerging sectors of strategic importance, energy conservation and environmental protection, and irrigation and water conservancy construction.

Discounted bills

As at the end of the Reporting Period, the Company's total discounted bills amounted to RMB4.935 billion, representing an increase of RMB1.984 billion or 67.24% as compared with that at the end of last year, and accounted for 4.60% of the total loans and advances to customers, representing an increase of 1.59 percentage points as compared with that at the end of last year. During the Reporting Period, the Bank, leveraging its product advantage, tapped its business potential and attracted a large group of quality customers with its bill business through such measures as credit quota and interest rate allocation. The Company also simplified business processes and improved business efficiency. Online discounting was available through the bill system, tentatively forming its competitive advantage in the industry.

Personal loans

As at the end of the Reporting Period, the Company's total personal loans amounted to RMB32.308 billion, representing an increase of RMB1.561 billion or 5.08% as compared with that at the end of last year, and accounted for 30.14% of total loans and advances to customers, representing a decrease of 1.21 percentage points as compared with that at the end of last year. During the Reporting Period, the Company focused on quality personal housing mortgage loan projects and small-amount consumption loans business, developed featured personal business loan business, and gradually adjusted and optimized the structure of personal credit assets.

3.4.1.2 *Investment*

As at the end of the Reporting Period, the Company's carrying value of investment amounted to RMB145.144 billion, representing a decrease of RMB19.446 billion or 11.81% as compared with that at the end of last year. As at the end of the Reporting Period, the Company's investments consist of financial assets at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortized cost. As at the end of last year, the Company's investments consist of financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and receivables.

The following table sets forth, as at the dates indicated, the components of the Company's investment portfolio.

Unit: RMB'000

Item	30 June 2018 Amount	30 June 2018 % of total	31 December 2017 Amount	31 December 2017 % of total
Financial assets at fair value through profit or loss	**26,759,067**	**18.44**	179,078	0.11
Financial investments at fair value through other comprehensive income	**43,339,816**	**29.86**	–	–
Financial investments measured at amortized cost	**75,044,780**	**51.70**	–	–
Available-for-sale financial assets	**–**	**–**	79,086,556	48.05
Held-to-maturity investments	**–**	**–**	38,644,926	23.48
Receivables	**–**	**–**	46,678,869	28.36
Total	**145,143,663**	**100.00**	164,589,429	100.00

Note: According to the convergence provisions of new financial instruments standards, the Company has not adjusted the comparative financial statements at the end of last year, but for the sake of understanding, the following analysis has adjusted the investment data at the beginning of the year according to the new financial instruments standards.

Financial assets at fair value through profit or loss

As at the end of the Reporting Period, the Company's carrying value of financial assets at fair value through profit or loss amounted to RMB26.759 billion, representing an increase of RMB26.580 billion as compared with that at the end of last year. The increase was primarily because the increase in financial assets at fair value through profit or loss after adopting the new accounting standards for financial instruments. According to the new accounting standards for financial instruments, the carrying value of financial assets at fair value through profit or loss as at the end of the Reporting Period recorded a decrease of RMB25.130 billion or 48.43% as compared with that at the beginning of the year (RMB51.889 billion), mainly due to reduced investments in funds, asset management products and wealth management products of commercial banks by the Company during the Reporting Period. The following table sets forth, as at the dates indicated, the components of the Company's financial assets at fair value through profit or loss.

Unit: RMB'000

Item	**30 June 2018**	31 December 2017
Debt securities issued by banks and other financial institutions	**–**	138,232
Debt securities issued by corporate entities	**–**	40,846
Asset management plans	**9,960,726**	–
Wealth management products issued by financial institutions	**5,918,355**	–
Trust fund plans	**4,729,568**	–
Investment funds	**6,150,418**	–
Total financial assets at fair value through profit or loss	**26,759,067**	179,078

Financial investments at fair value through other comprehensive income

As at the end of the Reporting Period, the Company's carrying value of financial investments at fair value through other comprehensive income amounted to RMB43.340 billion. This item was added due to the application of the new accounting standards for financial instruments. Under the new standards, the carrying value of financial investments at fair value through other comprehensive income as at the end of the Reporting Period recorded an increase of RMB9.706 billion or 28.86% as compared with that at the beginning of the year (RMB33.634 billion), mainly due to the increase of investments in debt securities issued by corporate entities and others. The following table sets forth, as at the date indicated, the components of the Company's financial investment at fair value through other comprehensive income.

Unit: RMB'000

Item	**30 June 2018**
Government bonds	**5,116,490**
Debt securities issued by policy banks	**11,212,278**
Debt securities issued by banks and other financial institutions	**11,543,870**
Debt securities issued by corporate entities	**12,591,804**
Asset management plans	**2,852,124**
Equity investments	**23,250**
Total financial investments at fair value through other comprehensive income	**43,339,816**

Financial investments measured at amortized cost

As at the end of the Reporting Period, the Company's carrying value of financial investments measured at amortized cost amounted to RMB75.045 billion. This item was added due to the application of the new accounting standards for financial instruments. Under the new standards, the carrying value of financial investments measured at amortized cost as at the end of the Reporting Period recorded a decrease of RMB4.301 billion or 5.42% as compared with that at the beginning of the year (RMB79.346 billion), mainly due to the decrease of bond investments. The following table sets forth, as at the date indicated, the components of the Company's financial investments measured at amortized cost.

Unit: RMB'000

Item	**30 June 2018**
Government bonds	**9,808,739**
Debt securities issued by policy banks	**15,433,720**
Debt securities issued by banks and other financial institutions	**10,312,553**
Debt securities issued by corporate entities	**1,536,342**
Asset management plans	**25,834,699**
Trust fund plans	**8,879,296**
Beneficiary rights in margin financing	**570,000**
Beneficiary certificates	**3,012,876**
Total financial investments measured at amortized cost	**75,388,225**
Less: provision for impairment losses	**(343,445)**
Net financial investments measured at amortized cost	**75,044,780**

Available-for-sale financial assets

As at the end of the Reporting Period, the Company's total available-for-sale financial assets amounted to 0, representing a decrease of RMB79.087 billion as compared with that at the end of last year, mainly because the classification of available-for-sale financial assets was cancelled due to the application of the new accounting standards for financial instruments. The following table sets forth, as at the date indicated, the components of the Company's available-for-sale financial assets.

Unit: RMB'000

Item	31 December 2017
Debt securities	30,332,516
Wealth management products issued by financial institutions	20,997,129
Asset management plans	13,912,231
Investment funds	8,634,391
Trust fund plans	5,187,039
Equity investments	23,250
Total available-for-sale financial assets	79,086,556

Held-to-maturity investments

As at the end of the Reporting Period, the Company's total held-to-maturity investments amounted to 0, representing a decrease of RMB38.645 billion as compared with that at the end of last year, mainly because the classification of held-to-maturity investments was cancelled due to the application of the new accounting standards for financial instruments. The following table sets forth, as at the date indicated, the components of the Company's held-to-maturity investments.

Unit: RMB'000

Item	31 December 2017
Government bonds	11,244,166
Debt securities issued by policy banks	14,748,401
Debt securities issued by banks and other financial institutions	10,888,829
Debt securities issued by corporate entities	1,763,530
Total held-to-maturity investments	38,644,926
Fair value of held-to-maturity investments	36,656,311

Receivables

As at the end of the Reporting Period, the Company's net receivables amounted to 0, representing a decrease of RMB46.679 billion as compared with that at the end of last year, mainly because the classification of receivables was cancelled due to the application of the new accounting standards for financial instruments. The following table sets forth, as at the date indicated, the components of the Company's receivables.

Unit: RMB'000

Item	31 December 2017
Asset management plans	29,459,861
Trust fund plans	13,530,830
Beneficiary certificates	3,322,063
Beneficiary rights in margin financing	505,720
Others	76,395
Total receivables	46,894,869
Less: provision for impairment losses	(216,000)
Net receivables	46,678,869

Investment in securities

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

Name of bond	**Nominal value** *(RMB10 thousand)*	**Coupon rate**	**Value date**	**Maturity date**	**Term** *(years)*	**Remaining years to maturity** *(years)*
17 Interest-bearing Government Bond 18	73,000	3.59%	2017/8/3	2027/8/3	10	9.10
13 Interest-bearing Government Bond 18	55,000	4.08%	2013/8/22	2023/8/22	10	5.15
17 Interest-bearing Government Bond 14	53,000	3.47%	2017/7/13	2022/7/13	5	4.04
13 Interest-bearing Government Bond 25	50,000	5.05%	2013/12/9	2043/12/9	30	25.46
17 Interest-bearing Government Bond 25	27,000	3.82%	2017/11/2	2027/8/2	10	9.10
13 Interest-bearing Government Bond 16	20,000	4.32%	2013/8/12	2033/8/12	20	15.13
12 Interest-bearing Government Bond 15	15,000	3.39%	2012/8/23	2022/8/23	10	4.15
01 Government Bond 11	8,000	3.85%	2001/10/23	2021/10/23	20	3.32
02 Government Bond 05	5,000	2.90%	2002/5/24	2032/5/24	30	13.91
09 Interest-bearing Government Bond 16	5,000	3.48%	2009/7/23	2019/7/23	10	1.06

3.4.2 Liabilities

As at the end of the Reporting Period, the Company's total liabilities amounted to RMB275.466 billion, representing a decrease of RMB4.687 billion or 1.67% as compared with that at the end of last year. The following table sets forth the components of the Company's total liabilities as at the dates indicated.

Unit: RMB'000

	30 June 2018		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total
Deposits from customers	**166,199,611**	**60.33**	160,083,783	57.14
Deposits from banks and other financial institutions	**22,991,359**	**8.35**	24,901,934	8.89
Borrowings from central bank	**3,107,134**	**1.13**	584,215	0.21
Placements from banks and other financial institutions	**7,331,465**	**2.66**	5,774,299	2.06
Derivative financial liabilities	**32,268**	**0.01**	353,220	0.13
Financial assets sold under repurchase agreements	**18,900,066**	**6.86**	11,899,583	4.25
Income tax payable	**240,245**	**0.09**	57,167	0.02
Debt securities issued	**48,151,859**	**17.48**	68,632,691	24.50
Other liabilities	**8,511,752**	**3.09**	7,865,991	2.80
Total liabilities	**275,465,759**	**100.00**	280,152,883	100.00

3.4.2.1 *Deposits from customers*

As at the end of the Reporting Period, the Company's total deposits from customers amounted to RMB166.200 billion, representing an increase of RMB6.116 billion or 3.82% as compared with that at the end of last year, and accounted for 60.33% of the Company's total liabilities, being the Company's primary source of funding. The following table sets forth, as at the dates indicated, the Company's deposits from customers by product type and customer type.

Unit: RMB'000

	30 June 2018		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total
Corporate deposits	**110,668,850**	**66.59**	107,274,155	67.01
Demand deposits	**64,233,929**	**38.65**	65,421,504	40.87
Time deposits	**46,434,921**	**27.94**	41,852,651	26.14
Personal deposits	**54,743,842**	**32.94**	52,225,500	32.62
Demand deposits	**18,211,769**	**10.96**	17,935,483	11.20
Time deposits	**36,532,073**	**21.98**	34,290,017	21.42
Outward remittance and remittance payables	**744,502**	**0.45**	566,193	0.36
Fiscal deposits to be transferred	**42,417**	**0.02**	17,935	0.01
Total deposits from customers	**166,199,611**	**100.00**	160,083,783	100.00

As at the end of the Reporting Period, the Company's demand deposits accounted for 49.61% of deposits from customers, representing a decrease of 2.46 percentage points as compared with that at the end of last year. Among those deposits, corporate demand deposits accounted for 58.04% of corporate deposits, representing a decrease of 2.95 percentage points as compared with that at the end of last year; and personal demand deposits accounted for 33.27% of personal deposits, representing a decrease of 1.07 percentage points as compared with that at the end of last year.

3.4.2.2 *Deposits from banks and other financial institutions*

As at the end of the Reporting Period, the Company's deposits from banks and other financial institutions amounted to RMB22.991 billion, representing a decrease of RMB1.911 billion or 7.67% as compared with that at the end of last year.

3.4.2.3 *Debt securities issued*

As at the end of the Reporting Period, the Company's debt securities issued amounted to RMB48.152 billion, representing a decrease of RMB20.481 billion or 29.84% as compared with that at the end of last year. Among those debt securities, the balance of certificates of interbank deposit decreased by RMB17.584 billion or 34.79% as compared with that at the end of last year, mainly due to the Company's moderate adjustments in the volume of certificates of interbank deposit taking into consideration of the requirements of both liquidity and interbank debt ratio; the balance of debt securities issued decreased by RMB2.897 billion or 16.02% as compared with that at the end of last year, mainly due to the maturity of the 5-year fixed-rate financial bonds issued by the Company in March 2013 with a face value of RMB2.9 billion.

3.4.3 Equity attributable to shareholders

At the end of the Reporting Period, the Company's equity amounted to RMB26.693 billion, representing an increase of RMB570 million or 2.18% as compared with that at the end of last year. The equity attributable to equity shareholders of the Bank amounted to RMB26.192 billion, representing an increase of RMB562 million or 2.19% as compared with that at the end of last year.

Unit: RMB'000

Item	30 June 2018	31 December 2017
Share capital	**4,058,713**	4,058,713
Other equity instruments	**7,853,964**	7,853,964
Capital reserve	**6,826,276**	6,826,276
Surplus reserve	**1,203,325**	1,203,325
General reserve	**3,969,452**	3,969,452
Other comprehensive income	**(41,677)**	(885,449)
Retained earnings	**2,322,238**	2,603,573
Total equity attributable to equity shareholders of the Bank	**26,192,291**	25,629,854
Non-controlling interests	**501,146**	493,355
Total equity	**26,693,437**	26,123,209

3.5 ANALYSIS OF QUALITY OF LOANS

During the Reporting Period, the Company continuously improved its credit structure and conducted centralized risk control and management; meanwhile, efforts were also made to enhance the dynamic monitoring of credit asset quality. In this context, the volume of credit assets remained stable growth; non-performing loan ratio remained flat as compared with the beginning of the year and provision coverage ratio edged up. As at the end of the Reporting Period, the total amount of loans of the Company was RMB107.184 billion, representing an increase of 9.30% as compared with the end of last year; total non-performing loans amounted to RMB1.810 billion, representing an increase of RMB151 million as compared with the end of last year; non-performing loan ratio was 1.69%, remaining flat as compared with the end of last year; provision coverage ratio of non-performing loans was 160.07%, representing an increase of 6.55 percentage points as compared with the end of last year; loan provision ratio rose 0.10 percentage point as compared with the end of last year to 2.70%.

3.5.1 Distribution of loans by five categories

Unit: RMB'000

	30 June 2018		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total
Normal Loan	**98,576,385**	**91.97**	91,057,486	92.86
Special mention Loan	**6,798,021**	**6.34**	5,345,060	5.45
Substandard Loan	**811,536**	**0.76**	535,614	0.55
Doubtful Loan	**936,412**	**0.87**	1,002,454	1.02
Loss Loan	**62,016**	**0.06**	120,765	0.12
Total loans to customers	**107,184,370**	**100.00**	98,061,379	100.00
Total non-performing loans	**1,809,964**	**1.69**	1,658,833	1.69

Under the five-category classification system for loan supervision, the non-performing loans of the Company belonged to the substandard, doubtful and loss categories. During the Reporting Period, the Company intensified the dynamic monitoring of credit asset quality, tightened risk control in key areas, enhanced the capability of coping with and handling risk loans; as a result, credit asset quality remained stable. As at the end of the Reporting Period, the proportion of substandard loans increased 0.21 percentage point as compared with the end of last year to 0.76%, and the proportion of doubtful loans decreased 0.15 percentage point as compared with the end of last year to 0.87%.

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

Unit: RMB'000

Item	30 June 2018 Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %	31 December 2017 Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %
Corporate loans	74,876,833	69.86	1,486,790	1.99	67,315,051	68.65	1,293,675	1.92
Working capital loans	48,492,832	45.26	1,236,858	2.55	46,782,433	47.71	1,064,983	2.28
Fixed asset loans	20,744,622	19.35	224,964	1.08	17,012,861	17.35	223,394	1.31
Import and export bills transactions	464,502	0.43	–	–	460,772	0.47	–	–
Discounted bills	4,935,451	4.60	–	–	2,951,203	3.01	–	–
Others	239,426	0.22	24,968	10.43	107,782	0.11	5,298	4.92
Retail loans	32,307,537	30.14	323,174	1.00	30,746,328	31.35	365,158	1.19
Personal housing loans	26,092,044	24.34	23,722	0.09	24,128,570	24.61	22,366	0.09
Personal business loans	2,787,559	2.60	273,542	9.81	3,265,881	3.33	314,483	9.63
Personal consumption loans	1,902,618	1.78	12,322	0.65	1,746,965	1.78	16,918	0.97
Others	1,525,316	1.42	13,588	0.89	1,604,912	1.63	11,391	0.71
Total loans to customers	107,184,370	100.00	1,809,964	1.69	98,061,379	100.00	1,658,833	1.69

During the Reporting Period, in response to the state's supply side reform and policy on the replacement of old drivers with new ones in Shandong province, the Company promptly formulated and adjusted credit policies, kept optimizing its credit structure, improved the risk control mechanism to maintain the stable growth of credit volume. As at the end of the Reporting Period, the proportion of corporate loans of the Company increased by 1.21 percentage points to 69.86% and its non-performing loan ratio increased by 0.07 percentage point as compared with the beginning of the year to 1.99%.

Meanwhile, the Company kept optimizing its personal credit asset structure, made the personal housing loans maintaining steady growth, moderately reduced the proportion of personal business loans, while steadily developed online consumer loans. Its retail loan business achieved stable development with declining non-performing loan ratio and improving asset quality; therefore, the proportion of retail loans decreased by 1.21 percentage points to 30.14% and non-performing loan ratio decreased by 0.19 percentage point as compared with the beginning of the year to 1.00%.

3.5.3 Distribution of loans and non-performing loans by industry

Unit: RMB'000

Item	30 June 2018 Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %	31 December 2017 Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %
Corporate loans	**74,876,833**	**69.86**	**1,486,790**	**1.99**	67,315,051	68.65	1,293,675	1.92
Manufacturing	**19,716,626**	**18.40**	**975,851**	**4.95**	16,870,734	17.20	748,086	4.43
Construction	**10,716,478**	**10.00**	**74,720**	**0.70**	9,192,196	9.37	75,420	0.82
Water conservancy, environment and public facility management	**9,521,638**	**8.88**	**–**	**–**	8,757,857	8.93	–	–
Wholesale and retail trade	**8,191,986**	**7.64**	**159,501**	**1.95**	7,275,598	7.42	221,219	3.04
Renting and business services	**7,924,665**	**7.39**	**9,519**	**0.12**	8,184,724	8.35	8,850	0.11
Real estate	**4,945,039**	**4.61**	**102,600**	**2.07**	4,148,613	4.23	100,000	2.41
Production and supply of electric and heating power, gas and water	**4,151,233**	**3.87**	**–**	**–**	3,838,368	3.91	1,500	0.04
Financial services	**3,693,154**	**3.45**	**–**	**–**	4,288,439	4.37	–	–
Transportation, storage and postal services	**2,390,487**	**2.23**	**21,999**	**0.92**	1,950,773	1.99	–	–
Others	**3,625,527**	**3.39**	**142,600**	**3.93**	2,807,749	2.88	138,600	4.94
Retail loans	**32,307,537**	**30.14**	**323,174**	**1.00**	30,746,328	31.35	365,158	1.19
Total loans to customers	**107,184,370**	**100.00**	**1,809,964**	**1.69**	98,061,379	100.00	1,658,833	1.69

During the Reporting Period, the Company continued to support real economic development, kept improving the risk asset portfolio, enhanced credit support for small and micro enterprises, real economy, replacement of old growth drivers with new ones, strategic emerging industries, etc., focused its risk control on financing in such fields as credit extension to groups, cross-district credit extension, real estate and local government financing, compressed and reduced the total number of industries falling in this scope as well as the "high pollution, high energy-consumption and over-capacity" industries, and improved the credit resource allocation. As at the end of the Reporting Period, 76.36% of the non-performing corporate loans of the Company concentrated in manufacturing and wholesale and retail trade industries. In particular, the non-performing loan ratio in the wholesale and retail trade industry decreased by 1.09 percentage points to 1.95%.

3.5.4 Distribution of loans and non-performing loans by region

Unit: RMB'000

Region	30 June 2018 Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %	31 December 2017 Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %
Qingdao	**60,589,747**	**56.53**	**745,001**	**1.23**	57,515,098	58.63	755,579	1.31
Weihai	**8,789,279**	**8.21**	**10,847**	**0.12**	7,537,049	7.69	18,105	0.24
Dongying	**8,114,519**	**7.57**	**509,647**	**6.28**	8,324,279	8.49	413,199	4.96
Jinan	**5,631,716**	**5.25**	**282,662**	**5.02**	6,633,966	6.77	260,925	3.93
Zibo	**5,464,571**	**5.10**	**97,915**	**1.79**	4,731,123	4.82	104,093	2.20
Weifang	**4,481,748**	**4.18**	**–**	**–**	3,148,658	3.21	–	–
Binzhou	**4,420,850**	**4.12**	**132,549**	**3.00**	3,164,601	3.23	92,119	2.91
Yantai	**4,341,471**	**4.05**	**8,176**	**0.19**	3,071,566	3.13	7,500	0.24
Zaozhuang	**1,568,528**	**1.46**	**154**	**0.01**	1,683,604	1.72	–	–
Dezhou	**1,396,720**	**1.30**	**23,013**	**1.65**	1,535,731	1.57	7,313	0.48
Linyi	**971,251**	**0.91**	**–**	**–**	162,303	0.17	–	–
Jining	**782,111**	**0.73**	**–**	**–**	283,000	0.29	–	–
Laiwu	**631,859**	**0.59**	**–**	**–**	270,401	0.28	–	–
Total loans to customers	**107,184,370**	**100.00**	**1,809,964**	**1.69**	98,061,379	100.00	1,658,833	1.69

During the Reporting Period, the Company adjusted its credit approval system and established a credit approval center respectively in Qingdao and Ji'nan to conduct centralized credit approval work. For areas with higher risks, the Company raised credit access standards to prevent regional systematic risks. The Company continuously improved the credit risk management level of its branches and sub-branches, and increased the risk management and control capabilities of non-local branches through daily supervision, assessment and evaluation. As of the end of the Reporting Period, Dongying and Ji'nan recorded a relatively high non-performing loan ratio.

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

Unit: RMB'000

	30 June 2018				31 December 2017			
Region	Amount of loans	Percentage in the total amount %	Amount of non-performing loans	Non-performing loan ratio %	Amount of loans	Percentage in the total amount %	Amount of non-performing loans	Non-performing loan ratio %
Unsecured loans	**11,784,640**	**10.99**	**52,693**	**0.45**	10,323,398	10.53	50,165	0.49
Guaranteed loans	**35,440,190**	**33.06**	**1,325,967**	**3.74**	36,089,725	36.80	1,183,952	3.28
Mortgage loans	**43,260,493**	**40.37**	**425,304**	**0.98**	40,096,655	40.89	424,716	1.06
Pledged loans	**16,699,047**	**15.58**	**6,000**	**0.04**	11,551,601	11.78	–	–
Total loans to customers	**107,184,370**	**100.00**	**1,809,964**	**1.69**	98,061,379	100.00	1,658,833	1.69

During the Reporting Period, the Company strengthened risk prevention and control by requiring the addition of collateral or other risk mitigation measures. Specifically, the proportion of pledged loans increased by 3.80 percentage points to 15.58%; and the proportion of mortgage loans was 40.37%, the highest among all types of secured loans. The percentage of guaranteed loans, with a comparatively high non-performing loan ratio, decreased by 3.74 percentage points to 33.06%.

3.5.6 Loans to the top ten single borrowers

Unit: RMB'000

Top ten borrowers	Industry	Amount of loans as at the end of the Reporting Period	Percentage in net capital %	Percentage in total loans %
A	Water conservancy, environment and public utility management	1,443,000	4.16	1.35
B	Renting and business services	1,167,655	3.37	1.09
C	Water conservancy, environment and public utility management	970,000	2.80	0.90
D	Water conservancy, environment and public utility management	955,000	2.75	0.89
E	Construction	909,900	2.62	0.85
F	Financial services	900,000	2.59	0.84
G	Renting and business services	851,404	2.45	0.79
H	Renting and business services	800,000	2.31	0.75
I	Construction	730,000	2.10	0.68
J	Real estate	665,810	1.92	0.62
Total		9,392,769	27.07	8.76

As at the end of the Reporting Period, the total amount of loans of the Company's top ten single borrowers was RMB9.393 billion, accounting for 27.07% of the net capital of the Company and representing 8.76% of the total amount of loans of the Company; and the loan balance of the largest single borrower was RMB1.443 billion, accounting for 4.16% of the net capital of the Company.

3.5.7 Distribution of loans by overdue period

Unit: RMB'000

Overdue period	30 June 2018 Amount	30 June 2018 Percentage of total loans (%)	31 December 2017 Amount	31 December 2017 Percentage of total loans (%)
Overdue for 3 months (inclusive) or less	**2,254,228**	**2.10**	1,551,189	1.58
Overdue for over 3 months to 1 year (inclusive)	**1,126,655**	**1.05**	916,246	0.93
Overdue for over 1 year to 3 years (inclusive)	**895,074**	**0.84**	932,357	0.95
Overdue for over 3 years	**137,802**	**0.13**	112,977	0.12
Total overdue loans	**4,413,759**	**4.12**	3,512,769	3.58
Total loans to customers	**107,184,370**	**100.00**	98,061,379	100.00

As at the end of the Reporting Period, the overdue loans of the Company amounted to RMB4.414 billion, representing an increase of RMB901 million as compared with that at the end of last year; the overdue loans accounted for 4.12% of the total loans of the Company, representing an increase of 0.54 percentage point as compared with that at the beginning of the year. Particularly, the loans overdue for 3 months (inclusive) or less reached RMB2.254 billion, accounting for 51.07% of the overdue loans, representing an increase of 6.91 percentage points as compared with that at the beginning of the year; and the loans overdue for over 3 months amounted to RMB2.16 billion, accounting for 48.93% of the overdue loans, dropping by 6.91 percentage points as compared with that at the beginning of the year. The Company adopted a relatively strict classification standard, according to which loans with all or partial principals or interests overdue for more than 1 day (inclusive) were classified as overdue loans. The ratio of loans overdue for more than 90 days to non-performing loans was 1.19, representing an increase of 0.01 as compared with that at the beginning of the year.

3.5.8 Repossessed assets and provision for impairment

As at the end of the Reporting Period, the total amount of the repossessed assets of the Company was RMB6 million since no provision for impairment was made and the net amount of repossessed assets was RMB6 million.

3.5.9 Changes in provision for impairment of loans

From 1 January 2018, the Company has performed impairment accounting and confirmed loss provision based on expected credit losses. If the credit risk of a financial instrument is low on the balance sheet date or has not increased significantly since initial recognition, the Company measures its loss provision based on 12-month expected credit losses. For other financial instruments, the Company measures their loss provisions based on lifetime expected credit losses.

The Company re-measures expected credit losses on each balance sheet date. In addition, the Company regularly reviews a number of key parameters and assumptions involved in the process of determining impairment provision based on the expected credit loss model, including division of loss stages, probability of default, loss given default, exposure at default, discount rate, forward-looking adjustment and other adjustment factors.

In 2017, the Company regularly reviewed loans, advances and financial investment portfolios to assess whether there is any impairment loss and to assess the specific amount of impairment loss in the event of impairment. Objective evidence of impairment includes observable data showing a significant decline in the expected future cash flows of individual loans, advances and financial investments, observable data showing negative changes in the debtor's repayment status in the relevant financial asset portfolios, or asset default within a portfolio due to changes in the economic situation of a country or region.

The amount of impairment losses on loans, advances and financial investments assessed on an individual basis is the net decrease in the present value of the expected future cash flows of such financial assets. When assessing the impairment losses of the above financial assets on a portfolio basis, the amount of the impairment loss is determined based on the historical loss experience of the assets with credit risk characteristics similar to those of the above financial assets, as well as adjusted in accordance with the observable data reflecting the current economic situation and the management's judgment based on historical experience. The management regularly reviews the methods and assumptions used in estimating future cash flows, so as to reduce the difference between the expected and actual losses.

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

Unit: RMB'000

Item	January to June 2018	2017
Balance at the beginning of the period/year	**3,127,265**	2,303,446
Charge/(release) for the period/year	**526,238**	1,284,514
(Transfer out)/transfer in for the period/year	**(12,179)**	1,501
Write-offs for the period/year	**(744,140)**	(1,042,762)
Balance at the end of the period/year	**2,897,184**	2,546,699

As at the end of the Reporting Period, the Company's balance of provision for impairment of loans (including discounted bills) amounted to RMB2.897 billion, representing an increase of RMB350 million or 13.76% as compared with that at the end of last year; the provision coverage ratio reached 160.07%, representing an increase of 6.55 percentage points as compared with that at the end of last year; the provision rate of loans stood at 2.70%, representing an increase of 0.10 percentage point as compared with that at the end of last year. From 1 January 2018, the Company performed impaired accounting and confirmed loss provision based on the expected credit losses, and the provision for impairment of loans at the end of the reporting period increased.

3.5.10 Countermeasures taken against non-performing assets

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

1. The Bank intensified the dynamic monitoring of credit asset quality, elevated the coping and handling capabilities of risk loans, improved management of major risk signal screening, implemented warning tracking management, further improved large-sum credit risk emergency system, improved the response speed and effectiveness for litigation preservative measures taken against risk loans, and gained the initiative in disposal.

2. The Bank intensified the clearing of non-performing assets, quickened the clearing and receiving of non-performing loans through litigation, reinforced the coordination with the judicial departments of various levels, promoted the rapid disposal of assets, promptly cancelled the loans verified as non-performing, heightened the subsequent clearing and receiving of the assets cancelled, strengthened the communications and cooperation with industry association and interbank, positively took part in the combined reduction and treatment of non-performing assets and risks and fully guaranteed and maintained our legitimate interests.

3. The Bank enhanced the ability and team construction of asset preservation, regularly organized the learning and training of relevant laws and regulations, emphasized policy studies and individualized studies, arranged discussions, training and learning, and facilitated non-performing asset disposal and effective implementation of legal rights protection through judicial ways.

3.5.11 Credit extension to group customers and risk management

The Bank adhered to the principles of "implementing unified credit extension, providing an appropriate amount, employing classified management, conducting real-time monitoring and adopting a leading bank system" in extending credit to group customers.

To prevent large-sum credit risk and enhance centralized management of group customers, the Bank established the Large-sum Credit Extension Review Committee composed of senior management, which was in charge of reviewing the business in which total credit amount extended to group customers exceeded 10% of net capital, or in which total credit amount extended to a single customer exceeded 5% of net capital.

The Bank not only paid constant attention to main businesses of group customers but also stepped up prevention of risks associated with long position financing, excessive credit extension and guarantee circle. The Bank enhanced risk control of group customers by establishing the family trees of group customers and implementing unified credit extension to group customers. In extending credit, staff responsible for examination and approval combined the general credit limit with special credit limit to calculate the total credit limit extended to the group, so as to realize the dynamic management of unified credit extension to group customers.

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

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

3.6 ANALYSIS OF CAPITAL ADEQUACY RATIO AND LEVERAGE RATIO

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

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

3.6.1 Capital adequacy ratio

The Company calculates capital adequacy ratio in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) issued by the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)(the "**CBIRC**") and other relevant 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 are calculated 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	30 June 2018	31 December 2017
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**	5,172,777
Retained earnings	**2,322,238**	2,603,573
Other comprehensive income	**(41,677)**	(885,449)
Qualifying portion of non-controlling interests	**231,480**	155,327
Core tier-one capital adjustments	**(170,661)**	(197,454)
Net core tier-one capital	**18,399,146**	17,733,763
Other tier-one capital	**7,884,828**	7,874,674
Net tier-one capital	**26,283,974**	25,608,437
Net tier-two capital	**8,414,161**	8,197,676
Net capital base	**34,698,135**	33,806,113
Total credit risk-weighted assets	**172,723,228**	180,791,585
Total market risk-weighted assets	**23,580,942**	12,629,951
Total operational risk-weighted assets	**10,372,103**	10,287,348
Total risk-weighted assets	**206,676,273**	203,708,884
Core tier-one capital adequacy ratio	**8.90%**	8.71%
Tier-one capital adequacy ratio	**12.72%**	12.57%
Capital adequacy ratio	**16.79%**	16.60%

As at the end of the Reporting Period, the Company's capital adequacy ratio amounted to 16.79%, representing an increase of 0.19 percentage point as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 8.90%, representing an increase of 0.19 percentage point as compared with that at the end of last year. Changes in capital adequacy ratio during the Reporting Period are mainly attributable to the increase in net core tier-one capital caused by increased other comprehensive income of the Company in the first half of the year.

3.6.2 Leverage ratio

The leverage ratio of commercial banks shall not be less than 4% in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision) promulgated by the CBIRC and taking effect from 1 April 2015. As at the end of the Reporting Period, the Company's leverage ratio was 8.21% as calculated according to the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision), which was higher than the regulatory requirements of the CBIRC.

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

Unit: RMB'000

No.	Item	Balance as at 30 June 2018
1	Total consolidated assets	**302,159,196**
2	Consolidated adjustments	**–**
3	Customer assets adjustments	**–**
4	Derivative adjustments	**26,466**
5	Securities financing transactions adjustments	**–**
6	Off-balance sheet items adjustments	**17,952,632**
7	Other adjustments	**(170,661)**
8	Balance of assets on and off balance sheet after adjustments	**319,967,633**

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

Unit: RMB'000

No.	Item	Balance as at 30 June 2018
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	299,420,527
2	Less: tier-one capital deductions	(170,661)
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	299,249,866
4	Replacement cost of various types of derivatives (net of qualified margins)	15,118
5	Potential risk exposure in various derivatives	26,466
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	41,584
12	The balance of accounting assets for securities financing transactions	2,723,551
13	Less: the balance of securities financing transactions assets which can be deducted	–
14	Counterparty credit risk exposure to securities financing transactions	–
15	The balance of securities financing transactions assets formed due to securities financing transactions by proxy	–
16	The balance of securities financing transactions assets	2,723,551
17	The balance of items off balance sheet	17,952,632
18	Less: the balance of items off balance sheet reduced due to credit conversion	–
19	The balance of items off balance sheet after adjustments	17,952,632
20	Net tier-one capital	26,283,974
21	The balance of assets on and off balance sheet after adjustments	319,967,633
22	Leverage ratio	8.21%

3.7 SEGMENT REPORTING

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

Unit: RMB'000

Item	January to June 2018 Segment profit before taxation	January to June 2018 Ratio (%)	January to June 2017 Segment profit before taxation	January to June 2017 Ratio (%)
Corporate banking	**743,320**	**45.06**	731,698	44.55
Retail banking	**250,408**	**15.18**	324,809	19.78
Financial market business	**624,426**	**37.86**	577,886	35.19
Un-allocated items and others	**31,329**	**1.90**	7,925	0.48
Total	**1,649,483**	**100.00**	1,642,318	100.00

Unit: RMB'000

Item	January to June 2018 Segment operating income	January to June 2018 Ratio (%)	January to June 2017 Segment operating income	January to June 2017 Ratio (%)
Corporate banking	**1,580,842**	**50.51**	1,393,885	49.17
Retail banking	**658,612**	**21.04**	600,174	21.17
Financial market business	**820,480**	**26.21**	785,736	27.71
Un-allocated items and others	**70,177**	**2.24**	55,399	1.95
Total	**3,130,111**	**100.00**	2,835,194	100.00

3.8 OTHER FINANCIAL INFORMATION

3.8.1 Analysis of off-balance sheet items

The Company's off-balance sheet items include credit commitments, operating lease commitments and capital commitments, etc. Credit commitments are the most important parts and as at the end of the Reporting Period, the balance of credit commitments reached RMB17.532 billion. For details, please refer to Note 45 to the unaudited interim financial report of this report.

3.8.2 Overdue and outstanding debts

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

3.8.3 Pledge of assets

As at the end of the Reporting Period, the Company pledged part of its assets as collateral under repurchase agreements, deposits from banks and other financial institutions, borrowings from central bank and deposits from customers. For details, please refer to Note 45 to the unaudited interim financial report of this report.

3.9 BUSINESS DEVELOPMENT STRATEGY

Facing the increasingly severe domestic and overseas economic and financial conditions and ever-changing reform and development situation, the Company stuck to the strategy of characteristic, comprehensive and differentiated development based on the philosophy of sound development. The Company accelerated the development of financial technology, upgraded the Bank from a capital intermediary following the new finance trend, and gave play to the advantage of interface banking to achieve connection and cooperation among business, customers and technology. The Company achieved strength complementation and resource integration by strengthening the cooperation with Internet financing platforms to provide customers with all-round and comprehensive financial services.

In respect of retail banking business, the Bank acquired a massive number of customers via interface banking, built a retail ecosystem through three types of interfaces (namely, scenario, service and data), and fully explored various life scenarios for local citizens, so as to expand the local customer base. Besides, it accelerated exploration and innovation in the consumption finance field and deeply uncovered medium- and high-end customers, to improve customer values; kept enhancing the application level of internet and financial technology, to effectuate low-cost coverage of long-tail customers. Regarding corporate banking business, the Bank exerted great efforts in such sectors as public sector finance, listed enterprise finance and featured finance, innovated and developed quality enterprises in featured industries including port, service trade, subway, technical innovation and cultural and creative industry, strengthened customer study, developed powerful transaction banking products and deepened investment banking products, so as to create differentiated competitive edges via professional and customized services. Regarding small- and micro-finance, the Bank centered on developing small and micro enterprise customers in the technological innovation industry and cultural creative industry, kept tapping customer value, developed customers up and down the supply chain of large corporate customers, continued to diversify featured credit products for small and micro enterprises, created a mode of developing customers in batches, and switched to "circle", "chain" and "platform" marketing. Regarding financial market business, in the face of strict regulatory policies and regulation of MPA, the Bank timely adjusted investment strategies, optimized inter-bank liability structure, established a diversified and decentralized cooperative institution system, and enhanced liquidity management and the capacity of risk management and control.

3.10 OVERVIEW OF BUSINESS DEVELOPMENT

3.10.1 Retail banking

During the Reporting Period, the Bank deeply implemented the "promotion" plan across the Bank in respect of its retail banking and kept promoting the interface banking projects, achieving remarkable results in various interface businesses; the Bank accelerated development of the salary payment agency service, raised overall assets and deposits of customers for which agency payment service is provided; the Bank spared no effort to promote QR code payment and the regulatory business of second-hand housing assets, which effectively promoted the sustainable growth of retail deposits. Meanwhile, the Company gave full play to the joint pulling effect of individual credit, gradually formed the characteristic supply chain finance, and steadily carried out small-amount consumption loans. During the Reporting Period, the operating income of retail banking business was RMB659 million, representing a year-on-year increase of 9.74%, and accounting for 21.04% of the Company's operating income.

1. *Retail deposits*

As at the end of the Reporting Period, the Bank's balance of retail deposits reached RMB54.744 billion, representing an increase of RMB2.518 billion or 4.82% as compared with the end of the previous year, accounting for 32.94% of the balance of various deposits. In particular, demand deposits reached RMB18.212 billion, representing an increase of RMB277 million or 1.54% as compared with the end of the previous year. As at the end of the Reporting Period, the total number of bank cards issued to retail customers reached 3,307,700, up by 0.02% as compared with the same period last year; the cumulative transaction volume amounted to RMB41.137 billion, up by 9.69% as compared with the same period last year.

The Bank kept promoting the strategy of interface banking. As at the end of the Reporting Period, the Bank signed and put in operation 42 one-card-through projects, with the cumulative number of cards issued reaching 3.31 million, representing an increase of 190,000 cards as compared with the end of the last year, initially achieving the interconnection of bank cards and industry applications; the number of cooperative hospitals of the Bank Hospital Pass reached 12, which accumulated 22,000 retail customers, and the salaries paid by the Bank as agent surpassed RMB63 million on a monthly basis. The Bank has established partnership with 11 parks, campuses and communities, with the total number of customers in the parks reaching 52,500, representing an increase of 6,200 customers as compared with that as at the end of the last year. In addition, specific to institutions without charging systems, the Bank launched the "cloud payment" businesses, covering various fields such as nursery fees, tuition fees, party membership dues, property fees and management fees. As at the end of the Reporting Period, the number of online customers signed for "cloud payment" businesses exceeded 300. During the Reporting Period, the Bank achieved payment amounts of RMB89.30 million, representing an increase of RMB46.68 million as compared with that as at the end of the last year, and the frequency of payment of 110,000, representing an increase of 50,000 as compared with that as at the end of the last year.

The Bank combined corporate business and personal business to develop the agency payment of salaries. During the Reporting Period, the Bank launched an activity themed “season of new agency payment customers”, and cumulatively signed with 14,202 enterprises for agency payment. Meanwhile, the Bank actively conducted corporate-personal business linkage with cooperative enterprises, carried out cross marketing, issued exclusive wealth management products and deeply developed customers.

Aggregate code settlement business became a new growth driver of the savings business. During the Reporting Period, the Bank continued to energetically develop aggregate code settlement business, which not only provided a convenient and favourable payment and settlement tool for merchants, but also brought the Bank the low-cost deposits at the same time. As at the end of the Reporting Period, the number of existing merchants using aggregate code settlement business reached 26,172, representing an increase of 2,271 customers as compared with that as at the end of the last year, with the average daily balance of savings deposits reaching RMB281 million, representing an increase of RMB40 million as compared with that as at the end of the last year.

The regulatory business of second-hand housing assets registered stable development. During the Reporting Period, the Bank continued to energetically develop the regulatory business of down payment of loans for second-hand housing and kept deposits and promoted growth of the deposit service while ensuring safety of customers’ assets during the second-hand housing transaction. During the Reporting Period, the Bank handled a total of 2,962 regulatory businesses of second-hand housing assets, with the regulatory assets adding up to RMB1.371 billion, and recorded stable savings deposit of RMB542 million.

In addition, the Bank continuously developed new customers and found out existing customers to drive the growth of retail deposits by marketing “service gold digging”, selling of noble metals in festivals and other activities at pilot outlets and business halls.

2. Retail loans

As at the end of the Reporting Period, the balance of retail loans of the Bank was RMB32.308 billion, representing an increase of RMB1.561 billion or 5.08% as compared with the end of the previous year, accounting for 30.14% of the balance of various loans, representing a decrease of 1.21 percentage points as compared with the end of the previous year. The Bank gave full play to the joint pulling effect of housing mortgage loans in the retail loan businesses, gradually formed the characteristic supply chain finance, and achieved stable development in the business of Internet-based small-amount consumption loans.

The comprehensive contribution of customers was enhanced in relation to housing loans. The Bank actively leveraged its quality mortgage loan projects, improved financial assets, and made best use of credit limit to drive the increase in customer base and financial assets, enhance the comprehensive contribution of customers and raise the comprehensive income of housing loans. As at the end of the Reporting Period, the balance of personal housing loans was RMB26.092 billion, representing an increase of RMB1.963 billion as compared with the beginning of the year.

Characteristic supply chain financing businesses were gradually formed. The Bank further expanded the number of core cooperative enterprises on supply chain financing businesses and cumulatively issued RMB716 million of loans to nearly 900 distributors of over ten domestic core enterprises in fast-moving consumer goods sector. As at the end of the Reporting Period, the loan balance was RMB389 million, representing an increase of RMB36 million or 10.20% as compared with the same period last year.

The business of small-amount consumption loans registered sustainable growth. The Bank cooperated with well-known Internet companies to carry out the small-amount consumption loan business. During the Reporting Period, the Bank cumulatively issued 260,800 loans totalling RMB1.667 billion. As at the end of the Reporting Period, the loan balance was RMB1.403 billion.

Regarding loan quality, during the Reporting Period, the Company attached great importance to risk management of retail loans, achieved remarkable results in control of non-performing loans, realized the decrease of both retail non-performing loans and non-performing loan ratio, and maintained overall stable quality of retail loans. As at the end of the Reporting Period, the balance of retail non-performing loans was RMB323 million, representing a decrease of RMB42 million or 11.50% as compared with the beginning of the year. The retail non-performing loan ratio was 1.00%, down by 0.19 percentage point as compared with the beginning of the year.

3. *Retail customers and customer asset management*

During the Reporting Period, the Bank continued to develop and seek potential retail customers. The number of customers kept rising at a steady pace, as did the proportion of medium and high-end customers. As at the end of the Reporting Period, the number of retail customers of the Bank reached 3,770,100, representing an increase of 193,300 or 5.40% as compared with the beginning of the year. The assets deposited by retail customers in the Bank reached a total of RMB116.467 billion. Representing an increase of 7.91% as compared with the end of the previous year. In particular, the number of customers with over RMB200,000 financial assets was up to 146,200, representing an increase of 11,100 as compared with the beginning of the year, with a total of RMB95.317 billion assets deposited in the Bank, accounting for 81.84% in the total assets deposited by retail customers in the Bank and representing an increase of 0.60 percentage point as compared with the end of the previous year.

4. *Wealth management and private banking business*

As at the end of the Reporting Period, the number of customers with over RMB2,000,000 assets under management totalled 6,012, representing an increase of 416 over the end of last year, with a total of RMB26.701 billion assets maintained at the Bank, representing an increase of RMB1.293 billion than the end of last year, and the growth rate reached 7.43% and 5.09%, respectively.

During the Reporting Period, the Bank cumulatively sold RMB8.15 billion of open-end funds as agent, and recorded RMB258 million of premiums from insurance agency; the income from fund agency business came to RMB9 million, up by 503.84% year on year, which was primarily attributable to the increase in customers purchasing resulting from improvement in the operations of selling funds as agent and ability to create value for customers of the Bank; the income from insurance agency business was RMB10 million, up by 45.53% year on year, which was primarily attributable to the increase in the sales volume of the wealth management insurance with premium paid in a lump sum.

As for wealth management business, during the Reporting Period, the Bank continued to fortify the process management and professional and standardized business operations of wealth management business. The comprehensive ability of wealth management business personnel was improved through training phase by phase. On customer base operation, the Bank made active and intensive efforts to tamp the business foundation and further improve sustainable development of the business.

As for private banking business, during the Reporting Period, guided by the "customer-centered and market-oriented" operation philosophy, the Bank kept refining the operation system of private banking business and enriching the privileged product lines 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, providing high net-worth customers, families and enterprises with private and personalized financial and non-financial services, which enlarged the scales of customer and assets.

5. *Customer service management*

During the Reporting Period, to further deepen experience orientation, the Bank continuously polished the temperature and perception of offline service experience by dint of refined management, and created efficient, warm and professional service experience from such aspects as service scenario design, service delivery capacity and field service management under the basic goal of "enhancing experience, improving efficiency and creating good reputation". Meanwhile, the Bank steadily promoted value-based offline channel services, enhanced customer perception and attraction, conducted "service gold digging" projects across the Bank and built a new cross-selling service system aiming to establish long-term cooperative relationship.

From standardized services to warm services and further to value-based services, the Bank continuously improved its core competencies through iterative service upgrades. In 2018, the Bank ranked the 407th with RMB7.268 billion brand values in the list of "China's top 500 most valuable brands" issued by the World Brand Lab, moving forward 11 places year on year.

3.10.2 Corporate banking business

During the Reporting Period, the Bank proactively coped with changes in the operating environment of the corporate banking business, established a professional team for investment banking, improved the transaction banking product system, and expanded our featured finance to areas including inclusive finance and listed enterprise finance, facilitating the increase of corporate deposits and customer loyalty through our dedication to building a comprehensive, professional and characteristic corporate banking business. During the Reporting Period, the operating income from corporate banking business was RMB1.581 billion, representing a year-on-year increase of 13.41%, accounting for 50.51% of the Company's operating income.

1. Corporate deposits

As at the end of the Reporting Period, the Bank's corporate deposit balance was RMB110.669 billion, representing an increase of RMB3.395 billion or 3.16% as compared to that at the end of the previous year, accounting for 66.59% of the balance of various deposits. Among these deposits, demand deposits was RMB64.234 billion, representing a decrease of RMB1.188 billion or 1.82% as compared with that at the end of the previous year.

During the Reporting Period, in response to deepened marketization of interest rate, the Bank conducted optimization and upgrading for information technology systems including open-end wealth management and cash management systems, continually enhancing our service capabilities for corporate customers. Leveraging products such as cash management, certificates of deposits with huge sums and structured deposits, the Bank continually enhance product competitiveness and expand low cost corporate deposits. Meanwhile, the Bank increased marketing efforts towards core liability customers. During the Reporting Period, 18 new key customers with an annual daily average deposit of more than RMB10 million were added to increase the daily average deposit by RMB5.24 billion, effectively leveraging the traction of high-profile customers and abundant project funding for corporate deposits. The Bank strengthened the collaboration with organizations such as government guiding funds, venture capital funds and private equity funds and effectively attracted large custody funds. New fund custody deals were increased by 24 during the Reporting Period and corporate deposits increased by RMB2.123 billion.

2. *Corporate loans*

At the end of the Reporting Period, the Bank's corporate loan balance (including discounted bills) was RMB74.877 billion, representing an increase of RMB7.562 billion or 11.23% as compared with that at the end of the previous year, accounting for 69.86% of the total loans, representing an increase of 1.21 percentage points as compared with that at the end of the previous year.

In terms of loan releasing, during the Reporting Period, the Bank actively supported the supply-side structural reforms, strived to serve the real economy, gave priority to supporting manufacturing industry, and realized the lean of credit resources to the real economy. At the same time, the Bank continued to support infrastructure construction and shanty-town renovation, and to strengthen support to inclusive finance, small and micro enterprise financing, and Sannong financing. The Bank seized the opportunity of replacement of old drivers with new ones to meet the loan needs of industrial upgrading, technological transformation and energy conservation and environmental protection projects of traditional enterprises, and supported a number of environmental remediation projects such as urban public transport development green environmental protection transportation projects, urban garbage treatment projects and sewage treatment projects. At the end of the Reporting Period, the Bank's loan balance of manufacturing industry was RMB19.717 billion, representing an increase of RMB2.846 billion or 16.87% over the beginning of the year, accounting for 26.33% of the Bank's total corporate loans. The balance of green credit was RMB8.074 billion, representing an increase of RMB757 million or 10.34% over the beginning of the year, accounting for 10.78% of the total corporate loans of the Bank.

3. *Corporate customers*

At the end of the Reporting Period, the number of corporate customers of the Bank has reached 134,900, representing an increase of 10,100, or 8.05% as compared with that at the end of previous year.

The Bank focused on financial needs of strategic customers and continued to optimize cash management, bank-corporate direct linkage and other products to enhance service capabilities for its group customers. Among them, the number of corporate customers through the direct linking between banks and enterprises was 35 with 64,526 transactions, representing an increase of 21.25% as compared with that in the same period of the previous year; a transaction amount of RMB28.003 billion, representing an increase of 33.20% as compared with that in the same period of the previous year, and 55 new cash management customers were signed, with a deposit of RMB885 million. It implemented interface banking strategy and established connecting platforms with government departments such as the State Administration for Industry and Commerce, State Administration of Taxation, the Bureau of Land and Resources, so as to achieve mass acquisition of customers and collective project marketing, including the construction of 13 bidding system platforms with land and public resource centers in Yantai, Zibo, Jining, Zaozhuang, and Dezhou, with a deposit of RMB200 million.

4. *Corporate products*

During the Reporting Period, the Bank continued to innovate and enrich its products, with the use of product portfolio and program-based marketing methods to enhance customer contribution, so that the product system of the corporate business was continuously improved.

In regard to trade finance, combined with the characteristics of Qingdao as a port city, the Bank launched the trade finance products "Yin Guan Bao"（銀關保） and "Yin Mao Tong"（銀貿通）, among which the "Yin Guan Bao" is a new indemnity product with award of "Top Ten Financial Product Innovation Award" in the "2018 China Financial Innovation Award" held by the Banker magazine.

In regard to financial technology, through cooperation with venture capital institutions and policy-based bonding companies, the Bank launched the "insurance loan", "technology innovation loan", "technology innovation Easy loan", and other special businesses, worked with venture capital institutions to meet the comprehensive financial needs of enterprises, established four technology and financial featured sub-branches, and expanded the scope of technology financial products services.

3.10.3 Financial market business

During the Reporting Period, in response to macro-control policies including strict supervision, deleveraging and risk prevention, the Bank took active actions to transform its financial market business from growing in size to increasing efficiency to continuously improve the investment quality and efficiency. During the Reporting Period, the financial market business revenue was RMB820 million, representing a year-on-year increase of 4.42%, accounting for 26.21% of the Company's operating income.

1. *Proprietary investment*

During the Reporting Period, the Bank optimized its investment structure by reducing Special Purpose Vehicle investment and increasing high-liquidity bond investment. As at the end of the Reporting Period, the Bank's investment reached RMB145.487 billion, representing a decrease of RMB19.318 billion or 11.72% on a year-on-year basis. In particular, the bond investment reached RMB77.556 billion, representing an increase of RMB8.323 billion or 12.02% on a year-on-year basis. The moderate growth in bond investment was mainly attributable to the increase in investment in high-liquidity assets such as government bonds and credit bonds to support the development of the real economy. The non-standard investment reached RMB67.931 billion, representing a decrease of RMB27.618 billion or 28.90% on a year-on-year basis, which was mainly attributable to the decrease in the wealth management products issued by financial institutions and monetary fund investment.

2. *Interbank business*

During the Reporting Period, the Bank strengthened study and judgment on monetary policies and market liquidity. On the one hand, it expanded financing channels via many ways to reduce the proportion of interbank liabilities; on the other hand, it reasonably matched the term structure of interbank liabilities to lower the cost of interbank liabilities. As at the end of the Reporting Period, the Bank's balance of interbank deposits was RMB23.149 billion, representing a decrease of 7.51% as compared with that at the end of the previous year and accounting for 8.56% of the total liabilities of the Bank. In particular, the Bank's interbank demand deposit accounted for 10.85%, up by 4.07 percentage points as compared with that at the end of the previous year. The balance of interbank deposit certificates issued amounted to RMB32.964 billion, representing a decrease of 34.79% as compared with that at the end of the previous year. Issuance of interbank deposit certificates accounted for 12.19% of the total liabilities of the Bank.

During the Reporting Period, the delivery amount of bonds of the Bank in the interbank market nationwide was RMB3,202.3 billion. In the ranking of delivery amount of bonds set by China Central Depository & Clearing Co., Ltd. in the first half of 2018, the Bank ranked No. 31 among national financial institutions and No. 9 among city commercial banks. Besides, the Bank obtained the qualification for primary dealers in the open market business in 2018 and became the sole financial institution as a legal person that has obtained such a qualification in Shandong Province.

3. *Asset management*

The Bank continued to intensify efforts for innovation of wealth management products and promote the net-worth transformation of products, thereby witnessing steady increase in wealth management scale. As at the end of the Reporting Period, the balance of wealth management products was RMB61.805 billion, representing an increase of RMB11.351 billion or 22.50% on a year-on-year basis. In particular, the balance of non-principal-guaranteed wealth management products was RMB54.791 billion and the balance of principal-guaranteed wealth management products was RMB7.015 billion. All wealth management products have produced expected earnings. During the Reporting Period, wealth management products issued amounted to RMB192.816 billion. The service fee revenue from wealth management products was RMB145 million.

Since the issuance of the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》), the Bank has been carrying out the wealth management business strictly in accordance with the requirements of new regulations; granted a relatively high performance standards for net worth products, guided customers to change their investment concept and gradually accepted net worth products. As at the end of the Reporting Period, net worth products reached 10, up by 7 as compared with that at the beginning of the year. The balance amounted to RMB4.511 billion, representing an increase of RMB3.92 billion as compared with that at the beginning of the year.

During the Reporting Period, the Bank was honoured by Banking Wealth Management Registration and Entrustment Center as "2017 Outstanding City Commercial Bank of National Banking Financial Information Registration" and received "2017 Golden Bull Wealth Management Bank Award" from China Securities Journal · Golden Bull Wealth Management.

4. *Investment banking*

The Bank provided direct financing services for corporate customers based on comprehensive utilization of bond underwriting and structural financing, so as to serve real economies and promote adjustment and improvement of asset structure and business revenue structure of the Bank.

The Bank witnessed a rapid development of bond underwriting and issuance business, with the products covering debt financing instruments, direct financing instruments for wealth management, debt financing plans and other main varieties of interbank market. During the Reporting Period, the Bank underwrote to issue 10 bonds of various types, with RMB6.27 billion raised in total.

Given the complicated economic situation for structural financing, the Bank made an in-depth investigation and analysis in the market to find potential customers. During the Reporting Period, the balance of structured finance of the Bank amounted to RMB23.029 billion, representing an increase of RMB252 million or 1.11% on a year-on-year basis.

3.10.4 Distribution channels

3.10.4.1 *Physical distribution channels*

The business outlets of the Bank are based in Qingdao with a footprint extending to other regions of Shandong Province. As at the end of the Reporting Period, the Bank set up 130 business outlets in 13 cities, namely, Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Laiwu, Liyi and Jining in Shandong Province, including one headquarter business department, one branch, and 76 sub-branches in Qingdao. The Bank's holding subsidiary BQD Financial Leasing Company Limited ("**BQD Financial Leasing**") was headquartered in Qingdao and had an office in Shanghai.

3.10.4.2 *Self-service banking channels*

During the Reporting Period, the Bank kept improving the service ability and service level of self-service banking channels and completed transformation of dynamic password locks of self-service devices, so as to further reduce operational risks. As at the end of the Reporting Period, the Bank had 3 off-bank self-service banks, 99 in-bank self-service banks, 473 self-service devices, including 95 self-service ATMs, 256 self-service CRSs, and 122 self-service terminals, providing services such as withdrawal, deposit, transfer, account enquiry and payment. During the Reporting Period, the Bank had 2,598,100 self-service bank transactions with a transaction amount of RMB9.968 billion.

3.10.4.3 *Electronic banking channels*

The Bank paid close attention to the development and innovation of Internet finance and technology finance in and outside the industry, actively responded to the challenges from inside and outside of the industry and sped up practicing the concept of "building an IT-based bank". During the Reporting Period, the Bank kept promoting intelligent upgrading of mobile banking and enriching transaction scenarios while maintaining a steady development of online banking, resulting in a sustained increase in mobile channel customers. At the end of the Reporting Period, the Bank's electronic banking accounting transactions accounted for 95.61%, representing an increase of 1.99 percentage points as compared with that at end of the last year.

(1) *Online banking*

During the Reporting Period, the online banking business of the Bank kept steady development and the customer size and transaction volume remained basically stable. As at the end of the Reporting Period, the Bank recorded 85,200 corporate customers of online banking, representing an increase of 14.06% as compared with that at the end of the previous year; 3,437,800 transactions, representing an increase of 25.66% as compared with that in the same period of the previous year; a transaction amount of RMB755.491 billion, representing an increase of 79.42% as compared with that in the same period of the previous year. The Bank recorded 713,300 individual customers of online banking, representing an increase of 2.23% as compared with that at the end of the previous year; 58,243,600 transactions, representing an increase of 49.29% as compared with that in the same period of the previous year; a transaction amount of RMB320.83 billion, representing an increase of 6.78% as compared with that in the same period of the previous year.

(2) *Mobile finance*

During the Reporting Period, the mobile banking user size and transaction volume of the Bank maintained rapid growth. As at the end of the Reporting Period, the Bank recorded 1,287,900 registered mobile banking customers, representing an increase of 15.70% as compared with that at the end of the previous year; 29,626,900 transactions, representing an increase of 5.45% as compared with that in the same period of the previous year; a transaction amount of RMB167.807 billion, representing an increase of 44.18% as compared with that in the same period of the previous year. The volume of wealth management products sold via mobile banking was constantly improved. The sales amount of wealth management products in the first half of 2018 totalled RMB42.957 billion, representing an increase of 51.35% as compared with that in the same period of the previous year.

The Bank sped up building of intelligent and personalized mobile banking. During the Reporting Period, the Bank completed transformation of face recognition in mobile banking, reasonably laid out various marketing modules in the application, and accurately launched marketing contents according to different characteristics of different customers, so as to make a solid step toward mobile banking featuring "different faces of different customers".

The Bank strengthened scenario creation of mobile banking and kept enriching scenario transactions. The Bank conducted scenario-based customer group operation to first relieve customer pain points. It focused on improving cloud payment and cloud recharge business to solve the pain point of cash collection of kindergartens, schools and enterprises and public institutions, so as to build an effective mode for obtaining customers in batches with low costs.

3.10.4.4 *Information technology*

The Bank adhered to the strategy of comprehensively implementing scientific and technological innovation, and elevated "excellence in technology" to a bank-wide strategy, promoted application of emerging technologies such as big data, cloud computing, artificial intelligence and mobile network in products, services, channels and business mode innovation, therefore successfully achieving the strategic business goals for the Reporting Period and promoting the improvement of the core competence of the whole bank.

The Bank kept promoting integration and innovation of technology and business to improve its business support ability. By referring to the organizational form and management method of the mixed alliance of fintech companies, the Bank deeply integrated business and science & technology resources and improved integration and agility of IT and businesses, so as to constantly improve the quality and efficiency of project development.

During the Reporting Period, the Bank stepped up innovative application of such technologies as cloud computing, big data and artificial intelligence in scientific and technological projects, continued to push forward the strategy of "interface banking" and completed the construction of several key projects including new functional projects of interface banking, credit card, bill business, intelligent fast counter system and paperless counter projects. Smart outlets under construction by the Bank will provide customers with more intelligent and personalized one-stop lobby services. Intelligent Customer Relationship Management (CRM) projects can help realize integration and analysis of internal and external data and deeply explore the value of big data, so as to lay a scientific and technological base for intelligence transformation of the Bank. In respect of infrastructure construction, mPaaS mobile platform developed by the Bank in cooperation with leading fintech companies will provide mobile applications with one-stop solutions covering development, testing, operation maintenance and operation and provide a powerful support for data-based and fine operation management.

The Bank kept improving business continuity management and information security system, to improve its ability of system security protection. During the Reporting Period, centered on the requirements for safeguarding network security proposed during the SCO Summit, the Bank carried out an omnibearing security checking and hidden danger elimination for infrastructures in machine rooms, basic software and hardware devices, Internet systems and other business systems in three centers of two places and all the branches and sub-branches, improved security protection systems, security reinforcement measures and emergency guarantee plans and held drills of emergency response plans, so as to ensure reliable, stable, continuous and efficient operation of information systems in an all-round way. The Bank attached great importance to information security management, kept improving its ability to prevent and control IT risks, enhanced IT governance system and internal control construction and Internet security protection, carried out third-party security testing evaluation for Internet business systems, and successfully passed recertification audit for information security management system (ISO27001), so as to effectively prevent technology risks.

During the Reporting Period, the Bank enhanced efforts for attracting, exciting and training scientific and technological talents and kept introducing excellent scientific and technological talents and innovating training mechanisms, means and methods, so as to effectively improve the overall quality of employees and the ability of independent research and development of the team.

3.10.5 Business of BQD Financial Leasing

BQD Financial Leasing was established on 15 February 2017 upon initiation by the Bank and registered in Qingdao. The Bank held 51% equity of BQD Financial Leasing. Guided by national industry policies, BQD Financial Leasing mainly carried out businesses related to financial leasing of large and medium-sized equipment for industries such as healthcare, cultural tourism and cause of people's livelihood, so as to serve real economies, meet the lessees' personalized needs in such aspects as purchase of equipment, promotion of sale, revitalization of assets, tax burden equilibrium and improvement of financial structure and provide new financial leasing services including financing of funds and assets, asset management and economic consulting.

As at the end of the Reporting Period, BQD Financial Leasing had a registered capital of RMB1 billion, 46 employees, RMB6.352 billion of total assets and RMB1.023 billion of net assets. During the Reporting Period, it recorded a net profit of RMB19.2488 million.

3.11 RISK MANAGEMENT

3.11.1 Credit risk management

Credit risk refers to the risk arising from the failure by an obligor or a party concerned to meet its obligations in accordance with agreed upon terms. The Bank is exposed to credit risk primarily through loan portfolio, investment portfolio, undertakings and commitments.

Pursuant to regulatory requirements, the Bank, taking into consideration the capability and intention of the borrowers to repay the loan, coupled with other factors such as guarantor, collateral and overdue payment, has implemented twelve-category classification and management on corporate credit assets based on the regulatory five-category loan classification. The loan classification is launched by the responsible management institution and confirmed by the credit management department of the head office or branches, while personal loans and business card are subject to regulatory five-category loan classification and confirmed by the system in accordance with the number of overdue days.

The credit management department takes a leading role in the credit risk management and regularly reports to the management and the risk management and consumer protection committee of the Board on risk management. During the Reporting Period, the Bank adhered to the risk control principle of "active compliance, strict risk control and strengthening of internal control" and kept intensifying efforts for credit risk management from such aspects as customer structure, business structure, risk management system, credit foundation management and relief of non-performing loans. During the Reporting Period, the Bank intensified credit risk management mostly in the following aspects:

1. Further improved risk control mechanism and realized centralized approval of credit. During the Reporting Period, the Bank adjusted the risk management mechanism and set up a credit extension approval center in Qingdao and Jinan, respectively, so as to centralize credit extension approval. According to regulatory requirements and actual situation of business development, the Bank comprehensively sorted out and promptly improved the existing rules and regulations to ensure standard business operation.

2. Improved its credit policies in time in compliance with the national policy guide. To better reflect the orientation of credit policies and support expansion of frontline businesses, the Bank increased policies on replacement of old drivers with new ones and management of policy exceptions in the credit policies of 2018. Regarding inventory business, the Bank established a sound long-term credit management system and improved the credit structure. For the incremental credit, the Bank strictly controlled incremental risks, accelerated industrial structural adjustment by the list system and industry limit and other ways, and strictly controlled enterprises in "high pollution, high energy-consumption, over-capacity" industries.

3. Continued to improve the credit risk management of branches and sub-branches. The Bank revised the measures for evaluation of credit management of branches and sub-branches and assessed the credit management of branches and sub-branches via such indicators as quality of credit assets, overdue payment of principal and interest and file management, to actually improve the credit risk management ability and standard of the whole bank; worked out risk management measures for cross-district branches, enhanced risk management and control for cross-district branches via such ways as daily supervision and evaluation and established an effective credit management system for cross-district branches.

4. Enhanced risk control in key areas. The Bank attached great importance to risk management and control in key risk areas, with its focus placed on financing in such fields as credit extension to large enterprise groups, cross-district credit extension, real estate and local government financing. The Bank conducted self-inspection and checking by working out and arranging special work plans and via "weekly self-inspection". The Bank enhanced "before-loan investigation, loan-granting review and after-loan inspection" work to strictly control incremental risk.

5. Enhanced study and judgment on complicated economic environment. During the Reporting Period, given frequent bond defaults, increased difficulty in corporate bond financing and drastic volatility of the stock market, the Bank conducted an investigation on bond financing risk of credit customers and risks concerning stock pledge business of listed companies in time and set up a regular self-inspection mechanism to eliminate hidden risks.

3.11.2 Liquidity risk management

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset growth or meet repayment obligations when it falls due even if a bank remains solvent.

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

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

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

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

The Company holds an appropriate amount of assets with liquidity to ensure liquidity needs and unpredictable demand for payment in the ordinary course of business can be met. The Company's assets are mainly funded by deposits from customers. The internal control system for liquidity risk management of the Company is sound and complies with regulations. A special internal audit for liquidity risk is carried out every year and an independent audit report is produced and submitted to the Board.

During the Reporting Period, the Company's deposits from customers maintained steady growth, and the asset-liability structure was constantly improved, and the Company intensified liquidity risk management mostly in the following aspects:

1. Actively promoted growth of various deposits, consolidated the base of deposit-taking businesses, strived to enhance the marketing effort in steady and low cost common deposits, and gradually improved the overall stability of liabilities; adjusted the asset-liability structure, improved the asset-liability mismatch and controlled it at a reasonable level.

2. Actively cooperated with the People's Bank of China in developing such businesses as open market operation, mid-term lending facility, relending and rediscount and witnessed increasingly diversified fund sources and more reasonable term match. While making provision arrangements in advance, the Company kept enhancing monitoring of various liquidity risk limitations to ensure they comply with all the supervision indicators.

3. In strict accordance with the Measures for the Liquidity Risk Management of Commercial Banks issued by the CBIRC, the Company designed many stress test scenarios covering single bank level, market level and mixed level according to its own business scale, nature and complexity and risk status, so as to regularly conduct a stress test on liquidity risk.

3.11.3 Market risk management

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

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

The internal control system for market risk management of the Company is sound and complies with regulations, and the Board, senior management and various departments have clear duties. Every year, the Company carries out a special internal audit for market risk and produces an independent audit report and submits it to the Board.

In strict compliance with the requirements of the CBIRC, the Company comprehensively utilized such information systems as 1104 system, OPICS RISK system and China Bond Integrated Business Platform to monitor capital occupation concerning market risk.

3.11.3.1 *Analysis of interest rate risk*

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

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

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

During the Reporting Period, the Company, adhering to the principle of stability and prudence, continuously enhanced its capability of independent pricing and made more efforts in interest rate analysis and management. Firstly, it actively adjusted the structure of assets and liabilities, and strengthened the measurement and monitoring of indicators such as net interest margin, net interest spread and deposit-loan spread. Secondly, it adjusted the nominal rate of RMB deposits and differentiated pricing strategy by analyzing factors such as deposit structure in the bank, customers' sensitivity to interest rate and inter-bank pricing level. Thirdly, it conducted refined analysis and evaluation on the interest rate of products of various business lines to provide effective data support for the Bank's timely adjustment of pricing strategy.

3.11.3.2 *Analysis of interest rate sensitivity*

The Company assesses the potential impact of movements in interest rates on the Company's net interest income via sensitivity analysis. The following table sets forth the results of the interest rate sensitivity analysis based on the assets and liabilities as at 30 June 2018 and 31 December 2017.

Unit: RMB'000

Item	30 June 2018 Increase/ (Decrease)	31 December 2017 Increase/ (Decrease)
Change in annualised net interest income		
Interest rates increase by 100 bps	**(586,487)**	(399,892)
Interest rates decrease by 100 bps	**586,487**	399,892

3.11.3.3 *Analysis of exchange rate sensitivity*

The following table sets forth the results of the exchange rate sensitivity analysis based on the assets and liabilities as at 30 June 2018 and 31 December 2017.

Unit: RMB'000

Item	30 June 2018 Increase/ (Decrease)	31 December 2017 Increase/ (Decrease)
Increase/(decrease) in annualised net profit		
Foreign exchange rates increase by 100 bps	**9,661**	9,747
Foreign exchange rates decrease by 100 bps	**(9,661)**	(9,747)

3.11.4 Operational risk management

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

The Bank focused on the work of preventing systematic operational risks and major operational risks; the Board set an acceptable operational risk level and had the senior management supervise and evaluate the adequacy and effectiveness of the internal control system; the senior management, according to the acceptable operational risk level set by the Board, formulated systematic systems, procedures and methods and took relevant risk control measures to prevent operational risks in an all-round way. Furthermore, the Bank applied effective risk prevention and control means to ensure effective identification, evaluation and supervision of operational risks, constantly improved operational risk management capability, and gradually elevated risk prevention and control level. During the Reporting Period, the Bank strengthened operational risk management in the following areas:

1. Focusing on its key businesses and key areas, the Bank conducted various forms of self-examination and inspection, rectified problems in a self-knowledge and self-government manner, stopped up loopholes of business management, strangled risks in the cradle, and strictly controlled the spread of operational risks.

2. Realized comprehensive monitoring of operational risks through system monitoring, risk screening, internal inspection, business line supervision and other forms, collected and analyzed key indicators of operational risks and loss data and gave early warnings, and improved internal process construction to cut off operational risks in an all-round manner.

3. Strengthened safety construction of information technology system and business continuity management, promoted the construction of business continuity system, improved the construction of emergency plan system, and intensified daily emergency drills to ensure the safe operation of the system.

4. Continued to promote the construction of operational risk system and cultural propaganda, increased employees' awareness of compliance operations, conducted inspections on abnormal behaviors of employees, and strengthened staff on-the-job management.

5. Did well in protection of information about outsourcing service agents, conducted risk assessment on outsourced services, and strengthened risk control and inspection during the execution of outsourcing projects.

3.12 SOCIAL RESPONSIBILITY

In terms of economic responsibility, in line with the trend of deepened national supply-side reform and the acceleration of replacement of old growth drivers with new ones in Shandong Province, the Bank actively provided financial services for major national and regional development strategies, major reforms and major construction projects, provided much more support for enterprises with new growth drivers from traditional industries and emerging industries, so as to support the development of real economy in an all-round way. In response to the central government's call to develop "Inclusive Finance", the Bank supported the development of small, micro and medium-sized enterprises, and launched products like "Business Benefit Loan" and "Agriculture Benefit Loan", and set up four sub-branches featuring technology finance and four sub-branches featuring "Agriculture Benefit Loan" business to promote featured operation for small enterprises business. At the same time, in response to the call of innovation-driven development and "mass entrepreneurship and innovation" for job creation, the Bank supported local economic transformation and upgrading with featured business models such as port finance, cultural creative finance, and service trade finance.

In terms of environmental responsibility, the Bank continued to adopt a green development concept and developed green finance. At the end of the Reporting Period, loan balance of the Bank's green credit project was RMB8.074 billion, representing an increase of RMB757 million or 10.34% over the beginning of the year. The Bank continued to promote green services, worked on increasing the quality and efficiency of online services, and accelerated the construction of intelligent, personalized and scene-based mobile banking. Focusing on optimizing cloud payment and cloud recharge businesses, the Bank signed cooperation contracts with more than 300 merchants, with a total of more than 30,000 customers. The Bank continuously optimized such smart operation modes as mobile finance + mobile officing, reduced material and energy consumption by promoting paperless counter and electronic seal, paid attention to the impact of electronic equipment on the environment, and insisted on secondary use and harmless disposal of used electronic equipment. Adhering to frugality culture, the Bank strengthened internal management, conducted "weekly inspection tour" and security patrol to urge all staff members to save water, electricity, gas and paper, and organized public welfare activities such as picking up garbage, taking green walks and planting trees to make its contribution to environmental protection.

In terms of social responsibility, the Bank further enhanced the ability of serving customers, improved the service facilities of outlets, provided more humanized services for special groups, and created a new experience of surprising services for customers. The Bank comprehensively strengthened the protection of rights and interests of financial consumers, and built a multi-dimensional financial knowledge education system guided by "Qingcheng" consumer rights protection brand. The Bank created a "Financial Knowledge Small Classroom" program to provide formative financial education for youngsters; carried out a number of publicity activities themed on "financial knowledge promotion into villages" and popularized financial knowledge in communities, colleges, supermarkets and rural areas, and anti-money laundering, anti-counterfeiting, etc. The Bank promoted the development and expansion of Bank of Qingdao Charitable Foundation in Qingdao City, and actively launched financial poverty alleviation and targeted poverty alleviation. In the first half of the year, the Bank donated money to poverty alleviation projects such as road hardening and lamp installation in a County in Pingdu City. At the same time, the Bank carried out various forms of public welfare activities and volunteer services such as "heart-warming" activities, care for new citizens, and public welfare lectures in communities, schools and rural areas. Practicing a culture of caring for employees, the Bank not only created a development and growth platform for employees but also paid attention to the physical and mental health of employees by adding staff clubs and carrying out a variety of cultural and sports activities, which kept improving the well-being of employees.

3.13 PROTECTION OF CONSUMER RIGHTS

During the Reporting Period, under the concept of "deepening management, promoting being proactive about compliance, making transformation and innovation and making progress while maintaining stability", the Bank carried out its consumer rights protection work following the latest regulatory policies, and gave full play to the institutional advantages as a legal entity. Meanwhile, by focusing on product and service design, and highlighting the distinctive advantages of "Qingxin" service and customer right protection brand "Qingcheng", and new ideas of publicity and education of financial knowledge, the Bank continuously optimized its organizational structure, consolidated its management foundation, strengthened assessment and training, increased publicity and educational efforts, implemented the entity responsibility, and promoted the overall improvement of consumer rights protection work.

1. Strengthen senior leadership, improve institutional mechanisms, and enhance endogenous motivation

   Firstly, give full play to the role of the Board, senior management and working committee on consumer rights protection of the Bank in the working mechanism of consumer rights protection, deepen ideological understanding, and pay more attention to the consumer rights protection. Secondly, give full play to the functions of the working committee on consumer rights protection, streamline horizontal and vertical work processes, deepen process reengineering, and improve work efficiency. Thirdly, improve the "three-in-one" organizational structure consisting of the working committee for consumer rights protection, professional departments, and branches and sub-branches, establish a contact mechanism, and create synergies in consumer rights protection.

2. Formulate an annual plan, consolidate system basis, and strengthen system constraints

   Firstly, formulate an annual plan for consumer rights protection, improve the weak links, and promote the in-depth development of consumer rights protection; secondly, further sort out, evaluate and improve the consumer rights protection system, and make it more scientific, streamlined and normalized through "addition, supplement, amendment and establishment"; thirdly, improve the system compilation, break down the assessment indicators and daily work requirements of regulatory authorities to facilitate implementation by various departments and branches and sub-branches, implement the system as a matter of urgency, stand up for the authoritativeness of the system, and strengthen supervision and examination.

3. Highlight brand leadership, practice the concept of "education first", and improve effectiveness of publicity and education

   Firstly, adhering to the concept of "Qingcheng Xiaobao, Zhiyuan Zhizhen" concerning consumer rights protection, exploit the brand value of "Qingcheng" consumer rights protection, strengthen the establishment of an independent, normalized and innovative publicity and education mechanism, and build an official WeChat of "Manhua Xiaobao" and financial knowledge publicity brands such as "Financial Knowledge into Primary School" and "Financial Knowledge into Community"; secondly, actively organize "3.15 Consumer Rights Day", "Keep Your Money Safe" and other publicity activities themed on illegal fund-raising to practice its social responsibility; thirdly, strengthen the assessment and evaluation of publicity and education, and include the developments of publicity and education work of various outlets into the rating assessment of consumer rights protection to ensure the effectiveness of publicity and education.

4. Intensify trainings for consumer rights protection, focus on concept leadership, and increase the awareness of consumer rights protection

   Firstly, include the contents of consumer rights protection into the employee training system, strengthen the concept leadership and enhance the endogenous motivation; secondly, carry out service themed series activities to enhance service awareness and improve the level of warm service; thirdly, improve the information exchange platform, make full use of the contacts, and build a smooth and effective communication and coordination mechanism.

5. Standardize sales behavior, practice "Inclusive Finance", and implement the entity responsibility

   Firstly, strengthen product and service process management, and enhance review on consumer rights protection to achieve pre-risk control; secondly, continue to improve the "double recording" work, carry out self-examination of sales behavior, standardize sales of products, and enhance customer experience; thirdly, take the initiative to practice the concept of "Inclusive Finance", focus on solving problems of "difficulties in and high costs of financing" for small and micro enterprises, adopt preferential credit policies for financing needs related to agriculture, rural areas and farmers, and continue to deepen technology finance innovation, to contribute to the technological innovation and development and replacement of old drivers with new ones in Qingdao City and Shandong Province.

3.14 DEVELOPMENT PLAN FOR THE SECOND HALF OF 2018

3.14.1 Operating situation analysis for the second half of the year

In the second half of 2018, Fed interest rate hike gave rise to the decrease of global base currency supply, which imposed impacts on currency exchange rates and the prices of risk-bearing assets. China's economy maintained steady growth momentum, while different adverse factors were emerging. At present, we see a tightening regulatory environment, decelerating economic growth despite signs of stabilization, a hope in easing monetary environment, unchanged pressure on risk landscape and accelerating financial technology development. In response to a more complicated environment, the Bank will focus on the overall deployment of the "upgrading scheme", continue to consolidate its customer base, firmly enhance its operating capacity and make all efforts to perform well in featured small, medium and micro finance.

3.14.2 Development guidance for the second half of the year

In the second half of 2018, the Bank will adhere to the operation philosophy of "deepening management, being proactive about compliance, making transformation and innovation and making progress while maintaining stability". In addition, efforts will be made to effectively implement the "upgrading scheme", improve operating and managing efficiency and effectiveness as a whole, ensure stable increase of deposits, advocate active compliance, and exercise solid control and prevention of different risks, with a view to ensuring completion of the annual work plan.

3.14.3 Key measures to be adopted for the second half of the year

(1) Cooperating with various parties to consolidate and further expand liability business;

(2) Focusing on penetration to promote the differentiation and specialization of wholesale business;

(3) Exploring profoundly to upgrade retail business;

(4) Transforming and exploring potentials to enhance its operating capacity in the financial market;

(5) Adopting strict and refined management to strengthen comprehensive risk control concept and standard;

(6) Promoting efficiency and quality to optimize financial technology support;

(7) Conducting smart operation to improve operating and managing efficiency;

(8) Solidifying bases to promote refined and efficient management.

4.1 EARNINGS AND DIVIDENDS

The profit of the Company for the six months ended 30 June 2018 and the financial position of the Company as at the same date are set out in the financial report of this report.

4.1.1 Dividends on Ordinary Shares

Pursuant to the resolutions considered and passed at the 2017 annual general meeting of the Bank on 15 May 2018, the Bank had distributed the cash dividends of 2017 on 25 May 2018 to shareholders of domestic shares and H shares whose names appeared on the share register of the Bank on 24 May 2018, in accordance with the profit distribution plan to distribute a cash dividend of RMB0.20 per share (tax inclusive).

No dividend distribution for ordinary shares and no transfer from capital reserve to share capital were made by the Bank in 2018 during the interim period.

4.1.2 Dividends on Offshore Preference Shares

The Bank held a shareholders' general meeting on 15 March 2017 to consider and approve the Resolution on the Plan for the Non-public Issuance of Offshore Preference Shares by Bank of Qingdao Co., Ltd. (《關於青島銀行股份有限公司境外非公開發行優先股方案的議案》), authorizing the Board to decide on and deal with issues relating to dividend payment to the offshore preference shareholders in accordance with the issuance terms. The dividend distribution plan for offshore preference shares has been considered and approved at the Board meeting held on 24 August 2018.

1. Dividend distribution plan for offshore preference shares

(1) Interest-bearing period: from 19 September 2017 (inclusive) to 19 September 2018 (exclusive)

(2) Record date: 18 September 2018

(3) Dividend payment date: 19 September 2018

(4) Recipients: persons registered on the register of preference shareholders as of the closing of relevant clearing systems as of 18 September 2018.

(5) Tax deduction: the Bank is required to withhold income tax at a rate of 10% when distributing dividends on offshore preference shares in accordance with the requirements of relevant laws. According to relevant provisions of the terms and conditions of offshore preference shares, relevant taxs and fees shall be borne by the Bank.

(6) Dividend rate and amount of payment: the initial dividend rate before the first repricing date determined by the terms and conditions of offshore preference shares is 5.50% per annum (such dividend rate is after-tax dividend rate, which is the actual dividend rate received by the offshore preference shareholders). Based on the interest-bearing principal, dividend rate and withholding income tax rate of offshore preference shares, the amount of dividends on offshore preference shares is determined as follows:

The Bank will distribute a dividend of US$73.5167 million for preference shares, of which US$66.1650 million was paid to preference shareholders and US$7.3517 million was withheld for income tax.

2. *Implementation measures for the dividend scheme of offshore preference shares*

The Bank will distribute dividends for offshore preference shares to registered offshore preference shareholders of the Bank on the record date. The Bank of New York Depository (Nominees) Limited, as the nominee of Euroclear Bank SA/NV and Clearstream Banking S.A., was the only shareholder of offshore preference shares of the Bank whose names appeared on the register of members on the record date. Payment by the Bank to The Bank of New York Depository (Nominees) Limited or payment in accordance with its instructions was deemed to have fulfilled the Bank's obligation to pay dividends on offshore preference shares. If the final investors have any doubts about the subsequent transfer of relevant dividends to the final investor after entering the clearing system, the final investors shall check with their respective depository or intermediary.

4.2 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

During the Reporting Period, there were four proposals on significant related party transactions of the Bank that required consideration by the Board of Directors, which were the credits granted to Haier Consumer Finance Co., Ltd., Haier Group Finance Co., Ltd., Qingdao Conson Financial Holdings Co., Ltd., and Haier Financial Factoring (Chongqing) 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 CBIRC, the Bank's balance of credit-related significant related party transactions was RMB3,516 million, the details of which are as follows:

Unit: RMB'000

Name of Related Party	Type of Business	Way of Guarantee	Balance of Credit-related Significant Related Party Transactions	Net Credit After Deducting Margin	Percentage of the Company's Net Capital At the End of the Reporting Period
Qingdao Changyuan Land Co., Ltd.	Non-standard debt	Guarantee	970,000	970,000	2.80%
Haier Consumer Finance Co., Ltd.	Interbank borrowing	Guarantee	800,000	800,000	2.31%
Qingdao Haier Real Estate Group Co., Ltd.	Non-standard debt	Guarantee	750,000	750,000	2.16%
Qingdao Conson Financial Holdings Co., Ltd.	Loan	Guarantee	500,000	500,000	1.44%
Qingdao Haier Home Integration Co., Ltd.	Letter of guarantee	Pledge	393,955	393,938	1.14%
Haier Group Finance Co., Ltd.	Interbank bill credit	–	102,231	102,231	0.29%

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

4.3 SIGNIFICANT LITIGATION AND ARBITRATION AND MATERIAL CASES DURING THE REPORTING PERIOD

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

4.4 PUNISHMENT IMPOSED ON THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, no punishment was imposed by relevant regulatory authorities and judicial authorities on the Bank and its Directors, Supervisors and senior management.

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

1. In June 2011, in accordance with the relevant requirements of the Notice of the General Office of China Banking Regulatory Commission on Strengthening the Examination of Qualifications of Substantial Shareholders of Small and Medium-sized Commercial Banks, Haier Group, Intesa Sanpaolo S.p.A. and Qingdao Conson Industrial Co., Ltd., shareholders of the Bank with shareholding of more than 5%, respectively undertook: not to seek related party transactions with terms more favorable than those of other shareholders; not to intervene in the daily business affairs of the Bank; not to transfer the new shares subscribed for within five years from the date of completion of the change of business registration, and any transfer of shares upon the expiry of the said period and the qualification of the transferee as shareholder 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 Haier Group (including Qingdao Haier Mold Co., Ltd. (青島海爾模具有限公司), Qingdao Haier Tooling Development Co., Ltd. (青島海爾工裝研制有限公司), Qingdao Haier Robot Co., Ltd. (青島海爾機器人有限公司), Qingdao Haier Co., Ltd. (青島海爾股份有限公司), Qingdao Haier Air-Conditioner Co., Ltd. (青島海爾空調器有限總公司) and Qingdao Haier Special Refrigerator Co., Ltd. (青島海爾特種電冰櫃有限公司)) and Intesa Sanpaolo S.p.A., which participated in the subscription for the shares of the Bank in 2014, respectively undertook not to transfer 95,179,773 shares, 145,018,723.97 shares and 111,111,187 shares subscribed for in the above subscription within five years from 28 February 2015 (being the date of completion of business registration of the relevant subscription). In addition, Intesa Sanpaolo S.p.A. further undertook not to transfer the other equity interest held by it within a period of three years from the date of listing of H shares of the Bank.

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

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

During the Reporting Period, the Bank did not engage in any material acquisition, merger and disposal of assets.

4.7 SIGNIFICANT GUARANTEE, COMMITMENT AND ENTRUSTED ASSET MANAGEMENT

During the Reporting Period, save for guarantee, commitment and entrusted asset management business within the scope of operations approved by regulatory authorities, the Bank did not have any other significant guarantee, commitments and entrusted asset management requiring disclosure.

4.8 NON-PERFORMING LOANS OF SHAREHOLDERS AND THEIR ASSOCIATES

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

4.9 USE OF PROCEEDS

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

After deducting the issuance expenses, the proceeds from issuance of offshore preference shares of the Bank were used for supplementing other tier-one capital of the Bank in accordance with applicable laws and regulations and as approved by the regulatory departments.

4.10 PUBLISHING OF INTERIM REPORT

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

5.1 STATEMENT OF ORDINARY SHARE CAPITAL STRUCTURE

Unit: share

Shareholder type	31 December 2017 Number of shares	31 December 2017 Percentage of total share capital	**Changes during the Reporting Period**	**30 June 2018 Number of shares**	**30 June 2018 Percentage of total share capital**
Domestic legal persons	2,243,865,810	55.29%	–	**2,243,865,810**	**55.29%**
Domestic natural persons	51,811,959	1.28%	–	**51,811,959**	**1.28%**
H shares	1,763,034,980	43.44%	–	**1,763,034,980**	**43.44%**
Total	4,058,712,749	100.00%	–	**4,058,712,749**	**100.00%**

5.2 STATEMENT OF CHANGES IN ORDINARY SHARE CAPITAL

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

5.3 NUMBER OF ORDINARY SHAREHOLDERS

As at the end of the Reporting Period, the Bank had a total of 2,339 ordinary shareholders, including 2,165 domestic shareholders, 174 H-share registered shareholders, and no preference shareholder with voting rights restored.

5.4 PARTICULARS OF SHAREHOLDINGS OF THE TOP TEN ORDINARY SHAREHOLDERS

Unit: share

No.	Name of shareholders	Number of shares held at the end of the period	Percentage of total share capital	Number of shares pledged	Number of shares frozen
1	Hong Kong Securities Clearing Company Nominees Limited	1,137,858,880	28.03%	Unknown	Unknown
2	Intesa Sanpaolo S.p.A.	624,753,980	15.39%	–	–
3	Qingdao Conson Industrial Co., Ltd.	503,556,341	12.41%	–	–
4	Qingdao Haier Investment and Development Co., Ltd.	409,693,339	10.09%	–	–
5	Qingdao Haier Air-Conditioner Electronics Co., Ltd.	218,692,010	5.39%	–	–
6	Shandong Sanliyuan Economics and Trade Co., Ltd.	152,170,000	3.75%	149,200,000	–
7	Qingdao Haier Co., Ltd.	145,297,405	3.58%	–	–
8	Qingdao Hairen Investment Co., Ltd.	133,910,000	3.30%	–	–
9	Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	94,967,581	2.34%	–	–
10	Qingdao Jifa Group Co., Ltd.	90,936,164	2.24%	–	–

Notes:

1. Shares held by Hong Kong Securities Clearing Company Nominees Limited are the total shares in the accounts of the Bank's shareholders of H shares which are traded on the trading platform of Hong Kong Securities Clearing Company Nominees Limited on behalf of shareholders;

2. As at the end of the Reporting Period, Intesa Sanpaolo S.p.A., as a H Share registered shareholder of our Bank, held 622,306,980 H Shares, and the remained 2,447,000 H Shares were agented to and under the name of Hong Kong Securities Clearing Company Nominees Limited;

3. During the Reporting Period, Intesa Sanpaolo S.p.A. continually purchased 844,500 H shares; Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. received a total of 94,967,581 domestic shares of the Bank transferred by its two wholly-owned subsidiaries, namely, Qingdao City Enterprise Development Investment Co., Ltd. and Qingdao City Economic Development Investment Co., Ltd.; and, Qingdao Haier Co., Ltd. received 5,633,715 domestic shares of the Bank transferred by Qingdao Haier Insurance Agency Co., Ltd.;

4. For the above shareholders, Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd. and Qingdao Haier Co., Ltd. are all under Haier Group. The Bank is not aware of any other related relationship among other shareholders.

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

As at 30 June 2018, in so far as the Directors, Supervisors and chief executives of the Bank are aware, substantial shareholders who had an interest or short position in the issued share capital of the Bank which are required to be recorded in the register to be kept under section 336 of the SFO or held an equity interest or short position of 5% or more in the issued share capital of the Bank which are required to be notified to the Bank are shown as below:

Name of shareholders	Notes	Type of shares	Capacity	Number of shares held	Approximate percentage of the total 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
			Other interest	402,521,233	9.92	17.53	–	Long
Qingdao Haier Co., Ltd. (青島海爾股份有限公司)	3	Domestic shares	Beneficial owner	145,297,405	3.58	6.33	–	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 Economics and Trade 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
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	624,753,980	15.39	–	35.44	Long

Name of shareholders	Notes	Type of shares	Capacity	Number of shares held	Approximate percentage of the total ordinary shares %	Approximate percentage of the number of domestic shares %	Approximate percentage of the number of H shares %	Long/ short position
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 (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

Name of shareholders	Notes	Type of shares	Capacity	Number of shares held	Approximate percentage of the total ordinary shares %	Approximate percentage of the number of domestic shares %	Approximate percentage of the number of H shares %	Long/short position
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
Qingdao Conson Financial Holdings Co., Ltd.	8	H shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
HAITIAN (HK) HOLDINGS LIMITED (海天（香港）控股有限公司)	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 Company Limited (中信證券股份有限公司)	–	H shares	Interest of controlled corporation	617,565,382	15.22	–	35.03	Long
			Interest of controlled corporation	511,727,647	12.61	–	29.03	Short
Guangzhou Rural Commercial Bank Limited (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., and as to 402,521,233 shares as to its person acting in concert.

3. 145,297,405 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 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 to be interested in all our shares held by Shandong Sanliyuan Trading Co., Ltd.

6. Qingdao Hairen Investment Co., Ltd. is wholly owned by Qingdao East Steel Tower Stock Co., Ltd. which is in turn 52.45% owned by Han Huiru. Therefore, Qingdao East Steel Tower Stock Co., Ltd. and Han Huiru are deemed 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 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 wholly owned by AMTD Investment Solutions Limited, which is wholly owned by AMTD Investments Limited. AMTD Investments Limited is wholly owned by AMTD Strategic Capital Group, which is 79.13% owned by AMTD Asia Limited. AMTD Asia Limited is wholly owned by AMTD Asia (Holdings) Limited, which is wholly owned by AMTD Group Company Limited. AMTD Group Company Limited is 71.03% owned by L.R. Capital Financial Holdings Limited, AMTD Holdings Limited and CM International Capital Limited hold 65.10% and 34.10% interests in L.R. Capital Financial Holdings Limited respectively, AMTD Holdings Limited is wholly owned by L.R. Capital MNP Limited, and L.R. Capital MNP Limited is wholly owned by L.R. Capital Management Company (Cayman) Limited. CM International Capital Limited is wholly owned by CM International Capital Limited (中民國際資本有限公司), which is wholly owned by China Minsheng Investment Co., Ltd. Therefore, AMTD Investment Solutions Limited, AMTD Investments Limited, AMTD Strategic Capital Group, AMTD Asia Limited, AMTD Asia (Holdings) Limited, AMTD Group Company Limited, L.R. Capital Financial Holdings Limited, 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. are deemed to be interested in our shares held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited.

8. HAITIAN (HK) HOLDINGS 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 to be interested in all our shares held by Rothschilds Continuation Holdings AG.

10. Under Section 336 of the SFO, forms for disclosure 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 30 June 2018, 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 30 June 2018, 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 share capital of the Bank which is required to be notified to the Bank.

5.6 PARTICULARS OF SUBSTANTIAL SHAREHOLDERS

(I) Haier Group Corporation

Haier Group Corporation was established in 1980 with a registered capital of RMB311.18 million, and its legal representative is Zhang Ruimin. It is principally engaged in the production of household appliances, electronic products, communication equipment, electronic computers and accessories, general machinery, kitchen appliances and industrial robots; domestic commercial wholesale and retail; import and export business; economic technology consultancy; and research, 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, accounting for 20.01% of the total ordinary share capital, through 8 enterprises (persons acting in concert). Haier Group Corporation, as the ultimate beneficiary of itself, has reported its related parties to the Bank according to regulatory requirements. At the end of the Reporting Period, the balance of credit-related significant related party transactions[1] between the Bank and Haier Group was RMB3.016 billion, and there was no non-credit-related significant related party transaction during the Reporting Period.

(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 4,600 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 7.7 million customers in the above regions. In addition, Intesa Sanpaolo S.p.A. has set up branches in 25 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 624,753,980 H shares of the Bank, accounting for 15.39% of the total ordinary share capital. Intesa Sanpaolo S.p.A., as the ultimate beneficiary of itself, has no controlling shareholder, actual controller or persons acting in concert. Intesa Sanpaolo S.p.A. has reported its related parties to the Bank according to regulatory requirements. During the Reporting Period, there was no significant related party transaction between the Bank and Intesa Sanpaolo S.p.A.

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

Qingdao Conson Development (Group) Co., Ltd. was established in 2008 with a registered capital of RMB3 billion, and its legal representative is Wang Jianhui. It is principally engaged in the investment, construction and operation of major infrastructure projects in urban and rural areas and major public welfare programs of the government; and engaged in businesses covering real estate, tourism, land development, non-banking financial and other service industries.

[1] Statistics of related party transactions in Section 5.6 were made in accordance with provisions of the CBIRC.

At the end of the Reporting Period, Qingdao Conson Development (Group) Co., Ltd. held a total of 603,556,341 shares (including 503,556,341 domestic shares and 100,000,000 H shares) of the Bank through its two subsidiaries, accounting for 14.87% of the total ordinary share capital. Qingdao Conson Development (Group) Co., Ltd., as the ultimate beneficiary of itself, has no person acting in concert, with the State-Owned Assets Supervision and Administration Commission of Qingdao Municipal Government being the controlling shareholder and actual controller. Qingdao Conson Development (Group) Co., Ltd. has reported its related parties to the Bank according to regulatory requirements. At the end of the Reporting Period, the balance of credit-related significant related party transactions between the Bank and Qingdao Conson Development (Group) Co., Ltd. was RMB500 million, and there was no non-credit-related significant related party transaction during the Reporting Period.

(IV) AMTD Group Company Limited

AMTD Group Company Limited was established in 2003 with a registered capital of US$10,001, and its legal representative is Wang Ruiqiang. It is principally engaged in investment banking business, asset management business, corporate insurance brokerage and risk solutions and investment strategy consultancy.

At the end of the Reporting Period, AMTD Group Company Limited held a total of 401,800,000 H shares of the Bank through its two subsidiaries, accounting for 9.90% of the total ordinary share capital. AMTD Group Company Limited, as the ultimate beneficiary of itself, has no actual controller or persons acting in concert, with L.R. Capital Financial Holdings Limited being its controlling shareholder. AMTD Group Company Limited has reported its related parties to the Bank according to regulatory requirements. During the Reporting Period, there was no significant related party transaction between the Bank and AMTD Group Company Limited.

(V) Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.

Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. was established in 2008 with a registered capital of RMB2 billion, and its legal representative is Jiang Peisheng. It is principally engaged in investment and operation of modern manufacturing industry and modern service industry; state-owned equity holding and capital operation; restructuring of state-owned assets, claims and debts; enterprise relocation and reform and land consolidation and development; and financial and economic consulting business.

At the end of the Reporting Period, Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. held a total of 94,967,581 domestic shares of the Bank, accounting for 2.34% of the total ordinary share capital. Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd., as the ultimate beneficiary of itself, has no persons acting in concert, with the State-Owned Assets Supervision and Administration Commission of Qingdao Municipal Government being the controlling shareholder and actual controller. Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. has reported its related parties to the Bank according to regulatory requirements. During the Reporting Period, there was no significant related party transaction between the Bank and Huatong Group.

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

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

5.8 ISSUANCE OF OFFSHORE PREFERENCE SHARES

To further improve the Bank's comprehensive competitive strength and enhance the Bank's sustainable development ability, the Bank privately issued 60.15 million offshore preference shares at a price of US$20 per share in September 2017, raising US$1,203 million (equivalent to RMB7.88 billion). All target subscribers of the Bank's offshore preference shares are qualified investors meeting relevant regulatory requirements, laws and regulations. According to applicable laws & regulations and approval of relevant regulators, the proceeds from the issuance of offshore preference shares, after deducting issue fees, shall be used to replenish other tier-one capital of the Bank.

6.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Basic information of Directors

Name	Gender	Date of birth	Position	Term	Shareholding at the beginning of the Reporting Period (shares)	Shareholding at the end of the Reporting Period (shares)
Guo Shaoquan	Male	1962.08	Executive director, chairman	2010.05-2021.05	500,000	500,000
Wang Lin	Male	1963.09	Executive director, president	2012.03-2021.05	500,000	500,000
Yang Fengjiang	Male	1964.07	Executive director, vice president	2012.05-2021.05	500,000	500,000
Lu Lan	Female	1964.07	Executive director, secretary to the Board	2016.12-2021.05	380,000	380,000
Zhou Yunjie	Male	1966.11	Non-executive director	2015.06-2021.05	–	–
Rosario Strano	Male	1963.04	Non-executive director	2012.06-2021.05	–	–
Tan Lixia	Female	1970.09	Non-executive director	2012.05-2021.05	–	–
Marco Mussita	Male	1959.06	Non-executive director	2011.12-2021.05	–	–
Deng Youcheng	Male	1971.08	Non-executive director	2018.06-2021.05	–	–
Choi Chi Kin, Calvin	Male	1978.08	Non-executive director	2016.12-2021.05	–	–
Wong Tin Yau, Kelvin	Male	1960.10	Independent non-executive director	2015.06-2021.05	–	–
Chen Hua	Male	1967.07	Independent non-executive director	2015.06-2021.05	–	–
Dai Shuping	Female	1960.06	Independent non-executive director	2016.12-2021.05	–	–
Simon Cheung	Male	1970.07	Independent non-executive director	2017.07-2021.05	–	–
Fang Qiaoling	Female	1975.10	Independent non-executive director	2018.06-2021.05	–	–

Note: Directors are nominated by the Board and elected according to the qualifications and election procedures of directors under the Articles of Association.

2. Basic information of Supervisors

Name	Gender	Date of birth	Position	Term	Shareholding at the beginning of the Reporting Period (shares)	Shareholding at the end of the Reporting Period (shares)
Chen Qing	Female	1959.06	Employee supervisor, chairlady of the Board of Supervisors	2016.12-2021.05	500,000	500,000
Zhang Lanchang	Male	1964.11	Shareholder supervisor	2018.05-2021.05	–	–
Wang Dawei	Male	1974.02	Employee supervisor	2018.05-2021.05	–	–
Meng Xianzheng	Male	1967.10	Employee supervisor	2018.05-2021.05	370,301	370,301
Wang Jianhua	Male	1953.09	External supervisor	2015.04-2021.05	–	–
Fu Changxiang	Male	1971.08	External supervisor	2015.04-2021.05	–	–
Hu Yanjing	Male	1959.06	External supervisor	2015.04-2021.05	–	–

Note: Shareholder Supervisors and external Supervisors are nominated by the Board of Supervisors, while employee Supervisors are nominated by labor union committee. All of these Supervisors are elected according to the election procedures under the Articles of Association.

3. Basic information of senior management

Name	Gender	Date of birth	Position	Commencement of the term	Shareholding at the beginning of the Reporting Period (shares)	Shareholding at the end of the Reporting Period (shares)
Wang Lin	Male	1963.09	President	2012.03	500,000	500,000
Yang Fengjiang	Male	1964.07	Vice president	2007.06	500,000	500,000
Wang Yu	Female	1968.01	Vice president	2007.06	500,000	500,000
Yang Changde	Male	1959.10	Vice president	2012.08	–	–
Chen Shuang	Female	1968.01	Vice president	2017.01	350,000	350,000
Lu Lan	Female	1964.07	Secretary to the Board	2010.08	380,000	380,000

6.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, according to the resolution at the annual meeting of 2017 of the Bank, Mr. Deng Youcheng was newly elected as a non-executive Director and Ms. Fang Qiaoling was newly elected as an independent non-executive Director. Their qualifications as Directors have been approved by the CBRC Qingdao Office on 27 June 2018 and they commenced to assume office on the same date. Mr. Wang Jianhui, a previous non-executive Director, ceased to be a non-executive Director from May 2018, and Mr. Wang Zhuquan, a previous independent non-executive Director, ceased to be an independent non-executive Director since June 2018.

During the Reporting Period, Mr. Zhang Lanchang was newly elected as a shareholder Supervisor according to the resolution at the annual meeting of 2017 of the Bank, and Mr. Wang Dawei and Mr. Meng Xianzheng were newly elected as employee Supervisors according to the resolution of the fifth meeting of the member (employee) representative congress of the Bank. From May 2018, Mr. Sun Guoliang, a previous shareholder Supervisor, ceased to be a shareholder Supervisor, and Mr. Sun Jigang and Mr. Xu Wansheng, the previous employee Supervisors, ceased to be the employee Supervisors.

During the Reporting Period, save as disclosed above, there were no other changes in the Directors and Supervisors; no change in the senior management of the Bank.

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

Mr. Wong Tin Yau, Kelvin, independent non-executive Director, has ceased to be the independent non-executive director of Asia Investment Finance Group Limited, a company listed on the Hong Kong Stock Exchange (stock code: 33), since 14 February 2018.

During the Reporting Period, save as disclosed above, there were no other changes in the information of Directors; no change in information of Supervisors.

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

In so far as the Directors, Supervisors and chief executives of the Bank are aware, as at 30 June 2018, the Directors, Supervisors and chief executives who had interests or short positions in the issued share capital, debentures or equity derivatives of the Bank which are required to be recorded in the register referred to in section 352 of the SFO, or interests or short positions which are required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code, are as follows:

Director/Supervisor/chief executive	Type of shares	Capacity	Number of shares held	Approximate percentage of the total share capital Note	Approximate percentage of the domestic share capital Note	Long position/ Short position
Guo Shaoquan	Domestic share	Beneficial owner	500,000	0.01%	0.02%	Long position
Wang Lin	Domestic share	Beneficial owner	500,000	0.01%	0.02%	Long position
Yang Fengjiang	Domestic share	Beneficial owner	500,000	0.01%	0.02%	Long position
Lu Lan	Domestic share	Beneficial owner	380,000	0.01%	0.02%	Long position
Chen Qing	Domestic share	Beneficial owner	500,000	0.01%	0.02%	Long position
Meng Xianzheng	Domestic share	Beneficial owner	370,301	0.01%	0.02%	Long position

Note: The aforementioned percentages are calculated according to the total number of shares of 4,058,712,749 shares and the total number of domestic shares of 2,295,677,769 at the end of the Bank's Reporting Period.

Save as disclosed above, in so far as the Directors, Supervisors and chief executives of the Bank are aware, as at 30 June 2018, no one had any interests or short positions in the shares, debentures or equity derivatives of the Bank which are required to be recorded in the register referred to in section 352 of the SFO, or any interests or short positions which are required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

6.5 EMPLOYEES AND HUMAN RESOURCES MANAGEMENT

6.5.1 Details of Employees

1. Composition of employees

As at the end of the Reporting Period, the Bank had 3,566 employees, including 618 at the head office, accounting for 17.33%; 1,575 at branches and sub-branches in Qingdao, accounting for 44.17%; and 1,373 at branches in other cities, accounting for 38.50%.

2. Composition by age

The average age of the employees of the Bank was 34, of which 1,382 were aged 20 or above to below 30, accounting for 38.75%; 1,281 were aged 30 or above to below 40, accounting for 35.92%; 733 were aged 40 or above to below 50, accounting for 20.56%; and 170 were aged 50 or above, accounting for 4.77%.

3. Composition by education

There were 590 employees of the Bank with a master's degree or above, accounting for 16.55%, of which 14 were doctoral degree holders; 2,509 were bachelor's degree holders, accounting for 70.36%; and 467 were college graduates or below, accounting for 13.09%.

4. Composition by gender

There were 1,638 male employees, accounting for 45.93%; and 1,928 female employees, accounting for 54.07%.

6.5.2 Human Resources Overview

During the Reporting Period, the Bank carried out the human resources management closely around its operation philosophy in accordance with its development strategies planning requirements as well as business development needs. By continuing to aim at "serving business operation, core tasks and every sector", the Bank continuously consolidated the foundation of human resources management, cultivated and developed innovative talents, strengthened employee management, reinforced talent pool building and improved its remuneration and benefits mechanism, so as to achieve upgrades in terms of management, system and efficiency and offer strong human resources support for the Bank's rapid and solid development.

6.5.3 Policy on Employee Remuneration

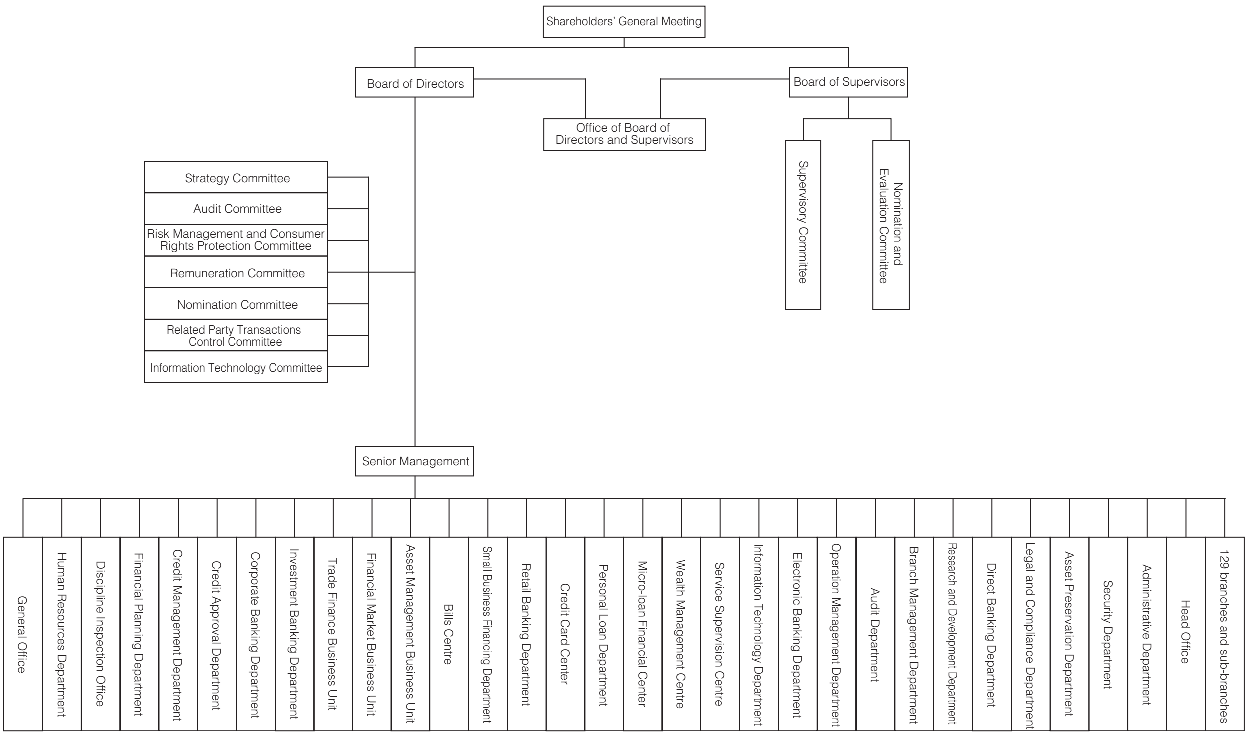
Currently, the Bank has established a market-oriented remuneration system that is based on a position-specific salary regime, under which employee remuneration is linked to the responsibilities, conditions and importance of the position and the results of performance appraisal. Under this remuneration 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 has formulated scientific evaluation measures, and utilizes such measures as a guideline to optimize resources allocation, actively mobilize employees' initiatives, so as to enhance the Bank's overall efficiency. Employees' performance-based remuneration is decided based on the performance evaluation results of the whole Bank, the institutions or departments they work in and their own.

6.5.4 Training for Employees

Centering on the development strategy, the Bank formulated an annual training plan to comprehensively carry out various trainings for middle and senior management, professionals and new employees, and continuously improve the overall quality of all employees. During the Reporting Period, the total number of various training activities reached 1,169 and the aggregate number of participants of various staff training activities reached 49,608, with each participant participating in such activities for 14 times on average.

6.6 ORGANISATION CHART



6.7 BRANCHES AND SUB-BRANCHES

No.	Name of branch/ sub-branch	Business address	Notes
1	Head Office	No. 6, Qinling Road, Laoshan District, Qingdao	In addition to the West Coast region, the Bank has 1 head office and 68 sub-branches in Qingdao
2	West Coast Branch	Shuangzhu Road, Huangdao District, Qingdao City (Formerly No. 286, Zhuhai East Road, Jiaonan)	There are 8 sub-branches under it
3	Jinan Branch	Building 6, Yinfeng Fortune Plaza, No.1 Longaoxi Road, Lixia District, Jinan	There are 13 sub-branches under it
4	Dongying Branch	No.72 Fuqian Avenue, Dongying District, Dongying	There are 6 sub-branches under it
5	Weihai Branch	No.112, No.3-4 Shichang Avenue, Weihai	There are 7 sub-branches under it
6	Zibo Branch	No.266 Liantong Road, Zhangdian District, Zibo	There are 3 sub-branches under it
7	Dezhou Branch	No.717 Dexing Middle Avenue, Dezhou	There are 2 sub-branches under it
8	Zaozhuang Branch	No.215 Qingtan North Road, Shizhong District, Zaozhuang	There are 3 sub-branches under it
9	Yantai Branch	No.454 Shengli Road, Zhifu District, Yantai	There are 2 sub-branches under it
10	Binzhou Branch	No.471 Huanghe 8th Road, Bincheng District, Binzhou	There are 2 sub-branches under it
11	Weifang Branch	No. 124, Building 7, No.6636 Fushou East Street, Kuiwen District, Weifang	There are 2 sub-branches under it
12	Laiwu Branch	No.57, Wanfu North Road, Laicheng District, Laiwu	–
13	Linyi Branch	Building 9, Hongxing International Plaza, Intersection of Jinan Road and Xiaohe Road, Beicheng New District, Linyi	–
14	Jining Branch	Welfare Lottery Building, No. 24 Hongxing Middle Road, Jining	–

In compliance with the domestic and overseas regulations and the need of corporate governance practices, the Bank has been continuously committed to establishing a regulated, market-oriented and transparent corporate governance mechanism and promoting the independent operation, effective check and balance, cooperation and coordinate operation of various governance entities, so as to promote the continuous and healthy development of the Bank through efficient corporate governance.

During the Reporting Period, the Bank completed the reshuffle of the Board of Directors and Supervisors, and the composition of the new Board of Directors and Supervisors and the proportion of Directors and Supervisors of various classes were in line with domestic and overseas regulatory requirements; increased the number of special committee meetings of the Board of Directors, enriched the contents of the meetings, strengthened its professional deliberation efficiency, thereby to improve the rational decision-making level of the Board of Directors, and play a central role of the Board of Directors in corporate governance; organized independent Directors to participate in the preparation of strategic planning, conduct special investigations, and provide constructive opinions; deepened the supervision function of the Board of Supervisors, arranged Supervisors to attend special committee meetings of the Board of Directors and explore the whole process supervision mode, so as to continuously improve the quality and efficiency of the Bank's corporate governance.

7.1 CONVENING OF SHAREHOLDERS' GENERAL MEETING

During the Reporting Period, the Bank convened 1 shareholders' general meeting, including the 2017 annual general meeting, the 2018 first class meeting for domestic shareholders and the 2018 first class meeting for H shareholders convened on 15 May 2018. The notices, organization, convening and voting procedures of the aforementioned meetings were all in compliance with the relevant requirements of the Company Law, the Articles of Association and the Hong Kong Listing Rules. For details of the meetings, please refer to the poll results announcements published by the Bank on the date of the meetings.

7.2 CONVENING OF MEETINGS OF THE BOARD AND SPECIAL COMMITTEES

During the Reporting Period, the Board of Directors convened 8 meetings, of which 2 were on-site meetings and 6 were conference meetings, considering 33 resolutions and receiving 31 reports in total. Special committees of the Board of Directors convened 22 meetings, including 2 meetings of the strategy committee, 3 meetings of the risk management and consumer rights protection committee, 4 meetings of the audit committee, 3 meetings of the remuneration committee, 2 meetings of the nomination committee, 5 meetings of the related party transactions control committee and 3 meetings of the information technology committee, considering 26 resolutions and receiving 27 reports in total.

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

During the Reporting Period, the Board of Supervisors convened 4 meetings, of which 2 were on-site meetings and 2 were conference meetings, considering 16 resolutions, receiving 29 reports in total. The special committees of the Board of Supervisors convened 3 meetings, including 2 meetings of the supervisory committee and 1 meeting of the nomination and evaluation committee, considering 12 resolutions and receiving 20 reports in total.

The Supervisors were in-attendance at 2 on-site meetings of the Board of Directors and attended 1 shareholders' general meeting.

7.4 RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors 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. The Board of Directors is also responsible for explicitly determining the acceptable risk level, ensuring the senior management to adopt necessary risk control measures, and supervising the senior management on their monitoring and assessment of the adequacy and effectiveness of the risk management and internal control systems.

The Board of Directors 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 risk management and internal control, the co-ordination of audit on internal control and other relevant matters.

The Board of Supervisors is responsible for supervising the Board of Directors and senior management in improving the risk management and internal control systems; supervising the performance of risk management and internal control duties by the Board of Directors, senior management and their members.

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

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

During the Reporting Period, the Bank adhered to the "Weekly Inspection Practice" senior management inspection system and regular compliance inspection system. In the first half of the year, the Bank conducted a total of 21 inspections, and detected that there were internal control management and system implementation issues and potential risk hazards, and such issues were timely rectified; continued to carry out system construction, created a seamless and useful system, and revised and newly formulated 61 systems in order to effectively fill the business gaps and internal control management loopholes; completed internal audit projects such as the replacement audit of the sub-branches by the virtual sub-branches, performance appraisal and sound remuneration special audit, economy responsibility audit and post-branch evaluation; convened two "internal control assessment meetings" to raise the awareness of risk prevention and control at all levels in order to ensure early detection and timely rectification of potential risk hazards and improve risk management and control level.

7.5 REPRESENTATION ON COMPLIANCE WITH THE HONG KONG LISTING RULES

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

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

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 94 to 187 which comprises the consolidated statement of financial position of Bank of Qingdao Co., Ltd. (the "Bank") and its subsidiary (collectively the "Group") as of 30 June 2018 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting.

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

24 August 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018 - unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

		Six months ended 30 June	
	Note	**2018**	2017
Interest income		**5,453,245**	5,443,758
Interest expense		**(3,716,953)**	(3,099,191)
Net interest income	3	**1,736,292**	2,344,567
Fee and commission income		**373,336**	537,258
Fee and commission expense		**(30,849)**	(19,064)
Net fee and commission income	4	**342,487**	518,194
Net trading gains/(losses)	5	**94,640**	(21,068)
Net gains/(losses) arising from investments	6	**951,247**	(7,849)
Other operating income, net	7	**5,445**	1,350
Operating income		**3,130,111**	2,835,194
Operating expenses	8	**(964,113)**	(792,826)
Impairment losses	9	**(516,515)**	(400,050)
Profit before taxation		**1,649,483**	1,642,318
Income tax expense	10	**(318,607)**	(363,558)
Net profit for the period		**1,330,876**	1,278,760

The notes on pages 102 to 187 form part of this interim financial report.

For the six months ended 30 June 2018 - unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June **2018**	2017
Net profit for the period		**1,330,876**	1,278,760
Net profit attributable to:			
Equity shareholders of the Bank		**1,321,444**	1,275,799
Non-controlling interests		**9,432**	2,961
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Remeasurements of defined benefit plan		**(1,005)**	848
Items that may be reclassified subsequently to profit or loss			
– Net movement in the investment revaluation reserve of available-for-sale financial assets	38(4)	**–**	(405,367)
– Changes in fair value of debt instruments at fair value through other comprehensive income	38(4)	**409,729**	–
– Credit losses of debt instruments at fair value through other comprehensive income	38(4)	**12,770**	–
Other comprehensive income, net of tax		**421,494**	(404,519)
Total comprehensive income		**1,752,370**	874,241
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**1,742,938**	871,280
Non-controlling interests		**9,432**	2,961
Basic and diluted earnings per share (in RMB)	11	**0.33**	0.31

The notes on pages 102 to 187 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2018	31 December 2017
Assets			
Cash and deposits with central bank	12	**30,077,660**	27,097,814
Deposits with banks and other financial institutions	13	**2,467,172**	1,107,946
Placements with banks and other financial institutions	14	**3,695,341**	2,882,727
Financial assets at fair value through profit or loss	15	**26,759,067**	179,078
Derivative financial assets	16	**15,118**	–
Financial assets held under resale agreements	17	**2,723,551**	3,584,200
Loans and advances to customers	18	**104,310,963**	95,514,680
Financial investments at fair value through other comprehensive income	19	**43,339,816**	–
Financial investments measured at amortised cost	20	**75,044,780**	–
Available-for-sale financial assets	21	**–**	79,086,556
Held-to-maturity investments	22	**–**	38,644,926
Receivables	23	**–**	46,678,869
Long-term receivables	25	**6,058,862**	4,076,396
Property and equipment	26	**3,061,334**	3,089,017
Deferred tax assets	27	**1,079,808**	1,084,286
Other assets	28	**3,525,724**	3,249,597
Total assets		**302,159,196**	306,276,092
Liabilities			
Borrowings from central bank	29	**3,107,134**	584,215
Deposits from banks and other financial institutions	30	**22,991,359**	24,901,934
Placements from banks and other financial institutions	31	**7,331,465**	5,774,299
Derivative financial liabilities	16	**32,268**	353,220
Financial assets sold under repurchase agreements	32	**18,900,066**	11,899,583
Deposits from customers	33	**166,199,611**	160,083,783
Income tax payable		**240,245**	57,167
Debt securities issued	34	**48,151,859**	68,632,691
Other liabilities	35	**8,511,752**	7,865,991
Total liabilities		**275,465,759**	280,152,883

The notes on pages 102 to 187 form part of this interim financial report.

As at 30 June 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	**30 June 2018**	31 December 2017
Equity			
Share capital	36	**4,058,713**	4,058,713
Other equity instrument			
Including: preference shares	37	**7,853,964**	7,853,964
Capital reserve	38(1)	**6,826,276**	6,826,276
Surplus reserve	38(2)	**1,203,325**	1,203,325
General reserve	38(3)	**3,969,452**	3,969,452
Other comprehensive income	38(4)	**(41,677)**	(885,449)
Retained earnings	39	**2,322,238**	2,603,573
Total equity attributable to equity shareholders of the Bank		**26,192,291**	25,629,854
Non-controlling interests		**501,146**	493,355
Total equity		**26,693,437**	26,123,209
Total liabilities and equity		**302,159,196**	306,276,092

Approved and authorised for issue by the board of directors on 24 August 2018.

Guo Shaoquan
Legal Representative (Chairman)

Wang Lin
President

Yang Fengjiang
Vice President in charge
of finance function

Meng Dageng
Head of the Planning &
Finance Department

The notes on pages 102 to 187 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Attributable to equity shareholders of Bank								Non-controlling interests	Total equity
		Share capital	Other equity instrument	Capital reserve Note 38(1)	Surplus reserve Note 38(2)	General reserve Note 38(3)	Other comprehensive income Note 38(4)	Retained earnings	Total		
Balance at 31 December 2017		**4,058,713**	**7,853,964**	**6,826,276**	**1,203,325**	**3,969,452**	**(885,449)**	**2,603,573**	**25,629,854**	**493,355**	**26,123,209**
Changes in accounting policies		**–**	**–**	**–**	**–**	**–**	**422,278**	**(791,031)**	**(368,753)**	**(1,641)**	**(370,394)**
Balance at 1 January 2018		**4,058,713**	**7,853,964**	**6,826,276**	**1,203,325**	**3,969,452**	**(463,171)**	**1,812,542**	**25,261,101**	**491,714**	**25,752,815**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**1,321,444**	**1,321,444**	**9,432**	**1,330,876**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**421,494**	**–**	**421,494**	**–**	**421,494**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**421,494**	**1,321,444**	**1,742,938**	**9,432**	**1,752,370**
Appropriation of profit:											
– Cash dividends	39	**–**	**–**	**–**	**–**	**–**	**–**	**(811,748)**	**(811,748)**	**–**	**(811,748)**
Balance at 30 June 2018		**4,058,713**	**7,853,964**	**6,826,276**	**1,203,325**	**3,969,452**	**(41,677)**	**2,322,238**	**26,192,291**	**501,146**	**26,693,437**
Balance at 1 January 2017		4,058,713	–	6,826,276	1,013,649	3,696,090	63,144	1,978,101	17,635,973	–	17,635,973
Profit for the period		–	–	–	–	–	–	1,275,799	1,275,799	2,961	1,278,760
Other comprehensive income		–	–	–	–	–	(404,519)	–	(404,519)	–	(404,519)
Total comprehensive income		–	–	–	–	–	(404,519)	1,275,799	871,280	2,961	874,241
Contribution by shareholders											
– Non-controlling interests of a new subsidiary		–	–	–	–	–	–	–	–	490,000	490,000
Appropriation of profit:											
– Cash dividends	39	–	–	–	–	–	–	(811,742)	(811,742)	–	(811,742)
Balance at 30 June 2017		4,058,713	–	6,826,276	1,013,649	3,696,090	(341,375)	2,442,158	17,695,511	492,961	18,188,472
Balance at 1 July 2017		4,058,713	–	6,826,276	1,013,649	3,696,090	(341,375)	2,442,158	17,695,511	492,961	18,188,472
Profit for the period		–	–	–	–	–	–	624,453	624,453	394	624,847
Other comprehensive income		–	–	–	–	–	(544,074)	–	(544,074)	–	(544,074)
Total comprehensive income		–	–	–	–	–	(544,074)	624,453	80,379	394	80,773
Contribution by shareholders											
– Capital injection by other equity shareholders	37	–	7,853,964	–	–	–	–	–	7,853,964	–	7,853,964
Appropriation of profit:											
– Appropriation to surplus reserve	39	–	–	–	189,676	–	–	(189,676)	–	–	–
– Appropriation to general reserve	39	–	–	–	–	273,362	–	(273,362)	–	–	–
Balance at 31 December 2017		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(885,449)	2,603,573	25,629,854	493,355	26,123,209

The notes on pages 102 to 187 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2018	2017
Cash flows from operating activities		
Profit before taxation	**1,649,483**	1,642,318
Adjustments for:		
Impairment losses	**516,515**	400,050
Depreciation and amortisation	**196,286**	155,292
Accreted interest on credit-impaired/impaired loans	**(29,876)**	(16,874)
Unrealised foreign exchange (gains)/losses	**(59,088)**	18,711
Net gains on disposal of long-term assets	**(40)**	(19)
Dividend income	**(1,100)**	(700)
Losses from changes in fair value	**26,013**	46,938
Net (gains)/losses arising from investment	**(1,312,230)**	8,549
Interest expense on debt securities issued	**1,328,313**	866,929
Interest income generated from non-operating activities	**(2,533,920)**	(2,828,570)
	(219,644)	292,624
Changes in operating assets		
Net increase in deposits with central bank	**(1,001,385)**	(1,675,138)
Net (increase)/decrease in deposits with banks and other financial institutions	**(200,000)**	1,066,566
Net increase in placements with banks and other financial institutions	**(1,065,070)**	(770,000)
Net increase in loans and advances to customers	**(9,896,545)**	(7,552,361)
Net decrease/(increase) in financial assets held under resale agreements	**859,200**	(21,535,860)
Net decrease in financial assets held for trading	**–**	321,321
Net increase in other operating assets	**(2,293,355)**	(2,988,526)
	(13,597,155)	(33,133,998)

The notes on pages 102 to 187 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the six months ended 30 June 2018 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2018	2017
Cash flows from operating activities (continued)		
Changes in operating liabilities		
Net increase/(decrease) in borrowings from central bank	**2,522,919**	(1,964,408)
Net decrease in deposits from banks and other financial institutions	**(1,910,575)**	(23,203,938)
Net increase/(decrease) in placements from banks and other financial institutions	**1,557,166**	(726,758)
Net increase/(decrease) in financial assets sold under repurchase agreements	**7,000,483**	(982,665)
Net increase in deposits from customers	**6,115,828**	15,692,353
Income tax paid	**(148,084)**	(358,287)
Net increase/(decrease) in other operating liabilities	**623,576**	(185,826)
	15,761,313	(11,729,529)
Net cash flows generated from/(used in) operating activities	**1,944,514**	(44,570,903)
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	**52,712,059**	70,489,172
Net cash received from investment gains and interest	**3,748,339**	3,045,391
Proceeds from disposal of property and equipment, intangible assets and other assets	**1,907**	326
Payments on acquisition of investments	**(32,310,321)**	(60,865,866)
Payments on acquisition of property and equipment, intangible assets and other assets	**(112,592)**	(343,466)
Net cash flows generated from investing activities	**24,039,392**	12,325,557

The notes on pages 102 to 187 form part of this interim financial report.

(Expressed in thousands of Renminbi, unless otherwise stated)

		Six months ended 30 June	
	Note	**2018**	2017
Cash flows from financing activities			
Capital contribution from investment to subsidiary		**–**	1,000,000
Proceeds from debt securities issued		**40,540,627**	75,082,063
Repayment of debt securities issued		**(62,010,000)**	(61,360,000)
Interest paid on debt securities issued		**(542,930)**	(392,930)
Dividends paid		**(808,788)**	(354,964)
Net cash flows (used in)/generated from financing activities		**(22,821,091)**	13,974,169
Effect of foreign exchange rate changes on cash and cash equivalents		**131,232**	(7,498)
Net increase/(decrease) in cash and cash equivalents		**3,294,047**	(18,278,675)
Cash and cash equivalents as at 1 January		**9,678,330**	32,398,447
Cash and cash equivalents as at 30 June	40	**12,972,377**	14,119,772
Net cash flows generated from operating activities include:			
Interest received		**2,973,099**	2,710,681
Interest paid		**(2,208,163)**	(2,054,686)

The notes on pages 102 to 187 form part of this interim financial report.

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 formerly 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, and the registered office is located at Building No. 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the People's Republic of China (the "PRC"). The share capital of the Bank is RMB4.059 billion as at 30 June 2018. 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 30 June 2018. 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, financial leasing and other services as approved by the regulatory authority. The background information of subsidiary refers to Note 24. The Bank mainly operates in Shandong Province.

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

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

(1) Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue by the Bank's Board of Directors on 24 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in Note 2(2).

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

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

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

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the Group's statutory annual financial statements for that financial year but is derived from those financial statements.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (continued)

(2) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period. The principal effects of these IFRSs are as follows:

IFRS 15 "Revenue from contracts with customers"

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. An entity may adopt IFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application by adjusting opening balances at that date. Transitional disclosures are different depending on the approach adopted by the entity.

The adoption will not have any material impact on the financial position and the financial result of the Group.

IFRS 9 "Financial instruments"

IFRS 9 Financial Instruments ("IFRS 9") introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets, hedge accounting and disclosure. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis.

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 investments, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity investment is not held for trading and the entity irrevocably elects to designate that investment as FVOCI. If an equity investment is designated as FVOCI, then only dividend income on that investment will be recognised in profit or loss. Gains and losses on that investment will be recognised in other comprehensive income without recycling.

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).

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (continued)

Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss"("ECL") 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, which will result in an early recognition of credit losses.

Hedge accounting

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting.

Disclosure

IFRS 9 requires extensive new disclosures, in particular about hedge accounting, credit risk and expected credit loss.

Transition

The Group is required to adopt IFRS 9 from 1 January 2018. The group plans to use the exemption from restating comparative information and recognises any transition adjustments against the opening balance of net assets at 1 January 2018.

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (continued)

On 1 January 2018, the effects of IFRS 9 on the Group are as follows:

Items:	Classification under IAS 39	Classification under IFRS 9	*Note*	Carrying amount under IAS 39 as at 31 December 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at 1 January 2018
Deposits with banks and other financial institutions	Loans and receivables	Financial assets measured at amortised cost		1,107,946	–	(495)	1,107,451
Placements with banks and other financial institutions	Loans and receivables	Financial assets measured at amortised cost		2,882,727	–	(1,696)	2,881,031
Financial assets held under resale agreements	Loans and receivables	Financial assets measured at amortised cost		3,584,200	–	(1,811)	3,582,389
Interest receivable	Loans and receivables	Financial assets measured at amortised cost		2,039,205	–	(47,785)	1,991,420
Loans and advances to customers	Loans and receivables	Financial assets measured at amortised cost		95,514,680	(2,938,712)	(588,325)	91,987,643
		Financial assets at fair value through other comprehensive income	A	–	2,938,712	12,491	2,951,203
Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss		179,078	(179,078)	–	–
		Financial assets at fair value through other comprehensive income	B	–	179,078	–	179,078
Available-for-sale financial assets	Available-for-sale financial assets	Financial assets at fair value through other comprehensive income	C	79,086,556	(51,658,288)	–	27,428,268
		Financial assets at fair value through profit or loss	D	–	44,311,592	19,868	44,331,460
		Financial assets measured at amortised cost	E	–	7,346,696	428,146	7,774,842
Held-to-maturity investments	Held-to-maturity investments	Financial assets measured at amortised cost		38,644,926	(2,744,464)	(8,140)	35,892,322
		Financial assets at fair value through other comprehensive income	A	–	2,744,464	72,192	2,816,656
Receivables	Loans and receivables	Financial assets measured at amortised cost		46,678,869	(10,844,534)	(155,616)	35,678,719
		Financial assets at fair value through profit or loss	D	–	7,630,671	(72,862)	7,557,809
		Financial assets at fair value through other comprehensive income	A	–	3,213,863	(4,310)	3,209,553
Long-term receivables	Loans and receivables	Financial assets measured at amortised cost		4,076,396	–	(4,466)	4,071,930
Sub-total				273,794,583	–	(352,809)	273,441,774
Others				–	–	(141,050)	(141,050)
Deferred tax assets				1,084,286	–	123,465	1,207,751
Total				274,878,869	–	(370,394)	274,508,475

The Group has adopted IFRS 9 from 1 January 2018. There were a net increase of RMB422 million in other comprehensive income (after tax) and a net decrease of RMB791 million in retained profits (after tax) arising from the new requirements on classification and measurement of financial assets listed above as compared with that recognised under IAS 39.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (continued)

Notes:

A Certain loans and advances to customers held by the Group, and certain debt instruments originally classified as receivables or held-to-maturity investments were held within a business model whose objective on the transition date was to collect contractual cash flows and sell financial assets. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal amount outstanding. Therefore, these assets were classified as financial assets at FVOCI under IFRS 9.

B Certain debt instruments originally classified as financial assets at fair value through profit or loss were held within a business model whose objective on the transition date was to collect contractual cash flows and sell financial assets. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal amount outstanding. Therefore, these assets were classified as financial assets at FVOCI under IFRS 9. The fair value of these debt instruments as at 30 June 2018 was 140 million. Assuming that these financial assets were not reclassified upon transition to IFRS 9, gains arising from changes in their fair value during the current period that would have been recognised in the profit or loss was RMB2 million.

C The reclassified and remeasured financial assets include certain non-trading equity investments (RMB23.25 million) designated irrevocably by the Group as financial assets at FVOCI on the transition date.

D Certain debt instruments originally classified as receivables or available-for-sale financial assets, the contractual cash flows of which were not identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets at FVTPL under IFRS 9.

E Certain debt instruments originally classified as available-for-sale financial assets were held within a business model whose objective on the transition date was to collect contractual cash flows. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets measured at amortised cost under IFRS 9. The fair value of these debt instrument as at 30 June 2018 was 5.845 billion. Assuming that these financial assets were not reclassified upon transition to IFRS 9, gains arising from changes in their fair value during the current period that would have been recognised in other comprehensive income was RMB207 million.

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (continued)

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's impairment allowance balance as at 1 January 2018.

	Allowance for impairment losses under IAS 39 as at 31 December 2017	Reclassification	Remeasurement	Allowance for impairment losses under IFRS 9 as at 1 January 2018
Loans and advances to customers (Note (i))	2,546,699	–	580,566	3,127,265
Financial investments measured at amortised cost	216,000	–	163,755	379,755
Financial investments at fair value through other comprehensive income – debt instruments	–	–	24,831	24,831
Credit commitments	–	–	141,050	141,050
Long-term receivables	68,389	–	4,466	72,855
Others	899	–	4,002	4,901
Total	2,831,987	–	918,670	3,750,657

Note:

(i) Loans and advances to customers include discounted bills which are recognised at fair value through other comprehensive income.

The Group has applied the classification and measurement requirements (including impairment) of IFRS 9 retrospectively. The Group recognised any difference between the previous carrying amount under IAS 39 and the carrying amount at the beginning of the reporting period that includes the date of initial application (on 1 January 2018) in the opening retained earnings or other comprehensive income. Comparative information has not been restated.

The Group does not adopt any issued but not yet effective international financial reporting standards, interpretation and amendments.

(Expressed in thousands of Renminbi, unless otherwise stated)

3 NET INTEREST INCOME

	Six months ended 30 June	
	2018	2017
Interest income arising from		
Deposits with central bank	**188,787**	162,770
Deposits with banks and other financial institutions	**9,671**	23,333
Placements with banks and other financial institutions	**52,706**	34,123
Loans and advances to customers		
– Corporate loans and advances	**1,596,552**	1,483,120
– Personal loans and advances	**711,262**	599,705
– Discounted bills	**104,800**	72,589
Financial assets held under resale agreements	**123,596**	204,224
Investments	**2,534,605**	2,833,578
Long-term receivables	**131,266**	30,316
Sub-total	**5,453,245**	5,443,758
Interest expense arising from		
Deposits from banks and other financial institutions	**(422,665)**	(593,555)
Placements from banks and other financial institutions	**(150,016)**	(76,920)
Deposits from customers	**(1,432,119)**	(1,239,495)
Financial assets sold under repurchase agreements	**(296,938)**	(305,577)
Debt securities issued	**(1,328,313)**	(866,929)
Others	**(86,902)**	(16,715)
Sub-total	**(3,716,953)**	(3,099,191)
Net interest income	**1,736,292**	2,344,567

Notes:

(1) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on tier-two capital bonds issued.

(2) Total interest income arising from financial assets that are not at fair value through profit or loss for the six months ended 30 June 2018 amounted to RMB5,453 million (six months ended 30 June 2017 amounted to RMB5,439 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the six months ended 30 June 2018 amounted to RMB3,717 million (six months ended 30 June 2017 amounted to RMB3,099 million).

(3) Interest income arising from loans and advances to customers included RMB29.88 million for the six months ended 30 June 2018 with respect to the accreted interest on credit-impaired loans. Interest income arising from loans and advances to customers included RMB16.87 million for the six months ended 30 June 2017 with respect to the accreted interest on impaired loans.

(Expressed in thousands of Renminbi, unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2018	2017
Fee and commission income		
Wealth management service fees	**144,994**	285,869
Agency service fees	**128,835**	105,372
Settlement fees	**16,423**	50,009
Custody and bank card service fees	**17,402**	25,044
Others	**65,682**	70,964
Sub-total	**373,336**	537,258
Fee and commission expense	**(30,849)**	(19,064)
Net fee and commission income	**342,487**	518,194

5 NET TRADING GAINS/(LOSSES)

		Six months ended 30 June	
	Note	**2018**	2017
Change in fair value of derivative financial instruments		**336,070**	(47,944)
Net foreign exchange gains or losses	(i)	**(244,277)**	26,630
Net gains or losses from debt securities and others	(ii)	**2,847**	246
Total		**94,640**	(21,068)

Notes:

(i) Net foreign exchange gains or losses include exchange gains or losses from the purchase and sale of foreign currency spot, realized gains arising from currency derivative financial instruments and gains or losses arising from translation of foreign currency monetary assets and liabilities into RMB, etc.

(ii) Net gains or losses from debt securities mainly include gains or losses arising from the buying and selling of, and changes in the fair value of financial investments held for trading.

6 NET GAINS/(LOSSES) ARISING FROM INVESTMENTS

	Six months ended 30 June	
	2018	2017
Dividend income	**1,100**	700
Net gains on financial assets at fair value through profit or loss	**944,090**	–
Net gains on disposal of financial assets at fair value through other comprehensive income	**6,057**	–
Net losses on disposal of available-for-sale financial assets	**–**	(9,235)
Others	**–**	686
Total	**951,247**	(7,849)

(Expressed in thousands of Renminbi, unless otherwise stated)

7 OTHER OPERATING INCOME, NET

	Six months ended 30 June	
	2018	2017
Government grants	**3,868**	100
Rental income	**1,033**	1,033
Net gains on disposal of property, equipment and other assets	**40**	19
Others	**504**	198
Total	**5,445**	1,350

8 OPERATING EXPENSES

	Six months ended 30 June	
	2018	2017
Staff costs		
– Salaries, bonuses and allowances	**311,516**	239,863
– Social insurance and housing allowances	**40,956**	33,969
– Staff welfare expenses	**28,579**	31,136
– Staff education expenses	**7,923**	5,938
– Labor union expenses	**6,338**	4,780
– Post-employment benefits		
– defined contribution plans	**69,205**	66,452
– Supplementary retirement benefits	**9,380**	4,780
Sub-total	**473,897**	386,918
Property and equipment expenses		
– Depreciation and amortization	**196,286**	155,292
– Electronic equipment operating expenses	**39,309**	22,283
– Maintenance	**32,203**	23,187
Sub-total	**267,798**	200,762
Tax and surcharges	**35,454**	28,894
Other general and administrative expenses	**186,964**	176,252
Total	**964,113**	792,826

(Expressed in thousands of Renminbi, unless otherwise stated)

9 IMPAIRMENT LOSSES

	Six months ended 30 June	
	2018	2017
Loans and advances to customers	**526,238**	349,636
Deposits with banks and other financial institutions	**474**	–
Placements with banks and other financial institutions	**8,089**	–
Financial assets held under resale agreements	**(362)**	–
Financial investments measured at amortised cost	**(36,311)**	–
Financial investments at fair value through other comprehensive income	**7,438**	–
Receivables	**–**	20,000
Long-term receivables	**16,135**	27,226
Credit commitments	**(15,836)**	–
Others	**10,650**	3,188
Total	**516,515**	400,050

10 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

		Six months ended 30 June	
	Note	**2018**	2017
Current tax		**331,162**	429,091
Deferred tax	27(2)	**(12,555)**	(65,533)
Total		**318,607**	363,558

(Expressed in thousands of Renminbi, unless otherwise stated)

10 INCOME TAX EXPENSE (continued)

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

	Six months ended 30 June	
	2018	2017
Profit before taxation	**1,649,483**	1,642,318
Statutory tax rate	**25%**	25%
Income tax calculated at statutory tax rate	**412,371**	410,580
Tax effect of non-deductible expenses for tax purpose		
– Entertainment expenses	**1,409**	1,303
– Annuity	**3,723**	5,644
– Others	**2,219**	2,090
	7,351	9,037
Tax effect of non-taxable income for tax purpose (Note (i))	**(101,115)**	(56,059)
Income tax	**318,607**	363,558

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, etc.

11 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share was computed by dividing the profit for the period 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 period 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.

		Six months ended 30 June	
	Note	**2018**	2017
Weighted average number of ordinary shares (in thousands)	11(1)	**4,058,713**	4,058,713
Net profit attributable to equity shareholders of the Bank		**1,321,444**	1,275,799
Less: dividends on preference shares declared		**–**	–
Net profit attributable to ordinary shareholders of the Bank		**1,321,444**	1,275,799
Basic and diluted earnings per share (in RMB)		**0.33**	0.31

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

	Six months ended 30 June	
	2018	2017
Number of ordinary shares as at 1 January	**4,058,713**	4,058,713
Increase in weighted average number of ordinary shares in current period	**–**	–
Weighted average number of ordinary shares	**4,058,713**	4,058,713

(Expressed in thousands of Renminbi, unless otherwise stated)

12 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	**30 June 2018**	31 December 2017
Cash on hand		**605,639**	608,001
Deposits with central bank			
– Statutory deposit reserves	12(1)	**21,784,583**	21,000,530
– Surplus deposit reserves	12(2)	**7,428,492**	5,447,669
– Fiscal deposits		**258,946**	41,614
Sub-total		**29,472,021**	26,489,813
Total		**30,077,660**	27,097,814

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

	30 June 2018	31 December 2017
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)

13 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2018	31 December 2017
In Mainland China		
– Banks	**2,122,555**	759,466
– Other financial institutions	**5,343**	–
Outside Mainland China		
– Banks	**340,243**	348,480
Sub-total	**2,468,141**	1,107,946
Less: Provision for impairment losses	**(969)**	–
Total	**2,467,172**	1,107,946

14 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2018	31 December 2017
In Mainland China		
– Banks	**2,150,395**	2,785,667
– Other financial institutions	**1,554,731**	97,060
Sub-total	**3,705,126**	2,882,727
Less: Provision for impairment losses	**(9,785)**	–
Total	**3,695,341**	2,882,727

(Expressed in thousands of Renminbi, unless otherwise stated)

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018	31 December 2017
Debt securities held for trading purpose		
Issued by the following institutions in Mainland China		
– Banks and other financial institutions	–	138,232
– Corporate entities	–	40,846
Sub-total	–	179,078
Asset management plans	9,960,726	–
Wealth management products issued by financial institutions	5,918,355	–
Trust fund plans	4,729,568	–
Investment funds	6,150,418	–
Total	26,759,067	179,078
Unlisted	26,759,067	179,078

16 DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2018			31 December 2017		
	Nominal amount	Fair value Assets	Fair value Liabilities	Nominal amount	Fair value Assets	Fair value Liabilities
Foreign exchange rate derivatives:						
– Currency swap	2,646,640	15,118	(32,268)	8,233,092	–	(353,220)
Total	2,646,640	15,118	(32,268)	8,233,092	–	(353,220)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	30 June 2018	31 December 2017
In Mainland China		
– Banks	**2,513,000**	3,384,400
– Other financial institutions	**212,000**	199,800
Sub-total	**2,725,000**	3,584,200
Less: Provision for impairment losses	**(1,449)**	–
Total	**2,723,551**	3,584,200

(2) Analysed by type of security held

	30 June 2018	31 December 2017
Debt securities	**2,725,000**	3,584,200
Sub-total	**2,725,000**	3,584,200
Less: Provision for impairment losses	**(1,449)**	–
Total	**2,723,551**	3,584,200

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	30 June 2018	31 December 2017
Measured at amortised cost:		
Corporate loans and advances		
– Corporate loans	**69,941,382**	64,363,848
– Discounted bills	**–**	2,951,203
Sub-total	**69,941,382**	67,315,051
Personal loans and advances		
– Residential mortgage	**26,092,044**	24,128,570
– Personal business loans	**2,787,559**	3,265,881
– Personal consumption loans	**1,902,618**	1,746,965
– Others	**1,525,316**	1,604,912
Sub-total	**32,307,537**	30,746,328
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost		
– 12-month ECL	**(1,116,470)**	–
– lifetime ECL – not credit-impaired loans	**(949,769)**	–
– lifetime ECL – credit-impaired loans	**(807,168)**	–
– Individually assessed	**–**	(559,720)
– Collectively assessed	**–**	(1,986,979)
Total provision for impairment losses	**(2,873,407)**	(2,546,699)
Measured at fair value through other comprehensive income:		
Corporate loans and advances		
– Discounted bills	**4,935,451**	–
Net loans and advances to customers	**104,310,963**	95,514,680

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by economic sector

	30 June 2018		
	Amount	**Percentage**	**Loans and advances secured by collaterals**
Manufacturing	**19,716,626**	**18.40%**	**5,132,418**
Construction	**10,716,478**	**10.00%**	**3,750,737**
Water conservancy, environment and public utility management	**9,521,638**	**8.88%**	**4,653,452**
Wholesale and retail trade	**8,191,986**	**7.64%**	**5,422,400**
Renting and business activities	**7,924,665**	**7.39%**	**4,233,202**
Real estate	**4,945,039**	**4.61%**	**3,973,439**
Production and supply of electric and heating power, gas and water	**4,151,233**	**3.87%**	**869,344**
Financial services	**3,693,154**	**3.45%**	**579,534**
Transportation, storage and postal services	**2,390,487**	**2.23%**	**506,977**
Others	**3,625,527**	**3.39%**	**1,640,914**
Sub-total of corporate loans and advances	**74,876,833**	**69.86%**	**30,762,417**
Personal loans and advances	**32,307,537**	**30.14%**	**29,197,123**
Gross loans and advances to customers	**107,184,370**	**100.00%**	**59,959,540**

	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 conservancy, 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

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	30 June 2018					
	Credit-impaired loans and advances	**12-month ECL**	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Impairment losses charged /(released) during the period**	**Written-off during the period**
Manufacturing	**1,196,123**	**164,915**	**752,301**	**362,112**	**430,204**	**439,298**
Construction	**82,715**	**182,068**	**31,369**	**53,802**	**(91,686)**	**10,000**

	31 December 2017				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment losses charged /(released) during the year	Written-off during the year
Manufacturing	748,086	277,897	786,625	1,150,544	825,124

(3) *Analysed by type of collateral*

	30 June 2018	31 December 2017
Unsecured loans	**11,784,640**	10,323,398
Guaranteed loans	**35,440,190**	36,089,725
Loans secured by mortgages	**43,260,493**	40,096,655
Pledged loans	**16,699,047**	11,551,601
Gross loans and advances to customers	**107,184,370**	98,061,379

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

(4) Overdue loans analysed by overdue period

	30 June 2018				
	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	**137,772**	**4,840**	**681**	**47,173**	**190,466**
Guaranteed loans	**1,887,335**	**996,248**	**533,979**	**31,890**	**3,449,452**
Loans secured by mortgages	**229,121**	**119,567**	**360,414**	**58,739**	**767,841**
Pledged loans	**–**	**6,000**	**–**	**–**	**6,000**
Total	**2,254,228**	**1,126,655**	**895,074**	**137,802**	**4,413,759**
As a percentage of gross loans and advances to customers	**2.10%**	**1.05%**	**0.84%**	**0.13%**	**4.12%**

	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 mortgages	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%

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)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

(i) Provision for impairment losses of loans and advances to customers measured at amortised cost are as follows:

	30 June 2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired (Note (i))	Total
Gross loans and advances to customers measured at amortised cost	**93,640,933**	**6,428,944**	**2,179,042**	**102,248,919**
Less: Provision for impairment losses	**(1,116,470)**	**(949,769)**	**(807,168)**	**(2,873,407)**
Net loans and advances to customers measured at amortised cost	**92,524,463**	**5,479,175**	**1,371,874**	**99,375,512**

(ii) Provision for impairment losses on loans and advances to customers at fair value through other comprehensive income are as follows:

	30 June 2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired (Note (i))	Total
Gross/Net loans and advances to customers at fair value through other comprehensive income	**4,935,451**	**–**	**–**	**4,935,451**
Provision for impairment losses through other comprehensive income	**(23,777)**	**–**	**–**	**(23,777)**

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

	31 December 2017				
	Loans and advances for which provision are collectively assessed (Note (ii))	Impaired loans and advances (Note (iii)) for which provision are collectively assessed	Impaired loans and advances (Note (iii)) for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
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	

Notes:

(i) The loans and advances are "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the loans and advances have occurred. Evidence that loans and advances are credit-impaired includes the following observable data: significant financial difficulty of the borrower or issuer; a breach of contract, such as a default or delinquency in interest or principal payments; for economic or contractual reasons relating to the borrower's financial difficulty, the Group having granted to the borrower a concession that otherwise would not consider; it is probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or debts overdue more than 90 days.

(ii) 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.

(iii) 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).

(iv) The definitions of the loan classifications, stated in Notes (ii) and (iii) above, are set out in Note 43(1).

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

(6) Movements of provision for impairment losses

For the six months ended 30 June 2018, movements of the provision for impairment losses on loans and advances to customers are as follows:

(i) Movements of provision for impairment losses of loans and advances to customers measured at amortised cost are as follows:

	Six months ended 30 June 2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	1,550,587	717,619	844,871	3,113,077
Transfer from/(to)				
– 12-month ECL	–	30,314	14,728	45,042
– Lifetime ECL				
– not credit-impaired loans	(30,314)	–	76,696	46,382
– Lifetime ECL				
– credit-impaired loans	(14,728)	(76,696)	–	(91,424)
(Release)/Charge for the period	(389,075)	278,532	627,192	516,649
Write-offs and transfer out	–	–	(744,140)	(744,140)
Recoveries of loans and advances written off and others	–	–	(12,179)	(12,179)
As at 30 June 2018	1,116,470	949,769	807,168	2,873,407

For the six months ended 30 June 2018, the Group did not have purchased or originated credit-impaired financial assets.

Movements of gross loans and advances to customers measured at amortised cost are as follows:

	Six months ended 30 June 2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	88,055,657	5,063,973	1,990,547	95,110,177
Transfer from/(to)				
– 12-month ECL	–	1,822,478	239,855	2,062,333
– Lifetime ECL				
– not credit-impaired loans	(1,822,478)	–	800,898	(1,021,580)
– Lifetime ECL				
– credit-impaired loans	(239,855)	(800,898)	–	(1,040,753)
New loans and advances	21,129,657	576,668	19,700	21,726,025
Write-offs and transfer out	–	–	(744,140)	(744,140)
Loan recoveries	(13,482,048)	(233,277)	(127,818)	(13,843,143)
As at 30 June 2018	93,640,933	6,428,944	2,179,042	102,248,919

(Expressed in thousands of Renminbi, unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

(ii) Movements of the provision for impairment losses on loans and advances to customers at fair value through other comprehensive income are as follows:

	Six months ended 30 June 2018			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2018	**14,188**	**–**	**–**	**14,188**
Charge for the period	**9,589**	**–**	**–**	**9,589**
As at 30 June 2018	**23,777**	**–**	**–**	**23,777**

In 2017, movements of the provision for impairment losses on loans and advances to customers are as follows:

	2017			
	Provision for loans and advances	Provision for impaired loans and advances		
	which are collectively assessed	which are collectively assessed	which are individually assessed	Total
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

(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	30 June 2018
Debt securities issued by the following institutions in Mainland China		
– Government		**5,116,490**
– Policy banks		**11,212,278**
– Banks and other financial institutions		**11,543,870**
– Corporate entities		**12,591,804**
Sub-total		**40,464,442**
Asset management plans		**2,852,124**
Equity investments	19(1)	**23,250**
Total		**43,339,816**
Unlisted		**43,339,816**

(1) The Group holds a number of unlisted equity investments which are not held for trading as long-term investments. They are not to be sold in short-term and no pattern of short-term profit exists. The Group designates them as financial investments at fair value through other comprehensive income, and the details are as follows:

	Six months ended 30 June 2018					
Investees	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Percentage of shareholding in investees (%)	Cash dividend for the period
China UnionPay Co., Ltd.	**13,000**	**–**	**–**	**13,000**	**0.34**	**1,100**
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	**10,000**	**–**	**–**	**10,000**	**2.99**	**–**
Clearing Center for City Commercial Banks	**250**	**–**	**–**	**250**	**0.83**	**–**
Total	**23,250**	**–**	**–**	**23,250**		**1,100**

For the six months ended 30 June 2018, the Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earning.

(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

(2) For the six months ended 30 June 2018, movements of the provision for impairment losses on debt instruments of financial investments at fair value through other comprehensive income are as follows:

	Six months ended 30 June 2018			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2018	**18,579**	**6,252**	**–**	**24,831**
Transfer from/(to)				
– 12-month ECL	**–**	**(11)**	**–**	**(11)**
– Lifetime ECL				
– not credit-impaired	**11**	**–**	**–**	**11**
Charge for the period	**2,477**	**4,961**	**–**	**7,438**
As at 30 June 2018	**21,067**	**11,202**	**–**	**32,269**

Provision for impairment losses on debt instruments of financial investments at fair value through other comprehensive income is recognised in other comprehensive income, and any impairment loss or gain is recognised in the profit or loss without decreasing the carrying amount of financial investments presented in the statement of financial position. As at 30 June 2018, the Group did not have financial investments at fair value through other comprehensive income that were credit-impaired.

20 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

	Note	**30 June 2018**
Debt securities issued by the following institutions in Mainland China		
– Government		**9,808,739**
– Policy banks		**15,433,720**
– Banks and other financial institutions		**10,312,553**
– Corporate entities		**1,536,342**
Sub-total		**37,091,354**
Asset management plans		**25,834,699**
Trust fund plans		**8,879,296**
Beneficiary rights in margin financing		**570,000**
Beneficiary certificates		**3,012,876**
Gross amount		**75,388,225**
Less: Provision for impairment losses	20(2)	**(343,445)**
Total		**75,044,780**

(1) The debt securities measured at amortised cost, asset management plans, trust fund plans, beneficiary rights in margin financing and beneficiary certificates are unlisted investments.

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST (continued)

(2) For the six months ended 30 June 2018, movements of the allowance for impairment losses on financial investments measured at amortised cost are as follows:

	Six months ended 30 June 2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	379,756	–	–	379,756
Transfer from/(to)				
– 12-month ECL	–	2,335	–	2,335
– Lifetime ECL				
– not credit-impaired	(2,335)	–	–	(2,335)
(Release)/Charge for the period	(45,285)	8,974	–	(36,311)
As at 30 June 2018	332,136	11,309	–	343,445

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Note	31 December 2017
Debt securities	21(1)	30,332,516
Wealth management products issued by financial institutions	21(2)	20,997,129
Asset management plans	21(2)	13,912,231
Investment funds	21(2)	8,634,391
Trust fund plans	21(2)	5,187,039
Equity investment	21(3)	23,250
Total		79,086,556

(1) Debt securities issued by the following institutions:

	31 December 2017
In Mainland China	
– Government	2,708,237
– Policy banks	11,024,741
– Banks and other financial institutions	10,963,707
– Corporate entities	5,635,831
Total	30,332,516
Unlisted	30,332,516

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

(3) 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)

22 HELD-TO-MATURITY INVESTMENTS

	31 December 2017
Debt securities issued by the following institutions in Mainland China	
– Government	11,244,166
– Policy banks	14,748,401
– Banks and other financial institutions	10,888,829
– Corporate entities	1,763,530
Carrying value	38,644,926
Unlisted	38,644,926

23 RECEIVABLES

	31 December 2017
Asset management plans	29,459,861
Trust fund plans	13,530,830
Beneficiary certificates	3,322,063
Beneficiary rights in margin financing	505,720
Others	76,395
Gross amount	46,894,869
Less: provision for impairment losses	(216,000)
Total	46,678,869

(Expressed in thousands of Renminbi, unless otherwise stated)

24 INVESTMENT IN SUBSIDIARY

	30 June 2018	31 December 2017
BQD Financial Leasing Company Limited	**510,000**	510,000

As at 30 June 2018 and 31 December 2017, the subsidiary is as follows:

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

Note: 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.

25 LONG-TERM RECEIVABLE

	30 June 2018	31 December 2017
Minimum finance lease receivables	**6,760,663**	4,631,532
Less: Unearned finance lease income	**(612,811)**	(486,747)
Present value of finance lease receivables	**6,147,852**	4,144,785
Less: Provision for impairment losses		
– 12-month ECL	**(88,990)**	–
– Individually assessed	**–**	–
– Collectively assessed	**–**	(68,389)
Net balance	**6,058,862**	4,076,396

(Expressed in thousands of Renminbi, unless otherwise stated)

25 LONG-TERM RECEIVABLE (continued)

Movements of the provision for impairment losses on long-term receivable are as follows:

	Six months ended 30 June 2018			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2018	**72,855**	**–**	**–**	**72,855**
Charge for the period	**16,135**	**–**	**–**	**16,135**
As at 30 June 2018	**88,990**	**–**	**–**	**88,990**

	2017			
	Provision for long-term receivable which are collectively assessed	Provision for impaired long-term receivable which are collectively assessed	Provision for impaired long-term receivable which are individually assessed	Total
As at 1 January	–	–	–	–
Charge for the year	–	68,389	–	68,389
As at 31 December	–	68,389	–	68,389

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

	30 June 2018			31 December 2017		
	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	**2,695,923**	**(280,488)**	**2,415,435**	1,324,449	(191,009)	1,133,440
1 year to 2 years	**1,622,468**	**(175,604)**	**1,446,864**	1,121,668	(140,598)	981,070
2 years to 3 years	**1,285,351**	**(104,530)**	**1,180,821**	977,168	(92,158)	885,010
3 years to 5 years	**1,156,921**	**(52,189)**	**1,104,732**	1,208,247	(62,982)	1,145,265
Total	**6,760,663**	**(612,811)**	**6,147,852**	4,631,532	(486,747)	4,144,785

(Expressed in thousands of Renminbi, unless otherwise stated)

26 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	Construction In progress	Total
Cost						
As at 1 January 2017	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
Increase	**60**	**30,152**	**2,731**	**5,306**	**–**	**38,249**
Decrease	**(1,701)**	**(1,261)**	**(564)**	**(55)**	**(60)**	**(3,641)**
As at 30 June 2018	**2,873,471**	**513,752**	**61,820**	**84,518**	**210,203**	**3,743,764**
Accumulated depreciation						
As at 1 January 2017	(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)
Increase	**(29,630)**	**(26,527)**	**(3,364)**	**(4,544)**	**–**	**(64,065)**
Decrease	**–**	**1,185**	**536**	**53**	**–**	**1,774**
As at 30 June 2018	**(267,696)**	**(315,838)**	**(43,747)**	**(55,149)**	**–**	**(682,430)**
Net book value						
As at 30 June 2018	**2,605,775**	**197,914**	**18,073**	**29,369**	**210,203**	**3,061,334**
As at 31 December 2017	2,637,046	194,365	18,734	28,609	210,263	3,089,017

The carrying amount of premises with incomplete title deeds of the Group as at at 30 June 2018 was RMB1,666 million (31 December 2017: RMB1,869 million). As at 30 June 2018, 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 RMB1,653 million which was transferred to premises in 2017. Management is in the opinion that the incomplete title deeds would not affect the rights to these assets of the Group.

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

	30 June 2018	31 December 2017
Held in Mainland China		
– Long-term leases (over 50 years)	**17,672**	17,867
– Medium-term leases (10 – 50 years)	**2,585,345**	2,616,327
– Short-term leases (less than 10 years)	**2,758**	2,852
Total	**2,605,775**	2,637,046

(Expressed in thousands of Renminbi, unless otherwise stated)

27 DEFERRED TAX ASSETS

(1) Analysed by nature

	30 June 2018		31 December 2017	
	Deductible temporary differences	**Deferred income tax assets**	Deductible temporary differences	Deferred income tax assets
Provision for impairment losses	**3,235,356**	**808,839**	2,575,636	643,909
Deferred interest income from discounted bills	**131,820**	**32,955**	66,336	16,584
Change in fair value	**622,464**	**155,616**	1,528,548	382,137
Others	**329,592**	**82,398**	166,624	41,656
Total	**4,319,232**	**1,079,808**	4,337,144	1,084,286

(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 2017	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
Changes in accounting policies	**184,651**	**–**	**(96,448)**	**35,262**	**123,465**
As at 1 January 2018	**828,560**	**16,584**	**285,689**	**76,918**	**1,207,751**
Recognised in profit or loss	**(19,721)**	**16,371**	**6,503**	**5,145**	**8,298**
Recognised in other comprehensive income	**–**	**–**	**(136,576)**	**335**	**(136,241)**
As at 30 June 2018	**808,839**	**32,955**	**155,616**	**82,398**	**1,079,808**

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, contingent liabilities, and other accrued expenses, which are deductible against taxable income when actual payment occurs.

(Expressed in thousands of Renminbi, unless otherwise stated)

28 OTHER ASSETS

	Note	30 June 2018	31 December 2017
Interest receivable	28(1)	**2,157,454**	2,039,205
Long-term deferred expense		**568,725**	574,964
Intangible assets	28(2)	**170,661**	197,454
Prepayments		**134,238**	95,001
Precious metals		**113,267**	114,001
Deferred expense		**45,809**	55,941
Repossessed assets		**5,931**	5,931
Others		**330,444**	167,999
Sub-total		**3,526,529**	3,250,496
Less: Provision for impairment losses		**(805)**	(899)
Total		**3,525,724**	3,249,597

(1) Interests receivable

	30 June 2018	31 December 2017
Interest receivable arising from:		
– Investments	**1,599,817**	1,598,609
– Loans and advances to customers	**464,080**	378,281
– Others	**93,557**	62,315
Total	**2,157,454**	2,039,205

(Expressed in thousands of Renminbi, unless otherwise stated)

28 OTHER ASSETS (continued)

(2) Intangible assets

	Six months ended 30 June 2018	2017
Cost		
As at 1 January	**382,281**	326,820
Increase	**7,775**	91,066
Decrease	**–**	(35,605)
As at 30 June/31 December	**390,056**	382,281
Accumulated amortisation		
As at 1 January	**(184,827)**	(155,159)
Increase	**(34,568)**	(65,273)
Decrease	**–**	35,605
As at 30 June/31 December	**(219,395)**	(184,827)
Net value		
As at 1 January	**197,454**	171,661
As at 30 June/31 December	**170,661**	197,454

Intangible assets of the Group mainly include software.

29 BORROWINGS FROM CENTRAL BANK

	30 June 2018	31 December 2017
Borrowings	**2,500,000**	–
Re-discounted bills	**607,134**	584,215
Total	**3,107,134**	584,215

(Expressed in thousands of Renminbi, unless otherwise stated)

30 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2018	31 December 2017
In Mainland China		
– Banks	**9,681,765**	10,162,206
– Other financial institutions	**13,309,594**	14,739,728
Total	**22,991,359**	24,901,934

31 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2018	31 December 2017
In Mainland China		
– Banks	**7,331,465**	5,251,563
Outside Mainland China		
– Banks	**–**	522,736
Total	**7,331,465**	5,774,299

32 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

	30 June 2018	31 December 2017
In Mainland China		
– Central bank	**4,670,000**	–
– Banks	**10,300,530**	11,599,613
– Other financial institutions	**3,929,536**	299,970
Total	**18,900,066**	11,899,583

(2) Analysed by types of collaterals

	30 June 2018	31 December 2017
Debt securities	**18,900,066**	11,899,583
Total	**18,900,066**	11,899,583

(Expressed in thousands of Renminbi, unless otherwise stated)

33 DEPOSITS FROM CUSTOMERS

	30 June 2018	31 December 2017
Demand deposits		
– Corporate deposits	**64,233,929**	65,421,504
– Personal deposits	**18,211,769**	17,935,483
Sub-total	**82,445,698**	83,356,987
Time deposits		
– Corporate deposits	**46,434,921**	41,852,651
– Personal deposits	**36,532,073**	34,290,017
Sub-total	**82,966,994**	76,142,668
Outward remittance and remittance payables	**744,502**	566,193
Fiscal deposits to be transferred	**42,417**	17,935
Total	**166,199,611**	160,083,783
Including:		
Pledged deposits	**8,562,013**	9,140,837

(Expressed in thousands of Renminbi, unless otherwise stated)

34 DEBT SECURITIES ISSUED

	30 June 2018	31 December 2017
Debt securities (Note (i))	15,188,180	18,085,491
Certificates of interbank deposit (Note (ii))	32,963,679	50,547,200
Total	48,151,859	68,632,691

Notes:

(i) The details of debt securities with fixed interest rates issued by the Group 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 matured on 5 March 2018 with annual interest payments. As at 31 December 2017, the fair value of the debts was RMB2.895 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 30 June 2018, the fair value of the debts was RMB2.200 billion (31 December 2017: RMB2.133 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 30 June 2018, the fair value of the debts was RMB3.470 billion (31 December 2017: RMB3.410 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 30 June 2018, the fair value of the debts was RMB0.482 billion (31 December 2017: RMB0.468 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 30 June 2018, the fair value of the debts was RMB2.944 billion (31 December 2017: RMB2.882 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 30 June 2018, the fair value of the debts was RMB0.954 billion (31 December 2017: RMB0.922 billion).

(g) Ten-year tier-two capital bonds were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB3.0 billion in June 2017. The debts will mature on 29 June 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 30 June 2018, the fair value of the debts was RMB2.853 billion (31 December 2017: RMB2.758 billion).

(h) Ten-year tier-two capital bonds 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 30 June 2018, the fair value of the debts was RMB1.901 billion (31 December 2017: RMB1.838 billion).

(ii) The Group issued a number of certificates of interbank deposit with durations from 1 month to 1 year.

As at 30 June 2018 and 31 December 2017, the fair value of outstanding certificates of outstanding interbank deposit was RMB32.999 billion and RMB50.479 billion respectively.

(Expressed in thousands of Renminbi, unless otherwise stated)

35 OTHER LIABILITIES

	Note	30 June 2018	31 December 2017
Interest payable	35(1)	**2,775,223**	2,797,902
Financial liabilities related to precious metals		**2,859,395**	2,859,395
Employee benefits payable	35(2)	**508,620**	699,855
Payable raising from fiduciary activities		**568,316**	299,583
Settlement payable		**761,100**	241,646
Dividend payable		**21,475**	18,517
Taxes payable	35(3)	**18,224**	17,027
Expected credit loss on credit commitments	35(4)	**125,214**	–
Others		**874,185**	932,066
Total		**8,511,752**	7,865,991

(1) Interest payable

	30 June 2018	31 December 2017
Interest payable arising from:		
– Deposits from customers	**2,085,128**	2,094,557
– Deposits and placements from banks and other financial institutions	**270,738**	235,883
– Debt securities issued	**255,864**	459,019
– Financial assets sold under repurchase agreements	**84,064**	2,773
– Others	**79,429**	5,670
Total	**2,775,223**	2,797,902

(2) Employee benefits payable

	30 June 2018	31 December 2017
Salaries, bonuses and allowances payable	**375,003**	582,381
Social insurance and housing allowances payable	**43,991**	43,992
Staff welfare expenses	**1,751**	1,751
Staff education expenses	**10,634**	2,781
Labor union expenses	**14,646**	12,325
Post-employment benefits – defined contribution plans	**145**	145
Supplementary retirement benefits (Note (i))	**62,450**	56,480
Total	**508,620**	699,855

(Expressed in thousands of Renminbi, unless otherwise stated)

35 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 relevant accounting policies.

Supplementary retirement plan

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

(3) Taxes payable

	30 June 2018	31 December 2017
Value added tax payable	**8,098**	12,192
Urban construction tax and surcharges payable	**9,711**	4,586
Others	**415**	249
Total	**18,224**	17,027

(4) Expected credit loss on credit commitments

For the six months ended 30 June 2018, movements of expected credit loss on credit commitments are as follows:

	Six months ended 30 June 2018			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2018	**136,891**	**4,152**	**7**	**141,050**
Transfer from/(to)				
– 12-month ECL	**–**	**18**	**–**	**18**
– Lifetime ECL				
– not credit-impaired	**(18)**	**–**	**–**	**(18)**
(Release)/Charge for the period	**(29,359)**	**13,518**	**5**	**(15,836)**
As at 30 June 2018	**107,514**	**17,688**	**12**	**125,214**

In 2017, the Group did not accrue the expected credit loss on credit commitments.

36 SHARE CAPITAL

Authorised and issued share capital

	30 June 2018	31 December 2017
Number of shares authorised, issued and fully paid at nominal value (in thousands)	**4,058,713**	4,058,713

37 PREFERENCE SHARES

(1) Preference shares outstanding at the end of the period

Financial instrument outstanding	Issue date	Accounting classification	Dividend rate	Issue price	Amount (in thousands of shares)	In original currency (in thousands)	In RMB (in thousands)	Maturity	Conversion
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.

37 PREFERENCE SHARES (continued)

(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 regulatory authority 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.

Upon the occurrence of a Tier 2 Capital Trigger Event (Earlier of the two situations: (1) regulatory authority 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 regulatory authority 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 regulatory authority 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.

37 PREFERENCE SHARES (continued)

(3) Changes in preference shares outstanding

1 January 2018		**Increase during the period**		**30 June 2018**	
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

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	**30 June 2018**	31 December 2017
Total equity attribute to equity holders of the Bank	**26,192,291**	25,629,854
– Equity attribute to ordinary shareholders of the Bank	**18,338,327**	17,775,890
– Equity attribute to preference shareholders of the Bank	**7,853,964**	7,853,964
Total equity attribute to non-controlling interests	**501,146**	493,355
– Equity attribute to non-controlling interests of ordinary shares	**501,146**	493,355

38 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 30 June 2018 amounted to RMB3.969 billion, which has reached 1.5% of the year ending balance of the Bank's gross risk-bearing assets.

(Expressed in thousands of Renminbi, unless otherwise stated)

38 RESERVES (continued)

(4) Other comprehensive income

	Six months ended 30 June 2018					
Item	Balance at the beginning of the period	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Balance at the end of the period
Items that will not be reclassified to profit or loss						
Including: Remeasurements of defined benefit plan	(3,443)	(1,340)	–	335	(1,005)	(4,448)
Items that may be reclassified to profit or loss						
Including: Changes in fair value from debt instruments at fair value through other comprehensive income	(488,992)	552,633	(6,328)	(136,576)	409,729	(79,263)
Credit losses of debt instruments at fair value through other comprehensive income	29,264	32,813	(15,786)	(4,257)	12,770	42,034
Total	(463,171)	584,106	(22,114)	(140,498)	421,494	(41,677)

	2017					
Item	Balance at the beginning of the period	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Balance at the end of the period
Items that will not be reclassified to profit or loss						
Including: Remeasurements of defined benefit plan	(3,473)	40	–	(10)	30	(3,443)
Items that may be reclassified to profit or loss						
Including: Changes in fair value of available-for-sale financial assets	66,617	(1,166,001)	(98,830)	316,208	(948,623)	(882,006)
Total	63,144	(1,165,961)	(98,830)	316,198	(948,593)	(885,449)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 PROFIT APPROPRIATION

(1) At the Bank's board of directors meeting held on 24 August 2018, the directors approved the dividend distribution plan for overseas preference shares. Dividend for overseas preference shares to be distributed amounts to USD73.5167 million (including tax), calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date is 19 September 2018.

(2) At the 2017 annual general meeting held on 15 May 2018, the shareholders 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).

(3) 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).

40 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents:

	30 June 2018	30 June 2017
Cash	**605,639**	604,465
Surplus deposit reserves with central bank	**7,428,492**	7,326,378
Original maturity within three months:		
– Deposits with banks and other financial institutions	**2,268,141**	1,777,192
– Placements with banks and other financial institutions	**2,272,043**	3,026,197
– Investments	**398,062**	500,057
– Financial assets held under resale agreements	**–**	885,483
Total	**12,972,377**	14,119,772

41 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")	624,754	15.39%	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

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 2017	622,307	15.33%	503,556	12.41%	409,693	10.09%	–	–	218,692	5.39%
Increase	–	–	–	–	–	–	–	–	–	–
As at 30 June 2017	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%
Increase	**845**	**0.02%**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
As at 30 June 2018	**624,754**	**15.39%**	**503,556**	**12.41%**	**409,693**	**10.09%**	**301,800**	**7.44%**	**218,692**	**5.39%**

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Changes in registered capital of major shareholders

	Currency	30 June 2018	31 December 2017
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**	1 HKD
Haier Air-Conditioning	RMB	**356 Million**	356 Million

(b) Subsidiary of the Bank

The detailed information of the Bank's subsidiary is set out in Note 24.

(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 from customers, deposits and placements with/from banks and other financial institutions, 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)

41 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	Companies controlled by key management personnel (Note (i)) (Other than shareholders and its group above)	Others	Total	Proportion to gross amount/ balance of similar transactions
As at 30 June 2018								
On-balance sheet items:								
Deposits with banks and other financial institutions	5,482	–	–	–	–	–	5,482	0.22%
Placements with banks and other financial institutions	–	–	800,000	–	–	–	800,000	21.59%
Financial assets at fair value through profit or loss	–	–	–	2,310,664	–	–	2,310,664	8.64%
Loans and advances to customers (Note (ii))	–	500,000	–	–	474,413	14,910	989,323	0.92%
Financial investments at fair value through other comprehensive income	–	–	–	–	330,368	–	330,368	0.76%
Financial investments measured at amortised cost (Note (iv))	–	–	1,720,000	–	–	–	1,720,000	2.28%
Interest receivable	–	729	8,583	–	4,426	28	13,766	0.64%
Deposits from banks and other financial institutions	–	–	235,710	–	1,063	–	236,773	1.03%
Deposits from customers	61,260	45,194	336,554	–	353,345	62,417	858,770	0.52%
Interest payable	24	142	1,173	–	235	1,074	2,648	0.10%
Off-balance sheet items:								
Letters of guarantees (Note (v))	–	–	397,464	–	–	–	397,464	11.15%

	ISP and its group	Qingdao Conson and its group	Haier Investment/ Haier Air-conditioning and its group	AMTD and its group	Companies controlled by key management personnel (Note (i)) (Other than shareholders and its group above)	Others	Total	Proportion to gross amount/ balance of similar transactions
Six months ended 30 June 2018								
Interest income	2,475	25,748	44,478	–	17,061	234	89,996	1.65%
Interest expense	516	384	991	–	1,619	446	3,956	0.11%
Fee and commission income	–	–	12,104	–	–	–	12,104	3.24%
Other operating losses	–	–	–	–	345	–	345	25.07%

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

	ISP and its group	Qingdao Conson and its group	Haier Investment/ Haier Air-conditioning and its group	AMTD and its group	Companies controlled by key management personnel (Note (i)) (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 (ii))	–	1,279,000	–	–	515,000	6,851	1,800,851	1.84%
Receivables (Note (iii))	–	–	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%

	ISP and its group	Qingdao Conson and its group	Haier Investment/ Haier Air-conditioning and its group	Companies controlled by key management personnel (Note (i)) (Other than shareholders and its group above)	Others	Total	Proportion to gross amount/ balance of similar transactions
Six months ended 30 June 2017							
Interest income	16,924	22,079	40,790	72,602	106	152,501	2.80%
Interest expense	627	1,068	103	1,385	1,156	4,339	0.14%
Fee and commission income	–	–	12,255	–	–	12,255	2.28%
Operating expenses	–	1,415	–	–	–	1,415	0.19%

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Notes:

(i) 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.

(ii) Loans of related parties

	30 June 2018	31 December 2017
Qingdao Conson Financial Holdings Co., Ltd.	**500,000**	1,279,000
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	**450,000**	450,000
Qingdao Baiyang Pharmaceutical Co., Ltd.	**24,413**	–
Aucma Co., Ltd.	**–**	65,000
Individuals	**14,910**	6,851
Total	**989,323**	1,800,851

(iii) Receivables of related parties

	31 December 2017
Qingdao Changyuan Land Co., Ltd.	980,000
Qingdao Haier Real Estate Group Co., Ltd.	800,000
Total	1,780,000

(iv) Financial investments measured at amortised cost of related parties

	30 June 2018
Qingdao Changyuan Land Co., Ltd.	**970,000**
Qingdao Haier Real Estate Group Co., Ltd.	**750,000**
Total	**1,720,000**

(v) Letters of guarantees of related parties

	30 June 2018	31 December 2017
Qingdao Haier Home Integration Co., Ltd.	**393,955**	177,227
Qingdao Youwu Technology Co., Ltd.	**2,509**	–
Haier Information Technology (Shenzhen) Co. Limited	**1,000**	500
Aucma Co., Ltd.	**–**	56
Total	**397,464**	177,783

(Expressed in thousands of Renminbi, unless otherwise stated)

41 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(b) Transactions with subsidiary

	30 June 2018	31 December 2017
Balances at the end of the period/year:		
On-balance sheet items:		
Placements with banks and other financial institutions	**200,000**	–
Interest receivable	**3,833**	–
Deposits from banks and other financial institutions	**157,993**	127,841
Interest payable	**35**	27

	Six months ended 30 June	
	2018	2017
Transactions during the period:		
Interest income	**3,833**	–
Interest expense	**567**	620
Fee and commission income	**9**	5
Other operating income	**3,306**	–

(3) Remuneration of key management personnel

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

	Six months ended 30 June	
	2018	2017
Remuneration of key management personnel	**7,991**	7,610

As at 30 June 2018, outstanding loans to the key management personnel amounted to RMB0.09 million (31 December 2017: RMB1.19 million), which have been included in loans and advances to related parties stated in Note 41(2).

42 SEGMENT REPORTING

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

Segment income, expense, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets, and liabilities are determined before intra-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, etc.

Financial market business

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

42 SEGMENT REPORTING (continued)

	Six months ended 30 June 2018				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	981,280	184,752	541,643	28,617	1,736,292
Internal net interest income/(expense)	565,316	343,801	(904,725)	(4,392)	–
Net interest income/(expense)	1,546,596	528,553	(363,082)	24,225	1,736,292
Net fee and commission income	33,786	129,077	137,343	42,281	342,487
Net trading gains	–	–	94,640	–	94,640
Net (losses)/gains arising from investments	(271)	–	951,518	–	951,247
Other operating income, net	731	982	61	3,671	5,445
Operating income	1,580,842	658,612	820,480	70,177	3,130,111
Operating expenses	(473,014)	(251,660)	(216,726)	(22,713)	(964,113)
Impairment losses	(364,508)	(156,544)	20,672	(16,135)	(516,515)
Profit before taxation	743,320	250,408	624,426	31,329	1,649,483
Other segment information					
– Depreciation and amortisation	(80,786)	(108,411)	(6,701)	(388)	(196,286)
– Capital expenditure	46,344	62,192	3,844	212	112,592

	30 June 2018				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	94,584,530	44,506,683	155,824,607	6,163,568	301,079,388
Deferred tax assets					1,079,808
Total assets					302,159,196
Segment liabilities/Total liabilities	115,630,563	57,574,090	97,135,752	5,125,354	275,465,759
Credit commitments	17,118,416	413,428	–	–	17,531,844

(Expressed in thousands of Renminbi, unless otherwise stated)

42 SEGMENT REPORTING (continued)

	Six months ended 30 June 2017				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	1,001,424	77,265	1,246,172	19,706	2,344,567
Internal net interest income/(expense)	303,059	300,367	(601,728)	(1,698)	–
Net interest income	1,304,483	377,632	644,444	18,008	2,344,567
Net fee and commission income	88,760	221,748	170,157	37,529	518,194
Net trading losses	–	–	(21,068)	–	(21,068)
Net losses arising from investments	–	–	(7,849)	–	(7,849)
Other operating income, net	642	794	52	(138)	1,350
Operating income	1,393,885	600,174	785,736	55,399	2,835,194
Operating expenses	(379,377)	(205,351)	(187,850)	(20,248)	(792,826)
Impairment losses	(282,810)	(70,014)	(20,000)	(27,226)	(400,050)
Profit before taxation	731,698	324,809	577,886	7,925	1,642,318
Other segment information					
– Depreciation and amortisation	(67,063)	(82,816)	(5,380)	(33)	(155,292)
– Capital expenditure	147,607	182,278	11,842	1,739	343,466

	30 June 2017				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	84,428,395	40,247,439	153,774,404	2,723,101	281,173,339
Deferred tax assets					802,892
Total assets					281,976,231
Segment liabilities/Total liabilities	105,661,631	55,790,613	100,617,078	1,718,437	263,787,759
Credit commitments	20,668,594	379,321	–	–	21,047,915

43 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. Credit risk mainly arises from loan portfolio, investment portfolio, guarantees and various other on- and off-balance sheet credit risk exposures.

(a) Management of credit risk

The Committee on Risk Management and Consumer Protection of the Board of Directors monitors the control of credit risk, and regularly reviews related reports on risk profile. Several departments including the Credit Approval Unit, Credit Management Department and Financial Market Business Unit, etc., are responsible for the management of credit risk, which includes the following procedures:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- Establishing the authorisation structure for the approval and renewal of credit facilities and financial market business. Establishing internal procedures for the three business lines of corporate business, retail and financial market, to ensure authorisation and approval of the relative business. The business beyond the scope of approval right of a business line shall be accordingly submitted to the Loan Extension Committee, Investment Business Extension Committee, Large-sum Credit Extension Committee, and finally to the Risk Management Committee of the management.

- Reviewing and assessing credit risk: The authorized approval departments assess all the credit exposures in excess of designated limits, before business facilities are committed to customers. Renewals and reviews of credit facilities and financial market business are subject to the same review process.

- Limiting concentrations of exposure to counterparties, geographies and industries for loans and advances, financial guarantees and similar exposures, and limiting concentrations of exposure by issuer, credit rating band, market liquidity and country for investment securities.

- Developing and maintaining the Group's credit rating system to categorise exposures according to the degree of risk of default. The current risk grading framework consists of 11 grades reflecting varying degrees of risk of default.

43 RISK MANAGEMENT (continued)

- Developing and maintaining the Group's processes for measuring ECL, including:
  - initial approval, regular validation and back-testing of the models used; and
  - incorporation of forward-looking information.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports on the credit quality of local portfolios are provided by Credit Management Department, which may require appropriate corrective action to be taken.
- Providing ongoing training to business units for different levels of credit management personnel, to promote the management of credit risk.

Each business unit is required to implement credit policies and procedures, with credit approval authorities delegated from the Committee on Risk Management and Consumer Protection. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

In addition, 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 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 considers a series of factors 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.

43 RISK MANAGEMENT (continued)

(b) Assessing and measuring provision for impairment loss on a collective basis

When assessing and measuring provision for ECL on a collective basis, the Group has classified the exposures that share similar risk characteristics.

In the process of classification, the Group obtains sufficient information to ensure the reliability of the statistics. When the Group cannot obtain sufficient internal information, the Group will build the model by referencing external supplementary data. Information used to identifying the characteristics for classifying retail loan and corporate loans is listed as follows:

Retail loan

– Product type
– Overdue period
– The five-tier classification of loans
– Repayment methods
– Type of collaterals

Corporate loans

– Credit rating
– Overdue period
– The five-tier classification of loans
– Repayment methods
– Type of collaterals

Retail loans and corporate loans which are not assessed and measured for provision for impairment loss on a collective basis include:

Retail loans

– Credit-impaired loans with the amount over RMB5 million of the current exposure.

Corporate loans

– Credit-impaired loans

(c) Assessing credit risk of financial assets after the amendment of contractual cash flows

In order to achieve maximum collection, the Group may modify the contractual terms of loans due to business negotiations or financial difficulties of the borrowers at times.

Such amendments to the contracts include loan extensions, payment-free period, and provision of a grace period for repayment. If the amendment of the contract does not cause substantial changes and does not result in the derecognition of the original assets, the Group will still make comparison with the default risk under the original contractual terms at their recognition when assessing the default risk of the assets that was subject to amendment at the end of the reporting date. The Group monitors the follow-up of the assets and it may conclude that the credit risk has been significantly decreased through the amendment of the contract, and relative assets may be transferred from stage 3 or stage 2 to stage 1, and the calculation basis of provision for loss is changed from the lifetime ECL to 12 months ECL. The stage of asset could be adjusted after reaching specific standards for at least 6 consecutive months through observation.

43 RISK MANAGEMENT (continued)

(d) Measuring ECL – the parameters, assumptions and valuation techniques

Based on whether there is significant increase in credit risk and whether the asset has suffered credit impairment, the Group measures provision for loss of different assets with 12-month ECL or lifetime ECL respectively. The expected credit loss is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan.

- EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan.

- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies due to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in future years. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment at an earlier period or default). By adopting this approach, the Group can calculate the ECL for each year in future. The results for each year are then discounted to the date of statement of financial position and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from the 12-month PD by using supervisory formula or conditional probability formula.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which varies in different types of products.

- In respect of the financial assets with instalment repayments and bullet repayment, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of excess repayment and prepayments / refinancing made by the borrower.

- As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items at the date of statement of financial position by the credit conversion factor (CCF).

The Group determines the 12-month LGD and lifetime LGD based on the factors that affects post-default recovery. LGD varies in different product types.

- As to financial assets classified as guarantees, the Group determines the LGD according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.

- As to financial assets classified as unsecured, the Group usually determines LGD in the product level due to the limited differences in recoverable amounts from different borrowers.

43 RISK MANAGEMENT (continued)

Forward-looking economic information should be considered when determining the 12-month and lifetime PD, EAD and LGD.

The Group quarterly monitors and reviews assumptions related to the calculation of ECL, including the changes in PD and the value of collaterals under different time limits.

During the six months ended 30 June 2018, there has been no significant changes in the estimate techniques and key assumptions of the Group.

(e) Forward-looking information included in the expected credit loss model

Both the assessment of significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting future economic indicators.

When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under different scenarios by the weight of the corresponding scenarios.

Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.

Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the expected credit losses were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

The maximum exposure to credit risk is represented by the carrying amount of each type of financial assets and the contract amount of credit commitments. In addition to the Group's credit commitments disclosed in Note 45 (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 above credit commitments as at the end of the reporting period is disclosed in Note 45(1).

(Expressed in thousands of Renminbi, unless otherwise stated)

43 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:

	30 June 2018				
	Loans and advances to customers	Long-term receivables	Balances with banks and other financial institutions	Financial assets held under resale agreements	Investments Note (ii)
Credit-impaired (Note (i))					
Gross amount	**2,179,042**	**–**	**–**	**–**	**–**
Provision for impairment losses of credit-impaired financial assets measured at amortized cost	**(807,168)**	**–**	**–**	**–**	**–**
Net balance	**1,371,874**	**–**	**–**	**–**	**–**
Overdue but not credit-impaired (Note (i))					
Within 3 months (inclusive)	**2,249,717**	**–**	**–**	**–**	**–**
Gross balance	**2,249,717**	**–**	**–**	**–**	**–**
Provision for impairment losses of financial assets which are measured at amortized cost and overdue but not credit-impaired	**(301,193)**	**–**	**–**	**–**	**–**
Net balance	**1,948,524**	**–**	**–**	**–**	**–**
Neither overdue nor credit-impaired					
Gross balance	**102,755,611**	**6,147,852**	**6,173,267**	**2,725,000**	**145,463,858**
Provision for impairment losses of financial assets measured at amortized cost which are neither overdue nor credit-impaired	**(1,765,046)**	**(88,990)**	**(10,754)**	**(1,449)**	**(343,445)**
Net balance	**100,990,565**	**6,058,862**	**6,162,513**	**2,723,551**	**145,120,413**
Book value	**104,310,963**	**6,058,862**	**6,162,513**	**2,723,551**	**145,120,413**

(Expressed in thousands of Renminbi, unless otherwise stated)

43 RISK MANAGEMENT (continued)

	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 of impaired assets	1,293,675	–	–	–	–
Provision for impairment losses	(559,720)	–	–	–	–
Net balance	733,955	–	–	–	–
Collectively assessed					
Gross balance of impaired assets	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

43 RISK MANAGEMENT (continued)

Notes:

(i) As at 30 June 2018, the principal amount of the Group's credit-impaired corporate loans and advances to customers was RMB1.834 billion. The fair value of the collaterals held against these loans and advances was RMB258 million. As at 31 December 2017, the principal amount of the Group's impaired corporate loans and advances to customers was RMB1.294 billion. The fair value of collaterals held against these loans and advances was respectively RMB186 million.

As at 30 June 2018, the principal amount of the Group's corporate loans and advances to customers which are overdue but not credit-impaired was RMB2.058 billion. The secured portion of these loans and advances were RMB142 million. The fair value of collaterals held against these loans and advances was RMB388 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 billion. The secured portion of these loans and advances were RMB164 million. The fair value of collaterals held against these loans and advances was RMB388 million.

The fair value of collaterals was determined by the 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, financial investment measured at fair value through other comprehensive income, financial investment measured at amortized cost, 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)

43 RISK MANAGEMENT (continued)

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

	30 June 2018					
	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	30,077,660	864,585	29,213,075	–	–	–
Deposits with banks and other financial institutions	2,467,172	–	2,267,253	199,919	–	–
Placements with banks and other financial institutions	3,695,341	–	2,270,462	1,424,879	–	–
Financial assets held under resale	2,723,551	–	2,723,551	–	–	–
Loans and advances to customers (Note (i))	104,310,963	–	30,256,966	66,062,394	5,867,278	2,124,325
Investments (Note (ii))	145,143,663	23,250	12,390,987	29,015,445	67,776,398	35,937,583
Long-term receivables	6,058,862	–	4,661,014	1,397,848	–	–
Others	7,681,984	7,681,984	–	–	–	–
Total assets	302,159,196	8,569,819	83,783,308	98,100,485	73,643,676	38,061,908
Liabilities						
Borrowings from central bank	3,107,134	–	571,419	2,535,715	–	–
Deposits from banks and other financial institutions	22,991,359	–	13,615,549	9,225,810	150,000	–
Placements from banks and other financial institutions	7,331,465	–	4,419,644	2,785,387	126,434	–
Financial assets sold under repurchase agreements	18,900,066	–	18,900,066	–	–	–
Deposits from customers	166,199,611	744,502	114,918,728	25,857,798	24,326,244	352,339
Debt securities issued	48,151,859	–	15,147,284	21,315,463	4,498,229	7,190,883
Others	8,784,265	5,924,870	–	2,859,395	–	–
Total liabilities	275,465,759	6,669,372	167,572,690	64,579,568	29,100,907	7,543,222
Asset-liability gap	26,693,437	1,900,447	(83,789,382)	33,520,917	44,542,769	30,518,686

(Expressed in thousands of Renminbi, unless otherwise stated)

43 RISK MANAGEMENT (continued)

	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

Notes:

(i) For the Group's loans and advances to customers, the category "Less than three months" as at 30 June 2018 includes overdue loans and advances (net of provision for impairment losses) of RMB3,306 million (31 December 2017: RMB2,527 million).

(ii) Investments include financial assets at fair value through profit or loss, financial investment measured at fair value through other comprehensive income, financial investment measured at amortized cost, available-for-sale financial assets, held-to-maturity investments and receivables.

(Expressed in thousands of Renminbi, unless otherwise stated)

43 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.

Changes in annualized net interest income	**30 June 2018 Increase/ (Decrease)**	31 December 2017 Increase/ (Decrease)
Interest rates increase by 100 bps	**(586,487)**	(399,892)
Interest rates decrease by 100 bps	**586,487**	399,892

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)

43 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:

	30 June 2018			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	30,032,996	40,061	4,603	30,077,660
Deposits with banks and other financial institutions	1,165,878	1,242,126	59,168	2,467,172
Placements with banks and other financial institutions	1,545,936	2,149,405	–	3,695,341
Financial assets held under resale agreements	2,723,551	–	–	2,723,551
Loans and advances to customers	104,257,677	53,286	–	104,310,963
Investments (Note (i))	137,327,151	7,816,512	–	145,143,663
Long-term receivables	6,058,862	–	–	6,058,862
Others	7,588,046	93,763	175	7,681,984
Total assets	290,700,097	11,395,153	63,946	302,159,196
Liabilities				
Borrowings from central bank	3,107,134	–	–	3,107,134
Deposits from banks and other financial institutions	20,675,549	2,315,810	–	22,991,359
Placements from banks and other financial institutions	5,081,821	2,249,644	–	7,331,465
Financial assets sold under repurchase agreements	18,900,066	–	–	18,900,066
Deposits from customers	165,399,134	750,562	49,915	166,199,611
Debt securities issued	48,151,859	–	–	48,151,859
Others	8,518,117	253,462	12,686	8,784,265
Total liabilities	269,833,680	5,569,478	62,601	275,465,759
Net position	20,866,417	5,825,675	1,345	26,693,437
Off-balance sheet credit commitments	16,482,011	826,515	223,318	17,531,844
Derivative financial Instruments (Note (ii))	(2,637,350)	2,646,640	–	9,290

(Expressed in thousands of Renminbi, unless otherwise stated)

43 RISK MANAGEMENT (continued)

	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)

Notes:

(i) Investments include financial assets at fair value through profit or loss, financial investment measured at fair value through other comprehensive income, financial investment measured at amortized cost, 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)

43 RISK MANAGEMENT (continued)

Changes in annualized net profit	**30 June 2018 Increase/ (Decrease)**	31 December 2017 Increase/ (Decrease)
Foreign exchange rate increase by 100 bps	**9,661**	9,747
Foreign exchange rate decrease by 100 bps	**(9,661)**	(9,747)

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 group also needs to comply with statutory requirements on liquidity ratios, and actively carry out lending and investment business. The Group monitors the future cash flow according to its liquidity management policies, and keeps its high liquidity assets at an appropriate level.

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

43 RISK MANAGEMENT (continued)

(a) Maturity analysis

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

	30 June 2018							
	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	22,043,529	8,034,131	–	–	–	–	–	30,077,660
Deposits with banks and other financial institutions	–	1,605,855	661,398	–	199,919	–	–	2,467,172
Placements with banks and other financial institutions	–	–	2,270,462	–	1,424,879	–	–	3,695,341
Financial assets held under resale agreements	–	–	2,723,551	–	–	–	–	2,723,551
Loans and advances to customers	2,182,265	1,135,312	3,099,143	5,916,723	32,882,745	23,569,222	35,525,553	104,310,963
Investments (Note (i))	23,250	–	2,654,693	9,059,550	28,746,016	68,416,355	36,243,799	145,143,663
Long-term receivables	–	–	189,192	447,737	1,743,542	3,678,391	–	6,058,862
Others	5,509,409	5,377	693,980	759,192	712,609	1,417	–	7,681,984
Total assets	29,758,453	10,780,675	12,292,419	16,183,202	65,709,710	95,665,385	71,769,352	302,159,196
Liabilities								
Borrowings from central bank	–	–	116,096	455,323	2,535,715	–	–	3,107,134
Deposits from banks and other financial institutions	–	2,353,121	4,555,870	6,706,558	9,225,810	150,000	–	22,991,359
Placements from banks and other financial institutions	–	–	3,318,814	1,100,830	2,785,387	126,434	–	7,331,465
Financial assets sold under repurchase agreements	–	–	18,900,066	–	–	–	–	18,900,066
Deposits from customers	–	83,869,540	17,417,289	14,376,401	25,857,798	24,326,244	352,339	166,199,611
Debt securities issued	–	–	5,350,208	9,797,076	21,315,463	4,498,229	7,190,883	48,151,859
Others	145,749	876,608	1,275,174	310,375	4,344,910	1,768,999	62,450	8,784,265
Total liabilities	145,749	87,099,269	50,933,517	32,746,563	66,065,083	30,869,906	7,605,672	275,465,759
Net position	29,612,704	(76,318,594)	(38,641,098)	(16,563,361)	(355,373)	64,795,479	64,163,680	26,693,437
Notional amount of derivatives	–	–	–	–	2,646,640	–	–	2,646,640

(Expressed in thousands of Renminbi, unless otherwise stated)

43 RISK MANAGEMENT (continued)

	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

Notes:

(i) Investments include financial assets at fair value through profit or loss, financial investment measured at fair value through other comprehensive income, financial investment measured at amortized cost, 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/credit-impaired, or overdue for more than one month, and the balance not impaired/credit-impaired but overdue within one month is included in "repayable on demand".

(Expressed in thousands of Renminbi, unless otherwise stated)

43 RISK MANAGEMENT (continued)

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

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

	30 June 2018								
	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	–	–	116,200	456,900	2,612,512	–	–	3,185,612	3,107,134
Deposits from banks and other financial institutions	–	2,353,121	4,560,536	6,765,942	9,380,784	174,189	–	23,234,572	22,991,359
Placements from banks and other financial institutions	–	–	3,322,293	1,112,778	2,892,781	133,850	–	7,461,702	7,331,465
Financial assets sold under repurchase agreements	–	–	18,907,909	–	–	–	–	18,907,909	18,900,066
Deposits from customers	–	83,869,540	17,439,608	14,447,494	26,241,786	26,458,039	416,367	168,872,834	166,199,611
Debt securities issued	–	–	5,460,000	9,890,000	22,256,730	6,226,920	8,545,960	52,379,610	48,151,859
Other	145,749	876,608	1,275,174	310,375	4,450,030	1,768,999	62,450	8,889,385	8,751,997
Total non-derivative financial liabilities	145,749	87,099,269	51,081,720	32,983,489	67,834,623	34,761,997	9,024,777	282,931,624	275,433,491

	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 financial 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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

43 RISK MANAGEMENT (continued)

(c) Analysis on contractual undiscounted cash flows of derivatives

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

	30 June 2018							
	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	**–**	**–**	**–**	**–**	**2,400,197**	**–**	**–**	**2,400,197**
cash outflow	**–**	**–**	**–**	**–**	**(2,432,802)**	**–**	**–**	**(2,432,802)**
Total derivative financial instruments	**–**	**–**	**–**	**–**	**(32,605)**	**–**	**–**	**(32,605)**

	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 is ultimately responsible for the Group's operational risk management, and the 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

43 RISK MANAGEMENT (continued)

(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 regulatory authority. 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 regulatory authority by the Group periodically.

As at 30 June 2018 and 31 December 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:

	30 June 2018	31 December 2017
Total core tier-one capital	**18,569,807**	17,931,217
– Share capital	**4,058,713**	4,058,713
– Qualifying portion of capital reserve	**6,826,276**	6,826,276
– Surplus reserve	**1,203,325**	1,203,325
– General reserve	**3,969,452**	3,969,452
– Retained earnings	**2,322,238**	2,603,573
– Other comprehensive income	**(41,677)**	(885,449)
– Qualifying portion of non-controlling interests	**231,480**	155,327
Core tier-one capital adjustments	**(170,661)**	(197,454)
Net core tier-one capital	**18,399,146**	17,733,763
Other tier-one capital	**7,884,828**	7,874,674
Net tier-one capital	**26,283,974**	25,608,437
Tier two capital	**8,414,161**	8,197,676
– Qualifying portions of tier-two capital instruments issued	**7,200,000**	7,200,000
– Surplus provision for loan impairment	**1,152,433**	956,255
– Qualifying portion of non-controlling interests	**61,728**	41,421
Net capital base	**34,698,135**	33,806,113
Total risk weighted assets	**206,676,273**	203,708,884
Core tier-one capital adequacy ratio	**8.90%**	8.71%
Tier-one capital adequacy ratio	**12.72%**	12.57%
Capital adequacy ratio	**16.79%**	16.60%

44 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) Other financial investments 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)

44 FAIR VALUE (continued)

(2) Financial instruments recorded at fair value

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

	30 June 2018			
	Level 1 Note (i)	Level 2 Note (i)	Level 3 Note (i) ~ (ii)	Total
Financial assets at fair value through profit or loss				
– Asset management plans	–	–	9,960,726	9,960,726
– Wealth management products issued by financial institutions	–	–	5,918,355	5,918,355
– Trust fund plans	–	–	4,729,568	4,729,568
– Investment funds	–	6,096,433	53,985	6,150,418
Derivative financial assets	–	15,118	–	15,118
Financial investments at fair value through other comprehensive income				
– Debt securities	–	40,464,442	–	40,464,442
– Asset management plans	–	1,850,237	1,001,887	2,852,124
– Equity investments	–	–	23,250	23,250
Loans and advances to customers at fair value through other comprehensive income	–	–	4,935,451	4,935,451
Total	–	48,426,230	26,623,222	75,049,452
Derivative financial liabilities	–	32,268	–	32,268
Total	–	32,268	–	32,268

(Expressed in thousands of Renminbi, unless otherwise stated)

44 FAIR VALUE (continued)

	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

Note:

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

(Expressed in thousands of Renminbi, unless otherwise stated)

44 FAIR VALUE (continued)

(ii) Movements in Level 3 of the fair value hierarchy

				Total gains or losses for the period		Purchases, issues, disposals and settlements				
Six months ended 30 June 2018	**As at 1 January**	**Transfer into level 3**	**Transfer out of level 3**	**In profit or loss**	**In other comprehensive income**	**Purchases**	**Issues**	**Disposals and settlements**	**As at 30 June**	**Total gains or losses for the period included in profit or loss for assets held at the end of the period**
Financial assets at fair value through profit or loss										
– Investment funds	60,155	–	–	(364)	–	–	–	(5,806)	53,985	(364)
– Asset management plans	10,863,060	–	–	91,259	–	1,628,559	–	(2,622,152)	9,960,726	91,259
– Wealth management products issued by financial institutions	20,992,466	–	–	104,764	–	4,000,000	–	(19,178,875)	5,918,355	104,764
– Trust fund plans	8,456,436	–	–	17,987	–	40,500	–	(3,785,355)	4,729,568	17,987
Financial investments at fair value through other comprehensive income										
– Asset management plans	3,203,033	–	–	137	5,313	–	–	(2,206,596)	1,001,887	–
– Equity investments	23,250	–	–	–	–	–	–	–	23,250	–
Loans and advances to customers at fair value through other comprehensive income	2,941,746	–	–	112,375	10,704	7,052,687	–	(5,182,061)	4,935,451	71,131
Total	46,540,146	–	–	326,158	16,017	12,721,746	–	(32,980,845)	26,623,222	284,777

				Total gains or losses for the year		Purchases, issues, disposals and settlements				
2017	As at 1 January	Transfer into level 3	Transfer out of level 3	In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	As at 31 December	Total gains or losses for the period included in profit or loss for assets held at the end of the period
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

44 FAIR VALUE (continued)

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

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

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

(ii) Loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and receivables

Loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and receivables' estimated fair value represents the amount of estimated future cash flows expected to be received, discounted at current market rates.

(iii) Debt securities financial investments measured at amortised cost and held-to-maturity investments

The fair value for debt securities financial investments measured at amortised cost and 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)

44 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 debt securities financial investments measured at amortised cost, held-to-maturity investments and debt securities issued:

	30 June 2018				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Financial investments measured at amortised cost					
– Debt securities	**37,091,354**	**35,741,018**	**–**	**35,660,021**	**80,997**
Total	**37,091,354**	**35,741,018**	**–**	**35,660,021**	**80,997**
Financial liabilities					
Debt securities issued					
– Debt securities	**15,188,180**	**14,803,043**	**–**	**14,803,043**	**–**
– Certificates of interbank deposit	**32,963,679**	**32,999,332**	**–**	**32,999,332**	**–**
Total	**48,151,859**	**47,802,375**	**–**	**47,802,375**	**–**

	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	–

(Expressed in thousands of Renminbi, unless otherwise stated)

45 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

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

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

	30 June 2018	31 December 2017
Bank acceptances	**12,427,034**	14,892,929
Letters of credit	**1,048,539**	1,887,946
Letters of guarantees	**3,564,043**	2,103,693
Unused credit card commitments	**413,428**	407,964
Loan commitments	**78,800**	128,800
Total	**17,531,844**	19,421,332

The Group may be exposed to credit risk in all the above credit businesses. 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.

Details of accrued the expected credit loss on credit commitments are set out in Note 35(4).

(2) Credit risk-weighted amount

	30 June 2018	31 December 2017
Credit risk-weighted amount of contingent liabilities and commitments	**10,525,863**	9,734,322

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.

(Expressed in thousands of Renminbi, unless otherwise stated)

45 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(3) Operating lease commitments

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

	30 June 2018	31 December 2017
Within one year (inclusive)	**114,741**	110,311
After one year but within five years (inclusive)	**273,441**	277,915
After five years	**93,810**	84,216
Total	**481,992**	472,442

(4) Capital commitments

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

	30 June 2018	31 December 2017
Contracted but not paid for	**249,396**	295,637

(5) Outstanding litigations and disputes

As at 30 June 2018 and 31 December 2017, 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

45 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(6) Bonds redemption obligations

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

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the end of reporting period:

	30 June 2018	31 December 2017
Bonds redemption obligations	**3,915,870**	3,834,175

(7) Pledged assets

	30 June 2018	31 December 2017
Investment securities	**35,907,918**	14,062,133
Total	**35,907,918**	14,062,133

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

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

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 30 June 2018 and 31 December 2017, the Group did not have discounted bills under resale agreements. As at 30 June 2018 and 31 December 2017, 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)

46 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

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

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

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 30 June 2018 and 31 December 2017 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	30 June 2018				
	Financial assets at fair value through profit or loss	Financial investments at fair value through other comprehensive income	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Asset management plans	9,960,726	2,852,124	25,535,417	38,348,267	38,348,267
Trust fund plans	4,727,836	–	8,843,216	13,571,052	13,571,052
Wealth management products issued by financial institutions	5,918,355	–	–	5,918,355	5,918,355
Asset-backed securities	–	1,140,715	37,494	1,178,209	1,178,209
Investment funds	6,150,418	–	–	6,150,418	6,150,418
Total	26,757,335	3,992,839	34,416,127	65,166,301	65,166,301

	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

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.

46 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (continued)

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

The types of unconsolidated structured entities sponsored by the Group mainly include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services to these structured entities. As at 30 June 2018 and 31 December 2017, the carrying amounts of the management fee receivables being recognized are not material.

As at 30 June 2018, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB54.791 billion (31 December 2017: RMB51.044 billion).

In addition, the unconsolidated structured entities sponsored by the Group also include asset-backed securities. As at 30 June 2018, the balances of these asset-backed securities was RMB2 million (31 December 2017: RMB24 million).

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

During the six months ended 30 June 2018, the amount of fee and commission income recognised from the above mentioned structured entities by the Group was RMB29 million (six months ended 30 June 2017: RMB32 million).

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2018 but matured before 30 June 2018 was RMB53.670 billion (six months ended 30 June 2017: RMB48.919 billion).

47 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.

48 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in the statements of financial position as they are not the Group's assets.

As at 30 June 2018, the entrusted loans balance of the Group was RMB8.581 billion (31 December 2017: RMB9.386 billion).

49 SUBSEQUENT EVENTS

The dividend distribution plan for overseas preference shares of the Bank was approved in accordance with the resolution of the Bank's board of directors meeting as disclosed in Note 39.

Up to the approval date of the interim financial report, 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 unaudited interim financial report, and is included herein for information purposes only.

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

1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO

(1) Liquidity coverage ratio

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

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

	As at 30 June 2018	As at 31 December 2017
Qualified and high-quality current assets	**44,952,928**	51,274,632
Net cash outflows in next 30 days	**32,270,122**	29,629,985
Liquidity coverage ratio (RMB and foreign currency)	**139.30%**	173.05%

(2) Leverage ratio

	As at 30 June 2018	As at 31 December 2017
Leverage ratio	**8.21%**	7.88%

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

	30 June 2018			
	US Dollars (RMB equivalent)	**HK Dollars (RMB equivalent)**	**Others (RMB equivalent)**	**Total**
Spot assets	**11,395,153**	**27,175**	**36,771**	**11,459,099**
Spot liabilities	**(5,569,478)**	**(20,575)**	**(42,026)**	**(5,632,079)**
Net long position	**5,825,675**	**6,600**	**(5,255)**	**5,827,020**

	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

The Group has no structural position during the reporting periods.

3 INTERNATIONAL CLAIMS

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

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

	30 June 2018			
	Public sector entities	**Banks and other financial institutions**	**Non-bank private sector**	**Total**
– Asia Pacific	**39,358**	**7,581,353**	**3,491,582**	**11,112,293**
– of which attributed to Hong Kong	**–**	**3,087,757**	**–**	**3,087,757**
– North and South America	**–**	**216,179**	**–**	**216,179**
– Europe	**–**	**31,438**	**–**	**31,438**
	39,358	**7,828,970**	**3,491,582**	**11,359,910**

	31 December 2017			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	289,623	6,231,356	1,777,984	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	6,520,054	1,777,984	8,587,661

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	30 June 2018	31 December 2017
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	**496,518**	280,804
– between 6 months and 1 year (inclusive)	**630,137**	635,442
– over 1 year	**1,032,876**	1,045,334
Total	**2,159,531**	1,961,580
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	**0.46%**	0.29%
– between 6 months and 1 year (inclusive)	**0.59%**	0.64%
– over 1 year	**0.97%**	1.07%
Total	**2.02%**	2.00%

Company:	Bank of Qingdao Co., Ltd. and its subsidiaries as well as branches and sub-branches
Bank:	Bank of Qingdao Co., Ltd. and its branches and sub-branches
CBIRC:	China Banking and Insurance Regulatory Commission
PBOC:	People's Bank of China
Hong Kong Stock Exchange:	The Stock Exchange of Hong Kong Limited
CBRC Qingdao Office:	Qingdao Office of the China Banking Regulatory Commission
Hong Kong Listing Rules:	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Company Law:	Company Law of the People's Republic of China
Articles of Association:	Articles of Association of Bank of Qingdao Co., Ltd.
SFO:	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Reporting Period:	for the six months ended 30 June 2018
RMB:	the lawful currency of the PRC
Model Code:	Model Code of Securities Transactions by the Board of 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 or 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:	Loans granted by the Bank to energy saving and environmental protection projects 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). For definition of "Energy saving and environmental protection project and service loans", please refer 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)
"high pollution, high energy-consumption and over-capacity":	Namely "high energy-consumption, high pollution and over-capacity" industries, including steel, cement, oil refining, tyres, electrolytic aluminium, ships, papermaking and caustic soda industry
MPA:	Macro Prudential Assessment
small and micro enterprises:	including small enterprises, micro enterprises, individual industrial and commercial households, and small and micro business owners.