BANK OF QINGDAO CO., LTD.

2018 ANNUAL REPORT

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

BQD 青岛银行

BANK OF QINGDAO CO., LTD.

2018 Annual Report

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Section I Important Notice, Contents and Definitions

1. The Board of Directors, Board of Supervisors, Directors, Supervisors and senior management of the Bank assure that the information in this annual report contains no false records, misleading statements or material omissions, and severally and jointly take full responsibility for the authenticity, accuracy and completeness of the information in this annual report.

2. The proposals on the 2018 Annual Report of Bank of Qingdao Co., Ltd. and its summary were considered and approved at the 16th meeting of the seventh session of the Board of Directors held on 29 March 2019. There were 15 Directors eligible for attending the meeting, of whom 15 Directors attended the meeting.

3. The Bank's chairman Mr. GUO Shaoquan, president Mr. WANG Lin, vice president in charge of financial work Mr. YANG Fengjiang and head of planning and finance department Mr. MENG Dageng assure the authenticity, accuracy and completeness of the financial reports in this annual report.

4. The 2018 financial statements of the Company prepared in accordance with Accounting Standards for Business Enterprises have been audited by KPMG Huazhen LLP, with standard unqualified auditor's report issued; the 2018 financial statements of the Company prepared in accordance with International Financial Reporting Standards have been audited by KPMG, with unqualified auditor's report issued.

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

6. Profit distribution proposal has been considered and approved by the Board of Directors of the Bank to distribute cash dividend of RMB 0.20 per share (tax inclusive) to all ordinary shareholders of the Bank on the basis of 4,509,690,000 shares, instead of distributing bonus shares and increasing share capital with provident fund. The profit distribution proposal will be submitted to the 2018 annual general meeting for approval.

7. This report contains certain forward-looking statements about the financial conditions, operating results and business developments of the Company. The report uses the words "will", "may", "strive", "plan", "hope", "endeavor", "expect", "aim" 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 and relevant individuals 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.

8. The Company has described in detail the major risks and countermeasures in this report. For details, please refer to the content of risk management set out in section VI.

Definitions

Term	Definition
Company	Bank of Qingdao Co., Ltd. and its subsidiaries and branches
Bank	Bank of Qingdao Co., Ltd. and its branches
CBIRC	China Banking and Insurance Regulatory Commission
CSRC	China Securities Regulatory Commission
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
SZSE	the Shenzhen Stock Exchange
Qingdao Office of CBIRC	Qingdao office of the China Banking and Insurance Regulatory Commission
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Company Law	Company Law of the People's Republic of China
Articles of Association	Articles of Association of the Bank of Qingdao Co., Ltd.
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Reporting Period	the year ended 31 December 2018
RMB	the lawful currency of the PRC
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Hong Kong Listing Rules
Director(s)	director(s) of the Bank
Supervisor(s)	supervisor(s) of the Bank
Board of Directors or Board	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
PRC	The People's Republic of China

Definitions

Interface Banking	A strategic model which facilitates the systematic integration between the business platform of the Bank and the service platform of our partners. Our partners comprise the corporate customers of the Bank, financial institutions and other third-party platforms. Under such model, our partners can satisfy their demands for financial services, while the Bank can identify the business of our partners and acquire their customer resources through systematic integration
Green Credit	The Bank commenced energy saving and environmental protection project and service loans as well as loans complied with Catalog of Projects Backed by Green Bonds (2015 version) issued by the Green Finance Professional Committee of the China Society for Finance and Banking (中國金融學會綠色金融專業委員會). "Energy saving and environmental protection project and service loans" refers to the Notice on Submitting Statistical Table of Situations of Green Credit issued by General Office of the CBIRC (Yin Jian Ban Fa [2013] No. 185)
"High Pollution, High Energy-Consumption and Over-Capacity" Industries	Namely "high energy-consumption, high pollution and over-capacity" industries, mainly including steel, cement, oil high energy-consumption refining, tyres, electrolytic aluminium, ships, papermaking and caustic soda industry
Small and Micro Enterprises	including small and micro enterprises, individual business owners, and the owners of small and micro enterprises

Section II Corporate Information and Key Financial Highlights

I. CORPORATE INFORMATION

Stock abbreviation (A shares)	BQD	**Stock code (A shares)**	002948
Listing stock exchange of A shares	The SZSE		
Stock abbreviation (H shares)	BQD	**Stock code (H shares)**	3866
Listing stock exchange of H shares	The Stock Exchange of Hong Kong Limited		
Stock abbreviation (offshore preference shares)	BQD 17USDPREF	**Stock code (offshore preference shares)**	4611
Listing stock exchange of offshore preference shares	The Stock Exchange of Hong Kong Limited		
Company name in Chinese	青島銀行股份有限公司		
Abbreviation in Chinese	青島銀行		
Company name in English	BANK OF QINGDAO CO., LTD.		
Abbreviation in English	BANK OF QINGDAO		
Legal representative	GUO Shaoquan		
Authorised representatives	GUO Shaoquan, LU Lan		
Joint company secretaries	LU Lan, YU Wing Sze		
Registered address	Building 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, PRC		
Postal code of registered address	266061		
Office address	No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, PRC		
Postal code of office address	266061		
Registered office address in Hong Kong	31st Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong		
Company website	http://www.qdccb.com/		
Email	ir@qdbankchina.com		

II. CONTACT PERSONS AND CONTACT INFORMATION

Item	**Secretary to the Board**	**Securities Affairs Representative**
Name	LU Lan	LU Zhenzhen
Address	No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, PRC	No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, PRC
Tel	+86 40066 96588 ext. 6	+86 40066 96588 ext. 6
Fax	+86 (532) 85783866	+86 (532) 85783866
Email	ir@qdbankchina.com	ir@qdbankchina.com

III. INFORMATION DISCLOSURE AND PLACE OF INSPECTION

Medias designated by the Bank for information disclosure	
Domestic	the website of the SZSE (http://www.szse.com.cn/), Cninfo website (http://www.cninfo.com.cn/), China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily and the website of the Bank (http://www.qdccb.com/)
Overseas	HKEXnews website of the Hong Kong Stock Exchange (http://www.hkexnews.hk/) and the website of the Bank (http://www.qdccb.com/)
Website designated by the CSRC for publication of annual reports	Cninfo website (www.cninfo.com.cn)
Place of inspection for annual report of the Company	office of the Board of Directors and the Board of Supervisors of the Bank

IV. CHANGE OF REGISTRATION

Unified social credit code	91370200264609602K
Change in principal business of the Bank since its listing	None
Successive changes in controlling shareholder of the Bank	The Bank has no controlling shareholders

V. OTHER RELEVANT INFORMATION

(I) Accounting firms engaged by the Bank

Domestic accounting firm of the Bank	KPMG Huazhen LLP
Office address of the domestic accounting firm of the Bank	8th Floor, KPMG Tower, Oriental Plaza, 1 East Chang An Avenue, Dongcheng District, Beijing
Signing accountants	WANG Lipeng, TANG Yinghui
Overseas accounting firm of the Bank	KPMG
Office address of overseas accounting firm of the Bank	8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

(II) A sponsor engaged by the Bank to perform continuous supervision duties during the Reporting Period

Name of sponsor	Office address of sponsor	Sponsor representatives	Continuous supervision period
CITIC Securities Co., Ltd.	North Tower, Excellence Times Plaza II, No. 8 Zhong Xin San Road, Futian District, Shenzhen, Guangdong Province	WANG Chen, SONG Jianhong	From 16 January 2019 to 31 December 2021

(III) During the Reporting Period, the Bank did not need to engage a financial advisor to perform continuous supervision duties.

(IV) Legal advisors engaged by the Bank

Legal advisor as to PRC law	King & Wood Mallesons Beijing
Legal advisor as to Hong Kong law	Clifford Chance

(V) Share registrars of the Bank

A share registrar	China Securities Depository and Clearing Corporation Limited (Shenzhen Branch)
Address of A share registrar	22-28/F, Shenzhen Stock Exchange Building, 2012 Shennan Blvd, Futian District, Shenzhen, Guangdong Province
H share registrar	Computershare Hong Kong Investors Services Limited
Address of H share registrar	Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

VI. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS

Item	2018	2017	Year-on-year change	2016	2015	2014
Business Performance (RMB'000)			Change (%)			
Net interest income[1]	**4,464,029**	4,802,408	(7.05)	5,007,955	4,114,054	3,596,336
Net non-interest income[1]	**2,900,809**	765,185	279.10	988,190	891,454	768,716
Operating income	**7,364,838**	5,567,593	32.28	5,996,145	5,005,508	4,365,052
Operating expenses	**(2,505,650)**	(1,818,922)	37.75	(2,213,521)	(2,076,578)	(1,995,253)
Impairment losses[2]	**(2,383,172)**	(1,378,904)	72.83	(1,108,874)	(579,894)	(411,278)
Profit before taxation	**2,476,016**	2,369,767	4.48	2,673,750	2,349,036	1,958,521
Net profit	**2,043,389**	1,903,607	7.34	2,088,605	1,813,776	1,495,352
Net profit attributable to shareholders of the Bank	**2,023,352**	1,900,252	6.48	2,088,605	1,813,776	1,495,352
Per share (RMB/share)			Change			
Net assets per share attributable to shareholders of the Bank[3]	**4.71**	4.38	0.33	4.35	4.14	3.83
Basic earnings per share[4]	**0.37**	0.47	(0.10)	0.51	0.58	0.59
Diluted earnings per share[4]	**0.37**	0.47	(0.10)	0.51	0.58	0.59
Dividend per share[5]	**0.20**	0.20	–	0.20	0.20	0.25

Item	2018	2017	Year-on-year change	2016	2015	2014
Scale indicators (RMB'000)			Change (%)			
Total assets	**317,658,502**	306,276,092	3.72	277,988,106	187,235,254	156,165,941
Of which: loans and advances to customers	**123,366,891**	95,514,680	29.16	84,864,849	70,655,221	61,248,341
Total liabilities	**290,161,778**	280,152,883	3.57	260,352,133	170,621,602	146,381,291
Of which: deposits from customers	**177,911,247**	160,083,783	11.14	141,604,761	115,321,997	101,733,660
Share capital	**4,058,713**	4,058,713	–	4,058,713	4,011,533	2,555,977
Equity attributable to shareholders of the Bank	**26,984,973**	25,629,854	5.29	17,635,973	16,613,652	9,784,650
Equity attributable to shareholders	**27,496,724**	26,123,209	5.26	17,635,973	16,613,652	9,784,650
Profitability indicators (%)			Change			
Return on average total assets(6)	**0.66**	0.65	0.01	0.90	1.06	1.02
Weighted average return on net assets(4)	**8.36**	10.80	(2.44)	12.22	14.69	16.67
Net interest spread(7)	**1.67**	1.57	0.10	2.05	2.23	2.25
Net interest margin(8)	**1.63**	1.72	(0.09)	2.23	2.36	2.43
Net fee and commission income to operating income	**11.76**	14.89	(3.13)	14.81	14.98	15.78
Cost-to-income ratio(9)	**33.01**	31.68	1.33	34.71	35.80	39.61
Asset quality indicators (%)			Change			
Non-performing loan ratio	**1.68**	1.69	(0.01)	1.36	1.19	1.14
Provision coverage ratio	**168.04**	153.52	14.52	194.01	236.13	242.32
Loan provision ratio	**2.82**	2.60	0.22	2.64	2.81	2.76
Indicators of capital adequacy ratio (%)			Change			
Core tier-one capital adequacy ratio(10)	**8.39**	8.71	(0.32)	10.08	12.48	9.72
Tier-one capital adequacy ratio(10)	**11.82**	12.57	(0.75)	10.08	12.48	9.72
Capital adequacy ratio(10)	**15.68**	16.60	(0.92)	12.00	15.04	10.75
Total equity to total assets	**8.66**	8.53	0.13	6.34	8.87	6.27
Other indicators (%)			Change			
Liquidity coverage ratio (RMB and foreign currency)	**125.95**	173.05	(47.10)	101.24	132.06	N/A
Liquidity ratio	**60.55**	56.36	4.19	53.48	60.04	45.57

Notes:

1. 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 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 International Financial Reporting Standard 9 Financial instruments ("**IFRS 9**") for the first time in 2018, which resulted in the decrease in net interest income and the increase in net non-interest income. Calculated on a comparable basis with the previous year, net interest income amounted to RMB 5.601 billion, representing an increase of RMB 798 million or 16.62%.

2. After the adoption of IFRS 9 in 2018, the expected credit loss model has replaced incurred loss model for the measurement of impairment of financial instruments. For the year 2018, "Impairment losses" reflects the credit loss recognized by the provision for credit losses of financial instruments as required.

3. 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.

4. Earnings per share and weighted average return on net assets were calculated in accordance with the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision). The Bank issued offshore preference shares in 2017 and distributed the dividends of the preference shares in 2018. Therefore, in calculating earnings per share and weighted average return on net assets, the distributed dividends of the preference shares have been deducted from the "net profit attributable to shareholders of the Bank" and the effect from preferences shares has been deducted from the "weighted average net assets".

5. Dividend per share represents dividend per share attributable to ordinary shareholders of the Bank, and the dividend per share of 2018 is subject to the approval by the general meeting.

6. 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 IFRS 9.

7. Net interest spread = average yield on interest-earning assets – average cost rate of interest-bearing liabilities. After the adjustments, the net interest spread was 1.72%, representing an increase of 0.15 percentage point as compared with the previous year (please refer to "Section VI. Discussion and Analysis of Operations – 3. Analysis of Major Items of the Statement of Profit or Loss and Other Comprehensive Income – 3.4. Net interest spread and Net interest margin" in this annual report of the Company).

8. Net interest margin = net interest income/average interest-earning assets. After the adjustments, the net interest margin was 1.95%, representing an increase of 0.19 percentage point as compared with the previous year (please refer to "Section VI. Discussion and Analysis of Operations – 3. Analysis of Major Items of the Statement of Profit or Loss and Other Comprehensive Income – 3.4. Net interest spread and Net interest margin" in this annual report of the Company).

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

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

11. During the Reporting Period, the Bank initially adopted IFRS 9, but the data during the comparative period is not restated. Please refer to Note 2(2) Changes in accounting policies to the financial statements in this annual report of the Company.

VII. ACCOUNTING DATA DIFFERENCE UNDER DOMESTIC AND FOREIGN ACCOUNTING STANDARDS

The net profits and the equity attributable to shareholders as disclosed in the financial statements of the Company prepared in accordance with Accounting Standards for Business Enterprises are consistent with those in accordance with International Financial Reporting Standards.

Section III Chairman's Statement

GUO Shaoquan
Chairman

Chairman's
Statement

In 2018, the Company highlighted strategic leadership, facilitated management enhancement, explored transformation and innovation and strengthened risk control and compliance management, delivering remarkable results to the investors who trusted and favored the Company and to all sectors of society who cared for and gave support to the Company.

During the Reporting Period, the Company's total assets achieved RMB 317.7 billion, representing a year-on-year increase of 4%; the group-based accumulative net profit amounted to RMB 2.0 billion, representing year-on-year increase of 7%; the non-performing loan ratio was 1.68%, and the asset quality remained stable. Under the increased pressure of downward macro economy and tightening regulations, this results relied on the understanding and support of investors, customers, governments and regulatory authorities. On behalf of the Board of Directors, senior management and all staff of the Company, I would like to express our sincere gratitude to all sectors of society.

In 2018, the Bank continued to effectively promote the listing of A shares. The approval for IPO application was successfully obtained and A-shares were listed on the SZSE in January 2019. The Bank became the first A-share listed bank in Shandong Province and the second city commercial bank with A+H dual listing in the PRC. In 2018, the 2019-2021 Strategic Plan of Bank of Qingdao (《青島銀行2019-2021年戰略規劃》) has been prepared and approved by the Board of Directors. The new strategy takes "Innovative Finance, Brilliant Banking" as its development vision and proposes "building on customers and employees, taking on social responsibilities and shareholders' return and pursuing better lives with happiness" as its core values, focusing on creating its key competitiveness in customer experience, fin-tech, risk management and internal management, and building its own competitive edge to respond to future competition.

In 2018, the Company received numerous awards and its social reputation increased significantly. The Bank ranked among the top 300 for the first time in the "Top 1000 World Banks" ranking; was re-selected as the "Top 500 Asian Brands" and "China's 500 Most Valuable Brands"; was granted the "Five Star Diamond Award" with the highest honor in the global service industry for three consecutive years; and was awarded the first prize of "2018 Annual Banking Information Technology Risk Management Project" by the CBIRC in recognition of its scientific research capability.

The strong pass is like a wall of iron, yet with firm strides, we are conquering its summit. "A+H" dual listing is a new starting point for the development of the Bank. In 2019, all staff of Bank of Qingdao will repack our luggage for a new journey through responsibility-driven development, standard-based management and brand-oriented operation. The Bank will build its competencies in all aspects in customer experience, fin-tech, risk management and internal management, and strive to build a professional, distinctive and robust boutique bank.

郭少泉

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

Section IV President's Statement

President's
Statement

Confronted with a complicated and ever-changing business environment, under the correct leadership of the Board of Directors and by adhering to the operation guidance of "deepening management, being proactive on compliance, making transformation and innovation, making progress while maintaining stability", the Bank continued to maintain stable and high-quality growth. The performance in the profitability and various operating indicators was remarkable and the overall operational capacity was enhanced steadily.

As at the end of 2018, the Company's deposit balance reached RMB 177.911 billion, representing a year-on-year increase of 11.14%; loans and advances to customers amounted to RMB 123.367 billion, representing a year-on-year increase of 29.16%; and non-performing loan ratio was 1.68%, while the annual net profit amounted to RMB 2.043 billion, representing a year-on-year increase of 7.34%.

In 2018, the Bank closely focused on major projects for the replacement of old growth drivers with new ones in provinces and cities, accelerated credit supply to boost regional economic transformation and upgrading. The three major business lines of the corporate banking, retail banking and financial market presented remarkable results: the Bank took the lead in issuing the first credit risk mitigation warrant in Shandong Province, made use of debt financing instruments to support the new exploration of financing channels for private enterprise; the Bank successively launched various innovative products such as "Technology Innovation Loan" (科創貸), "Yin Mao Tong" (銀貿通), "Business Benefit Loan" (惠營貸) and others, the inclusive finance system was gradually improved; the service management has further reached a new level as evidenced by being successively selected as the "Top 500 Asian Brands" and "China's 500 Most Valuable Brands". In September, the Bank issued the first batch of credit cards, to foster new customer acquisition and profit growth point through new internet customer acquisition.

In 2018, the Bank fully launched the "Improvement Program" to further deepen the management transformation, and the comprehensive operation and management capability were steadily improved: the centralized examination and approval and unified credit standards have been adopted in the corporate credit business to improve risk control and ensure stable asset quality; the assets and liabilities were under professional management and stability of the asset and liability structure has been significantly enhanced; the phase II of the centralized operation system has been successfully launched, and the upgrading project for paperless counter has also been successfully implemented during the year.

Success only favors those who boldly forge ahead. Looking back 2018, we have achieved impressive results with our wisdom and efforts. On behalf of senior management of the Bank, I would like to express our sincere gratitude to people from all sectors of society for their cares and supports to the Bank of Qingdao.

After two years of well preparation, the Bank's application for the IPO of A shares was successfully approved and the A shares were officially listed on the SZSE on 16 January 2019. However, our successful listing was actually a new beginning not a destination. As an A+H dual listed bank, the Bank will adhere to the strategy of the "Innovative Finance, Brilliant Banking" to deeply develop its potential, widely expand its business and promote enhancement with a clear and peaceful mind and start a new journey to build Bank of Qingdao into a new financial boutique bank driven by technology with refined management and outstanding features.

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

Chief Supervisor

Section V Business Overview

I. PRINCIPAL BUSINESS

The Bank, formerly known as Qingdao City Cooperative Bank and Qingdao City Commercial Bank, was established in November 1996 and is headquartered in Qingdao, Shandong Province. Having experienced several years of development, the Bank has constantly improved in terms of corporate governance, risk management and control and IT construction, and has developed distinctive features of "sound governance, attentive service, solid risk control and prominent technology". In December 2015, the Bank's H shares were listed on the Hong Kong Stock Exchange; in January 2019, the Bank's A shares were listed on the SZSE.

The Bank mainly offers several services and products such as corporate and personal deposits, loans, payment and settlement to its customers, and its development is driven by three major business segments including retail banking, corporate banking and financial markets, which have formed a stronger customer base and shaped new financial business model of distinctive and high-quality development. The Bank's business is based in Qingdao with its footprints corners Shandong Province. As at the end of the Reporting Period, there were 14 branches in major cities of Shandong Province such as Jinan, Yantai and Weihai. The total number of branch offices reached 134, and several sub-branches with distinctive features such as technological sub-branch (科技支行) and cultural and creative sub-branch (文創支行) were established successively. In February 2017, the Bank initiated the establishment of BQD Financial Leasing Company Limited. As at the end of the Reporting Period, the Bank had more than 3,700 employees.

The Bank is in the critical period of the new norm of economy, stricter industry supervision and the reshaping of traditional banking business by financial technology. As at the end of the Reporting Period, various operating indicators of the Bank were ranked in the forefront of the banking industry in Shandong Province. As at the end of the Reporting Period, the Company's total assets amounted to RMB 317.659 billion, total liabilities amounted to RMB 290.162 billion, capital adequacy ratio was 15.68%, and non-performing loan ratio was 1.68%, down by 0.01 percentage point year-on-year. During the Reporting Period, the accumulated net profit was RMB 2.043 billion, representing an increase of 7.34% over the same period of last year.

II. ANALYSIS OF THE CORE COMPETITIVENESS

Development vision: Innovative Finance, Brilliant Banking

Strategic goal: being a technology-driven bank that offers new quality financial products with lean management and outstanding features

Development strategy:

1. Customer base expansion: with respect to corporate banking and retail banking segments, we will constantly seek for new growth of customer base and consolidate the customer base of the Bank. We will enhance low-cost liability and quality asset base by deeply developing the customer value.

2. Financial technology empowerment: adhering to the operation guidance of "focusing on the needs of customer and business and advancing moderately", we will foster our digital capabilities in four major areas including front-end customer service, product service marketing, business operation and organizational management. Based on the model of "internal innovation + third-party cooperation", on the one hand, we will cooperate with third-party Internet and financial technology companies to apply financial technology empowerment through joint development or outsourced development; on the other hand, on the basis of our proprietary research and development, we will purchase third-party solutions to improve the level of financial technology in our products.

3. Featured advantages cultivation: taking the featured business as a breakthrough point, we will establish the differentiated and independent mechanism in terms of department structure, staffing and authority setting-up, and provide strong support for our branch offices, gradually forming the development path of the "head office with distinctive features and branches with unique features".

4. Management mechanism transformation: we will foster the Bank's innovation culture and incentive mechanism by establishment of scientific, fair and transparent performance appraisal system to form cross-line cooperation and benefit sharing mechanism and promote the transformation from the management mechanism to refined management.

Core Competitiveness:

1. Sound corporate governance structure. The Bank has a high-quality and diversified shareholder structure with balanced shareholding percentage among major shareholders and long-term stable shareholding. There is not a single shareholder with shareholding of more than 30%, which is a typical representative of mixed ownership. The Bank's major shareholders are the leaders in their respective industry, and are well versed in the capital market and the rules of financial industry, which will not only facilitate the efficient operation of the Bank's Board of Directors, but also provide strong support for the business development of the Bank. The senior management team of the Bank is hired through market-oriented recruitment and has a strong industry knowledge and market-oriented management philosophy.

2. Well-established "Interface Banking" strategy. In 2012, the Board of Directors of the Bank proposed a strategic vision for building an "interface bank". Since then, the Bank has been being under probing and practice and strengthened the innovation in its products and services. It has gradually formed six interface platforms in transportation, healthcare, industry parks, cloud-based payment, supply chain finance and internet finance, which has promoted the enhancement of the Bank's ability to acquire customers and overall strength to drive the growth of the Bank's corporate and personal businesses.

3. Robust risk management ability. With the "prudent and steady" risk appetite, the Bank continuously fosters proactive and professional risk management capabilities and takes initiative in managing risks to build the "three-in-one" risk management system of "prevention, management and control". The Bank has nearly 20 years of operating history in Shandong and has deep understanding and strong knowledge of the market, economy and customers in Shandong. It has successfully avoided several major risk events in the region, which ensured that the Bank has stable and sound asset quality. The non-performing loan ratio continued to be lower than the national and regional levels, and the risk resilience was in good condition.

4. Prominent technology-empowered capability. The Bank implements the strategy of "prominent technology" at level of the whole Bank, and continues to invest in the construction of information technology systems and the cultivation of technological talents, and actively carries out the application of cloud computing, big data, artificial intelligence and mobile technologies in the innovation of products, services, channels and business models and continuously strengthen the construction of technological capabilities to promote the deep integration of technology and business and enhance the supporting role of technology in business development.

5. The most convenient retail bank. The Bank regards "retail banking transformation" as one of the core of strategic transformation. In respect of products, it enhances customer experience by diversifying the online and offline product categories such as credit card, mobile banking, certificate of deposit, net worth wealth management and structured deposits to build the most convenient financial services brand for citizens. In respect of channel, we make use of the "breakthroughs in efficiency" project to improve the refined management level of the banking outlets and the marketing efficiency of the lobbies, and enhance the level of technology empowerment of the offline channels through the construction of robo-adviser and intelligent lobby projects. With the help of financial technology, we will build the mobile financial ecosystem centered on mobile banking, establish the mobile payment platform that covers all kinds of life scenarios, and improve online channel service capabilities. We coordinate all kinds of online and offline resources to provide multi-scenario, intelligent and fast service through the portals of various platforms to further enhance the service quality and efficiency of the "most convenient bank".

6. The most attentive service. The Bank regards service quality as the foundation of its business. By adhering the service philosophy of "being attentive and reassuring, we will make greater efforts", we focus on customer needs, enhance the awareness of customer service, pay attention to customer service experience, actively promote service upgrade and build the "Qingxin" banking service brand, which has established an premium brand image and has become a well-established brand for the Bank to attract customers and expand the market.

III. HONORS AND AWARDS

In January 2018, the Bank was granted the "Best Corporate Governance Award" in 2017 China Financial Market Award Gala, hosted by China Financial Market magazine and co-hosted by other eight institutions including the Listed Companies Council of Hong Kong Chinese Enterprises Association.

In May 2018, the Bank was awarded the honorary title of the "Financial Service Advanced Entity for Small and Micro Enterprise" by Qingdao Office of the CBIRC. The Bank's "Yin Zheng Bao loan business" (銀政保貸款業務) was granted the award of the "2017 Qingdao Banking Financial Service Excellent Innovation Product for Small and Micro Enterprise".

In July 2018, the Bank ranked No. 286 in terms of the core tier one capital in the World Bank Top 1000 List released by UK Bankers magazine, up 86 rankings as compared with last year, which was one of the ten Chinese banks with the highest increase in rankings for the year.

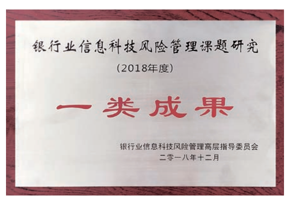
In August 2018, the Bank ranked 475th in the 13th session of "Top 500 Asian Brands" list released by World Brand Lab, up by 11 rankings compared with the last year. It is the only city commercial bank which was selected in the list in China.

In December 2018, the Bank won two awards of the "Most Competitive Small And Medium-Sized Bank of the Year" and "Best Small And Medium-Sized Bank of the Year in Retail Financial Service" at the "China Financial Institutions Gold Medal – Golden Dragon Award Contest" jointly organized by the Financial Times and Chinese Academy of Social Sciences Institute of Finance.

In December 2018, the Bank's three business outlets were awarded the title of "2018 Top 1000 Model Entity for Civilized and Standardized Service in China Banking Industry" by the China Banking Association.

In December 2018, the Bank was granted the "2018 (the eleventh session) Five-Star Diamond Award" by World Brand Lab. The Bank became the only city commercial bank which was granted this award for three consecutive years.

In December 2018, the Bank's "Research on the Construction and Application of Financial Knowledge Intelligence Platform" was awarded the first category of achievement of "2018 Annual Banking Information Technology Risk Management Project" by the CBIRC.



Section VI Discussion and Analysis of Operations

1. SUMMARY

In 2018, China's gross domestic product ("**GDP**") growing by 6.6% as compared with that in the previous year. The economic structure was adjusted and optimized, which was evidenced by the contribution rate of final consumption to economic growth of 76.2%, representing an increase of 18.6 percentage points as compared with that in the previous year. In addition, private investment and manufacturing investment both experienced accelerated growth. The industrial structure continued to be upgraded, meanwhile, new industries, new products, new forms and models of business sprang up. The tertiary industry accounted for 52.2% of GDP, giving full play to its role of "stabilizer". The consumption structure continued to be upgraded with the 2018 national resident Engel's coefficient of 28.4%, down by 0.9 percentage point as compared with that in the previous year. In 2018, not only did the consumer prices rise moderately, but also the consumer price index increased by 2.1% as compared with that in the previous year under mild inflation environment. The import and export volume remained stable with positive prospect. The total amount of import and export trade exceeded RMB 30 trillion for the first time, and the trade structure continued to optimize. A basic equilibrium in the balance of payments was maintained, the foreign exchange reserves amounted to more than USD3 trillion, and the RMB exchange rate remained basically stable. Based on the stable operation of the real economy, China has implemented a proactive fiscal policy, with the monetary policy gradually shifting to "stabilizing leverage, loosening monetary, and stabilizing credit growth", which provided policy support for sound economic development. The regulatory structure has been continuously adjusted and the new regulatory framework of "the Financial Stability and Development Committee of the State Council, the People's Bank of China, the China Securities Regulatory Commission and the China Banking and Insurance Regulatory Commission + local financial supervision bureaus" was formed.

In 2018, Shandong Province sped up the replacement of old growth drivers with new ones by comprehensively rolling out the rural revitalization strategy and developing itself into a strong maritime province, and further intensified efforts in elimination of excess capacity, destocking, deleveraging, cost reduction and overcoming disadvantages. The economy generally maintained the stable and growing momentum and embraced a positive prospect under optimized structure. The overall economic operation of Qingdao City maintained a stable development trend with increased domestic demand and better development quality and efficiency.

2. SUMMARY OF OVERALL OPERATIONS

2.1 Status of Key Operational Indicator Achievements

(1) Total assets amounted to RMB 317.659 billion, representing an increase of RMB 11.382 billion or 3.72% as compared with that at the end of the previous year;

(2) Loans and advances to customers amounted to RMB 123.367 billion, representing an increase of RMB 27.852 billion or 29.16% as compared with that at the end of the previous year;

(3) Total deposits from customers amounted to RMB 177.911 billion, representing an increase of RMB 17.827 billion or 11.14% as compared with that at the end of the previous year;

(4) Net profit amounted to RMB 2.043 billion, representing an increase of RMB 140 million or 7.34% as compared with that in the previous year;

(5) Non-performing loan ratio, provision coverage ratio and capital adequacy ratio were 1.68%, 168.04% and 15.68% respectively;

(6) Return on average total assets was 0.66%, representing an increase of 0.01 percentage point as compared with that in the previous year;

(7) Weighted average return on net assets was 8.36%, representing a year-on-year decrease of 2.44 percentage points; basic earnings per share was RMB 0.37, representing a year-on-year decrease of RMB 0.10, mainly due to the fact that dividends of preference shares were distributed in 2018, and the impact of preference shares was deducted from the calculation of the weighted average return on net assets and basic earnings per share for the current period.

2.2 Major Tasks of Operational Management

(1) The listing of A shares ushered in a new beginning for our development. On 16 January 2019, the Bank was successfully listed on the SZSE, becoming the first bank in Shandong Province with its A shares listed as well as the second city commercial bank in the PRC with its A shares and H shares listed on the SZSE and the Hong Kong Stock Exchange, respectively. Upon the listing of A shares, the Bank further solidified its capital base and enhanced the Bank's ability, capacity, quality and efficiency to serve the real economy.

(2) Through full participation of its staff, the Bank substantially enhanced its operation quality and efficiency. During the Reporting Period, the Bank launched the "Improvement Program", which successfully passed a series of external inspections, and continued solidifying the foundation of its development. The Bank closely focused on the key project on replacement of old growth drivers with new ones, accelerated credit supply, exerted great efforts in public finance and innovated in small, medium and micro finance business, which led to an increase in the corporate business volume and efficiency. Driven by an expeditious development of the wealth management business, the Bank realized a rapid growth of its assets in retail business.

(3) The Bank's competitive edge on online customer acquisition has proven to stand out through the first issuance of credit cards. In September 2018, the Bank tapped online scenario resources and a brand new Internet customer acquisition model for the first batch of credit cards. As at the end of the Reporting Period, the cumulative number of credit cards issued reached 180.6 thousand and the volume of credit card transactions amounted to RMB 1.179 billion.

(4) The Bank innovated products to further promote the inclusive finance. During the Reporting Period, the Bank fully commenced the construction work of featured branches, which successfully handled the first Fin-tech insurance loan business and successively launched several innovative products such as "technology innovation loan" (科創貸), "Yin Mao Tong" (銀貿通), "Business Benefit Loan" (惠營貸) and others, established the personal business loan brand "Chuangyi finance" (創易融) for gradually improving the inclusive finance system. In November 2018, the Bank actively responded to the national call and became the first bank to issue the first credit risk mitigation certificate in Shandong to expand financing channels for private enterprises.

(5) The Bank improved its management so as to achieve the transformation from growing in size to creating value. During the Reporting Period, the Bank implemented professional general management on its entire assets and liabilities to achieve a significant enhancement in the stability of its asset-liability structure as well as a considerable improvement in its profitability indicators.

On 16 January 2019, the Bank's A shares were listed on the SZSE. The Bank's chairman Mr. GUO Shaoquan signed a listing agreement with the SZSE on behalf of the Bank.

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

3.1 Financial Performance Summary

During the year 2018, the Company's profit before taxation amounted to RMB 2.476 billion, representing a year-on-year increase of RMB 106 million or 4.48%; net profit amounted to RMB 2.043 billion, representing a year-on-year increase of RMB 140 million or 7.34%; and effective income tax rate was 17.47%, representing a year-on-year decrease of 2.20 percentage points, mainly due to the increase in non-taxable income such as government bonds, local government bonds and funds. The following table sets forth the changes in the Company's major profit or loss items for the year 2018.

Unit: RMB'000

Item	2018	2017	Change in amount
Net interest income	**4,464,029**	4,802,408	(338,379)
Net fee and commission income	**865,757**	828,969	36,788
Net trading gains/(losses), net gains arising from investments and other operating income, net	**2,035,052**	(63,784)	2,098,836
Operating expenses	**(2,505,650)**	(1,818,922)	(686,728)
Impairment losses	**(2,383,172)**	(1,378,904)	(1,004,268)
Profit before taxation	**2,476,016**	2,369,767	106,249
Income tax expense	**(432,627)**	(466,160)	33,533
Net profit	**2,043,389**	1,903,607	139,782
Of which: net profit attributable to shareholders of the Bank	**2,023,352**	1,900,252	123,100
net profit attributable to non-controlling interests	**20,037**	3,355	16,682

3.2 Operating Income

During the year 2018, the Company's operating income amounted to RMB 7.365 billion, representing a year-on-year increase of RMB 1.797 billion or 32.28%, mainly due to the Company's optimization and adjustment of asset and liability structure, faster increase in loan scale, moderate contraction of inter-bank assets and liabilities, and constant improvement of profitability. Among the operating income, net interest income accounted for 60.61%, representing a year-on-year decrease of 25.65 percentage points, and net non-interest income accounted for 39.39%. 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 interest income was recognized according to the relevant provisions on classification and measurement of financial assets after the adoption of IFRS 9, 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 the operating income of the Company in the previous five years.

Unit: %

Item	2018	2017	2016	2015	2014
Net interest income	**60.61**	86.26	83.52	82.19	82.39
Net fee and commission income	**11.76**	14.89	14.81	14.98	15.78
Net trading gains/(losses), net gains arising from investments and other operating income	**27.63**	(1.15)	1.67	2.83	1.83
Total	**100.00**	100.00	100.00	100.00	100.00


The Chairman Mr. GUO Shaoquan and other guests jointly attended the IPO ceremony of A shares.

3.3 Net Interest Income

During the year 2018, the Company's net interest income amounted to RMB 4.464 billion, representing a decrease of RMB 338 million or 7.05% as compared with that in the previous year, mainly due to the increase in financial assets at fair value through profit or loss and the decrease in financial assets from which interest income was recognized according to the relevant provisions on classification and measurement of financial assets after the adoption of IFRS 9, which resulted in the corresponding increase in gains arising from investments and the decrease in interest income. Calculated on a comparable basis with the previous year, the net interest income amounted to RMB 5.601 billion, representing an increase of RMB 798 million or 16.62% as compared with that in the previous year. The following table sets forth the average balance, interest income/expense and average yield/cost rate of the interest-earning assets and interest-bearing liabilities items of the Company for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities represent their daily average balances.

Unit: RMB'000

	2018			2017		
Item	**Average balance**	**Interest income/ expense**	**Average yield/cost rate**	Average balance	Interest income/ expense	Average yield/cost rate
Interest-earning assets						
Loans and advances to customers	**110,426,678**	**5,384,339**	**4.88%**	93,938,432	4,459,778	4.75%
Investment[1]	**116,649,833**	**5,336,522**	**4.57%**	138,930,060	6,267,263	4.51%
Deposits and placements with banks and other financial institutions[2]	**16,958,926**	**459,134**	**2.71%**	21,148,146	537,021	2.54%
Deposits with central bank	**24,295,572**	**372,106**	**1.53%**	22,478,374	340,988	1.52%
Long-term receivables	**6,176,869**	**334,800**	**5.42%**	2,653,624	144,669	5.45%
Total	**274,507,878**	**11,886,901**	**4.33%**	279,148,636	11,749,719	4.21%
Interest-bearing liabilities						
Deposits from customers	**165,231,398**	**2,985,319**	**1.81%**	147,668,663	2,605,748	1.76%
Deposits and placements from banks and other financial institutions[3]	**50,988,694**	**1,703,250**	**3.34%**	59,974,673	1,951,036	3.25%
Debt securities issued	**55,646,320**	**2,446,785**	**4.40%**	54,783,446	2,356,747	4.30%
Others	**7,274,229**	**287,518**	**3.95%**	802,072	33,780	4.21%
Total	**279,140,641**	**7,422,872**	**2.66%**	263,228,854	6,947,311	2.64%
Net interest income	**/**	**4,464,029**	**/**	/	4,802,408	/
Net interest spread	**/**	**/**	**1.67%**	/	/	1.57%
Net interest margin	**/**	**/**	**1.63%**	/	/	1.72%

Notes:

1. Investments in 2018 include financial investments at fair value through other comprehensive income and financial investments measured at amortized cost; investments in 2017 include debt investments held for trading, available-for-sale financial assets, held-to-maturity investments and receivables.

2. Deposits and placements with banks and other financial institutions include financial assets held under resale agreements.

3. Deposits and placements from banks and other financial institutions include financial assets sold under repurchase agreements.

During the year 2018, average balance of interest-earning assets was RMB 274.508 billion, representing a year-on-year decrease of RMB 4.641 billion or 1.66%, mainly due to the decrease in financial assets from which interest income was recognized according to the relevant provisions on classification and measurement of financial assets after the adoption of IFRS 9, which resulted in the corresponding decrease in the volume of investment included in interest-earning 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 changes in interest income and expense due to volume changes.

Unit: RMB'000

	2018 vs. 2017		
Item	**Due to volume**	**Due to rate**	**Net increase (decrease)**
Assets			
Loans and advances to customers	802,441	122,120	924,561
Investments	(1,014,099)	83,358	(930,741)
Deposits and placements with banks and other financial institutions	(113,839)	35,952	(77,887)
Deposits with central bank	28,870	2,248	31,118
Long-term receivables	190,927	(796)	190,131
Interest income changes	**(105,700)**	**242,882**	**137,182**
Liabilities			
Deposits from customers	305,737	73,834	379,571
Deposits and placements from banks and other financial institutions	(301,763)	53,977	(247,786)
Debt securities issued	35,255	54,783	90,038
Others	255,823	(2,085)	253,738
Interest expense changes	**295,052**	**180,509**	**475,561**
Net interest income changes	**(400,752)**	**62,373**	**(338,379)**

On 3 January 2019, the President Mr. WANG Lin attended the online roadshow of A-share listing of the Bank.

3.4 Net Interest Spread and Net Interest Margin

During the Reporting Period, the Company's net interest spread was 1.67%, representing a year-on-year increase of 0.10 percentage point as compared with the previous year, and the net interest margin was 1.63%, representing a year-on-year decrease of 0.09 percentage point as compared with the previous year, mainly due to the decrease in assets from which interest income was recognized and the increase in assets from which gains arising from investments were recognized as a result of the change of classification of financial assets after the adoption of IFRS 9, 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.

The business income of financial assets at fair value through profit or loss under IFRS 9 (other than fund investment business) was returned to interest income, and as the gains arising from fund investment business are not interest income, a corresponding deduction to the interest-bearing liabilities and interest expense was made accordingly, after the above adjustment, the net interest spread was 1.72%, representing a year-on-year increase of 0.15 percentage point, and the net interest margin was 1.95%, representing a year-on-year increase of 0.19 percentage point.

3.5 Interest Income

In 2018, the Company's interest income was RMB 11.887 billion, representing a year-on-year increase of RMB 137 million or 1.17%. Calculated on a comparable basis with the previous year, the interest income was RMB 13.024 billion, representing a year-on-year increase of RMB 1.274 billion or 10.84%, mainly due to an increase in the volume of loans and 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

In 2018, the Company's interest income of the loans and advances to customers was RMB 5.384 billion, representing a year-on-year increase of RMB 925 million or 20.73%, mainly due to the Company's optimization and adjustment of asset structure, a faster increase in the volume of loans and an increase in gains arising from loans. The following table sets forth the average balance, interest income and average yield of each component of the loans and advances to customers of the Company for the periods indicated.

Unit: RMB'000

Item	2018 Average balance	2018 Interest income	2018 Average yield	2017 Average balance	2017 Interest income	2017 Average yield
Corporate loans	**76,945,195**	**3,769,853**	**4.90%**	66,025,309	3,190,167	4.83%
Personal loans	**33,481,483**	**1,614,486**	**4.82%**	27,913,123	1,269,611	4.55%
Total loans	**110,426,678**	**5,384,339**	**4.88%**	93,938,432	4,459,778	4.75%

Interest income from investments

In 2018, the Company's interest income from investments amounted to RMB 5.337 billion, representing a year-on-year decrease of RMB 931 million or 14.85%, mainly due to the decrease in investments from which interest income was recognized according to the relevant provisions on classification and measurement of financial assets after the adoption of IFRS 9, resulting in the corresponding decrease in volume of investments. Calculated on a comparable basis with the previous year, after the business income of financial assets at fair value through profit or loss under IRFS 9 (other than fund investment business) was returned to interest income, the interest income from investments amounted to RMB 6.473 billion, representing a year-on-year increase of RMB 206 million or 3.29%, mainly due to an increase in gains arising from investments.

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

In 2018, the Company's interest income from deposits and placements with banks and other financial institutions amounted to RMB 459 million, representing a year-on-year decrease of RMB 78 million or 14.50%, mainly due to a decrease in the volume of deposits and placements with banks and other financial institutions.

3.6 Interest Expense

In 2018, the Company's interest expense was RMB 7.423 billion, representing a year-on-year increase of RMB 476 million or 6.85%, mainly due to an increase in the volume of interest-bearing liabilities and increase in cost rate of market funds. Interest expense on deposits from customers and debt securities issued constituted a major part of interest expense of the Company.

Interest expense on deposits from customers

In 2018, the Company's interest expense on deposits from customers amounted to RMB 2.985 billion, representing a year-on-year increase of RMB 380 million or 14.57%. The following table sets forth the average balance, interest expense and average cost rate of the Company's each component of deposits from customers for the periods indicated.

Unit: RMB'000

	2018			2017		
Item	**Average balance**	**Interest expense**	**Average cost rate**	Average balance	Interest expense	Average cost rate
Corporate deposits						
Demand	**64,148,692**	**462,778**	**0.72%**	55,798,496	367,995	0.66%
Time	**46,602,161**	**1,293,864**	**2.78%**	42,201,224	1,091,892	2.59%
Sub-total	**110,750,853**	**1,756,642**	**1.59%**	97,999,720	1,459,887	1.49%
Personal deposits						
Demand	**17,782,346**	**55,330**	**0.31%**	11,330,289	40,313	0.36%
Time	**36,698,199**	**1,173,347**	**3.20%**	38,338,654	1,105,548	2.88%
Sub-total	**54,480,545**	**1,228,677**	**2.26%**	49,668,943	1,145,861	2.31%
Total deposits from customers	**165,231,398**	**2,985,319**	**1.81%**	147,668,663	2,605,748	1.76%

In March 2018, the Bank launched the promoting activities for protection of consumer rights.

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

In 2018, the Company's interest expense on deposits and placements from banks and other financial institutions amounted to RMB 1.703 billion, representing a year-on-year decrease of RMB 248 million or 12.70%, mainly due to a decrease in the volume of deposits and placements from banks and other financial institutions.

Interest expense on debt securities issued

In 2018, the Company's interest expense on debt securities issued amounted to RMB 2.447 billion, representing a year-on-year increase of RMB 90 million or 3.82%.

3.7 Net Non-interest Income

In 2018, the Company's net non-interest income amounted to RMB 2.901 billion, representing a year-on-year increase of RMB 2.136 billion or 279.10%, 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 IFRS 9, which resulted in the corresponding increase in gains arising from investments.

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

Unit: RMB'000

Item	2018	2017
Fee and commission income	**943,582**	889,309
Less: fee and commission expense	**(77,825)**	(60,340)
Net fee and commission income	**865,757**	828,969
Net trading gains/(losses), net gains arising from investments and other operating income, net	**2,035,052**	(63,784)
Total net non-interest income	**2,900,809**	765,185

3.8 Net Fee and Commission Income

In 2018, the Company's net fee and commission income amounted to RMB 866 million, representing a year-on-year increase of RMB 37 million or 4.44%.

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	2018	2017
Fee and commission income		
Wealth management service fees	**486,879**	376,949
Agency service fees	**239,702**	258,094
Settlement fees	**30,921**	80,344
Custody and bank card service fees	**34,716**	46,081
Others	**151,364**	127,841
Total	**943,582**	889,309
Fee and commission expense	**(77,825)**	(60,340)
Net fee and commission income	**865,757**	828,969

In 2018, the Company's wealth management service fees amounted to RMB 487 million, representing a year-on-year increase of RMB 110 million or 29.16%, mainly due to an increase in the operating capacity of wealth management products; agency service fees amounted to RMB 240 million, representing a year-on-year decrease of RMB 18 million or 7.13%, mainly due to a decrease in the volume of policy financial bonds underwriting; settlement fees amounted to RMB 31 million, representing a year-on-year decrease of RMB 49 million or 61.51%, mainly due to a decrease in the volume of trade finance settlement business; custody and bank card service fees amounted to RMB 35 million, representing a year-on-year decrease of RMB 11 million or 24.66%, mainly due to a decrease in the volume of trust plans of structured financing business; and others amounted to RMB 151 million, representing a year-on-year increase of RMB 24 million or 18.40%, mainly due to an increase in the service fee of leasing business of the subsidiaries of the Bank.

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

In 2018, the Company's net trading gains/(losses), net gains arising from investments and other operating income, net, amounted to RMB 2.035 billion, representing a year-on-year increase of RMB 2.099 billion, mainly due to an increase in the financial assets at fair value through profit or loss according to the relevant provisions on classification and measurement of financial assets after the adoption of IFRS 9, which resulted in the corresponding increase in gains arising from investments, as well as the effects brought by market exchange rate fluctuations. The following table sets forth the major components of the Company's net trading gains/(losses), net gains arising from investments and other operating income, net, for the periods indicated.

Unit: RMB'000

Item	2018	2017
Net trading gains/(losses)	**410,807**	(187,764)
Net gains arising from investments	**1,617,354**	100,330
Other operating income, net	**6,891**	23,650
Total	**2,035,052**	(63,784)

3.10 Operating Expenses

In 2018, the Company's operating expenses amounted to RMB 2.506 billion, representing a year-on-year increase of RMB 687 million or 37.75%. In particular, staff costs increased by RMB 520 million or 64.68% on a year-on-year basis, mainly due to an increase in the staff number and personnel expenses; property and equipment expenses increased by RMB 118 million or 24.13% 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 RMB 20 million or 36.34% 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	2018	2017
Staff costs	**1,323,271**	803,562
Property and equipment expenses	**604,676**	487,149
Tax and surcharges	**74,848**	54,898
Other general and administrative expenses	**502,855**	473,313
Total operating expenses	**2,505,650**	1,818,922

3.11 Impairment Losses

In 2018, the Company's impairment losses amounted to RMB 2.383 billion, among which, the impairment losses from loans and advances to customers constituted the largest component. The following table sets forth the major components of the Company's impairment losses for the periods indicated.

Unit: RMB'000

Item	2018	2017
Deposits with banks and other financial institutions	**178**	–
Placements with banks and other financial institutions	**9,927**	–
Financial assets held under resale agreements	**(1,689)**	–
Loans and advances to customers	**2,213,707**	1,284,514
Financial investments measured at amortized cost	**87,746**	N/A
Financial investments at fair value through other comprehensive income	**26,963**	N/A
Receivables	**N/A**	20,000
Long-term receivables	**64,512**	68,389
Credit commitments	**(36,086)**	–
Others	**17,914**	6,001
Total impairment losses	**2,383,172**	1,378,904

In 2018, the impairment losses from loans and advances to customers amounted to RMB 2.214 billion, representing a year-on-year increase of RMB 929 million or 72.34%, mainly due to the overall decline of the macro-economic growth rate, which resulted in the increasing pressure on business operations and repayments, therefore, the provision for impairment was increased to be in line with the risk of loans.

4. ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF FINANCIAL POSITION

4.1 Assets

As at the end of the year 2018, the Company's total assets amounted to RMB 317.659 billion, representing an increase of RMB 11.382 billion or 3.72% as compared with that at the end of last year, mainly due to the increase of the Company's loans and advances to customers. The following table sets forth the components of the Company's total assets as at the dates indicated.

Unit: RMB'000

	31 December 2018		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total
Loans and advances to customers[1]	**123,366,891**	**38.84**	95,514,680	31.19
Financial investments measured at amortized cost	**70,032,056**	**22.05**	N/A	N/A
Financial investments at fair value through other comprehensive income	**53,002,751**	**16.69**	N/A	N/A
Financial assets at fair value through profit or loss	**22,361,816**	**7.04**	179,078	0.06
Cash and deposits with central bank	**29,554,430**	**9.30**	27,097,814	8.85
Deposits with banks and other financial institutions	**1,542,437**	**0.49**	1,107,946	0.36
Placements with banks and other financial institutions	**4,110,464**	**1.29**	2,882,727	0.94
Financial assets held under resale agreements	**300,262**	**0.09**	3,584,200	1.17
Available-for-sale financial assets	**N/A**	**N/A**	79,086,556	25.82
Held-to-maturity investments	**N/A**	**N/A**	38,644,926	12.62
Receivables	**N/A**	**N/A**	46,678,869	15.24
Long-term receivables	**7,766,698**	**2.44**	4,076,396	1.33
Property and equipment	**3,124,355**	**0.98**	3,089,017	1.01
Deferred tax assets	**1,152,778**	**0.36**	1,084,286	0.35
Other assets	**1,343,564**	**0.43**	3,249,597	1.06
Total assets	**317,658,502**	**100.00**	306,276,092	100.00

Note: 1. In accordance with the "Notice on the Revision and Issuance of the Format of the Financial Statements of the Financial Enterprise for 2018" (Cai Kuai [2018] No. 36) released by the Ministry of Finance, the book balance of financial instruments including loans and advances to customers as at the end of the year 2018 includes interest not yet matured measured using the effective interest rate method.

4.1.1 Loans and advances to customers

As at the end of the year 2018, the Company's loans and advances to customers amounted to RMB 123.367 billion, representing an increase of RMB 27.852 billion or 29.16% as compared with that in the previous year; accounting for 38.84% of the Company's total assets, representing an increase of 7.65 percentage points as compared with that at the end of the previous year. Growth rate of loans was relatively fast, which accounted for a higher increased percentage in the total assets and further enhanced asset structure. The following table sets forth the components of the loans and advances to customers of the Company by product type as at the dates indicated.

Unit: RMB'000

	31 December 2018		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total
Corporate loans	**78,264,271**	**61.92**	64,363,848	65.64
Discounted bills	**6,772,625**	**5.36**	2,951,203	3.01
Personal loans	**41,349,974**	**32.72**	30,746,328	31.35
Sub-total	**126,386,870**	**100.00**	98,061,379	100.00
Accrued interest	**521,250**	**/**	N/A	N/A
Less: Provision for impairment on loans and advances to customers measured at amortized cost	**(3,541,229)**	**/**	(2,546,699)	/
Loans and advances to customers	**123,366,891**	**/**	95,514,680	/

Corporate loans

As at the end of the year 2018, the Company's corporate loans amounted to RMB 78.264 billion, which represented an increase of RMB 13.900 billion or 21.60% as compared with that at the end of last year, and accounted for 61.92% of the total loans and advances to customers (excluding accrued interest, same hereinafter). During the year 2018, the Company seized the opportunities presented due to the relatively looser monetary policies to replace old drivers with new ones by implementing differentiated credit policies and lending greater support for the real economy including the private economy and Small and Micro Enterprises. Meanwhile, the Company continued to support critical strategic projects such as infrastructure construction, giving high priority to supporting financing items such as inclusive finance, green finance and financial technology.

Discounted bills

As at the end of the year 2018, the Company's total discounted bills amounted to RMB 6.773 billion, representing an increase of RMB 3.821 billion or 129.49% as compared with that at the end of last year, and accounted for 5.36% of the total loans and advances to customers. During the year 2018, the launch of the bill business system boosted bill transaction efficiency. The Company promoted discounting business between its branches by leveraging the convenience brought by electronic bills transaction. This served to achieving large-scale acceptance, pledging and discounting functions via internet banking and promoting business efficiency and customer experience.

Personal loans

As at the end of the year 2018, the Company's total personal loans amounted to RMB 41.350 billion, representing an increase of RMB 10.604 billion or 34.49% as compared with that at the end of last year, and accounted for 32.72% of total loans and advances to customers, representing an increase of 1.37 percentage points as compared with that at the end of last year. During the year 2018, the Company grasped the market opportunities to adjust its credit structure while ensuring effective risk control and management and to strive for a more reasonable structure for personal loans, so as to realize a balanced business development in personal housing loans, personal business loans and personal consumption loans.

4.1.2 Investment

As at the end of the year 2018, the Company's carrying value of investment amounted to RMB 145.397 billion, representing a decrease of RMB 19.193 billion or 11.66% as compared with that at the end of last year. Due to the adoption of IFRS 9, investments items at the end of 2018 differed from those at the end of the previous year. As at the end of the year 2018, investments consisted 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

	31 December 2018		31 December 2017	
Item	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	**22,361,816**	**15.38**	179,078	0.11
Financial investments at fair value through other comprehensive income	**53,002,751**	**36.45**	N/A	N/A
Financial investments measured at amortized cost	**70,032,056**	**48.17**	N/A	N/A
Available-for-sale financial assets	**N/A**	**N/A**	79,086,556	48.05
Held-to-maturity investments	**N/A**	**N/A**	38,644,926	23.48
Receivables	**N/A**	**N/A**	46,678,869	28.36
Total	**145,396,623**	**100.00**	164,589,429	100.00

Note: According to the convergence provisions of IFRS 9, the Company has not adjusted the comparative financial statements at the end of 2017, but for the sake of better understanding, the following analysis has adjusted investment data at the beginning of 2018 according to the adoption of IFRS 9.

Financial assets at fair value through profit or loss

As at the end of the year 2018, the Company's carrying value of financial assets at fair value through profit or loss amounted to RMB 22.362 billion, representing an increase of RMB 22.183 billion as compared with that at the end of last year. The increase was primarily due to the increase in financial assets at fair value through profit or loss after adopting IFRS 9. When IFRS 9 was first applicable, 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 RMB 29.527 billion or 56.90% as compared with that at the beginning of the year (RMB 51.889 billion). This decrease was mainly attributed to a reduction of investments in wealth management products issued by financial institutions, asset management plans and trust fund plans. 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	31 December 2018	31 December 2017
Debt securities held for trading purpose	–	179,078
Including: Debt securities issued by banks and other financial institutions	–	138,232
Debt securities issued by corporate entities	–	40,846
Other debt securities investments at fair value through profit or loss	**237,280**	–
Including: Debt securities issued by banks and other financial institutions	**206,985**	–
Debt securities issued by corporate entities	**30,295**	–
Asset management plans	**9,354,611**	–
Wealth management products issued by financial institutions	**2,080,946**	–
Trust fund plans	**3,221,359**	–
Investment funds	**7,467,620**	–
Financial assets at fair value through profit or loss	**22,361,816**	179,078

Financial investments at fair value through other comprehensive income

As at the end of the year 2018, the Company's carrying value of financial investments at fair value through other comprehensive income amounted to RMB 53.003 billion. The increase of this item was mainly due to the adoption of IFRS 9. When IFRS 9 was first applicable, 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 RMB 19.369 billion or 57.59% as compared with that at the beginning of the year (RMB 33.634 billion). This increase was mainly attributed to the increase of investments in debt securities issued by corporate entities, government bonds, debt securities issued by commercial banks and policy banks. 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	31 December 2018
Government bonds	**7,116,493**
Debt securities issued by policy banks	**11,799,812**
Debt securities issued by banks and other financial institutions	**10,117,686**
Debt securities issued by corporate entities	**17,828,393**
Asset management plans	**5,062,908**
Equity investments	**23,250**
Accrued interest	**1,054,209**
Financial investments at fair value through other comprehensive income	**53,002,751**

Financial investments measured at amortized cost

As at the end of the year 2018, the Company's carrying value of financial investments measured at amortized cost amounted to RMB 70.032 billion. The increase of this item was mainly due to the adoption of IFRS 9. When IFRS 9 was first applicable, the carrying value of financial investments measured at amortized cost as at the end of the Reporting Period recorded a decrease of RMB 9.314 billion or 11.74% as compared with that at the beginning of the year (RMB 79.346 billion), mainly due to the decrease of investments in asset management plans, trust fund plans and debt securities issued by commercial banks and policy banks. 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	**31 December 2018**
Government bonds	**9,431,022**
Debt securities issued by policy banks	**13,887,327**
Debt securities issued by banks and other financial institutions	**11,296,117**
Debt securities issued by corporate entities	**1,229,620**
Asset management plans	**23,529,175**
Trust fund plans	**4,850,229**
Beneficiary rights in margin financing	**2,870,000**
Beneficiary certificates	**2,300,000**
Total financial investments measured at amortized cost	**69,393,490**
Accrued interest	**1,106,068**
Less: provision for impairment losses	**(467,502)**
Carrying value of financial investments measured at amortized cost	**70,032,056**

Available-for-sale financial assets, held-to-maturity investments and receivables

As at the end of the year 2018, the Company's investment balance of available-for-sale financial assets, held-to-maturity investments and receivables amounted to 0, mainly because the cancellation of the above-mentioned categories due to the application of IFRS 9. The following table sets forth, as at the date indicated, the carrying value of the above-mentioned financial assets.

Unit: RMB'000

Item	31 December 2017
Available-for-sale financial assets	79,086,556
Held-to-maturity investments	38,644,926
Receivables	46,678,869

Investment in securities

Set out below are the financial 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	Maturity date	Interest rates (%)	Nominal value (in thousands)	Impairment data (in thousands)
16 Financial Bond	2036-01-25	3.80	4,270,000	422
16 Financial Bond	2026-09-05	3.18	2,996,300	293
17 Financial Bond	2027-01-06	3.85	2,010,000	194
18 Financial Bond	2028-05-11	4.65	1,920,000	198
17 Financial Bond	2027-04-10	4.04	1,832,000	182
17 Financial Bond	2027-03-20	4.11	1,720,000	169
17 Financial Bond	2027-09-08	4.39	1,710,000	170
15 Financial Bond	2036-01-12	3.88	1,500,000	157
17 Financial Bond	2022-04-17	4.02	1,450,000	144
15 Financial Bond	2022-05-04	4.18	1,369,080	139

4.2 Liabilities

As at the end of the year 2018, the Company's total liabilities amounted to RMB 290.162 billion, representing an increase of RMB 10.009 billion or 3.57% as compared with that at the end of last year. The increase was mainly attributed to a stable increase in customers' deposits. The following table sets forth the components of the Company's total liabilities as at the dates indicated.

Unit: RMB'000

	31 December 2018		31 December 2017	
Item	Amount	% of total	Amount	% of total
Deposits from customers[1]	**177,911,247**	**61.31**	160,083,783	57.14
Deposits from banks and other financial institutions	**11,632,982**	**4.01**	24,901,934	8.89
Borrowings from central bank	**10,878,835**	**3.75**	584,215	0.21
Placements from banks and other financial institutions	**7,207,066**	**2.48**	5,774,299	2.06
Derivative financial liabilities	**–**	**–**	353,220	0.13
Financial assets sold under repurchase agreements	**14,850,333**	**5.12**	11,899,583	4.25
Debt securities issued	**65,240,507**	**22.48**	68,632,691	24.50
Other[2]	**2,440,808**	**0.85**	7,923,158	2.82
Total liabilities	**290,161,778**	**100.00**	280,152,883	100.00

Notes: 1. In accordance with the "Notice on the Revision and Issuance of the Format of the Financial Statements of the Financial Enterprise for 2018" (Cai Kuai [2018] No. 36) released by the Ministry of Finance, the book balance of financial instruments such as deposits from customers as at the end of the year 2018 includes interest not yet matured measured using the effective interest rate method.

2. Others include taxes payable and other liabilities.

4.2.1 Deposits from customers

As at the end of the year 2018, the Company's deposits from customers amounted to RMB 177.911 billion, representing an increase of RMB 17.827 billion or 11.14% as compared with that at the end of last year; accounting for 61.31% of the Company's total liabilities, representing an increase of 4.17 percentage points as compared with that at the end of last year, and was 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

	31 December 2018		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total
Corporate deposits	**118,644,749**	**67.54**	107,274,155	67.01
Demand deposits	**72,852,694**	**41.47**	65,421,504	40.87
Time deposits	**45,792,055**	**26.07**	41,852,651	26.14
Personal deposits	**56,898,658**	**32.39**	52,225,500	32.62
Demand deposits	**18,313,340**	**10.43**	17,935,483	11.20
Time deposits	**38,585,318**	**21.96**	34,290,017	21.42
Outward remittance and remittance payables	**131,519**	**0.07**	566,193	0.36
Fiscal deposits to be transferred	**923**	**0.00**	17,935	0.01
Sub-total	**175,675,849**	**100.00**	160,083,783	100.00
Accrued interests	**2,235,398**	**/**	N/A	N/A
Deposits from customers	**177,911,247**	**/**	160,083,783	/

As at the end of the year 2018, the Company's demand deposits accounted for 51.90% of the total deposits from customers (excluding accrued interest), representing a decrease of 0.17 percentage point as compared with that at the end of last year. Among those deposits, corporate demand deposits accounted for 61.40% of corporate deposits, representing an increase of 0.42 percentage point as compared with that at the end of last year; and personal demand deposits accounted for 32.19% of personal deposits, representing a decrease of 2.16 percentage points as compared with that at the end of last year.

4.2.2 Deposits from banks and other financial institutions

As at the end of the year 2018, the Company's deposits from banks and other financial institutions amounted to RMB 11.633 billion, representing a decrease of RMB 13.269 billion or 53.28% as compared with that at the end of last year, mainly due to the decrease in volume of time deposits from banks.

4.2.3 Borrowings from Central Bank

As at the end of the year 2018, the Company's borrowing from the Central Bank amounted to RMB 10.879 billion, representing an increase of RMB 10.295 billion as compared with that at the end of last year, mainly due to the increase in volume of the Company's mid-term lending facility and relending to small city commercial banks, rural commercial banks, rural cooperative banks and village and township banks.

4.2.4 Financial assets sold under repurchase agreements

As at the end of the year 2018, the Company's financial assets sold under repurchase agreements amounted to RMB 14.850 billion, representing an increase of RMB 2.951 billion or 24.80% as compared with that at the end of last year, mainly due to the Company's increased participation on reverse repurchase business of Central Bank as appropriate.

4.2.5 Debt securities issued

As at the end of the year 2018, the Company's debt securities issued amounted to RMB 65.241 billion, representing a decrease of RMB 3.392 billion or 4.94% as compared with that at the end of last year, mainly due to the maturity of the five-year fixed interest financial bonds issued by the Company in 2013.

4.3 Equity Attributable to Shareholders

As at the end of the year 2018, the Company's equity amounted to RMB 27.497 billion, representing an increase of RMB 1.374 billion or 5.26% as compared with that at the end of last year. The equity attributable to equity shareholders of the Bank amounted to RMB 26.985 billion, representing an increase of RMB 1.355 billion or 5.29% as compared with that at the end of last year.

Unit: RMB'000

Item	31 December 2018	31 December 2017
Share capital	**4,058,713**	4,058,713
Other equity instruments		
Including: Preference shares	**7,853,964**	7,853,964
Capital reserve	**6,826,276**	6,826,276
Other comprehensive income	**553,193**	(885,449)
Surplus reserve	**1,403,575**	1,203,325
General reserve	**3,969,452**	3,969,452
Retained earnings	**2,319,800**	2,603,573
Total equity attributable to equity shareholders of the Bank	**26,984,973**	25,629,854
Non-controlling interests	**511,751**	493,355
Total equity	**27,496,724**	26,123,209

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 fell slightly 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 (including accrued interest) of the Company was RMB 126.908 billion, representing an increase of 29.42% as compared with the end of last year; total non-performing loans amounted to RMB 2.117 billion, representing an increase of RMB 458 million as compared with the end of last year. Non-performing loan ratio was 1.68%, which represented a decrease of 0.01 percentage point as compared with the end of last year. Provision coverage ratio of non-performing loans was 168.04%, which represented an increase of 14.52 percentage points as compared with the end of last year. Loan provision ratio rose 0.22 percentage point as compared with the end of last year to 2.82%.

For the purpose of discussion and analysis, unless otherwise specified, the amount of loans presented in the analysis below exclude accrued interest.

5.1 Distribution of Loans by Five Categories

Unit: RMB'000

	31 December 2018		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total
Normal loan	**117,153,054**	**92.69**	91,057,486	92.86
Special mention loan	**7,116,638**	**5.63**	5,345,060	5.45
Substandard loan	**1,158,565**	**0.92**	535,614	0.55
Doubtful loan	**806,110**	**0.64**	1,002,454	1.02
Loss loan	**152,503**	**0.12**	120,765	0.12
Total loans to customers	**126,386,870**	**100.00**	98,061,379	100.00
Total non-performing loans	**2,117,178**	**1.68**	1,658,833	1.69

Under the five-category classification system for loan supervision, categories of the non-performing loans of the Company included substandard, doubtful and loss loans. During the Reporting Period, the Company strengthened its effort in the dynamic monitoring of credit asset quality, with tightened risk control in key areas and enhancement in the capability of coping with and handling risk loans. Through these efforts, credit asset quality remained stable. As at the end of the Reporting Period, the proportion of substandard loans increased by 0.37 percentage point as compared with the end of last year to 0.92% and the proportion of doubtful loans decreased by 0.38 percentage point as compared with the end of last year to 0.64%.

5.2 Distribution of Loans and Non-performing Loans by Product Types

Unit: RMB'000

Item	31 December 2018				31 December 2017			
	Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %	Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %
Corporate loans	**85,036,896**	**67.28**	**1,804,412**	**2.12**	67,315,051	68.65	1,293,675	1.92
Working capital loans	**51,737,819**	**40.94**	**1,582,176**	**3.06**	46,782,433	47.71	1,064,983	2.28
Fixed asset loans	**25,903,427**	**20.50**	**139,275**	**0.54**	17,012,861	17.35	223,394	1.31
Import and export bills transactions	**517,563**	**0.41**	**–**	**–**	460,772	0.47	–	–
Discounted bills	**6,772,625**	**5.36**	**–**	**–**	2,951,203	3.01	–	–
Others	**105,462**	**0.08**	**82,961**	**78.66**	107,782	0.11	5,298	4.92
Retail loans	**41,349,974**	**32.72**	**312,766**	**0.76**	30,746,328	31.35	365,158	1.19
Personal housing loans	**30,229,094**	**23.92**	**22,906**	**0.08**	24,128,570	24.61	22,366	0.09
Personal business loans	**5,836,058**	**4.62**	**265,325**	**4.55**	3,265,881	3.33	314,483	9.63
Personal consumption loans	**3,827,588**	**3.03**	**12,503**	**0.33**	1,746,965	1.78	16,918	0.97
Others	**1,457,234**	**1.15**	**12,032**	**0.83**	1,604,912	1.63	11,391	0.71
Total loans to customers	**126,386,870**	**100.00**	**2,117,178**	**1.68**	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 developed and adjusted credit policies, and was in the process of optimizing its credit structure and improving 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 decreased by 1.37 percentage points to 67.28% and its non-performing loan ratio increased by 0.20 percentage point as compared with the beginning of the year to 2.12%.

Meanwhile, the Company kept optimizing its personal credit asset structure, and maintained personal housing loans in steady growth, moderately increased the proportion of personal business loans, while steadily developed online consumer loans. The retail loan business was in stable development with declining non-performing loan ratio and improving asset quality, the proportion of retail loans increased by 1.37 percentage points to 32.72% and non-performing loan ratio decreased by 0.43 percentage point as compared with the beginning of the year to 0.76%.

5.3 Distribution of Loans and Non-performing Loans by Industry

Unit: RMB'000

Item	31 December 2018				31 December 2017			
	Amount of loans	Percentage of the total amount%	Amount of non-performing loans	Non-performing loan ratio%	Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %
Corporate loans	**85,036,896**	**67.28**	**1,804,412**	**2.12**	67,315,051	68.65	1,293,675	1.92
Manufacturing	**18,805,454**	**14.88**	**1,243,740**	**6.61**	16,870,734	17.20	748,086	4.43
Water conservancy, environment and public facility management	**10,802,398**	**8.55**	**–**	**–**	8,757,857	8.93	–	–
Construction	**10,788,346**	**8.54**	**93,000**	**0.86**	9,192,196	9.37	75,420	0.82
Wholesale and retail trade	**9,654,849**	**7.64**	**198,476**	**2.06**	7,275,598	7.42	221,219	3.04
Real estate	**8,849,735**	**7.00**	**102,600**	**1.16**	4,148,613	4.23	100,000	2.41
Renting and business services	**8,169,559**	**6.46**	**33,309**	**0.41**	8,184,724	8.35	8,850	0.11
Financial services	**5,456,155**	**4.32**	**–**	**–**	4,288,439	4.37	–	–
Production and supply of electricity and heating power, gas and water	**4,711,898**	**3.73**	**5,000**	**0.11**	3,838,368	3.91	1,500	0.04
Transportation, storage and postal services	**2,911,253**	**2.30**	**28,000**	**0.96**	1,950,773	1.99	–	–
Others	**4,887,249**	**3.86**	**100,287**	**2.05**	2,807,749	2.88	138,600	4.94
Retail loans	**41,349,974**	**32.72**	**312,766**	**0.76**	30,746,328	31.35	365,158	1.19
Total loans to customers	**126,386,870**	**100.00**	**2,117,178**	**1.68**	98,061,379	100.00	1,658,833	1.69

During the Reporting Period, the Company continued to support real economy development and keep optimizing its risk asset portfolio, with enhanced credit support for Small and Micro Enterprises, real economy, replacement of old growth drivers with new ones, and strategic emerging industries, etc.. The Company put its risk control emphasis on financing in fields such 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 optimizing the credit resource allocation. As at the end of the Reporting Period, 79.93% 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 0.98 percentage point to 2.06%.

5.4 Distribution of Loans and Non-performing Loans by Region

Unit: RMB'000

	31 December 2018				31 December 2017			
Region	Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %	Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %
Shandong Province	**126,386,870**	**100.00**	**2,117,178**	**1.68**	98,061,379	100.00	1,658,833	1.69
Of which: Qingdao City	**72,941,750**	**57.72**	**624,440**	**0.86**	57,515,098	58.63	755,579	1.31

During the Reporting Period, the Company adjusted its credit approval system and established a credit approval center respectively in Qingdao and Ji'nan to centralize all credit approval flows. 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 raised the standards of risk management and control capabilities of non-local branches through daily supervision, assessment and evaluation.

5.5 Distribution of Loans and Non-performing Loans by type of Collateral

Unit: RMB'000

	31 December 2018				31 December 2017			
Item	Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %	Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %
Unsecured loans	**15,753,945**	**12.46**	**140,184**	**0.89**	10,323,398	10.53	50,165	0.49
Guaranteed loans	**36,502,920**	**28.88**	**1,596,311**	**4.37**	36,089,725	36.80	1,183,952	3.28
Mortgage loans	**54,738,421**	**43.32**	**375,969**	**0.69**	40,096,655	40.89	424,716	1.06
Pledged loans	**19,391,584**	**15.34**	**4,714**	**0.02**	11,551,601	11.78	–	–
Total loans to customers	**126,386,870**	**100.00**	**2,117,178**	**1.68**	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 3.56 percentage points to 15.34%; and the proportion of mortgage loans increased by 2.43 percentage points to 43.32%, the highest among all types of secured loans. The proportion of guaranteed loans, with a comparatively high non-performing loan ratio, decreased by 7.92 percentage points to 28.88%.

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	Financial services	1,500,000	4.16	1.19
B	Water conservancy, environment and public utility management	1,455,000	4.04	1.15
C	Water conservancy, environment and public utility management	1,427,000	3.96	1.13
D	Renting and business services	1,114,122	3.09	0.88
E	Construction	909,900	2.53	0.72
F	Financial services	900,000	2.50	0.71
G	Renting and business services	805,688	2.24	0.64
H	Construction	800,000	2.22	0.63
I	Renting and business services	780,000	2.17	0.62
J	Real estate	775,060	2.15	0.61
Total		10,466,770	29.06	8.28

As at the end of the Reporting Period, the total value of loans of the Company's top ten single borrowers amounted to RMB 10.467 billion, which accounted for 29.06% of the net capital of the Company and representing 8.28% of the total amount of loans of the Company; and the loan balance of the largest single borrower was RMB 1.500 billion, accounting for 4.16% of the net capital of the Company.

5.7 Distribution of Loans by Overdue Period

Unit: RMB'000

Overdue period	31 December 2018 Amount of loans	31 December 2018 Percentage of total amount %	31 December 2017 Amount of loans	31 December 2017 Percentage of total amount %
Overdue for 3 months (inclusive) or less	**2,271,784**	**1.80**	1,551,189	1.58
Overdue for over 3 months to 1 year (inclusive)	**1,229,240**	**0.97**	916,246	0.93
Overdue for over 1 year to 3 years (inclusive)	**638,094**	**0.50**	932,357	0.95
Overdue for over 3 years	**214,698**	**0.17**	112,977	0.12
Total overdue loans	**4,353,816**	**3.44**	3,512,769	3.58
Including: sub-total overdue for over 3 months	**2,082,032**	**1.64**	1,961,580	2.00
Total loans to customers	**126,386,870**	**100.00**	98,061,379	100.00

As at the end of the Reporting Period, the overdue loans of the Company amounted to RMB 4.354 billion, representing an increase of RMB 841 million as compared with that at the end of last year; the overdue loans accounted for 3.44% of the total loans, representing a decrease of 0.14 percentage point as compared with that at the beginning of the year. Particularly, the loans overdue for 90 days or less reached RMB 2.272 billion, accounting for 52.18% of the overdue loans, representing an increase of 8.02 percentage points as compared with that at the beginning of the year; and the loans overdue for over 90 days amounted to RMB 2.082 billion, accounting for 47.82% of the overdue loans, dropping by 8.02 percentage points as compared with that at the end of last year. The Company had also 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 0.98, representing a decrease of 0.20 as compared with that at the end of last year.

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 RMB 10.5014 million with no provision for impairment, and the net amount of repossessed assets was RMB 10.5014 million.

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 was 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, and to be 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	2018	2017
Balance at the beginning of the year	**3,127,265**	2,303,446
Charge for the year	**2,213,707**	1,284,514
Write-offs for the year and others	**(1,783,166)**	(1,041,261)
Balance at the end of the year	**3,557,806**	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 RMB 3.558 billion, representing an increase of RMB 1.011 billion or 39.70% as compared with that at the end of last year; the provision coverage ratio reached 168.04%, representing an increase of 14.52 percentage points as compared with that at the end of last year; the provision rate of loans stood at 2.82%, representing an increase of 0.22 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 had shown an increase.

5.10 Countermeasures taken against Non-performing Assets

During the Reporting Period, the Bank adopted the following management measures in order to strengthen disposals of non-performing assets and enhance the asset quality:

1. Strengthen the dynamic monitoring of credit asset quality. The Bank monitored overdue loans per day, regularly analyzed non-performing loans and overdue loans and issued briefings to expedite delivery of information and improve the efficiency of decision-making.

2. Improve credit risk identification and reporting mechanism. The Bank carried out tracking management with early warning signs to screen material risk signals and formulate response measures accordingly. The reporting mechanism for large-sum credit risks was improved so as to increase reporting efficiency and refine the credit risk emergency system.

3. Intensify efforts in disposing non-performing loans. The Bank reinforced the coordination with the judicial departments of various levels to improve the response speed and effectiveness of litigation preservative measures taken against risk loans. The Bank also strengthened the communications and cooperation with industry association and interbank and actively took part in the joint reduction and treatment of non-performing assets and risks. The Bank gradually explored various channels and initiatives to reduce non-performing assets based on conventional clearing and receiving means to promptly cancel the loans verified as non-performing and heighten the subsequent clearing and receiving of the cancelled assets.

4. Regularly organize policy studies as well as education and trainings. The Bank launched dedicated studies, collected and collated non-performing asset disposal cases in order to improve the education and training on relevant laws and regulations of non-performing assets and to enhance the ability and team building for asset preservation.

5.11 Credit Extension to Group Customers and Risk Management

The Bank adhered to the principles of “implementing unified credit extension, providing an appropriate amount, employing classified management, conducting real-time monitoring and adopting a leading bank system” in extending credit to group customers. Firstly, the Bank fully inspects the industry where group customers operate and their operating capacity by setting reasonable credit risk warning thresholds regarding their total credit amount, gearing, profitability and liquidity benchmarks, payment status of loan principal and interest amount as well as the creditworthiness of key management personnel. The Bank also continuously and effectively monitored and constantly enhanced and refined its risk warning system for group customers to prevent and mitigate risks in a timely manner and ensure that the credit risks of group customers are under control. Secondly, to 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. Thirdly, the Bank implemented joint credit granting mechanism for group customers and established the complete corporate family trees of group customers to not only pay constant attention to main businesses of group customers but also step up prevention of risks associated with long position financing, excessive credit extension, guarantee chain and circle.

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

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

5.13 Rescheduled loans

Unit: RMB'000

Item	31 December 2018 Amount of loans	31 December 2018 % of total amount	31 December 2017 Amount of loans	31 December 2017 % of total amount
Rescheduled loans	**317,536**	**0.25**	114,361	0.12
Total loans and advances to customers	**126,386,870**	**100.00**	98,061,379	100.00

The Bank implemented strict and prudent control over loan reschedule. At the end of the Reporting Period, the Bank's rescheduled loans accounted to 0.25%, representing an increase of 0.13 percentage point as compared with the previous year.

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.

6.1 Capital adequacy ratio

The Company calculates capital adequacy ratio in accordance with the "Regulation Governing Capital of Commercial Banks (Provisional)" issued by 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

	31 December 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
Other comprehensive income	**553,193**	(885,449)
Surplus reserve	**1,403,575**	1,203,325
General reserve	**3,969,452**	3,969,452
Retained earnings	**2,319,800**	2,603,573
Qualifying portion of non-controlling interests	**302,744**	155,327
Core tier-one capital adjustments	**(165,153)**	(197,454)
Net core tier-one capital	**19,268,600**	17,733,763
Net other tier-one capital	**7,894,330**	7,874,674
Net tier-one capital	**27,162,930**	25,608,437
Net tier-two capital	**8,858,726**	8,197,676
Net capital base	**36,021,656**	33,806,113
Total credit risk-weighted assets	**187,513,305**	180,791,585
Total market risk-weighted assets	**30,410,807**	12,629,951
Total operational risk-weighted assets	**11,852,383**	10,287,348
Total risk-weighted assets	**229,776,495**	203,708,884
Core tier-one capital adequacy ratio	**8.39%**	8.71%
Tier-one capital adequacy ratio	**11.82%**	12.57%
Capital adequacy ratio	**15.68%**	16.60%

As at the end of the Reporting Period, the Company's capital adequacy ratio amounted to 15.68%, representing a decrease of 0.92 percentage point as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 8.39%, representing a decrease of 0.32 percentage point as compared with that at the end of last year. Changes in capital adequacy ratio of the Company during the Reporting Period are mainly attributable to the continuous development of each of the businesses of the Company, which resulted in the corresponding increase in total risk weighted assets, yet at the same time benefited the increase of capital replenishment of internal resources. The indicators of the capital adequacy ratio slightly decreased as compared with that at the end of last year.

6.2 Leverage ratio

The leverage ratio of commercial banks shall not be less than 4% in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision) of CBIRC. As at the end of the Reporting Period, the Company's leverage ratio was 7.92% 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 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 31 December 2018**	Balance as at 31 December 2017
1	Total consolidated assets	**317,658,502**	306,276,092
2	Consolidated adjustments	**–**	–
3	Customer assets adjustments	**–**	–
4	Derivative adjustments	**–**	82,331
5	Securities financing transactions adjustments	**–**	–
6	Off-balance sheet items adjustments	**25,314,087**	18,906,591
7	Other adjustments	**(165,153)**	(197,454)
8	Balance of assets on and off balance sheet after adjustments	**342,807,436**	325,067,560

The employees of the Bank conducted a discussion in respect of "breakthroughs in efficiency" project.

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

Unit: RMB'000

No.	Item	Balance as at 31 December 2018	Balance as at 31 December 2017
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	**317,358,240**	302,691,892
2	Less: tier-one capital deductions	**(165,153)**	(197,454)
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	**317,193,087**	302,494,438
4	Replacement cost of various types of derivatives (net of qualified margins)	**–**	–
5	Potential risk exposure in various derivatives	**–**	82,331
6	The sum of collaterals deducted from the balance sheet	**–**	–
7	Less: assets receivables formed due to qualified margins	**–**	–
8	Less: the balance of derivative assets formed due to transactions with central counterparties for providing clearing service for the customers	**–**	–
9	Notional principal for sold credit derivatives	**–**	–
10	Less: the balance of sold credit derivatives assets which can be deducted	**–**	–
11	The balance of derivatives assets	**–**	82,331
12	The balance of accounting assets for securities financing transactions	**300,262**	3,584,200
13	Less: the balance of securities financing transactions assets which can be deducted	**–**	–
14	Counterparty credit risk exposure to securities financing transactions	**–**	–
15	The balance of securities financing transactions assets formed due to securities financing transactions by proxy	**–**	–
16	The balance of securities financing transactions assets	**300,262**	3,584,200
17	The balance of items off balance sheet	**25,314,087**	18,906,591
18	Less: the balance of items off balance sheet reduced due to credit conversion	**–**	–
19	The balance of items off balance sheet after adjustments	**25,314,087**	18,906,591
20	Net tier-one capital	**27,162,930**	25,608,437
21	The balance of assets on and off balance sheet after adjustments	**342,807,436**	325,067,560
22	Leverage ratio	**7.92%**	7.88%

According to the Regulatory Requirements in the Information Disclosure Regarding the Capital Composition of the Commercial Banks (《關於商業銀行資本構成信息披露的監管要求》) issued by the CBIRC, the information concerning the capital composition, explanation on development of relevant items and the main characteristics of the capital instruments of the Company will be further disclosed in the "Investor Relations" on the website of the Bank (www.qdccb.com).

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, un-allocated items and others. The following table shows a summary of the operating performance of each business segment of the Company during the periods presented.

Unit: RMB'000

	2018		2017	
Item	**Segment operating income**	**Ratio (%)**	Segment operating income	Ratio (%)
Corporate banking	**3,862,580**	**52.45**	3,008,684	54.04
Retail banking	**1,581,825**	**21.48**	1,166,877	20.96
Financial market business	**1,731,932**	**23.52**	1,235,783	22.20
Un-allocated items and others	**188,501**	**2.55**	156,249	2.80
Total	**7,364,838**	**100.00**	5,567,593	100.00

Unit: RMB'000

	2018		2017	
Item	**Segment profit before taxation**	**Ratio (%)**	Segment profit before taxation	Ratio (%)
Corporate banking	**816,737**	**32.99**	845,060	35.66
Retail banking	**492,904**	**19.91**	637,373	26.90
Financial market business	**1,104,597**	**44.61**	857,127	36.17
Un-allocated items and others	**61,778**	**2.49**	30,207	1.27
Total	**2,476,016**	**100.00**	2,369,767	100.00

8. OTHER FINANCIAL INFORMATION

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 RMB 18.712 billion. For details, please refer to Note 47 "Commitments and contingent liabilities" to the notes to the financial statements of this annual report of the Company.

8.2 Overdue and outstanding debts

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

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 47 to the notes to the financial statements of this annual report of the Company.

9. INVESTMENT ANALYSIS

See "4. Analysis of Major Items of the Statement of Financial Position" in this section for the analysis of investment such as financial assets at fair value. During the Reporting Period, there was no significant equity investment, significant non-equity investment, and fund raising and the use of such fund of the Bank.

10. MATERIAL DISPOSAL OF ASSETS AND EQUITY INTEREST

During the Reporting Period, there was no material disposal of assets and equity interest of the Bank.

11. ANALYSIS OF MAIN SHARES HOLDING COMPANIES AND JOINT STOCK COMPANIES

11.1 Major subsidiaries and investees accounting for over 10% of the net profit of the Company

Unit: RMB in 100 million

Name of company	Type of company	Main business	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
BQD Financial Leasing Company Limited	Subsidiary	finance leasing business; transferring in and out assets under a finance lease; fixed income securities investment business; accepting guaranteed deposit of the lessee; absorbing fixed deposits over 3 months (inclusive) from non-bank shareholders; interbank lending and borrowing; obtaining loans from financial institutions; lending loans to offshore borrowers; disposal of and dealing with leased articles; economic consulting, etc.	10	78.75	10.44	1.85	0.55	0.41

11.2 Acquisition and disposal of subsidiaries during the Reporting Period

During the Reporting Period, there was no acquisition and disposal of subsidiaries of the Bank.

11.3 Particulars of major companies controlled or invested in by the Company

BQD Financial Leasing Company Limited ("**BQD Financial Leasing**") was established on 15 February 2017, with a registered capital of RMB 1.00 billion, and was registered in Qingdao, and was initiated and established by the Bank. The Bank holds 51% of the share capital of BQD Financial Leasing. Under the guidance of the national industrial policy, BQD Financial Leasing was committed to realise the original intent of leasing and serve the real economy. BQD Financing focus on the financing leasing of large and medium-sized equipment in medical and health care, cultural tourism, public utilities industries as its main lines of business development, and adhered to the business philosophy of "specialization, differentiation and marketization" to satisfy the specific needs of tenants in equipment purchase, sales boasting, assets revitalisation, tax burden balancing, and the improvement of financial structure, etc., and to provide new financial lease services such as financing, asset management and economic consulting.

12. OVERVIEW OF BUSINESS DEVELOPMENT

12.1 Business Development Strategy

Facing the complicated and ever-changing economic and financial conditions at home and abroad as well as the increasingly deepened reform and development process, the Bank took into full account the market demand, investors' needs and its own advantages and promoted the creative idea of "Innovative Finance, Brilliant Banking" as its development vision. The Bank takes "building on customers and employees, taking on social responsibilities and shareholders' return, pursuing better lives with happiness" as its core values. Through the three major business segments, including retail banking, corporate banking and financial market, the Bank drives its development based on the strategic goal of "being a technology-driven bank that offers new quality financial products with lean management and outstanding features" and the development direction of "customer base expansion, financial technology empowerment, featured advantages cultivation and management mechanism transformation".

In respect of retail banking business, the Bank continued to implement the strategy of Interface Banking, expanded the retail customer base, promoted the transformation in retail business, and increased customer contribution through key products. In respect of corporate banking business, the Bank increased the Company's deposit size by focusing on developing "transaction banking + investment banking". It also carried out differentiated credit policies, centered on core enterprises to acquire customers, and continued to enrich its product portfolio through innovative solutions. In respect of financial market business, the Bank transformed the development path of self-operating business, adjusted the structure of interbank business, pushed for steady development of asset management plans under compliance, and enhanced the development level of investment banking business. On top of this foundation, the Bank established supportive safeguard systems such as active risk management, forward-looking talent planning, strategic financial management, highly efficient operation management, integrated channel management and information technology work, etc.

12.2 Overview of Business Development

12.2.1 Retail banking

During the Reporting Period, the Bank continued to promote the Interface Banking strategy, and various interface platforms achieved steady development; the businesses of QR code collection and second-hand housing fund management became effective channels for obtaining retail debt business. At the same time, various types of personal loan business experienced balanced development and non-performing retail loans achieved “double decrease”; the Bank also vigorously developed the credit card business and formed an Internet-based card issuance and risk control model. During the Reporting Period, the operating income of retail banking business was RMB 1.582 billion, representing a year-on-year increase of 35.56%, and accounting for 21.48% of the Company’s operating income.

1. Retail deposits

As at the end of the Reporting Period, the Bank’s balance of retail deposits amounted to RMB 56.899 billion, representing an increase of RMB 4.673 billion or 8.95% as compared with the end of the previous year, accounting for 32.39% of the balance of various deposits (excluding accrued interest). In particular, demand deposits amounted to RMB 18.313 billion, representing an increase of RMB 378 million or 2.11% as compared with the end of the previous year; time deposits amounted to RMB 38.585 billion, representing an increase of RMB 4.295 billion or 12.53% as compared with the end of the previous year. As at the end of the Reporting Period, the total number of bank cards from retail customers was 3,550.9 thousand, up by 0.06% as compared with the same period last year; the accumulated transaction volume amounted to RMB 127.367 billion, up by 7.21% as compared with the same period last year. The average cost rate of retail deposits was 2.26%, representing a decrease of 0.05 percentage point as compared with that at the end of the previous year.

The Interface Banking strategy continued to drive the development of the retail business. During the Reporting Period, the Bank signed and put into operation 8 new one-card-through projects, with the number of one-card-through customers increasing by 7,852; as at the end of the Reporting Period, the number of cooperative hospitals of the Bank Hospital Pass reached 12, and the cross-marketing of the payroll business and POS settlement business was realized; during the Reporting Period, the Bank established partnerships with 128 parks, 38 campuses and 9 communities, through which the number of retail customers increased by 56.0 thousand.

The Bank expanded new channels of retail development for its cloud payment business. The cloud payment platform switched the offline payment life scene to an online one, and provided a convenient living service for customers with the “rigid-demand and high-frequency” payment scene. The payment access to tuition fees, property fees, party membership dues, meals and other scenarios has been successively available, becoming an effective channel for connecting various groups of customers such as parents, community residents, and entity employees. As at the end of the Reporting Period, the Bank’s cloud payment contracted units totaled 348, representing a year-on-year increase of 108 with the number of payments made of 379.5 thousand and a total payment amount of RMB 241 million.

The QR code collection business contributed to the growth of low-cost retail liabilities. The QR code collection service is a convenient payment settlement tool provided to all kinds of small and medium-sized trade owners, such as restaurants and farmers’ markets, which could solve the difficulties faced by merchants in collection and payment. During the Reporting Period, the Bank’s QR code payment business continued to grow steadily and became a new way for the Bank to expand low-cost liabilities. As at the end of the Reporting Period, there were 27,397 stock merchants for the QR code collection business, and the savings deposit balance amounted to RMB 293 million.

The business of second-hand housing fund management continued to develop rapidly. The Bank introduced down payment fund management services to second-hand housing loan customers, which effectively ensured the customers’ asset safety during the transfer of second-hand housing ownership. During the Reporting Period, the Bank handled 5,319 transactions in total with regard to the second-hand housing fund management business, involving an amount of RMB 2.287 billion under management, and recorded a retail deposit balance of RMB 278 million, with an increasingly apparent pulling effect on the growth of retail deposits.

2. Retail loans

As at the end of the Reporting Period, the balance of retail loans of the Bank was RMB 41.350 billion, representing an increase of RMB 10.604 billion or 34.49% as compared with the end of the previous year, accounting for 32.72% of the balance of various loans (excluding accrued interest), representing an increase of 1.37 percentage points as compared with the end of the previous year. During the Reporting Period, the Bank seized market opportunities, adjusted the credit structure while managing and controlling risks effectively, and strived to promote a more rational retail loan structure, achieving balanced development of personal housing loan, personal business loans, and personal consumption loans.

The Bank developed the personal housing loan business in an orderly manner. During the Reporting Period, guided by the needs to support residents to purchase their own houses rationally, the Bank justifiably arranged the pace of delivery, focused on marketing quality projects, and developed the personal housing loan business in an orderly manner. As at the end of the Reporting Period, the balance of personal housing loan amounted to RMB 30.229 billion, representing an increase of RMB 6.100 billion as compared with that at the beginning of the year and accounting for 73.11% of the retail loan balance, representing a decrease of 5.37 percentage points as compared with that at the beginning of the year.

The Bank actively conducted the personal business loan business. During the Reporting Period, the Bank implemented national policies and regulatory requirements to support the real economy by actively conducting the personal business loan business. During the Reporting Period, the Bank launched the "Chuangyi finance" (創易融) personal business loan brand to support the financing needs of individual industrial and commercial households and small and micro business owners. As at the end of the Reporting Period, the Bank's personal business loan balance amounted to RMB 5.836 billion, representing an increase of RMB 2.570 billion or 78.70% as compared with that at the beginning of the year.

The micro-loan business went through steady development. During the Reporting Period, the Bank accelerated the development of businesses such as "Hui e-Loan" (惠e貸) and "Chain e-loan" (鏈e貸) to increasingly enrich the micro-loan products; the construction of the online lending platform was strengthened, and the big data customer acquisition capability and decision-making engine of the online lending platform were used to support and optimize the decision logic of the Bank's online lending, improving the efficiency and quality of automated loan review; data query service institutions were introduced to further enhance the Bank's risk management and control capabilities. As at the end of the Reporting Period, the balance of inclusive financial loans with a single-person credit of less than RMB 10 million totaled RMB 9.881 billion, representing an increase of RMB 2.454 billion as compared with that at the end of last year and accounting for 23.15% of the additional balance of personal loans (including credit cards) of the Bank.

The supply chain financing business was further expanded and developed. During the Reporting Period, the Bank advanced loans of RMB 1.545 billion in aggregate to nearly 1,500 distributors of 14 large domestic core enterprises in the fast-moving consumer goods sector. As at the end of the Reporting Period, the loan balance was RMB 463 million, representing an increase of RMB 56 million or 13.76% as compared with the same period last year.

The overall loan quality remained stable. During the Reporting Period, the Bank attached great importance to the risk management of retail loans, achieved remarkable results in controlling non-performing loans, realized the "double decrease" of both non-performing retail loans and non-performing loan ratio, and maintained the overall stable quality of retail loans. As at the end of the Reporting Period, the balance of non-performing retail loans was RMB 313 million, representing a decrease of RMB 52 million or 14.35% as compared with the beginning of the year. The non-performing retail loan ratio was 0.76%, down by 0.43 percentage point as compared with the beginning of the year.

3. Retail customers and customer asset management

During the Reporting Period, driven by the Interface Banking strategy, the number of retail customers of the Bank maintained steady growth and the number of medium and high-end customers and the size of assets retained continued to increase. As at the end of the Reporting Period, the number of retail customers of the Bank reached 4,078.3 thousand, representing an increase of 501.5 thousand or 14.02% as compared with the end of the previous year. The size of assets retained by retail customers in the Bank reached RMB 131.287 billion, representing an increase of 21.64% as compared with the same period last year. The number of customers with financial assets of more than RMB 200,000 reached 160.7 thousand, representing an increase of 25.6 thousand as compared with the end of the previous year, with assets amounting to RMB 106.275 billion retained in the Bank, accounting for 80.95% of the assets retained by retail banking customers in the Bank and representing a decrease of 0.29 percentage point as compared with the end of the previous year.

4. Credit card business

During the Reporting Period, the Bank issued 180.6 thousand new credit cards with an accumulated transaction amount of RMB 1.179 billion. The Bank's credit card business development was guided by financial technology, through the deep integration of the Internet and traditional finance, to achieve a new development model for credit cards.

Online customer flow has facilitated a significant increase in the number of users. Through the use of the online customer flow on the Internet, combined with its "warm service" concept, the Bank created a one-stop card application experience for customers, achieving a substantial increase in users. Since the official issuance of the cards in September 2018, the Bank has managed to issue 100,000 credit cards in only 66 days, achieving the top ranking amongst domestic banks for its speed of issuing first credit cards.

The intelligent engine guaranteed the quality of risk control. Based on Internet big data and intelligent learning algorithms, combined with external credit data, the Bank improved customer image accuracy, approval efficiency and transaction security. First, applications made by users for credit cards were automatically reviewed by the system, so that the card issuance speed reached the industry leading level, realizing true online card review. Second, through the intelligent algorithm engine, the Bank achieved real-time credit decision-making and real-time anti-transaction fraud detection, ensuring asset quality and users' card security.

Targeted marketing leaded to highly loyal customers. Adhering to the philosophy of customer-orientation, on the one hand, focusing on the "eating, drinking and playing" living scene which was close to the users' life needs, the Bank opened up O2O marketing channels to provide users with a closed-loop marketing experience. On the other hand, the Bank incorporated big data to analyze users' financial attribute data, and took into account various behavior data to accurately output user stratification and grouping, thus achieving personal customized marketing, refined operation and intelligent product introduction.

In September 2018, the Bank launched the first issuance of credit cards.

5. Wealth management and private banking business

As at the end of the Reporting Period, there were 7,062 retail customers with assets of RMB 2 million or more, up by 26.20% year on year. Their assets deposited in the Bank totaled RMB 31.258 billion, representing a year-on-year increase of 23.02%.

During the Reporting Period, the Bank sold as agent open-ended funds of RMB 11.038 billion in total and insurance premium of RMB 542 million. Among the above, the revenue from agency sales of funds amounted to RMB 16 million, representing a year-on-year increase of 139.25%; the revenue from agency sales of insurance amounted to RMB 15 million, representing a year-on-year increase of 30.83%.

During the Reporting Period, the wealth management and private banking business of the Bank continued to adhere to the "customer-centered and market-oriented" operation philosophy and provided high net-worth customers, families and enterprises with private and personalized financial and non-financial services.

During the Reporting Period, the Bank constantly refined the business operation system and promoted the business process reengineering, intensified the process management, and deepened the professionalization and standardization of business operations. The Bank also expanded the manager team of wealth management, with the number of on-the-job staff increased by more than half as compared to that of last year. In the meantime, the training program of wealth efficiency academy (財富效能學院) was implemented to improve the comprehensive ability of wealth management business personnel and to consolidate the business foundation.

The Bank kept enriching the privileged product lines including exclusive series wealth management, collective trust and special fund account, and structured wealth management products. In addition, the Bank subdivided the target customer base and made active and intensive efforts to significantly increase the overall operational capability for mid and high-end customers and profit contribution, and further improve the capacity for sustainable business development.

6. Customer service management

During the Reporting Period, the Bank further deepened experience orientation under the basic goal of "enhancing experience, improving efficiency and creating good reputation". By dint of refined management, the Bank continuously improved the offline service experience in terms of customer care and perception through delivering efficient, warm and professional service experience from various aspects, such as service scenario design, service delivery capacity and field service management.

The Bank further promoted service upgrades from standardized services to accommodating services and further to value-based services. Meanwhile, the Bank fully implemented service gold digging projects and fully achieved value-based offline channel services, built a new cross-selling service system aiming to establish long-term cooperative relationship and further enhanced customer perception and attraction.

In 2018, the Bank ranked the 407th with RMB 7.268 billion of brand value in the list of "China's Top 500 Most Valuable Brands", moving forward 11 places as compared with that of last year, which made it the only financial enterprise from Shandong Province ranking in the list for two consecutive years. The Bank received "Five-Star Diamond Award", the most authoritative award in the international service industry, for three consecutive years, further manifesting the soft competitiveness of the Bank in terms of service excellence. In addition, three business outlets of the Bank were honored by China Banking Association as "Top 1000 Demonstration Units of Civilized and Standardized Service in China Banking Industry in 2018".

12.2.2 Corporate banking

During the Reporting Period, the corporate banking business of the Bank insisted on exploring innovations, and adhered to its core development direction of “trading bank + investment banking”. The Bank focused on customer needs with an aim to gain more customers, and realized a steady growth in scale and efficiency of corporate banking by concentrating on expanding its core customers, enlarging customer base and strengthening the product support to further reinforce its competitive edge and complement with one another. During the Reporting Period, the operating income from corporate banking business was RMB 3.863 billion, representing a year-on-year increase of 28.38%, accounting for 52.45% of the Company’s operating income.

1. Corporate deposits

As at the end of the Reporting Period, the balance of corporate deposit (excluding accrued interest) reached RMB 118.645 billion, accounting for 67.54% of the balance of various deposits (excluding accrued interest), representing an increase of RMB 11.371 billion or 10.60% as compared to that at the end of the previous year. In particular, demand deposit amounted to RMB 72.853 billion, accounting for 61.40% of corporate deposits. The average cost rate of corporate deposits was 1.59%, representing an increase of 0.10 percentage point as compared to that at the end of the previous year.

During the Reporting Period, the Bank enhanced market competitiveness of its investment banking products, such as cash management, certificates of deposits with large sums, wealth management products, bond financing plans, and wealth management direct financing instruments by offering institutional deposits, optimizing government platform segment, enlarging state-owned enterprises segment and strengthening listed companies segment. As at the end of the year, the balance of customer deposits of cash management amounted to RMB 4.635 billion, and the year-end retained deposits of certificates of deposits with large sums amounted to RMB 5.383 billion. In addition, the Bank promoted public sector finance projects such as banks which manage and collect maintenance funds for housing projects and consolidated low-cost daily average deposit, which amounted to RMB 3.228 billion, by open bidding throughout the year.

2. Corporate loans

As at the end of the Reporting Period, the balance of corporate loans (including discounted bills and excluding accrued interest) reached RMB 85.037 billion, representing an increase of RMB 17.722 billion or 26.33%, accounting for 67.28% of the balance of loans of the Bank (excluding accrued interest), representing a decrease of 1.37 percentage points as compared with that at the end of the previous year.

In terms of loan releasing, the Bank implemented the spirit of the Central Economic Work Conference, actively supported the supply-side reform, followed the replacement of old growth drivers with new ones, carried out differentiated credit policies, strengthened the support for real economy in aspects such as supporting private economy and Small and Micro Enterprises and giving priority to the financing of projects in the areas of inclusive finance, green finance, technology finance, and energy conservation and environmental protection. Also, the Bank continued to support significant strategic projects such as infrastructure construction and housing construction to meet the loan needs from industrial upgrading and technological transformation of traditionally advantaged manufacturing industry. At the end of the Reporting Period, the balance of Green Credit was RMB 9.485 billion, representing an increase of RMB 2.168 billion or 29.63% as compared with that at the beginning of the year, accounting for 11.15% of the Bank’s total corporate loans. The balance of technology credit was RMB 5.348 billion, representing an increase of RMB 1.290 billion or 31.78% as compared with that at the beginning of the year, accounting for 6.29% of the Bank’s total corporate loans.

3. Corporate customers

At the end of the Reporting Period, the Bank had 148.6 thousand corporate customers, representing an increase of 23.8 thousand or 19.07% as compared with that at the end of last year.

The Bank strived to build a customer acquisition platform for the core enterprises. Focusing on core enterprises, the Bank carried out a mode of developing customers in batches from up and down of the core enterprises through products such as online factoring, re-factoring and Instant e-Loans (e秒貸). At the same time, the Bank extended its supply chain finance to the block chain, achieving a profound integration in "block chain transaction + finance". During the Reporting Period, the Bank increased 89 active cash management customers, 43 supply chain finance customers and 413 international business settlement customers.

The Bank implemented dynamic management on key projects. Through list system and binding joint marketing mechanism, the Bank followed closely on the progress status of key projects. During the Reporting Period, the Bank increased 748 active customers with granted credit.

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.

The Bank deepened the reform of trading banks and the cash management system to realize inter-bank fund collection and the function of virtual cash pool. The corporate wealth management products were continuously enriched and the Bank realized open-end and close-end online sales of corporate wealth management as well as enhanced its integrated customer service capability. With regard to international business, the Bank continued to strengthen the brands of products such as "Yin Mao Tong" (銀貿通) and "Yin Guan Bao" (銀關保). In terms of small enterprises business, the Bank strived to establish three major product lines, namely technology finance, inclusive finance and agriculture finance, and launch new businesses such as "Business Benefit Loan" (惠營貸), "Agriculture Benefit Loan" (惠農貸), "Technology Innovation Loan" (科創貸), "Easy Loan for Technology Innovation" (科創易貸) and "Loan Business Guaranteed by Government" (政銀保), which effectively solved the financing needs from Small and Micro Enterprises. In terms of listed enterprise finance, the Bank focused on the relatively advantaged products such as "Merger & Acquisition (M&A) Loan", and increased 8 corporate customers which are listed companies during the Reporting Period. In terms of bill business, the Bank completed the upgrade of "Paper – Digital Integration" system and carried out the functions of bulk acceptance, pledge and discounting via online banking of bill business system. By integrating the featured business products such as "bank notes pool", the Bank improved its service efficiency and customer experience.

12.2.3 Financial market business

During the Reporting Period, in face of the complicated and ever-changing domestic and overseas macroeconomic environment, the financial market business of the Company has fully studied the macroeconomic and financial trends and focused on serving the real economy and preventing financial risks. The Company also achieved a significant escalation in improving its asset and liability structure and promoted innovation in financial service and product development. During the Reporting Period, the financial market business revenue was RMB 1.732 billion, representing a year-on-year increase of 40.15%, accounting for 23.52% of the Company's operating income.

1. Proprietary investment

During the Reporting Period, the Bank changed its development direction of proprietary investment by transforming its investment from growing in size to increasing efficiency. Despite a year-on-year decrease in the scale of investment, the profit contribution has risen rather than fallen, representing an increase from 36.17% to 44.61%. The Bank continued to optimize its proprietary investment structure by reducing Special Purpose Vehicle investment and increasing standard bond investment and asset liquidity.

As at the end of the Reporting Period, the scale of proprietary investment of the Bank (including accrued interest) reached RMB 145.864 billion, representing a year-on-year decrease of RMB 18.941 billion or 11.49%, particularly, the scale of bond investment (excluding accrued interest) amounted to RMB 82.944 billion, representing a year-on-year increase of RMB 13.711 billion or 19.80%, which was mainly attributable to the increase of government bonds, credit bonds investment and the service for the real economy. The scale of non-standard debt investment (excluding accrued interest) reached RMB 60.737 billion, representing a year-on-year decrease of RMB 34.812 billion or 36.43%, which was mainly attributable to the decrease of assets from non-principal-guaranteed wealth management products and trust plans of commercial banks.

2. Interbank business

During the Reporting Period, the Bank, on the one hand, expanded its financing channels through numerous methods, and broadened the Bank's sources of liabilities by joint investment, bond underwriting, open market operation and structured deposits. On the other hand, the Bank strengthened its proficiency and judgment on monetary policies and market liquidity and reasonably matched the term structure of interbank liabilities to lower the cost of interbank liabilities on the basis of meeting the liquidity requirements of the Bank.

As at the end of the Reporting Period, the balance of interbank deposits was RMB 11.633 billion, representing a decrease of 53.28% as compared with that at the beginning of the year. Interbank deposit accounted for 4.01% of the total liabilities of the Bank. The balance of interbank deposit certificates issued amounted to RMB 49.708 billion, representing a decrease of 1.66% as compared with that at the beginning of the year. Issuance of interbank deposit certificates accounted for 17.13% of the total liabilities of the Bank.

During the Reporting Period, the transaction amount of bonds in the interbank market nationwide was RMB 8,266.1 billion. In the ranking of delivery amount of bonds issued by China Central Depository & Clearing Co., Ltd. of 2018, the Bank ranked No. 32 among national financial institutions and No. 9 among city commercial banks. The Bank was awarded the title of "2018 Outstanding Dealer" issued by China Central Depository & Clearing Co., Ltd., and ranked among the 2018 Top 300 Trading Banks in the Interbank RMB Market published by the National Interbank Funding Center.

In March 2018, the Bank obtained the qualification for primary dealers in the open market in 2018 and became the sole financial institution as a legal person that has obtained such a qualification in Shandong Province. In August 2018, the Bank obtained the qualification of China Interbank FX Market Derivatives Membership, and established counterparty relationships with a number of banks, enriching and improving varieties of its products in the exchange traded derivatives market.

3. Asset management

The Bank followed the development strategy of "promoting compliance and maintaining steady growth", streamlined and formulated the strategy of upgrading and transforming wealth management business in accordance with the regulatory requirements, and stimulated scale growth and product innovation. During the Reporting Period, all wealth management products issued by the Bank reached a profit as expected. As at the end of the Reporting Period, the balance of wealth management product was RMB 78.356 billion, representing a year-on-year increase of RMB 16.759 billion or 27.21%. In particular, non-principal-guaranteed wealth management products recorded a balance of RMB 71.534 billion, representing a year-on-year increase of RMB 20.490 billion or 40.14%; principal-guaranteed wealth management products recorded a balance of RMB 6.821 billion, representing a year-on-year decrease of RMB 3.731 billion or 35.36%. During the Reporting Period, the commission income from wealth management products was RMB 487 million, representing a year-on-year increase of 29.16%.

During the Reporting Period, the Bank continued to promote the efforts for net-worth transformation of wealth management products. As at the end of the Reporting Period, the balance of net-worth products was RMB 27.673 billion, representing more than one third of the total scale of wealth management products, and the phase target of net-worth transformation was completed. The Bank issued the first batch of index-linked retail wealth management products, further enriching the variety of wealth management products and promoting a steady compliant development of the asset management business. In the "Evaluation on Wealth Management Business of Banks in the Market for the First Half of 2018" issued by China Banking Wealth Management Registration & Depository Center, the Bank achieved outstanding performance in wealth management, and won the 9th place in the comprehensive ability of national city commercial banks, of which our product creation ability was particularly prominent and was ranked 4th among city commercial banks of China and 16th among the market; the Bank was awarded the honorable titles of 2018 Outstanding City Commercial Bank of National Banking Financial Information Registration, Outstanding National Banking Organization for Registration and Real-time Command of Financial Investors (全國銀行業理財投資者登記暨直連工作優秀組織獎), etc.

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 the real economy and promote adjustment and improvement of asset structure and business revenue of the Bank.

In respect of bond underwriting, 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 a total of 20 projects in issue with an amount of RMB 14.620 billion, which contributed significantly to the growth of intermediate business income and customer derivative deposits.

In respect of structural financing, the Bank conducted an in-depth research and analysis into the market, developed potential customers and valuable products, marketed key customers, explored key areas, and promoted various projects to realize its revenue. As at the end of the Reporting Period, the balance of structural financing of the Bank amounted to RMB 22.030 billion, representing a year-on-year decrease of RMB 747 million or 3.28%.

In May 2018, the Bank convened the fifth session of Youth Forum. The employees of the Bank conducted a topical discussion on the project.

The Bank actively promoted the innovation and development of debt capital market, taking full advantage of its qualifications to build comprehensive financial service capability. In November 2018, as the first financial institution as a legal person in Shandong Province, the Bank obtained three qualifications as the core dealer of credit risk mitigation tools, the credit risk mitigation warrants venture capital institution and the credit-linked note venture capital institution. The Bank actively responded to national policies and supported the development of private enterprises by using bond-financing support tools for private enterprises. The Bank created and issued the first credit risk mitigation warrants in Shandong Province, boosted the confidence of bond market investors in enterprises which issue bonds, and effectively helped high-quality private enterprises in Shandong Province to solve the problem of difficulties in and high cost of financing. In December 2018, the Bank obtained the independent lead qualification of B-Class lead underwriter. The Bank can fully utilize its efficiency advantage to independently carry out the underwriting business of non-financial corporate debt financing instruments within Shandong Province, and further enhance its capability of serving the real economy of Shandong Province.

12.2.4 Distribution channels

1. Physical distribution channels

The business outlets of the Bank are based in Qingdao with its footprint covering all corners of the Shandong Province. As at the end of the Reporting Period, the Bank has 134 business outlets including 14 branches in 14 cities in Shandong Province, including Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Laiwu, Linyi, Jining and Taian. The Bank had its head office, a branch and 77 sub-branches located in the vicinity of Qingdao. BQD Financial Leasing, the Bank's holding subsidiary, is based in Qingdao and has set up an office in Shanghai.

2. Self-service banking channels

As at the end of the Reporting Period, the Bank had one off-bank self-service bank, 101 in-bank self-service banks and 472 self-service devices including 89 self-service ATMs, 260 self-service Cash Deposit and Teller machines (CTM), and 123 self-service terminals. These units provide services such as withdrawal, deposit, transfer, account enquiry, and payment. As at the end of the Reporting Period, the Bank had recorded 5.6204 million transactions through self-service bank with a total transaction amount of RMB 19.584 billion.

3. Electronic banking channels

The Bank regards electronic banking as a significant breakthrough in innovation and development, and continuously optimizes online service channels such as mobile banking and online banking so as to "enhance customers' experience". The Bank also enhanced its comprehensive channel service capabilities through more utilization of financial technology. The Bank also sought to open its doors to further cooperation, and promoted rapid update of products and services.

(1) Internet banking

In 2018, the Bank's internet banking business maintained a steady growth with its customers' size and transaction volume remain stable. As at the end of the Reporting Period, the Bank had a total of 88,919 online corporate banking customers, representing a year-on-year increase of 19.03%. The Bank's accumulated number of transactions totaled 23,331.2 thousand, representing a year-on-year increase of 65.97%, while the value of total transaction amounted to RMB 1,384.043 billion, representing a year-on-year increase of 41.66%. Number of online retail banking customers totaled 723.5 thousand for the year representing a year-on-year increase of 3.68%, and accumulated a total of 129,630.8 thousand transactions representing a year-on-year increase of 59.77%. Total transaction amounted to RMB 593.540 billion, representing a year-on-year decrease of 4.81%.

(2) Mobile finance

The Bank regarded mobile finance as its focus in the development of its electronic banking channels, and sought to accelerate the layout of intelligent and personalized mobile banking through providing more variety of functions that would enable a more intelligent and hands-on experience. During the Reporting Period, the Bank had launched new banking functionalities such as mobile banking wise capital management, personalized homepage and message center. The Bank also made available customized service push, personalized investment advice, etc. making good use of big data mining and analysis to enhance customer experience, and continued to upgrade its "omni-channel marketing management platform" and "targeted marketing platform" to pinpoint audience of its marketing content according to the characteristics of different customer groups, so as to continuously raised sales speed and the proportion of retail products.

During the Reporting Period, number of users of the Bank's mobile banking service and the volume of mobile banking transactions was in constant and rapid growth. The number of existing mobile banking users was 1,564.2 thousand that represented a year-on-year growth of 40.52%, with an accumulated transaction volume of 60.8128 million that represented a year-on-year growth of 8.83%, while total transaction amounted to RMB 328.071 billion that represented a year-on-year growth of 27.97%.

During the Reporting Period, the sales volume of wealth management products on the mobile banking channel continued to rise to RMB 74.542 billion that represented a year-on-year growth of 38.23%. The proportion of mobile banking sales to that in the whole channel reached 53.32%, which represented a year-on-year growth of 15.71 percentage points.

4. Information technology

The Bank emphasised the comprehensive utilization of scientific and technological innovations at the centre of its grand strategy, and continued to pursue excellence in its levels of technological capabilities, and explore the deep integration of "financial + technology + scenarios". The Bank also promoted application of emerging technologies such as big data, cloud computing, artificial intelligence and mobile network, and as a result managed to fulfill the strategic business goals for the Reporting Period and further enhanced the core competence of the whole bank.

(1) Continued to promote integration and innovation of technology and business to enhance business support capabilities

During the Reporting Period, the Bank accelerated the application of financial technology innovation and advance ahead the two-way integration of technology and business by adopting an extreme, lean and agile development model. These efforts serve to continuously improve its financial technology ecosystem with efficiency, mutual benefits and a win-win outcome, and empower the use of financial technology a step ahead. The Bank completed the construction of 46 key projects including credit card, smart network, bill business, the phase one of second- and third-class accounts, new functions of interface banks, intelligent fast cabinet system, paperless cabinet, online clearing platform access and IFRS 9. These projects strongly supported the rapid development of the Bank's business.

In July 2018, the Bank participated in the election campaign of "Search for the Top Bank Manager".

The first credit card with focus on life consumption scenario jointly launched by the Bank and Meituan provided customers with unique and differentiated financial services through the two-way empowerment of "Scenario + Finance" to get through the "last mile" of Inclusive Finance. The Bank continued to revamp its "Interface Banking" platform and evolved its new financial service model of "finance + Internet" in the Internet era. The intelligent network system now in place leveraged face recognition technology to conduct customer identity verification, which improved security level and was able to provide customers with a more intelligent and efficient one-stop service. Based on the technologies of big data and knowledge mapping, the Bank rolled out an enterprise knowledge platform across all banks to equip business personnel with "business knowledge" that could be directly applied by integrating and analyzing data in and out of the market. Different Big data platform projects such as intelligent CRM (customer relationship management) project, BDP query platform and customer knowledge platform will serve to integrate and analyse internal and external data, and explore the value of big data in-depth, so as to lay down a scientific foundation for realising intelligent transformation.

In aspect of infrastructure, the Bank introduced the leading mobile cloud platform in the Internet industry, and re-established the mobile application development platform on a model of "Internet core + business center + channel terminal" to provide one-stop solutions for developing, testing, maintaining and operating mobile applications, and provide strong support for the establishment of data-centric and refined operations to continuously improve customer experience and enhance delivery capability on a regular basis.

(2) Continued to improve business continuity management and construction of information security system to enhance the security assurance capabilities of the system

During the Reporting Period, the Bank carried out an omnibearing security evaluation and hidden-risks elimination exercise on its infrastructures including 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, and worked to improve security protection systems, security reinforcement measures and emergency guarantee plans and held drills on emergency response plans centering on the requirements for safeguarding network security proposed during the SCO Summit, so as to ensure the all-round reliable, stable, continuous and efficient operation of information systems, realizing reinsurance of "zero risk" and "zero mistakes" during the SCO Summit period. The Bank attached great importance to information security management, and kept on improving its ability to prevent and control IT risks, enhanced IT governance system and internal control construction and Internet security protection, as well as carrying out third-party security evaluation for Internet business systems, and successfully passed recertification audit for information security management system (ISO27001) to effectively prevent technological risks.

(3) Strengthened the absorption, motivation and cultivation of scientific and technological talents to implement a series of information technology professionals

The Bank continued to absorb outstanding scientific and technological talents, and constantly innovated the mechanisms, means and methods for training to effectively enhance the overall quality of employees and the independent research and development ("R&D") capabilities of the team, thus effectively supporting the development of the Bank's business.

(4) Continued to conduct R&D on scientific and technological innovations

At the end of 2018, outcomes of the research on "Financial Knowledge Intelligence Platform Construction and Application Research" as filed by the Bank was recognised as Category-1, while that on "Research and Application of Unusual Behavioral Awareness Based on Attack Chains in Preventing Security Risks" was recognized as Category-4 by the CBIRC at the "2018 Annual Research on Banking Information Technology Risk Management".

13. STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

The consolidated structured entities sponsored by the Company mainly include principal-guaranteed wealth management products. Principal-guaranteed wealth management products sponsored and managed by the Company represent products to which the Company has guaranteed the investor's principal investment and their funds. Investments made by these products and the corresponding fund of the investors of these products are presented in the respective financial assets or financial liabilities items based on the nature of the assets or liabilities. As at 31 December 2018, the principal-guaranteed wealth management products managed and consolidated by the Company amounted to RMB 6,821 million.

14. RISK MANAGEMENT

14.1 Credit risk management

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

The Bank is committed to continuously improving its credit risk management system in close adherence with the risk control principle of "proactive compliance, strict risk control and strengthened internal control" and kept on strengthening its credit risk management in terms of customer structure, business structure, approval process, asset preservation system, basic credit management and dissolution of non-performing loans. During the Reporting Period, the Bank adopted the following measures to strengthen its credit risk management:

1. Fostering a risk culture that values "Proactive Compliance". The Bank puts into practice a principle known as "Proactive Compliance" to improve its image of having "solid risk control" in place and to foster a culture of proactive compliance. These ensures the coverage of proactive compliance on all its businesses, outlets, and employees, in order to build up a compliance ecosystem featuring compliance down to every personnel, every item and at every moment.

2. Improving and optimizing its risk management system. On the one hand, the Bank will continue to improve the vertical centralized approval model for its credit business, and continuously optimize all relevant management segments; on the other hand, the Bank plans to set up a first-level department of asset preservation. The department is to be responsible for asset preservation across the Bank, and to explore new approaches and means to optimize its asset quality and to strengthen the collection of non-performing loans, and allocate more credit facilities to support the real economy, all under the principle of management under market mechanism.

3. Optimizing the quality of credit assets and accelerating the clearing of non-performing loans. While innovating on means and methods of collection to strengthen litigation debts clearing, reorganization and transformation, the Bank continued to accelerate the write-off of non-performing assets, and constantly optimize the quality of its credit assets as well as redirecting all loans overdue for more than 90 days under the management portfolio of non-performing loans.

4. Strengthening the management and revamping credit management assessment for off-site branches. Measures for the Management of Credit Risks of Qingdao Branches in Different Branches is formulated on one hand to step up the refined, centralized and standardized management of credit risks in its off-site branches. On the other hand, the Banks seeks to further refine its credit management assessment, i.e. optimisation of the Comprehensive Evaluation Approaches for Credit Management Expertise of the Branches of Bank of Qingdao, and the optimisation of the assessment benchmarks along with strengthening the role of credit management assessment in hastening the alleviation of credit risks.

5. Establishing a joint coordination mechanism for risk alleviation and innovating the risk prevention and control methods. On the one hand, the Bank is actively exploring new ways to break the links of cross-guaranteed loans and help resolve relevant risks in order to effectively resolve issues such as lengthy and cumbersome litigation procedures and poor efficiency, and speed up the recovery of risk assets. On the other hand, the Bank is working to establish a well-matched distribution and control mechanism for risky loans monitoring, and assign dedicated staff to prepare targets for resolution of risks in loan due and overdue in key branches, and develop a normalized, regularized, dynamic, and refined management and control mechanism.

6. Improving our credit system and further standardizing business flows. During the Reporting Period, the Bank completely revamped its existing rules and regulations for timely optimization and improvement, taken into consideration regulatory requirements and the state of its business development. Its scope covered remote branch management and assessment, loan conversion management, government financing platform management, risk mitigation for entrusted loans and cross-guaranteed loans, collateral management and guarantee management and identification of guarantee circles. These initiative served to effectively promote the standardized operation of our credit business and ensured the smooth operation of our credit business.

7. Continuing to enhance the credit risk management system and giving full play to the important role of big data in risk warning. The Bank conducted multi-dimensional risk warning for customers, products and collaterals of our credit business by introducing multi-channel and multi-form external information data, and establishing a big data-based risk warning platform; applying new technologies such as cloud computing, big data and artificial intelligence to check and control business operation and block operation loopholes while screening risks in due time, and constantly enhancing the control function of the system.

14.2 Liquidity risk management

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain sufficient funds at a reasonable cost to meet asset growth or pay debts due even if the bank's solvency remains strong.

The objective of the Company's 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. The objective of the Company's liquidity risk management is based on development strategy of the Company so as to continuously improve its level of liquidity risk management and measures, strengthen its capability of identifying, monitoring, measuring and refining the management and control of liquidity risks, and maintain a reasonable balance between liquidity and profitability. The Company monitors future cash flows according to its liquidity management policy, and ensures an appropriate level of high liquid assets is maintained.

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

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

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

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

The Company closely monitors changes in liquidity patterns and market expectations, and deploys in advance and dynamically adjusts its liquidity management strategy based on changes in its asset and liability business and the liquidity gap to ensure that its liquidity risk is within a reasonable and controllable range. During the Reporting Period, the Company focused on strengthening its liquidity risk management in the following areas:

1. Optimizing its asset and liability allocation structure. As for assets, while maintaining a basically stable annual asset scale, the Company increased the allocation proportion of the traditional businesses such as loans and bonds. As for liabilities, while making considerable efforts to drive the growth of its deposit, the Company comprehensively applied the monetary and credit policy tools provided by the People's Bank of China, e.g. refinancing and medium-term lending facilities, to obtain medium and long-term funds, resulting in the sources of its liabilities increasingly diversified, and the stability of its liabilities further enhanced.

2. Improving the liquidity risk limit management system and dynamically monitoring the liquidity risk limit indicators.

3. Continuing to increase its investment in interest rate bonds such as treasury bonds and policy financial bonds, improving the reserve of high-quality liquid assets, and providing sufficient mitigation assets for its liquidity security.

4. 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 including 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.

For more details on the Bank's liquidity risk management, please refer to "Notes to the Financial Statements".

14.3 Market risk management

Market risk is the risk of causing losses to the Company's business due to a change in the value of financial instruments as a result of any change in market rates including interest rates, exchange rates, commodity prices and stock prices. The market risks faced by the Company include interest rate risk and exchange rate risk.

In accordance with the relevant requirements of the regulatory authorities on market risk management with reference to the relevant provisions of the New Basel Capital Accord, the Company continued to improve its market risk management system during the Reporting Period, optimize its market risk management policy system, and deepen the construction of the market risk management information system. It continued to manage its interest rate risk and exchange rate risk and has established a market risk management system through measures such as the stipulation, monitoring and reporting of authorisation, credit and risk limits, aiming to constantly improve the efficiency of its risk management.

The Company's internal control system for market risk management is sound and compliant, with clear responsibilities defined for the Board, senior management and various departments; meanwhile, the Company regularly inspected the policies and systems in relation to market risk management, so as to regulate the identification, monitoring and control of market risks. The Company carries out special internal audits on market risks annually and regularly reports the status of market risk management to the senior management and the Board and generates an independent report.

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

14.3.1 Analysis of interest rate risk

The Company distinguishes its banking book and trading book according to the regulations of the regulatory authorities and the banking management traditions, and adopts the corresponding approaches for the identification, measurement, monitoring and control of market risks according to the different natures and characteristics of its banking book and trading book. The trading book records the freely traded financial instruments and commodity positions held by the Bank for trading purposes or for hedging the risks of other items in the trading book. Positions recorded in the trading book must not be subject to any terms on the transaction, or can be fully hedged to avert risks, accurately valued, and actively managed. Corresponding to the trading book, the Bank's other businesses are included in the banking book.

For the interest rate risk exposure in its banking book, the Bank adopts measurement approaches suitable for the scale and structure of its assets and liabilities in accordance with the regulatory requirements, which employs various techniques such as repricing gap analysis, duration analysis, and net interest income simulation analysis to quantify the impact of interest rate changes on the Bank's net interest income and economic value, while adjusting the loan repricing cycle and optimizing the term structure of deposits based on the analysis results. For the interest rate risk exposure in its trading book, the Bank mainly adopts techniques such as sensitivity analysis and scenario simulation to measure and monitor it. Risk exposure limits, such as interest rate sensitivity and risk exposure, are set, and the implementation of these limits is also effectively monitored, managed and reported on a regular basis.

14.3.2 Analysis of interest rate sensitivity

The Company uses sensitivity analysis to measure the potential impact of changes in interest rates on the Company's net interest income. The following table sets forth the results of the interest rate sensitivity analysis based on the current assets and liabilities on 31 December 2018 and 31 December 2017.

Unit: RMB'000

Item	**31 December 2018 Increase/ (Decrease)**	31 December 2017 Increase/ (Decrease)
Change in annualized net interest income		
Interest rate increase by 100 bps	**(635,421)**	(399,892)
Interest rate decrease by 100 bps	**635,421**	399,892

This sensitivity analysis is based on a static interest rate risk profile of the Company's assets and liabilities. 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 Company's assets and liabilities within the one-year period. The analysis is based on the following assumptions:

1. 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);

2. There is a parallel shift in the yield curve and in interest rates;

3. 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 Company's net interest income resulting from increases or decreases in interest rates may differ from the results of the sensitivity analysis.

14.3.3 Analysis of exchange rate risk

The Company's currency risk mainly arises from the fund business, foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Company manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies. Methods such as foreign exchange exposure analysis, scenario simulation analysis and stress test are mainly adopted for the measurement and analysis of the Company's exchange rate risks in its banking book.

14.3.4 Analysis of exchange rate sensitivity

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

Unit: RMB'000

Item	**31 December 2018 Increase/ (Decrease)**	31 December 2017 Increase/ (Decrease)
Increase/(Decrease) in annualised net profit		
Foreign exchange rate increase by 100 bps	**9,358**	9,747
Foreign exchange rate decrease by 100 bps	**(9,358)**	(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:

1. The foreign exchange sensitivity is the gain or loss recognized as a result of 100 basis points fluctuation in the foreign currency exchange rates against the average of the central parity rates of RMB on the reporting date;

2. The exchange rates against RMB for all foreign currencies change in the same direction simultaneously;

3. 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 Company's net foreign exchange gain or loss resulting from change in foreign exchange rates may differ from the results of the sensitivity analysis.

14.4 Operational risk management

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

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

1. Innovating the use of technical means, accelerating the launch of new business systems, carefully collecting key operational risk indicators and loss data for analysis and early warning, improving the internal process, and preventing operational risks in every aspect.

2. Advancing the implementation of our risky case preventing plan in an orderly manner, carrying out risky case filtering in an all-round manner, establishing a responsibility chain of risky case prevention, and innovating the risky case prevention measures.

3. Focusing on the rectification of disorder, carrying out various types of self-examination and inspection on the key businesses and key areas of the Bank, rectifying problems through self-learning and self-governance, blocking operation and management loopholes, and strictly controlling the spreading of operational risks.

4. Strengthening safety of the information technology system and business continuity management to promote the establishment of the business continuity system, improving the establishment of the emergency plan system, enhancing daily emergency drills to guarantee the safe operation of the system.

5. Continuing to promote the establishment of the operational risk system and cultural propaganda, enhancing our employees' awareness of compliant operations, carrying out investigations into employees' abnormal behaviors, and strengthening the management of staff at work.

6. Optimizing the outsourcing business process with multiple measures, managing the information security of outsourcing service providers, conducting risk assessment on the outsourced services, and strengthening risk control of and investigation into the implementation process of the outsourced projects.

In December 2018, the Bank held a staff choir competition.

15. OUTLOOK ON FUTURE DEVELOPMENT OF THE COMPANY

15.1 Operating situation analysis for the new year

In 2019, China's macro-economy is still faced with increasing downward pressure, with dwindling export volume and falling trade surplus on goods. Investment growth rate is projected to bounce back, and consumption will be stable with slowing growth. Macro-economy will remain highly resilient despite the fact that Sino-US trade friction will further increase uncertainties for the trajectory of the domestic macro-economy. As for macroeconomic policies, the adoption of proactive fiscal policies will be further strengthened for greater effectiveness and efficiency, while monetary policies aim to be more forward-looking and flexible on a prudent and neutral basis. Regulatory policies are gradually resuming to normal standards and shifting from "deleveraging" to "stable leveraging". In the face of increasingly complicated operating conditions, the Bank will continue to solidify its customer base, deepen distinctive development models and promote active risk control governance concepts under the guidance of the 2019-2021 Strategic Program (2019-2021年戰略規劃).

15.2 Development guiding principle for the new year

In 2019, the Bank will uphold "strategic guidance, characteristic growth driver, compliance with rules and regulations, and continuous improvement" as its basic guiding principle for operations, maintain stability in its operation while making progress, focusing on building its core competitive strength in the following four aspects, i.e. "excellent customer experience, leading financial technology, strong risk management and control and refined internal management", giving full play to the advantages arising from the listing of its A shares and H shares, enriching the essence of its "Plan for Enhancement", promoting the active governance concept, and optimizing its characteristic development model, packing up and getting ready for a new journey towards a bright future in the new era for Bank of Qingdao.

15.3 Main measures to be adopted for the new year

(1) Focus on specific business segments, grow bigger and stronger, and promote the steady development of the wholesale business;

(2) Enhance the sense of responsibility and awareness of our people, improve their working skills and execution resolve (兩增兩提), carry on refined management to improve the profitability of our retail business;

(3) Improve quality and efficiency, promote win-win cooperation, and promote the steady growth of the financial market business;

(4) Comply with rules and regulations, maintain professional risk control, and improve the level of risk management in every aspect;

(5) Strive for key breakthroughs, carry out embedded development, and highlight the leading role of financial technology;

(6) Expand our presence across the whole province, deepen our root in Qingdao, and explore a new type of institutional management model;

(7) Eliminate complexity and simplify the process to win with efficiency, and drive the acceleration of the transformation and operation of our outlets;

(8) Keep innovating and maintain our efforts to enhance the level of refined management across the Bank.

Section VII Significant Events

I. PROFIT DISTRIBUTION FOR ORDINARY SHARES OF THE COMPANY AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL

1.1 Profit distribution policy for ordinary shares and implementation thereof

The Resolution on the Amendments to the Articles of Association of Bank of Qingdao Co., Ltd was considered and approved at the 2016 second extraordinary general meeting of the Bank held on 14 October 2016. The amended Articles of Association provides that the Bank shall implement a consistent and stable profit distribution policy that gives priority to investors' reasonable investment returns with a view to the Bank's sustainable development. The Bank shall give preference to cash dividend distribution on the premise of ensuring sustaining profitability and compliance with regulatory requirements as well as the normal operation and long-term development of the Bank. The Bank's annual profit distributed to shareholders of ordinary shares in cash shall not less than 20% of the distributable profits attributable to ordinary shareholders of the Bank in the year.

Particulars of Cash Dividend Policy	
Whether in compliance with the requirements of the Articles of Association and the resolutions of the general meeting:	Yes
Whether the dividend distribution criteria and proportion were well-defined and clear:	Yes
Whether the related decision-making process and mechanism were in place:	Yes
Whether independent Directors fulfilled their duties and play their roles:	Yes
Whether the minority shareholders had the opportunities to sufficiently express their opinions and appeals and the legal interests of the minority shareholders were fully protected:	Yes
Whether the conditions and procedures were legal and transparent in respect of the adjustments and changes in cash dividend policy:	Yes

1.2 Dividend distribution for ordinary shares for the last three years

The 2018 proposed dividend distribution plan for ordinary shares: the Board of the Bank has proposed a final cash dividend of RMB 0.20 per share (tax inclusive) for the year ended 31 December 2018 in an aggregate amount of RMB 901,938,000 (tax inclusive) to all ordinary shareholders of the Bank. The dividend distribution proposal will be submitted to the 2018 annual general meeting for consideration and approval. The Bank will not issue bonus shares, or perform capital conversion from capital reserve for the year 2018.

If the proposal is approved by the 2018 annual general meeting, the dividend will be distributed to holders of A shares and holders of H shares whose names appear on the share register of the Bank at close of business on their respective record date. The proposed dividend mentioned above will be denominated in RMB. Dividends to holders of A shares shall be paid in RMB, and dividends to holders of H shares shall be paid in Hong Kong dollars. The applicable exchange rate of RMB to Hong Kong dollars for Hong Kong dollars denominated dividend shall be the average of the central parity rates in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends at the 2018 annual general meeting (including the day the annual general meeting to be held) as announced by the People's Bank of China. The register of members of the Bank will be closed from Thursday, 23 May 2019 to Tuesday, 28 May 2019 (both days inclusive), during such period no transfer of H shares will be registered. In order to be entitled to the 2018 final dividend payment, holders of H shares of the Bank who have not registered the related transfer documents are required to lodge the transfer documents together with the relevant share certificates with the Bank's H-share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Wednesday, 22 May 2019.

The Board of the Bank is set to distribute the final dividends of 2018 on Tuesday, 16 July 2019. If there are any changes to the dividend payment date, an announcement will be published regarding such changes.

The 2017 dividend distribution plan for ordinary shares: pursuant to the relevant resolutions considered and approved at the annual general meeting of 2017 held on 15 May 2018, the Bank distributed to holders of domestic shares and holders of H shares, whose names appeared on the share register of the Bank on 24 May 2018, dividends in cash for 2017 in an aggregate amount of RMB 811,742,549.80 (tax inclusive), according to the profit distribution plan to distribute cash dividend of RMB 0.20 per share (tax inclusive) on 25 May 2018.

The 2016 dividend distribution plan for ordinary shares: pursuant to the relevant resolutions considered and approved at the annual general meeting of 2016 held on 11 May 2017, the Bank distributed to holders of domestic shares and holders of H shares, whose names appeared on the share register of the Bank on 22 May 2017, dividends in cash for 2016 in an aggregate amount of RMB 811,742,549.80 (tax inclusive), according to the profit distribution plan to distribute cash dividend of RMB 0.20 per share (tax inclusive) on 6 July 2017.

Unit: RMB'000

Year of distribution	Amount of cash dividends (tax inclusive)	Net profit attributable to ordinary shareholders of the listed company in the consolidated financial statements during the year of distribution	Amount of cash dividends as a percentage of net profit attributable to ordinary shareholders of the listed company in the consolidated financial statements	Amount of cash dividends distribution through other means (such as repurchase of shares)	Amount of cash dividends distribution through other means as a percentage of net profit attributable to ordinary shareholders of the listed company in the consolidated financial statements
2018	901,938	1,519,256	59.37%	0.00	0.00%
2017	811,743	1,900,252	42.72%	0.00	0.00%
2016	811,743	2,088,605	38.87%	0.00	0.00%

II. PROFIT DISTRIBUTION AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL DURING THE REPORTING PERIOD

Number of bonus share per 10 shares (share(s))	–
Dividend distribution per 10 shares (RMB) (tax inclusive)	2.00
Scrip shares per 10 shares (share(s))	–
Share base of the distribution proposal (shares)	4,509,690,000
Amount of cash dividend (RMB) (tax inclusive)	901,938,000
Amount of cash dividends distribution through other means (such as repurchase of shares) (RMB)	–
Total cash dividend (including cash dividends distribution through other means) (RMB)	901,938,000
Distributable profits (RMB)	2,497,412,820.13
Percentage of total cash dividend (including cash dividends distribution through other means) to total profit distribution	100%

Cash dividend

If the Company's development is in maturity stage without substantial capital expenditure arrangement, the proportion of cash dividends shall not be less than 80% in the profit distribution.

Particulars of profit distribution and capital conversion from capital reserve plans

In accordance with the profit of the Bank, the Articles of Association and relevant regulatory requirements, the proposed profit distribution plan of the Bank for 2018 is as follows:

1. 10% of net profit, equivalent to RMB 200 million, will be appropriated to statutory reserve fund.

2. RMB 504 million of dividend has been distributed to the offshore preference shareholders on 19 September 2018.

3. RMB 2.00 (tax inclusive) per 10 shares of cash dividend will be distributed to all ordinary shareholders. Based on 4,509,690,000 shares of the total share capital of the Bank, the total cash dividend to be distributed will be RMB 902 million. Dividends of H shares shall be paid in Hong Kong dollars. The applicable exchange rate of RMB to Hong Kong dollars shall be the average of the central parity rates in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends at the annual general meeting (including the day the annual general meeting to be held) as announced by the People's Bank of China.

4. The retained profit will be carried forward to the next year.

III. PERFORMANCE OF UNDERTAKINGS

Undertakings fulfilled during the Reporting Period and not fulfilled as at the end of the Reporting Period by the Bank, shareholders, related parties of the Bank or other party involved in undertaking are as follows:

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
Undertaking made on initial public offering or refinancing	Qingdao Conson Industrial Co., Ltd.	Undertaking on voluntary lock-up of shares held	Qingdao Conson Industrial Co., Ltd., a shareholder holding more than 5% of the total share capital of the Bank, undertook not to transfer nor entrust others to manage the shares of the Bank held directly or indirectly by it prior to the issuance of the A shares within 36 months from the date of the listing of A shares of the Bank on the stock exchange and not to sell back the above shares to the Bank.	16 January 2019	36 months	In progress
	Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd., Qingdao Haier Co., Ltd, Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Haier Robot Co., Ltd, Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd.	Undertaking on voluntary lock-up of shares held	Eight enterprises including Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd., Qingdao Haier Co., Ltd, Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Haier Robot Co., Ltd, Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd. respectively undertook not to transfer nor entrust others to manage the shares of the Bank held directly or indirectly by them prior to the issuance of the A shares within 36 months from the date of the listing of A shares of the Bank on the stock exchange and not to sell back the above shares to the Bank (except for the transfers between a company and its related party if the transfer is in compliance with the relevant laws and regulations and the transferee agrees to fulfill the undertaking on lock-up of shares by the transferor).	16 January 2019	36 months	In progress

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Shandong Sanliyuan Economics and Trade Co., Ltd., Qingdao Hairen Investment Co., Ltd., Qingdao Jifa Group Co., Ltd., Shanghai Jiacheng Investment Management Co., Ltd., Beijing International Trust Co., Ltd. (北京國際信託有限公司), Guosen Securities Company Limited (國信證券股份有限公司), Qingdao Bright Mountain Industries Co., Ltd. (青島貝蒙特實業有限公司), Qingdao New Hongfang Group Co., Ltd. (青島新紅紡集團有限公司), United Ventures Group Co., Ltd. (聯合創業集團有限公司), Hundsun Technologies Inc (恒生電子股份有限公司), Qingdao Kingking Applied Chemistry Co., Ltd., Qingjian Group Co., Ltd. (青建集團股份公司) and Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	Undertaking on voluntary lock-up of shares held	Shandong Sanliyuan Economics and Trade Co., Ltd., Qingdao Hairen Investment Co., Ltd., Qingdao Jifa Group Co., Ltd., Shanghai Jiacheng Investment Management Co., Ltd., Beijing International Trust Co., Ltd. (北京國際信託有限公司), Guosen Securities Company Limited (國信證券股份有限公司), Qingdao Bright Mountain Industries Co., Ltd. (青島貝蒙特實業有限公司), Qingdao New Hongfang Group Co., Ltd. (青島新紅紡集團有限公司), United Ventures Group Co., Ltd. (聯合創業集團有限公司), Hundsun Technologies Inc (恒生電子股份有限公司), Qingdao Kingking Applied Chemistry Co., Ltd., Qingjian Group Co., Ltd. (青建集團股份公司) and Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. respectively undertook not to transfer nor entrust others to manage the shares of the Bank held directly or indirectly by them prior to the issuance of the A shares within 36 months from the date of the listing of A shares of the Bank on the stock exchange and not to sell back the above shares to the Bank.	16 January 2019	36 months	In progress
	Qingdao Collective Enterprise Cooperative Society	Undertaking on voluntary lock-up of shares held	Qingdao Collective Enterprise Cooperative Society undertook not to transfer nor entrust others to manage the 2,829,795 shares held by it within 36 months from the date of the listing of A shares of the Bank on the stock exchange and not to sell back the above shares to the Bank.	16 January 2019	36 months	In progress
	Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	Undertaking on voluntary lock-up of shares held	Pursuant to the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》), Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. undertook not to transfer the share equity held by it within five years from the date of obtaining the share equity of the Bank (29 June 2018).	16 January 2019	60 months	In progress

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	The directors, supervisors and senior management holding shares of the Bank	Undertaking on voluntary lock-up of shares held	The directors, supervisors and senior management holding shares of the Bank undertook not to transfer nor entrust others to manage the shares of the Bank held by them within 36 months from the listing date of the Bank and the above shares are not to be repurchased by the Bank; upon the expiration of the such lock-up period, they shall also report their shareholdings in the Bank and changes thereof to the Bank according to the laws in a timely manner, the number of shares transferred by each of them through concentrated bidding, block trade and share transfer by agreement during their terms of office every year will not exceed 15% of the total number of shares of the Bank held by each of them, the total number of shares transferred by each of them within five years shall not exceed 50% of the total number of shares of the Bank held by each of them, and they shall not purchase the shares of the Bank within six months after they have sold their shares and shall not sell the shares of the Bank within six months after they have bought the shares. Within six months after their dimission, they shall not to transfer the shares of the Bank held by them. The above undertakings on lock-up of shares shall not be terminated due to changes in their posts and dimission.	16 January 2019	Please see the details of undertakings	In progress
	The individuals holding more than 50,000 shares of internal staff shares	Undertaking on voluntary lock-up of shares held	Pursuant to the Notice on the Regulation of Internal Staff Shares in Financial Enterprises (Caijin [2010] No. 97) (《關於規範金融企業內部職工持股的通知》(財金[2010]97號)), the individuals holding more than 50,000 shares of internal staff shares undertook that the lock-up period of the share transfer shall not be less than 3 years from the date of listing and trade of the A shares of the Bank on the stock exchange. Upon the expiration of lock-up period of shareholding, the number of shares available for sale every year shall not exceed 15% of the total number of the shares held, and the number of shares available for sale within 5 years shall not exceed 50% of the total number of shares held.	16 January 2019	Please see the details of undertakings	In progress

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Qingdao Conson Industrial Co., Ltd	Undertakings on the intention of shareholding and intention of reduction of shareholding	Prior to the issuance of the A shares, Qingdao Conson Industrial Co., Ltd., a shareholder holding more than 5% of the total share capital of the Bank, undertook that upon the listing of A shares of the Bank, if it is necessary to transfer the shares of the Bank held by it, upon the satisfaction of the four conditions, namely expiration of the lock-up period as stipulated by laws, regulations and regulatory documents, expiration of lock-up period undertaken, there being no circumstance where the share transfer is prohibited as stipulated in laws and regulations and regulatory documents and the announcement on the intention of reduction in shareholding being published three trading days before the reduction in shareholding, Qingdao Conson Industrial Co., Ltd. can reduce its shareholding through concentrated bidding system, block trade system of the stock exchange, share transfer by agreement or other methods as permitted by the laws and regulations within six months from the publication of the announcement on the intention of reduction in shareholding. If Qingdao Conson Industrial Co., Ltd intends to reduce its shareholding within two years after the expiration of the lock-up period, the number of shares reduced each year shall not exceed 25% of the number of the shares held, and the price shall not be lower than the issue price (In case of any ex-rights or ex-dividend activities such as dividend distribution, bonus shares, capital conversion from capital reserve, allotment and share subdivision, the above price shall be adjusted for such ex-rights and ex-dividends activities); after two years from the expiration of the lock-up period, if it intends to reduce its shareholding, the number of shares to be reduced shall be announced three trading days before the reduction. If Qingdao Conson Industrial Co., Ltd. fails to fulfill the above undertakings regarding the reduction of shareholding, its gains from the reduction of shares of the Bank shall be forfeited by the Bank. If the gains of the illegal reduction or the illegal transfer are not delivered to the Bank, the Bank shall be entitled to withhold cash dividends payable to it at an amount that is equivalent to the gains of the illegal reduction or the illegal transfer.	16 January 2019	Please see the details of undertakings	In progress
	The directors and senior management holding shares of the Bank	Undertakings on the intention of shareholding and intention of reduction of shareholding	The directors and senior management holding shares of the Bank undertook that if they reduce the shares of the Bank held by them within 2 years from the expiration of the lock-up period, the price shall not be lower than the issue price; if the closing prices of the shares of the Bank are lower than the issue price for 20 consecutive trading days during the six months after the listing of the Bank, or the closing price of the shares of the Bank at the end of the six months after listing is lower than the issue price, the lock-up period of shares of the Bank held by them shall be extended for six months automatically. The above undertakings on the price of shareholding reduction shall be not terminated due to changes in their posts or dimission. The above issue price refers to the issue price of the initial public offering of the A shares of the Bank. If the Bank has any ex-rights and ex-dividend issues due to cash dividend, bonus issue, capital conversion and issue of new shares after its listing, such issues shall be handled in accordance with the relevant provisions of the stock exchange.	16 January 2019	Please see the details of undertakings	In progress

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
Other undertakings	Haier Group, Intesa Sanpaolo S.p.A. and Qingdao Conson Industrial Co., Ltd.	Undertaking by major shareholders	In June 2011, in accordance with the relevant requirements of the Notice of the General Office of China Banking and Insurance 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; to continue to provide the Bank with additional capital as the main capital sources of the shareholding bank; not to impose undue pressure on the Bank by setting indicators.	7 June 2011	Please see the details of undertakings	In progress
	Qingdao Conson Industrial Co., Ltd., six companies under the Haier Group (including Qingdao Haier Mold Co., Ltd. (青島海爾模具有限公司), Qingdao Haier Tooling Development Co., Ltd. (青島海爾工裝研製有限公司), Qingdao Haier Robot Co., Ltd. (青島海爾機器人有限公司), Qingdao Haier Co., Ltd. (青島海爾股份有限公司), Qingdao Haier Air-Conditioner Co., Ltd. (青島海爾空調器有限總公司) and Qingdao Haier Special Refrigerator Co., Ltd. (青島海爾特種電冰櫃有限公司)) and Intesa Sanpaolo S.p.A.	Undertaking on the private placement	In June 2014, Qingdao Conson Industrial Co., Ltd., six companies under the Haier Group (including Qingdao Haier Mold Co., Ltd. (青島海爾模具有限公司), Qingdao Haier Tooling Development Co., Ltd. (青島海爾工裝研製有限公司), Qingdao Haier Robot Co., Ltd. (青島海爾機器人有限公司), Qingdao Haier Co., Ltd. (青島海爾股份有限公司), Qingdao Haier Air-Conditioner Co., Ltd. (青島海爾空調器有限總公司) and Qingdao Haier Special Refrigerator Co., Ltd. (青島海爾特種電冰櫃有限公司)) and Intesa Sanpaolo S.p.A., which participated in the subscription for the shares of the Bank under the private placement, respectively undertook not to transfer the 95,179,773 shares, 145,018,723.97 shares and 111,111,187 shares subscribed for under the private placement 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.	9 June 2014	Please see the details of undertakings	In progress
Whether undertaking was fulfilled on time			Yes			

Note: During the Reporting Period, there was no profit forecast for the Bank's assets or projects and the Reporting Period still fell within the period of profit forecast.

IV. APPROPRIATION OF FUNDS OF THE LISTED COMPANY BY THE CONTROLLING SHAREHOLDER AND ITS RELATED PARTIES FOR NON-OPERATING PURPOSES

During the Reporting Period, there was no appropriation of funds of the Bank by the controlling shareholder and its related parties for non-operating purposes, KPMG Huazhen LLP, the auditor of the Bank, has issued the Special Report of Appropriation of Funds for Non-operating Purposes and the Transaction of Other Related Funds for 2018 of Bank of Qingdao Co., Ltd.(《關於青島銀行股份有限公司2018年度非經營性資金佔用及其他關聯資金往來情況的專項説明》).

V. EXPLANATION ON CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHODS AS COMPARED TO THE FINANCIAL REPORT FOR THE PREVIOUS YEAR

For the certain revised accounting standards applicable to the Company since 1 January 2018, please refer to Note 2(2) "Changes in Major Accounting Policies" in the Financial Statements.

VI. EXPLANATION ON RETROSPECTIVE RESTATEMENT TO CORRECT MAJOR ACCOUNTING ERRORS DURING THE REPORTING PERIOD

During the Reporting Period, the Bank did not have major accounting errors correction and did not need to make retrospective restatement.

VII. EXPLANATION ON CHANGES IN THE SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS AS COMPARED TO THE FINANCIAL REPORT FOR THE PREVIOUS YEAR

During the Reporting Period, the Bank did not have any changes in the scope of the consolidated financial statements.

VIII. ENGAGEMENT OR DISMISSAL OF ACCOUNTING FIRMS

8.1 Current accounting firm engaged

Name of the domestic accounting firm	KPMG Huazhen LLP
Continued term of audit service of the domestic accounting firm	9 years
Name of certified public accountants of the domestic accounting firm	Wang Lipeng, Tang Yinghui
Continued term of audit service of certified public accountants of the domestic accounting firm	3 years, 3 years
Name of the international accounting firm (if any)	KPMG
Continued term of audit service of the international accounting firm (if any)	4 years
Name of certified public accountants of the international accounting firm (if any)	Lee Lok Man
Continued term of audit service of certified public accountants of the international accounting firm (if any)	2 years

Note: During the Reporting Period, the Bank did not change the accounting firm.

For the year ended 31 December 2018, RMB 6.078 million of the total audit fee was agreed to be paid by the Company (including subsidiaries) to KPMG Huazhen LLP and KPMG for the audit of annual financial statement, the review of interim financial statement and the audit of reporting statements for A-share IPO and it was agreed to pay RMB 440,000 of the non-audit fee to them. The above fees include related taxes, travel, office expenses and other sundry expenses.

8.2 Particulars on the recruitment of accounting firms, financial advisors or sponsors for internal control and auditing purposes

During the Reporting Period, the Bank engaged CITIC Securities Co., Ltd. as the sponsor of the offering of A-share. During the offering of A shares of the Bank, the underwriting and sponsor fees paid amounted to RMB 56,729,500 (excluding tax).

IX. SUSPENSION IN TRADING OR DELISTING UPON PUBLICATION OF ANNUAL REPORT

The Bank did not face any risk of suspension in trading or delisting upon publication of this annual report.

X. MATTERS RELATED TO BANKRUPTCY AND REORGANIZATION

There was no matter related to bankruptcy and reorganization during the Reporting Period.

XI. MATERIAL LITIGATION, ARBITRATION AND MATERIAL CASES

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

XII. PUNISHMENT AND RECTIFICATION

As far as the Bank is aware, during the Reporting Period, none of the following circumstances happened to the Bank, Directors, Supervisors or senior management, including being investigated by competent authorities, imposed coercive measures by a judiciary authority or disciplinary department, transferred to a judicial authority or held criminally liable, investigated or imposed administrative penalties by the CSRC, banned from access to market, identified as an unsuitable person, imposed significant administrative penalties by other administrative authorities such as environmental protection, safety supervision and taxation, or publicly condemned by a stock exchange.

XIII. CREDIBILITY OF THE BANK, ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

As far as the Bank is aware, during the Reporting Period, there was no failure to comply with any effective court judgement or settle any material debts that have fallen due.

XIV. IMPLEMENTATION OF THE EQUITY INCENTIVE PLAN, EMPLOYEE SHAREHOLDING PLAN OR OTHER EMPLOYEE INCENTIVE MEASURE OF THE BANK

There was no implementation of the equity incentive plan, employee shareholding plan or other employee incentive measure of the Bank during the Reporting Period.

XV. SIGNIFICANT RELATED PARTY TRANSACTIONS

15.1 Related party transactions during the ordinary course of business

The Bank conducted related party transactions by strictly following the relevant regulations of the regulatory authorities and the Administrative Measures for the Related Party Transactions of Bank of Qingdao Co., Ltd.(《青島銀行股份有限公司關聯交易管理辦法》) and the Implementation Provisions of the Related Party Transactions of Bank of Qingdao Co., Ltd.(《青島銀行股份有限公司關聯交易管理實施細則》) formulated by the Bank. During the Reporting Period, pursuant to the Measures for the Administration of Related Party Transactions between Commercial Banks and Internal Personnel and Shareholders (《商業銀行與內部人和股東關聯交易管理辦法》) and the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by the CBIRC, the significant related party transactions of the Bank were credit-related transactions. All credit-related related party transactions were conducted in accordance with relevant laws and regulations, credit granting 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.

Pursuant to the relevant provisions of the CBIRC, during the Reporting Period, the balance of the related party transactions between the Bank and related natural persons and its risk exposure was RMB 201 million; there were eight proposals on significant related party transactions approved by the Board of Directors, which were the related party transactions with Haier Consumer Finance Co., Ltd., Haier Group Finance Co., Ltd., Qingdao Conson Financial Holdings Co., Ltd., Haier Financial Factoring (Chongqing) Co., Ltd., Haier Group (Qingdao) Financial Holdings Limited, Qingdao Haier Real Estate Group Co., Ltd., Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. and Qingdao Haier Home Integration Co., Ltd.

As at the end of the Reporting Period, the Bank's balance of credit-related significant related party transactions was RMB 5,196 million, the details of which are as follows:

Unit: RMB in 100 million

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 Net Capital as at the End of the Reporting Period
Qingdao Conson Financial Holdings Co., Ltd.	Loan	Guarantee	15.00	15.00	4.16%
Qingdao Changyuan Land Co., Ltd.	Non-standard debt	Guarantee	9.60	9.60	2.67%
Qingdao Haier Industry and City Innovation Group Co., Ltd.	Non-standard debt, factoring	Guarantee	8.16	8.16	2.27%
Haier Consumer Finance Co., Ltd.	Interbank borrowing	Guarantee	8.00	8.00	2.22%
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	Loan	Mortgage, guarantee	4.50	4.50	1.25%
Haier Financial Factoring (Chongqing) Co., Ltd.	Loan	Guarantee	3.00	3.00	0.83%
Qingdao Haier Home Integration Co., Ltd.	Letter of guarantee	Pledge	2.12	2.12	0.59%
Haier Group Finance Co., Ltd.	Interbank bill credit	–	1.58	1.58	0.44%

During the Reporting Period, the aggregate accumulated amount of related party transactions between the Bank and one of the related parties exceeded 5% of the audited net asset value of the Bank, which was the loan granted by the Bank to Qingdao Conson Financial Holdings Co., Ltd., and the balance of the loan at the end of the Reporting Period was RMB 1.5 billion, accounting for 1.19% of the Bank's total loans (excluding accrued interest). The weighted average interest rate of the loan was 5.76%. The loan of the Bank shall be interest paid monthly and principal repaid on maturity. The loan granted by the Bank to Qingdao Conson Financial Holdings Co., Ltd. was conducted on business principles and terms no favourable than those offered to non-related parties for similar transactions.

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.

15.2 Related party transaction in connection with acquisition or sale of assets or equity interest

There was no related party transaction of the Bank in connection with acquisition or sale of assets or equity interest during the Reporting Period.

15.3 Related party transaction connected to joint external investment

There was no related party transaction of the Bank connected to joint external investment during the Reporting Period.

15.4 Related creditors' rights and debts transactions

There was no non-operating related creditors' rights and debts transaction of the Bank during the Reporting Period.

XVI. MATERIAL CONTRACTS AND IMPLEMENTATION THEREOF

16.1 Custody, contracting and leasing

During the Reporting Period, in the material contracts entered into by the Bank, there was no matter related to custody, contracting, and leasing of assets by or to the Bank beyond the scope of the Bank's normal business.

16.2 Significant guarantees

The guarantee business is the daily business of the Bank. During the Reporting Period, there was no significant guarantee matter that needed to be disclosed beyond the scope of its normal business.

16.3 Entrusted cash and asset management

During the Reporting Period, the Bank did not have any entrusted wealth management or entrusted loan transactions beyond its normal scope of business.

XVII. OTHER MATTERS OF SIGNIFICANCE

17.1 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.

17.2 Significant commitment and entrusted asset management

During the Reporting Period, save for commitment and entrusted asset management business within the scope of normal business, the Bank did not have any other significant commitments and entrusted asset management requiring disclosure. See the notes to the financial statements for the specific guarantee and commitments.

17.3 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.

17.4 Publication of annual report

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

This annual report prepared in Chinese by the Company in accordance with the Accounting Standards for Business Enterprises and the Rules for the Preparation of Annual Reports is available at the websites of the SZSE and the Company.

XVIII. SOCIAL RESPONSIBILITY

While achieving steady growth, the Bank never forgets its social mission and actively fulfills its corporate social responsibility to contribute to the public with practical actions.

In terms of economic responsibility, we focused on the national structural reform on the supply side and the replacement of old growth drivers with new ones in Shandong Province, actively provided financial services for major national development strategies, major reform initiatives and major project construction, provided much more support for infrastructure, people's livelihood projects, small and medium-sized enterprises and private enterprises, so as to provide strong support for the economic transformation and upgrade in Shandong Province. By practicing the concept of inclusive finance, the Bank has established three major micro-finance product lines of inclusive finance, technological finance and agricultural finance, and has launched a series of products such as Business Benefit Loan, Agriculture Benefit Loan, Technology and Innovation Loan, and Technology and Innovation Easy Loan; insisted on conducting featured businesses to form business models including technology finance, port finance, metro finance and service trade finance; enhanced and promoted the business development of supply chain finance, offline micro-finance and Internet finance, and successively launched several innovative business products such as "Chain E-finance" (鏈e貸), "Card E-loan" (卡e貸), "Business E-finance" (創e融) and "Benefit E-Loan" (惠e貸); provided "steward-style" inclusive financial services, provided comprehensive financial services including settlement, cash management, e-banking, financing and wealth management to small, medium and micro-sized enterprises and private enterprises; timely unveiled the "Ten Major Measures" to empower private enterprises, issued the first credit risk mitigation warrant in Shandong Province, made the comprehensive use of bond underwriting and structured financing to provide direct financing to corporate customers and put forward effective solutions for private enterprises to address the financing difficulties.

In terms of environmental responsibility, as the concept of green development is deeply rooted in people's mindset, green finance is developing rapidly. During the Reporting Period, the balance of the Bank's Green Credit granting was RMB 9.485 billion, representing an increase of RMB 2.168 billion or 29.63% over the beginning of the year, which were mainly used for environmental protection, energy conservation, clean energy, clean traffic, green buildings and other projects. We continuously promoted green services, explored the new financial development model of "finance + technology + scenario", issued credit cards based on online application and approval and verification over the counter; accelerated the construction of intelligent and personalized mobile banking, constantly improved operation capabilities of mobile banking and improved customer experience of mobile banking; focusing on cloud-based payment and cloud-based recharge business, the Bank signed contracts with more than 348 paid merchants for these two businesses, covering a total of nearly 70,000 customers. The Bank continued to promote green operations and commenced the operation management and control platform project, and the construction of paperless operation and the use of electronic seal have achieved remarkable effect, greatly reduced material consumption and energy consumption; focused on the impact of electronic equipment on the environment and adopted recycling and harmless disposals as to the disposal of waste electronic equipment, recycling and harmless disposal were adopted. Adhering to frugality culture, the Bank 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. Thanks to the continuous implementation of the Green Credit policy, and the commitment to protect the ecological environment and reduce the impact of its operation on environment, the Bank was awarded the "2017 Best Green Finance Award in China Banking Industry" by the China Banking Association.

In terms of social responsibility, we implemented the lobby-hall integrated service, marketing and management mode, promoted the "new model of respecting the elderly service", and provided efficient, attentive and professional services to customers in multiple aspects such as service scene design, capability to offer services and on-site service management, so as to provide 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 and continued to carry out a variety of activities such as educating financial knowledge, anti-money laundering and anti-counterfeiting; 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. The Bank promoted the development and growth of Qingdao Qingyin Charity Foundation and actively carried out several activities, such as poverty alleviation through finance and education support through finance. During the Reporting Period, it donated a total of RMB 5.075 million. The Bank practiced a culture of caring, established new staff clubs, carries out a wide range of cultural and sports activities, implemented the "Eyas Program" (雛鷹計劃) in an all-round way to accelerate the training of young cadres and pay full attention to the growth and success of employees.

XIX. PROTECTION OF CONSUMER RIGHTS

During the Reporting Period, the Bank's consumer rights protection work closely followed the regulatory trend, enhanced the construction of the "three levels and one group" system, improved the management and control mechanism of the product business, refined the management level of service complaints, established the "five-in-one" education mechanism, promoted the innovative development of inclusive finance and fostered the "Qingcheng" customer right protection brand culture, thereby the overall level of consumer rights protection work has been significantly enhanced.

1. Enhance system construction, optimize organizational structure and adopt the "three levels and one group" system to achieve the systematization of consumer rights protection work

Firstly, effectively incorporate the protection of consumer rights into the corporate culture construction and development strategy to deepen understanding and raise awareness of the importance; secondly, improve the "three-in-one" organizational structure of the consumer rights protection committee, professional departments and branches and sub-branches and the mechanism of "Qingcheng Consumer Protection Working Group" to conduct uniform planning and gather cohesiveness; thirdly, give full play to the leading management functions of the consumer protection department to make overall arrangements and implement them efficiently.

2. Adopt customer-centered and problem-oriented approaches, and take "active participation" to achieve the priority of consumer rights protection work

Firstly, adopt preliminary review mechanism to eliminate hidden hazards at the source; secondly, the risk disclosure mechanism to fully reveal risks; thirdly, the transparent pricing mechanism to effectively fulfill obligations; fourthly, the friendly service mechanism to take care of particular groups; fifthly, the service review mechanism to enhance customer experience; sixthly, the information privacy mechanism to monitor and control employee behavior.

3. Provide personalized service, optimize complaint handling, and carry out the "process management" to achieve refined consumer rights protection work

Firstly, implement the responsibility of entity and improve the multi-post linked complaint handling mechanism; secondly, refine complaint management, establish problem-oriented complaint analysis and rectification system; thirdly, improve customer service experience and establish lean management and quality service offering system; fourthly, promote the financial services for respecting the elderly and build the golden reputation of "Qingxin" service brand with both quality and efficiency enhancement.

4. Foster brand culture, fulfill social responsibility, and adopt the "Five-in-One" approach to achieve the routine education of consumer rights protection

Firstly, build the new media platform "Weibo, WeChat and news Apps" to popularize financial knowledge; secondly, create signature project "Financial Knowledge Classes" to facilitate financial formative education of young people; thirdly, set up the professional team "BOQ Consumer Protection Lecturer Group" to open financial forums in the colleges and universities in Qingdao; fourthly, carry out public activities and evening parties to extend the coverage of financial education; fifthly, make great efforts in the outlet promotion, and provide "one-stop" publicity services of consumer rights protection in the public education area.

5. Promote innovation in an all-round way, expand the coverage of service, and conduct the "inclusive finance" service to achieve the optimization of consumer rights protection work

Firstly, implement the inclusive finance concept to offer the "steward-style" services; secondly, innovate science and technology products to advance business development; thirdly, build featured sub-branches to encourage innovative development; fourthly, make comprehensive use of channels to improve quality and efficiency of service and put forward effective solutions for private enterprises to address the financing difficulties.

(I) CHANGES IN SHAREHOLDINGS

Unit: Share

	As at 31 December 2017		Increase/decrease (+/-)					As at 31 December 2018	
	Number of shares	Percentage	New issue	Bonus issue	Conversion from reserves	Others	Sub-total	Number of shares	Percentage
I. Shares with selling restrictions	2,295,677,769	56.56%	–	–	–	–	–	2,295,677,769	56.56%
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. Shares held by state-owned legal entities	667,111,940	16.44%	–	–	–	–	–	667,111,940	16.44%
3. Shares held by domestic investors	1,628,565,829	40.12%	–	–	–	–	–	1,628,565,829	40.12%
Of which: Shares held by domestic legal entities	1,576,753,870	38.85%	–	–	–	–	–	1,576,753,870	38.85%
Shares held by domestic natural individuals	51,811,959	1.27%	–	–	–	–	–	51,811,959	1.27%
4. Shares held by foreign investors	–	–	–	–	–	–	–	–	–
Of which: Shares held by foreign legal entities	–	–	–	–	–	–	–	–	–
Shares held by foreign individuals	–	–	–	–	–	–	–	–	–
II. Shares without selling restrictions	1,763,034,980	43.44%	–	–	–	–	–	1,763,034,980	43.44%
1. Domestic shares	–	–	–	–	–	–	–	–	–
2. Domestic listed foreign shares	–	–	–	–	–	–	–	–	–
3. Listed foreign shares	1,763,034,980	43.44%	–	–	–	–	–	1,763,034,980	43.44%
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	4,058,712,749	100.00%	–	–	–	–	–	4,058,712,749	100.00%

II. SECURITIES ISSUANCE AND THE LISTING

During the Reporting Period, the total number of ordinary shares of the Bank did not change. The Bank received the "Approval on the Initial Public Offering of Shares of Bank of Qingdao Co., Ltd" (Zheng Jian Xu Ke [2018] No. 1727) on 30 November 2018, and the CSRC approved the Bank to publicly offer new A shares of not more than 450,977,251. On 16 January 2019, the Bank completed the initial public offering of A shares and listed on SZSE. The issue price is RMB 4.52 per share and the issue size is 450,977,251 shares. During the Reporting Period, the Bank did not publicly issue corporate bonds listed on the stock exchange.

The existing internal staff shares of the Bank were derived from the conversion of the shareholdings of the former credit cooperatives' employees into the Bank's shares at the time of its establishment, and now it is unable to accurately verify the issue date and the price of the internal staff shares. At the end of the Reporting Period, the Bank totally has 1,008 shareholders of internal staff shares, who hold 38,161,150 domestic shares of the Bank, accounting for 0.94% of the total number of shares at the end of the Reporting Period, which complies with the provisions of the "Notice on the Regulation of Internal Staff Shares in Financial Enterprises" (Cai Jin [2010] No. 97).

III. SHAREHOLDERS OR DE FACTO CONTROLLERS

3.1 Number of shareholders and their shareholdings in the Company

Unit: Share

Total number of ordinary shareholders at the end of the Reporting Period	2,338	Total number of ordinary shareholders as at the end of the last month before the date of the disclosure of the annual report	178,653	Total number of preferred shareholders whose voting rights were resumed at the end of the Reporting Period (if any)	–	Total number of preferred shareholders whose voting rights were resumed as at the end of the last month before the date of the disclosure of the annual report	–

Shareholdings of shareholders who hold more than 5% of the shares or shareholdings of the top ten shareholders

Name of shareholder	Capacity of shareholder	Percentage of shareholding	Number of shares held as at the end of the reporting period	Increase or decrease during the Reporting Period	Number of shares with selling restrictions held	Number of shares without selling restrictions held	Pledge or freeze	
							Status of shares	Number of shares
Hong Kong Securities Clearing Company Nominees Limited	Overseas legal entity	28.10%	1,140,306,880	21,000	–	1,140,306,880	Unknown	Unknown
Intesa Sanpaolo S.p.A. (意大利聯合聖保羅銀行)	Overseas legal entity	15.39%	624,753,980	844,500	–	624,753,980	–	–
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	State-owned legal entity	12.41%	503,556,341	–	503,556,341	–	–	–
Qingdao Haier Investment and Development Co., Ltd. (青島海爾投資發展有限公司)	Domestic non-state-owned legal entity	10.09%	409,693,339	–	409,693,339	–	–	–
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司	Domestic non-state-owned legal entity	5.39%	218,692,010	–	218,692,010	–	–	–
Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	Domestic non-state-owned legal entity	3.75%	152,170,000	–	152,170,000	–	Pledge	149,200,000
Qingdao Haier Co., Ltd. (青島海爾股份有限公司)	Domestic non-state-owned legal entity	3.58%	145,297,405	5,633,715	145,297,405	–	–	–
Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司)	Domestic non-state-owned legal entity	3.30%	133,910,000	–	133,910,000	–	–	–
Qingdao China Prosperity State-owned Capital Operation (Group) Co., Ltd. (青島華通國有資本運營（集團）有限公司)	State-owned legal entity	2.34%	94,967,581	94,967,581	94,967,581	–	–	–
Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司)	Domestic non-state-owned legal entity	2.24%	90,936,164	–	90,936,164	–	–	–

Description of the connected relationships or action in concert among the above shareholders	Among the abovementioned shareholders, Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd. and Qingdao Haier Co., Ltd. are subsidiaries of Haier Group. Qingdao Haier Investment and Development Co., Ltd. and Qingdao Haier Air-Conditioner Electronics Co., Ltd. have delegated Qingdao Haier Co., Ltd. to exercise their shareholders' voting rights attached to the shares held by them. The Bank is not aware of any other related relationship among the other shareholders.

Remarks

1. The Bank does not have any shareholders of A shares without selling restrictions during the Reporting Period as the Bank completed the initial public offering of A shares and listed on SZSE on 16 January 2019;
2. 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;
3. As at the end of the Reporting Period, Intesa Sanpaolo S.p.A., as a H Share registered shareholder of the 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;
4. 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..

3.2 Controlling Shareholders of the Bank

As at the end of the Reporting Period, there was no controlling shareholder or de facto controller of the Bank.

3.3 De facto controllers of the Company and its person acting in concert

During the Reporting Period, there was no de facto controllers of the Bank.

3.4 Interests and short positions of substantial shareholders under Hong Kong regulations

As at 31 December 2018, in so far as the Directors, Supervisors and chief executives of the Bank were aware, substantial shareholders who had an interest or short position in the issued share capital of the Bank which are required to be recorded in the register to be kept under section 336 of the SFO or held an equity interest or short position of 5% or more in the issued share capital of the Bank which are required to be notified to the Bank are shown as below:

Name of shareholder	Note	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of shares[(11)]	Approximate percentage of the number of domestic shares[(11)]	Approximate percentage of the number of H shares[(11)]	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 Trading Co., Ltd. (山東三利源經貿有限公司)	5	Domestic Shares	Beneficial owner	152,170,000	3.75	6.63	–	Long
HAN Huiru (韓匯如)	6	Domestic Shares	Interest of controlled corporation	133,910,000	3.30	5.83	–	Long
WANG Yunyun (王芸芸)	6	Domestic Shares	Interest of spouse	133,910,000	3.30	5.83	–	Long
Qingdao East Steel Tower Stock Co., Ltd. (青島東方鐵塔股份有限公司)	6	Domestic Shares	Interest of controlled corporation	133,910,000	3.30	5.83	–	Long
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
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	196,882,000	4.85	–	11.17	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	196,882,000	4.85	–	11.17	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

Name of shareholder	Note	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of shares(11)	Approximate percentage of the number of domestic shares(11)	Approximate percentage of the number of H shares(11)	Long/ short position
L.R. Capital 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	196,882,000	4.85	–	11.17	Short
L.R. Capital Financial Holdings Limited	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Group Company Limited (尚乘集團有限公司)	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Asia (Holdings) Limited	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Asia Limited	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Strategic Capital Group	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Investments Limited	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Investment Solutions Limited	7	H Shares	Interest of controlled corporation	401,800,000	9.90	–	22.79	Long
AMTD Strategic Investment Limited	7	H Shares	Beneficial owner	301,800,000	7.44	–	17.12	Long
AMTD Investment Solutions Group Limited	7	H Shares	Beneficial owner	100,000,000	2.46	–	5.67	Long
Jinan Binhe New District Constructive Investment Group Co., Ltd. (濟南濱河新區建設投資集團有限公司)	–	H Shares	Beneficial owner	200,000,000	4.93	–	11.34	Long
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)	8	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
Qingdao Conson Financial Holdings Co., Ltd. (青島國信金融控股有限公司)	8	H Shares	Interest of controlled corporation	100,000,000	2.46	–	5.67	Long
Haitian (HK) 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 Co., Ltd. (中信證券股份有限公司)	–	H Shares	Interest of controlled corporation	598,253,368	14.74	–	33.93	Long
			Interest of controlled corporation	498,690,000	12.29	–	28.29	Short
Guangzhou Rural Commercial Bank Co., Ltd. (廣州農村商業銀行股份有限公司)	–	H Shares	Holder of security interests	196,882,000	4.85	–	11.17	Long
Goncius I Limited	–	H Shares	Beneficial owner	488,911,765	12.05	–	27.73	Long
			Beneficial owner	488,911,765	12.05	–	27.73	Short

Notes:

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

2. These 812,214,572 shares are held as to 409,693,339 shares directly by Qingdao Haier Investment and Development Co., Ltd., as to 402,521,233 shares by its controlled company and 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 or taken to be interested in all our Shares held by Qingdao Conson Industrial Co., Ltd.

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

6. Qingdao Hairen Investment Co., Ltd. is 100% owned by Qingdao East Steel Tower Stock Co., Ltd. which is in turn 52.45% owned by HAN Huiru. Therefore, Qingdao East Steel Tower Stock Co., Ltd and HAN Huiru are deemed or taken to be interested in all our Shares held by Qingdao Hairen Investment Co., Ltd. WANG Yunyun is the spouse of HAN Huiru. Therefore, WANG Yunyun is deemed or taken to be interested in all our Shares held by HAN Huiru.

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

8. Haitian (HK) 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 or taken to be interested in all our Shares held by Rothschilds Continuation Holdings AG.

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

11. As at 31 December 2018, the number of the Bank's total issued ordinary shares, domestic shares and H shares are 4,058,712,749 shares, 2,295,677,759 shares and 1,763,034,980 shares, respectively.

As at 31 December 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 capital of the Bank which are required to be notified to the Bank.

3.5 Substantial shareholders of the Bank

3.5.1 Shareholders holding more than 5% of the shares at ultimate controlling level

1. Haier Group Corporation

Haier Group Corporation was established on 24 March 1980 with its legal representative of ZHANG Ruimin and a registered capital of RMB 311.18 million. It is mainly engaged in household appliances, electronic products, communications equipment, electronic computers and accessories, general machinery, kitchen utensils, industrial robot manufacturing; domestic commercial wholesale and retail; import and export business; economic and technical consultation; research and development and transfer of technological achievements.

As at the end of the Reporting Period, Haier Group Corporation held a total of 812,214,572 domestic shares of the Bank via eight companies within the group, which accounted for 20.01% of the total ordinary share capital. These eight companies were persons acting in concert. The ultimate beneficiary of Haier Group Corporation is itself. Haier Group Corporation has declared to the Bank related parties in accordance with regulatory requirements. As at the end of the Reporting Period, the balance of the Bank's credit-related significant related party transactions[1] with Haier Group Corporation was RMB 3,246 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

2. Intesa Sanpaolo S.p.A.

Intesa Sanpaolo S.p.A. was established on 10 October 1925 with its legal representative of Gian Maria GROS-PIETRO and a registered capital of EUR9,085 million. Intesa Sanpaolo S.p.A. is a multi-national bank headquartered in Milan, Italy. It is one of the most prominent players of the Eurozone's banking industry as well as the industry-leader of Italy's retail, corporate business and wealth management businesses. Intesa Sanpaolo S.p.A. has a total of approximately 4,800 branches in Italy, providing tens of millions of customers with high-quality service. Tapping into overseas market is of great importance in Intesa Sanpaolo S.p.A.'s development strategy. By acquiring commercial banks in over a dozen countries in the regions of Central and Eastern Europe as well as the Mediterranean, Intesa Sanpaolo S.p.A. owns nearly 1,100 branches and 7.6 million customers in the above regions. In addition, Intesa Sanpaolo S.p.A. has set up branches in 29 countries and regions around the world to support its corporate business customers.

As at the end of the Reporting Period, Intesa Sanpaolo S.p.A. held 624,753,980 H shares of the Bank, which accounted for 15.39% of the total ordinary share capital. Intesa Sanpaolo S.p.A. has no controlling shareholders, no de facto controllers, no persons acting in concert, and its ultimate beneficiary is itself. Intesa Sanpaolo S.p.A. has declared to the Bank related parties in accordance with regulatory requirements. As at the end of the Reporting Period, there were no significant related party transactions between the Bank and Intesa Sanpaolo S.p.A.

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

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

Qingdao Conson Development (Group) Co., Ltd. was established on 17 July 2008 with its legal representative of WANG Jianhui and a registered capital of RMB 3 billion. It is mainly engaged in the investment, construction and operation of major urban and rural infrastructure projects, and major public welfare projects of the government; business services such as real estate, tourism and land development, as well as non-banking financial services.

As at the end of the Reporting Period, Qingdao Conson Development (Group) Co., Ltd. held a total of 603,556,341 shares of the Bank via two subsidiaries, including 503,556,341 domestic shares and 100,000,000 H shares, which together accounted for 14.87% of the total ordinary share capital. The controlling shareholder and the de facto controller of Qingdao Conson Development (Group) Co., Ltd. is the State-owned Assets Supervision and Administration Committee of the Qingdao Municipal People's Government. It has no persons acting in concert, and its ultimate beneficiary is itself. Qingdao Conson Development (Group) Co., Ltd. has declared to the Bank related parties in accordance with regulatory requirements. At the end of the Reporting Period, the balance of the Bank's credit-related significant related party transactions with Qingdao Conson Development (Group) Co., Ltd. was RMB 1,500 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

4. AMTD Group Company Limited

AMTD Group Company Limited was established on 2 January 2003 with its legal representative of WANG Ruiqiang and a registered capital of USD10,001. It is mainly engaged in investment banking, asset management, corporate insurance brokerage and risk solutions, and investment strategy consultation, etc.

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

3.5.2 Other substantial shareholders under the regulatory calibre

Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. was established on 6 June 2008 with its legal representative of JIANG Peisheng and a registered capital of RMB 2 billion. It is mainly engaged in the investment and operation of modern manufacturing industry and modern service industry, state-owned equity holdings and capital operation, restructuring of state-owned assets and credits and debts, enterprise relocation and reconstruction and land consolidation and development, financial consulting and economic consulting services, etc.

As at the end of the Reporting Period, Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. held a total of 94,967,581 shares of the Bank, accounting for 2.34% of the total ordinary share capital. The controlling shareholder and the de facto controller of Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. is the State-owned Assets Supervision and Administration Committee of the Qingdao Municipal People's Government. It has no persons acting in concert, and its ultimate beneficiary is itself. Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. has declared to the Bank related parties in accordance with regulatory requirements. At the end of the Reporting Period, the balance of the Bank's credit-related significant related party transactions with Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. was RMB 450 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

Section IX Preference Shares

I. ISSUANCE AND LISTING OF PREFERENCE SHARES FOR THE PAST THREE YEARS AS AT THE END OF THE REPORTING PERIOD

In order to further enhance the Bank's comprehensive competitive strength and sustainable development capacity, the Bank convened the 2017 First Extraordinary General Meeting, the 2017 First Class Meeting for Domestic Shareholders and the 2017 First Class Meeting for H Shareholders on 15 March 2017, and the 2016 Annual General Meeting on 11 May 2017. Relevant resolutions on offshore non-public offering of preference shares of the Bank were considered and approved. The Bank was allowed to issue no more than 80,000,000 offshore non-public preference shares with a par value of RMB 100 per share to raise proceeds not exceeding RMB 8 billion or its equivalent.

The offshore preference shares of the Bank were issued on 19 September 2017 and listed on the Hong Kong Stock Exchange on 20 September 2017 with 60.15 million shares issued and permitted for listing and trading at an issue price of USD20 per share and the dividend yield of 5.50% and raised proceeds of USD1,203 million (equivalent to about RMB 7.88 billion). The Bank's offshore preference shares were issued to qualified investors that met relevant regulatory requirements and other laws and regulations. The proceed raised from the issuance of offshore preference shares after deducting the expenses in connection with the issue shall be used to supplement other tier-one capital of the Bank in accordance with applicable laws and regulations and the approval of relevant regulatory authorities. Please refer to the announcements published by the Bank on the website of the Hong Kong Stock Exchange for the progress of the use of proceeds.

II. NUMBER OF SHAREHOLDERS OF PREFERENCE SHARES AND THEIR SHAREHOLDINGS

Unit: 0'000 Shares

Total number of shareholders of preference shares as at the end of the Reporting Period	1	Total number of shareholders of preference shares as at the end of the month prior to the publication date of the annual report	1

Shareholding of shareholders holdings more than 5% of the preference shares or top ten shareholders of preference shares

Name of shareholders	Nature of shareholders	Percentage of shareholding	Number of shares held as at the end of the Reporting Period	Changes (increase or decrease) during the Reporting Period	Number of restricted shares held	Number of non-restrict shares held	Share pledged or lock-up Status of shares	Share pledged or lock-up Number
The Bank of New York Depository (Nominees) Limited	Overseas legal person	100%	6,015	–	–	–	Unknown	Unknown

Explanation on the related party relationship or acting in concerted relationship among the top 10 shareholders of preference shares and between the top 10 shareholders of preference shares and the top 10 shareholders of ordinary shares	The Bank is not aware of the related party relationship or acting in concerted relationship between the above stockholders of preference shares and the top 10 shareholders of ordinary shares

III. PROFIT DISTRIBUTION FOR 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 dividends of offshore preference shares of the Bank are not cumulative. After the Bank pays the relevant dividends according to the dividend rate stipulated in the terms and conditions of offshore preference shares, the overseas shareholders of preference shares shall not participate in the distribution of the remaining profits with the shareholders of ordinary shares. During the Reporting Period, there was no adjustment or change in the Bank's profit distribution policy of preference shares.

On 24 August 2018, the 6th meeting of the 7th session of the Board of Directors of the Bank approved the resolution on the dividend distribution of offshore preference shares of Bank of Qingdao Co., Ltd., the dividend of offshore preference shares would be paid at the initial dividend ratio of 5.50% in a total amount of US$73,516,700, accounting for 24.91% of the net profit attributable to shareholders of the parent company during the Reporting Period. Dividends were paid in cash, of which US$66,165,000 was paid to offshore shareholders of preference shares with withholding income tax of US$7,351,700. According to the relevant provisions of the terms and conditions of offshore preference shares, the relevant taxes and fees shall be borne by the Bank. The distribution of dividends on offshore preference shares was in compliance with the conditions for dividend payment and related procedures.

IV. REPURCHASE OR CONVERSION OF PREFERENCE SHARES

During the Reporting Period, there was no repurchase or conversion of offshore preference shares.

V. RESUMPTION OF VOTING RIGHTS OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the Reporting Period, there was no resumption or exercise of voting rights of offshore preference shares.

VI. ACCOUNTING POLICIES ADOPTED FOR PREFERENCE SHARES AND REASONS

The Company made accounting judgments over the preference shares then issued and outstanding in accordance with the requirements of the relevant accounting principles, including the IFRS 9. As the preference shares issued and outstanding of the Company carry no obligation to deliver cash and cash equivalents, nor have they any contractual obligations to deliver a variable number of its own equity instruments for settlement, they were therefore measured as other equity instruments.

I. CHANGES IN SHAREHOLDING OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Status of office	Gender	Age	Term of office commencing on	Term of office ending on	Shareholding at the beginning of the period (shares)	Increase in the number of shares held during the period (shares)	Decrease in the number of shares held during the period (shares)	Other changes (shares)	Shareholding at the end of the period (shares)
GUO Shaoquan	Executive Director, chairman	Incumbent	Male	56	12 May 2010	14 May 2021	500,000	–	–	–	500,000
WANG Lin	Executive Director, president	Incumbent	Male	55	31 March 2012	14 May 2021	500,000	–	–	–	500,000
YANG Fengjiang	Executive Director, vice president	Incumbent	Male	54	25 May 2012	14 May 2021	500,000	–	–	–	500,000
LU Lan	Executive Director, secretary to the Board	Incumbent	Female	54	13 December 2016	14 May 2021	380,000	–	–	–	380,000
ZHOU Yunjie	Non-executive Director	Incumbent	Male	52	9 June 2015	14 May 2021	–	–	–	–	–
Rosario STRANO	Non-executive Director	Incumbent	Male	55	15 June 2012	14 May 2021	–	–	–	–	–
TAN Lixia	Non-executive Director	Incumbent	Female	48	25 May 2012	14 May 2021	–	–	–	–	–
Marco MUSSITA	Non-executive Director	Incumbent	Male	59	22 December 2011	14 May 2021	–	–	–	–	–
DENG Youcheng	Non-executive Director	Incumbent	Male	47	27 June 2018	14 May 2021	–	–	–	–	–
CHOI Chi Kin, Calvin	Non-executive Director	Incumbent	Male	40	13 December 2016	14 May 2021	–	–	–	–	–
WONG Tin Yau, Kelvin	Independent non-executive Director	Incumbent	Male	58	9 June 2015	14 May 2021	–	–	–	–	–
CHEN Hua	Independent non-executive Director	Incumbent	Male	51	9 June 2015	14 May 2021	–	–	–	–	–
DAI Shuping	Independent non-executive Director	Incumbent	Female	58	13 December 2016	14 May 2021	–	–	–	–	–
Simon CHEUNG	Independent non-executive Director	Incumbent	Male	48	24 July 2017	14 May 2021	–	–	–	–	–
FANG Qiaoling	Independent non-executive Director	Incumbent	Female	43	27 June 2018	14 May 2021	–	–	–	–	–
WANG Jianhui	Former non-executive Director	Resigned	Male	55	25 May 2007	15 May 2018	–	–	–	–	–
WANG Zhuquan	Former independent non-executive Director	Resigned	Male	53	25 May 2012	26 June 2018	–	–	–	–	–
CHEN Qing	Chairlady of the Board of Supervisors, employee Supervisor	Incumbent	Female	59	15 December 2016	14 May 2021	500,000	–	–	–	500,000
ZHANG Lanchang	Shareholder Supervisor	Incumbent	Male	54	15 May 2018	14 May 2021	–	–	–	–	–
WANG Dawei	Employee Supervisor	Incumbent	Male	44	15 May 2018	14 May 2021	–	–	–	–	–
MENG Xianzheng	Employee Supervisor	Incumbent	Male	51	15 May 2018	14 May 2021	370,301	–	–	–	370,301
WANG Jianhua	External Supervisor	Incumbent	Male	65	10 April 2015	14 May 2021	–	–	–	–	–
FU Changxiang	External Supervisor	Incumbent	Male	47	10 April 2015	14 May 2021	–	–	–	–	–
HU Yanjing	External Supervisor	Incumbent	Male	59	10 April 2015	14 May 2021	–	–	–	–	–
SUN Guoliang	Former shareholder Supervisor	Resigned	Male	61	10 May 2016	15 May 2018	–	–	–	–	–
SUN Jigang	Former employee Supervisor	Resigned	Male	49	8 July 2006	15 May 2018	272,822	–	–	–	272,822
XU Wansheng	Former employee Supervisor	Resigned	Male	51	23 January 2007	15 May 2018	196,021	–	–	–	196,021
WANG Yu	Vice president	Incumbent	Female	50	5 September 2007	–	500,000	–	–	–	500,000
YANG Changde	Vice president	Incumbent	Male	59	19 September 2012	–	–	–	–	–	–
CHEN Shuang	Vice president	Incumbent	Female	50	22 January 2017	–	350,000	–	–	–	350,000
Total	–	–	–	–	–	–	4,069,144	–	–	–	4,069,144

Note: None of the Directors, Supervisors or senior management of the Bank who holds office currently or resigned during the Reporting Period has been punished by the securities regulator(s) over the past three years.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, according to the resolution at the general 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 Qingdao Office of CBIRC in June 2018 and they commenced to assume office at the same time. Mr. WANG Jianhui, a former non-executive Director, ceased to be a non-executive Director since May 2018, and Mr. WANG Zhuquan, a former 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 general 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 former shareholder Supervisor, ceased to be a shareholder Supervisor, and Mr. SUN Jigang and Mr. XU Wansheng, the former 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. The aforesaid changes are shown in the following table:

Name	Position held	Type of change	Date of change
WANG Jianhui	Former non-executive Director	Resigned upon expiry of term of office	15 May 2018
WANG Zhuquan	Former independent non-executive Director	Resigned upon expiry of term of office	26 June 2018
SUN Guoliang	Former shareholder Supervisor	Resigned upon expiry of term of office	15 May 2018
SUN Jigang	Former employee Supervisor	Resigned upon expiry of term of office	15 May 2018
XU Wansheng	Former employee Supervisor	Resigned upon expiry of term of office	15 May 2018

III. CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS DURING THE REPORTING PERIOD

1. 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; and was the independent non-executive director of Mingfa Group (International) Company Limited, a company listed on the Hong Kong Stock Exchange (stock code: 00846) from 1 September 2018 to 6 March 2019.

2. Mr. CHEN Hua, independent non-executive Director, has been the independent non-executive director of Mengke Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 01629) and subsequently renamed as Champion Alliance International Holdings Limited, since 20 November 2018.

3. Mr. Simon CHEUNG, independent non-executive Director, has ceased to be the chief technology officer at WeShare (Shenzhen) Limited, since 22 February 2019; and has been the chief technology officer of ExcelNet since 1 March 2019.

4. Ms. FANG Qiaoling, independent non-executive Director, has been an executive council member of the Shandong Provincial Accounting Society since 22 May 2018.

5. Mr. FU Changxiang, external Supervisor, has been a supervisor of Shandong International Coastal Culture Industry Co., Ltd.* (山東國際海岸文化產業股份有限公司) since 20 August 2018.

6. Mr. HU Yanjing, external Supervisor, has ceased to be the associate editor of the "Oriental Forum" of Journal of Qingdao University, since 20 November 2018.

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

IV. EMPLOYMENT

4.1 BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. GUO Shaoquan, aged 56, a senior economist with an EMBA degree from Nankai University and an EMBA degree from Peking University.

Mr. GUO was appointed as executive Director of the Bank on 6 January 2010 and has been our Chairman since January 2010. Mr. GUO joined the Bank in November 2009 as secretary of the party committee. Prior to joining the Bank, Mr. GUO worked at the Qingdao branch of China Construction Bank as deputy head and worked at the Qingdao branch and Tianjin branch of China Merchants Bank as the head.

Mr. WANG Lin, aged 55, a senior economist with an EMBA degree from Peking University.

Mr. WANG was appointed as executive Director of the Bank on 16 September 2011 and has been our President since March 2012. Mr. WANG joined the Bank in July 2011 as the deputy secretary of the party committee. Prior to joining the Bank, Mr. WANG worked at the Nanjing branch of Agricultural Bank of China as deputy general manager of the international department, and worked at China Merchants Bank as head of the Ningbo branch, and the general manager of the corporate banking department and pension finance department of the head office.

Mr. YANG Fengjiang, aged 54, a bachelor of economics majoring in finance of Shaanxi Financial College and a senior economist.

Mr. YANG was appointed as executive Director of the Bank on 10 April 2012 and has been our Vice President since June 2007. Mr. YANG joined the Bank in July 2003 and served as the general manager of our Treasury Operation Department and an assistant to the president of the head office. Prior to joining the Bank, Mr. YANG served as a senior staff member of the Qingdao branch of the People's Bank of China, manager of the business development department of the Qingdao Securities Trading Center, and general manager of the investment banking department and bond department of Qingdao Wantong Securities Co., Ltd.

Ms. LU Lan, aged 54, a master of law majoring in sociology of Nankai University.

Ms. LU was appointed as executive Director of the Bank on 14 October 2016 and has been our Secretary to the Board of Directors since August 2010. Ms. Lu joined the Bank in August 2010. Prior to joining the Bank, Ms. LU was a project manager of Jardine Fleming's Beijing office, a practicing lawyer working with Fuzhou Junli Law Firm and a senior manager of the office of board of directors in headquarter of China Merchants Bank.

Mr. ZHOU Yunjie, aged 52, a doctor of business administration of Xi'an Jiaotong University and a senior engineer.

Mr. ZHOU was appointed as non-executive Director of the Bank on 10 April 2015, has been the president and deputy chairman of the board of directors of Haier Group since December 2016 and now serves as deputy to the 13th National People's Congress. Mr. ZHOU served as the vice president, senior vice president, executive vice president, chief marketing officer and alternative president in Haier Group.

Mr. ZHOU has been an executive director and general manager of Haier Electronics Group Co., Ltd. since November 2009, and he served as chief executive officer of the abovementioned company from March 2013 to August 2017, and has been the chairman of the board of the abovementioned company since June 2013. Mr. ZHOU has been the chairman of the board of directors of Qingdao Gooday Logistics Co., Ltd., chairman of Qingdao Haier Home Integration Co., Ltd., director and general manager of Haier Electric International Co., Ltd.* (海爾電器國際股份有限公司) since August 2010, September 2012 and September 2014, respectively.

Mr. Rosario STRANO, aged 55, a bachelor of law of University of Bari in Italy.

Mr. STRANO was appointed as non-executive Director of the Bank on 10 April 2012 and has been the chief operating officer of Intesa Sanpaolo S.p.A. since January 2018. Mr. STRANO held the positions of the head of human resources and organisation department, human resources department and resources and corporate governance department, as well as the chief human resources officer at the international subsidiary banks division of Intesa Sanpaolo S.p.A..

Ms. TAN Lixia, aged 48, a master of business administration of China Europe International Business School, a senior engineer, a specially invited expert of the Ministry of Finance on management accounting (who enjoys special allowance of the State Council), a Chartered Global Management Accountant (CGMA), a Certified Practising Accountant Australia (CPA) and a Certified Internal Control Professional.

Ms. TAN was appointed as non-executive Director of the Bank on 10 April 2012. She has been deputy executive president and chief financial officer of Haier Group Corporation since December 2016. Ms. TAN served as deputy head and head of department of overseas market development, vice president, head of department of financial management, chief financial officer and senior vice president of Haier Group.

Ms. TAN has been the deputy chairman of the board of directors of Qingdao Haier Co., Ltd., chairman of the board of directors of Haier Group (Qingdao) Finance Holding Co., Ltd. and director of Haier Electric International Co., Ltd.* (海爾電器國際股份有限公司) since June 2010, July 2014 and September 2014, respectively.

Mr. Marco MUSSITA, aged 59, a bachelor of oriental literature and language of Universita Ca' Foscari Venezia (Ca' Foscari University of Venice) in Italy.

Mr. MUSSITA was appointed as non-executive Director of the Bank on 16 September 2011. He has been director of OMR (China) Automotive Components Co., Ltd. since June 2007. Mr. MUSSITA worked in Banca Commerciale Italiana (now known as ISP) as vice general manager of the Shanghai branch and vice general manager of the Tokyo branch, as well as the director of Union Life Insurance Co., Ltd.

Mr. MUSSITA has been the supervisor of Meccanotecnica Umbra S.p.A. (Qingdao) Mechanical Seal Co., Ltd. from May 2012 to now; and supervisor of Qingdao Yicai Wealth Management Co., Ltd. from September 2016 to now.

Mr. DENG Youcheng, aged 47, a master of business administration of Tongji University, a certified public accountant, a certified public valuer, a senior auditor, a senior consultant and an accountant.

Mr. DENG was appointed as non-executive Director of the Bank on 15 May 2018. He has been director and the vice general manager of Qingdao Conson Development (Group) Co., Ltd. since December 2015. Mr. DENG served as the vice general manager of Qingdao Conson Jiaozhouwan Transportation Co., general manager and chairman of the board of Qingdao Conson Financial Holdings Co., Ltd.

Mr. DENG Youcheng has been the director of Lujiazui International Trust Co., Ltd., director of Zhonglu Property and Casualty Insurance Co., Ltd., director of Qingdao Conson Industrial Co., Ltd., director of Qingdao Conson Development Investment Co., Ltd.* (青島國信發展投資有限公司), director of Guotou Juli Investment Management Company Limited (國投聚力投資管理有限公司), director and general manager of Qingdao Conson Investment Holdings Co., Ltd.* (青島國信投資控股股份有限公司), since October 2014, June 2015, June 2016, June 2016, December 2017 and August 2018, respectively.

Mr. CHOI Chi Kin, Calvin, aged 40, an honorary bachelor of arts majoring in chartered accountants of University of Waterloo in Canada.

Mr. CHOI was appointed as non-executive Director of the Bank on 14 October 2016. He has been chairman, president and managing director of AMTD Group Company Limited since January 2016. Mr. CHOI served as director of Hong Kong corporate finance department of PricewaterhouseCoopers, managing director of investment banking division of Union Bank of Switzerland and member of the Asian-Pacific Committee of Global family office.

Mr. WONG Tin Yau, Kelvin, aged 58, a doctor of business administration of The Hong Kong Polytechnic University.

Mr. WONG was appointed as independent non-executive Director of the Bank on 10 April 2015. Mr. WONG has been executive director and deputy managing general manager of COSCO SHIPPING Ports Limited since July 1996.

Mr. WONG has been an independent non-executive director of I.T Limited, China ZhengTong Auto Services Holdings Limited, Shanghai Fosun Pharmaceutical (Group) Co., Ltd., Huarong International Financial Holdings Limited and Xinjiang Goldwind Science & Technology Co., Ltd., since August 2007, November 2010, June 2015, October 2015 and October 2016, respectively. Mr. WONG served as the independent non-executive director of Mingfa Group (International) Company Limited from September 2018 to March 2019, the independent non-executive director of Asia Investment Finance Group Limited from October 2016 to February 2018, the independent non-executive director of AAG Energy Holdings Limited from June 2015 to April 2016, and the independent non-executive director of Xinjiang Goldwind Science & Technology Co., Ltd. from June 2011 to June 2016.

Mr. CHEN Hua, aged 51, a doctor of economics majoring in finance of Soochow University and a professor.

Mr. CHEN was appointed as independent non-executive Director of the Bank on 10 April 2015. He has been the head of the finance research institute of Shandong University of Finance and Economics since August 2014. Mr. CHEN served as the head of the finance and taxation institute of Shandong Economic University, and the head of the center of economics research of Shandong University of Finance and Economics.

Mr. CHEN served as the independent non-executive director of Shanda Wit Science and Technology Co., Ltd., the independent non-executive director of Jining Rural Commercial Bank, the external director of Shandong State-owned Assets Investment Holdings Co., Ltd., the independent non-executive director of Shandong Baogang International Port Co., Ltd., temporary deputy director of Binhai New Area Management Committee of Weifang and the independent non-executive director of Mengke Holdings Limited since March 2013, September 2016, August 2017, December 2017, December 2017 and November 2018, respectively; from May 2016 to August 2017, he served as the independent non-executive director of Shandong Traffic and Transportation Group Co., Ltd.

Ms. DAI Shuping, aged 58, a master of business administration of Inter American University.

Ms. DAI was appointed as independent non-executive Director of the Bank on 14 October 2016. She has been serving as the dean of Shenzhen Qianhai Institute of Financial Management Limited since July 2015, and the adviser to chairman and the dean since December 2017. Ms. DAI served as the general manager of headquarter's credit management department, the general manager of headquarter's credit approval department, the general manager of headquarter's legal and compliance department, and the general manager of headquarter's audit department of China Merchants Bank.

Mr. Simon CHEUNG, aged 48, a bachelor of arts majoring in computer science of the University of Wisconsin-Madison.

Mr. CHEUNG was appointed as independent non-executive Director of the Bank on 11 May 2017. He has been the chief technology officer of ExcelNet since March 2019. Mr. Cheung served as the deputy general manager of Ping An Insurance (Group) Company of China, Ltd., the director of IT architecture planning of SF Express (Group) Co., Ltd., the deputy general manager of Shenzhen Qianhai WeBank Co., Ltd., the chief information officer of Shenzhen Qianhai Dashu Financial Service Co., Ltd., and the chief technology officer of WeShare (Shenzhen) Ltd.

Ms. FANG Qiaoling, aged 43, a doctor of management of Renmin University of China and a professor.

Ms. FANG was appointed as independent non-executive Director of the Bank on 15 May 2018. She has been working in Management College of Ocean University of China since July 1999, and is currently the professor and supervisor for Ph.D. candidates in Management College of Ocean University of China.

Ms. FANG has been an independent director of Triangle Tyre Co., Ltd. since July 2017, and an executive council member of the Shandong Provincial Accounting Society since May 2018.

Supervisors

Ms. CHEN Qing, aged 59, a bachelor of accounting of Southwest University of Science and Technology.

Ms. CHEN was appointed as employee Supervisor of the Bank on 14 December 2016, and appointed as chief Supervisor of the Bank in December 2016. She has been the director-general of Bank of Qingdao Charitable Foundation in Qingdao City since April 2017. Ms. CHEN joined the Bank in October 1996 and had held various positions including the president of the sub-branch, assistant to president of the head office, and vice president of the head office. Prior to joining the Bank, Ms. CHEN served as the chief of the accounting division of the Shinan District office under the Qingdao branch of Industrial and Commercial Bank of China, the accounting officer of the cadre training center of People's Bank of China, and the chief of the planning sub-division under the planning division of the Qingdao Xintong Urban Credit Cooperative.

Mr. ZHANG Lanchang, aged 54, a senior engineer with an EMBA degree from Shanghai University of Finance and Economics.

Mr. ZHANG was appointed as Supervisor of the Bank on 15 May 2018. He has been the deputy general manager of Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. since September 2014. Mr. ZHANG worked as the deputy general manager of Qingdao Machinery Industry Corporation, and the deputy director of Qingdao Collective Enterprise Cooperative Society.

Mr. ZHANG has been the person in charge and the legal representative of Qingdao Second Light Industry Head Office*(青島市二輕總公司), director of Qingdao Iron & Steel Co., Ltd.* (青島鋼鐵有限公司), executive director, general manager and legal representative of Qingdao Huatong Military Investment Co., Ltd., director of Lucent Technologies Qingdao Telecommunications Systems Co., Ltd.*(青島朗訊科技通訊設備有限公司), director of Qingdao Yangfan Shipbuilding Co., Ltd., director of Qingdao Shipyard Co., Ltd.*(青島造船廠有限公司), chairman and legal representative of Qingdao Huatong Asset Management Co., Ltd., executive director and general manager and legal representative of Qingdao Huatong Kegong Investment Co., Ltd.*(青島華通科工投資有限責任公司) since August 2014, May 2015, June 2015, July 2017, June 2018, June 2018, July 2018 and March 2019, respectively.

Mr. WANG Dawei, aged 44, a bachelor of international economics of Nankai University.

Mr. WANG was appointed as employee Supervisor of the Bank on 30 March 2018. He has been serving as the chief officer of the credit risk and the general manager of the credit management department of the Bank since July 2016. Prior to joining the Bank, he worked in the Qingdao branch of Bank of Communications, worked in China Merchants Bank as the general manager of the Qingdao branch, the general manager of the Qingdao regional headquarters under the small enterprise credit center of the head office and the general manager of the Shanghai Free Trade Zone branch.

Mr. MENG Xianzheng, aged 51, a master of business administration of Northwestern University and a senior political worker.

Mr. MENG was appointed as employee Supervisor of the Bank on 30 March 2018. He has been serving as the general manager of the legal and compliance department of the Bank since August 2009, and the general manager of the asset security department of the Bank since April 2018. He joined the Bank in August 2001 and served in various positions including the general manager of the special asset management department and sub-branch president of the Bank. Prior to joining the Bank, he worked as a credit officer of Laixi Sub-Branch of Industrial and Commercial Bank of China, the director and chairman of Laixi Urban Credit Cooperative.

Mr. WANG Jianhua, aged 65, a master of economics majoring in monetary banking of Xiamen University, a senior economist as well as a certified public accountant.

Mr. WANG was appointed as external Supervisor of the Bank on 10 April 2015. He has been a retired cadre of China Cinda Asset Management Co., Ltd. since December 2013. He once served as the deputy head of the Jiangxi branch, the head of the Qingdao branch of China Construction Bank, and served various roles at the China Cinda Asset Management Co., Ltd., including the director of its Shenzhen office, a director of Happy Life Insurance Co., Ltd.

Mr. FU Changxiang, aged 47, a bachelor of economics majoring in national economy management of Lanzhou University, a senior accountant, a Chinese certified public accountant as well as a Chinese certified tax agent.

Mr. FU was appointed as external Supervisor of the Bank on 10 April 2015. He has been working as a deputy general manager in Qingdao Ruize Certified Tax Agents Firm Co., Ltd. since November 1997. He has been serving as the chief accountant in Qingdao Xinyongda Accounting Firm Co., Ltd. since July 2003.

Mr. FU has been a supervisor of Shandong International Coastal Culture Industry Co., Ltd.* (山東國際海岸文化產業股份有限公司) since August 2018.

Mr. HU Yanjing, aged 59, a doctor of agronomy majoring in fishery resources of Ocean University of China as well as a professor.

Mr. HU was appointed as external Supervisor of the Bank on 10 April 2015. He has been the professor of economics in Qingdao University since November 2001. Mr. HU served various roles at the Qingdao University, including deputy dean of School of Economics, dean of International College, and associate editor of the "Oriental Forum" of Journal of Qingdao University.

Senior Management

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

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

Ms. WANG Yu, aged 50, a bachelor of economics majoring in enterprise management of Finance and Economics Institute of Tianjin, a master of business administration majoring in business administration of Tongji University in Shanghai as well as a senior economist.

Ms. WANG was appointed as Vice President of the Bank in June 2007. Ms. WANG joined the Bank in April 2002, and served as a head of sub-branch and assistant to our President. Prior to joining the Bank, Ms. WANG worked as a cadre and staff member of the deposit and remittance division of the Huanghai branch, a senior staff member and principal staff member of the credit card division of the Qingdao branch, as well as deputy head of the high-technology park sub-branch of Bank of China.

Mr. YANG Changde, aged 59, a bachelor of economics majoring in finance of Distance Education College of Renmin University of China.

Mr. YANG was appointed as Vice President of the Bank in August 2012. Mr. YANG joined the Bank in March 2012, and served as assistant to our President. Prior to joining the Bank, Mr. YANG worked as a cadre of the personnel division of the Qingdao branch, deputy head of the Pingdu sub-branch, director of the office of Qingdao central sub-branch of the People's Bank of China, the chief of the joint-stock banks regulation division of the CBRC Qingdao Office, and the chief of the personnel division of the CBRC Qingdao Office.

Ms. CHEN Shuang, aged 50, a master of arts majoring in English language and literature of Shanghai International Studies University as well as a master of science majoring in financial investment of the University of Edinburgh in the UK.

Ms. CHEN was appointed as Vice President of the Bank in January 2017. Ms. CHEN joined the Bank in June 2007, and served as assistant to our President, and was responsible for investment promotion of the Qingdao City Commercial Bank. Prior to joining the Bank, Ms. CHEN worked at the China CITIC Bank as deputy general manager of the business department and manager of the international business department and general manager of the capital market division.

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

4.2 EMPLOYMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT BY CORPORATE SHAREHOLDERS

Name of employee	Name of corporate shareholder	Position held in corporate shareholder	Commencement date
ZHOU Yunjie	Haier Group Corporation	President and deputy president of the board	From December 2016 to date
Rosario STRANO	Intesa Sanpaolo S.p.A.	Chief operating officer	From January 2018 to date
TAN Lixia	Haier Group Corporation	Executive vice president and chief financial officer	From December 2016 to date
DENG Youcheng	Qingdao Conson Development (Group) Co., Ltd.	Director and deputy general manager	From December 2015 to date
CHOI Chi Kin, Calvin	AMTD Group Company Limited	Chairman, president and managing director	From January 2016 to date
ZHANG Lanchang	Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	Deputy general manager	From September 2014 to date

4.3 EMPLOYMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT BY OTHER ENTITIES

During the Reporting Period, the employment of Directors, Supervisors and senior management of the Bank by other entities, please refer to their respective biography.

V. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Decision-making process, basis for determination and actual payment of the remuneration of Directors, Supervisors and senior management

The Bank distributes the annual allowances and meeting subsidies to non-executive Directors, independent non-executive Directors, shareholder Supervisors and external Supervisors according to the policies on the allowance of Directors and Supervisors. The Administrative Measures on Remuneration and Performance of Senior Management of Qingdao Bank shall be formulated by the Remuneration Committee of the Board of Directors and considered and approved by the Board of Directors. According to the Administrative Measures on Remuneration and Performance of Senior Management of Qingdao Bank, the Bank shall determine and pay the basic remuneration of executive Directors, chief Supervisors and other senior management personnel, and determine the performance remuneration according to the results of its annual assessment, and pay performance remuneration after consideration and approval by the Board of Directors. Employee Supervisors shall determine and pay annual remuneration according to our administration measures on remuneration of employees.

5.2 Remuneration of Directors, Supervisors and senior management of the Bank during the Reporting Period

Unit: RMB in 10 thousand

Name	Position	Gender	Age	Status of office	Aggregate pre-tax remunerations received from the Company	Whether having received remunerations from the related parties of the Company
GUO Shaoquan	Executive Director, chairman	Male	56	Incumbent	246.44	No
WANG Lin	Executive Director, president	Male	55	Incumbent	228.61	No
YANG Fengjiang	Executive Director, vice president	Male	54	Incumbent	171.56	No
LU Lan	Executive Director, secretary to the Board	Female	54	Incumbent	164.45	No
ZHOU Yunjie	Non-executive Director	Male	52	Incumbent	12.38	Yes
Rosario STRANO	Non-executive Director	Male	55	Incumbent	–	Yes
TAN Lixia	Non-executive Director	Female	48	Incumbent	11.85	Yes
Marco MUSSITA	Non-executive Director	Male	59	Incumbent	–	Yes
DENG Youcheng	Non-executive Director	Male	47	Incumbent	5.60	Yes
CHOI Chi Kin, Calvin	Non-executive Director	Male	40	Incumbent	11.85	Yes
WONG Tin Yau, Kelvin	Independent non-executive Director	Male	58	Incumbent	18.25	Yes
CHEN Hua	Independent non-executive Director	Male	51	Incumbent	18.84	No
DAI Shuping	Independent non-executive Director	Female	58	Incumbent	18.84	Yes
Simon CHEUNG	Independent non-executive Director	Male	48	Incumbent	18.84	No
FANG Qiaoling	Independent non-executive Director	Female	43	Incumbent	8.53	No

Name	Position	Gender	Age	Status of office	Aggregate pre-tax remunerations received from the Company	Whether having received remunerations from the related parties of the Company
WANG Jianhui	Former non-executive Director	Male	55	Resigned	5.60	Yes
WANG Zhuquan	Former independent non-executive Director	Male	53	Resigned	9.72	No
CHEN Qing	Chairlady of the Board of Supervisors, employee Supervisor	Female	59	Incumbent	177.20	No
ZHANG Lanchang	Shareholder Supervisor	Male	54	Incumbent	3.84	Yes
WANG Dawei	Employee Supervisor	Male	44	Incumbent	92.13	No
MENG Xianzheng	Employee Supervisor	Male	51	Incumbent	78.15	No
WANG Jianhua	External Supervisor	Male	65	Incumbent	–	No
FU Changxiang	External Supervisor	Male	47	Incumbent	12.28	Yes
HU Yanjing	External Supervisor	Male	59	Incumbent	12.28	No
SUN Guoliang	Former shareholder Supervisor	Male	61	Resigned	4.30	No
SUN Jigang	Former employee Supervisor	Male	49	Resigned	32.70	No
XU Wansheng	Former employee Supervisor	Male	51	Resigned	31.82	No
WANG Yu	Vice president	Female	50	Incumbent	170.83	No
YANG Changde	Vice president	Male	59	Incumbent	171.14	No
CHEN Shuang	Vice president	Female	50	Incumbent	171.03	No
Total	–	–	–	–	1,909.06	–

Note: 1. The remuneration received from the Bank by the employees who were newly appointed or resigned during the Reporting Period is calculated on the length of their service.

2. During the Reporting Period, no Directors, Supervisors and senior management of the Bank were granted equity incentives.

VI. DETAILS OF EMPLOYEES OF THE COMPANY

6.1 Number of employees, composition by profession and education background

Number of employees on the payroll of the parent company (persons)	3,781
Number of employees on the payroll of the major subsidiaries (persons)	53
Total number of employees on the payroll (persons)	3,834
Total number of employees receiving remuneration in the current period (persons)	3,834
Number of retired employees for whom the parent company and major subsidiaries need to bear expenses (persons)	–

Composition by profession

Composition by profession category	Number of persons of composition by profession (persons)
Management personnel	292
Business personnel	2,891
General administrative personnel	651
Total	3,834

Education background

Education background category	Number (persons)
Master's degree or above	664
Bachelor's degree	2,695
College graduates or below	475
Total	3,834

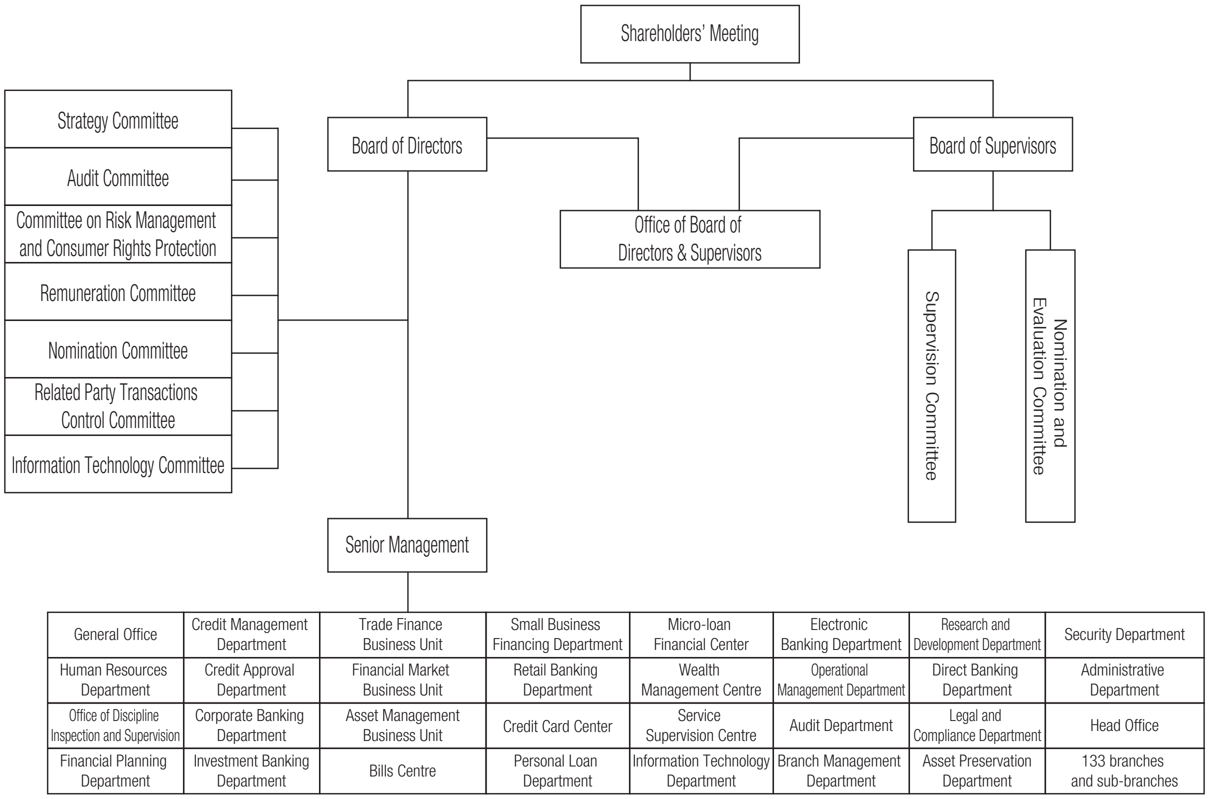
6.2 Remuneration Policy

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

6.3 Training Program

Focusing on the strategic development, the Bank held various trainings for the middle and senior management, business personnel and new employees to continue to enhance the professional skills and comprehensive quality of all employees. During the Reporting Period, the Bank organized a total of 2,237 trainings, with an average of 26 training sessions for each employee.

VII. ORGANIZATION CHART



VIII. BRANCHES AND SUB-BRANCHES

No.	Name of branch/ sub-branch	Business address	Notes
1	In Qingdao	–	1 head office, 1 branch and 77 sub-branches
2	Jinan Branch	Building 6, Yinfeng Fortune Plaza, No. 1 Longaoxi Road, Lixia District, Jinan	There are 12 sub-branches under it
3	Dongying Branch	No. 72 Fuqian Avenue, Dongying District, Dongying	There are 6 sub-branches under it
4	Weihai Branch	No. 112, No. 3-4 Shichang Avenue, Weihai	There are 8 sub-branches under it
5	Zibo Branch	No. 266 Liantong Road, Zhangdian District, Zibo	There are 3 sub-branches under it
6	Dezhou Branch	No. 717 Dexing Middle Avenue, Decheng District, Dezhou	There are 2 sub-branches under it
7	Zaozhuang Branch	No. 215 Qingtan North Road, Shizhong District, Zaozhuang	There are 4 sub-branches under it
8	Yantai Branch	No. 454 Shengli Road, Zhifu District, Yantai	There are 3 sub-branches under it
9	Binzhou Branch	No. 471 Huanghe 8th Road, Bincheng District, Binzhou	There are 2 sub-branches under it
10	Weifang Branch	No. 124, Building 7, No. 6636 Fushou East Street, Kuiwen District, Weifang	There are 2 sub-branches under it
11	Laiwu Branch	No. 57, Wanfu North Road, Laicheng District, Laiwu	–
12	Linyi Branch	Building 9, Hongxing International Plaza, Intersection of Jinan Road and Xiaohe Road, Beicheng New District, Linyi	–
13	Jining Branch	Welfare Lottery Building, No. 24 Hongxing Middle Road, Jining	–
14	Taian Branch	No. 237 Dongyue Street, Taian	–

Section XI Corporate Governance Report

I. BASIC CORPORATE GOVERNANCE

The Bank will focus on the target of establishment of regulated, market-oriented and featured corporate governance. In accordance with the industry regulatory requirements and capital market regulatory requirements, the Bank will continue to improve corporate governance mechanisms and continuously enhance corporate governance effectiveness, with a view to promoting the continuous and stable development of various businesses through high-quality corporate governance.

During the Reporting Period, the Bank reinforced the leadership of the Party, integrated leadership of the Party into all aspects of corporate governance, and discussed among the Party committee before making decisions on major issues. It completed the re-election of the Board of Directors and Supervisors in a smooth and stable manner, and continuously optimized the diversified construction of the Board of Directors. It revised the Articles of Association in accordance with the requirements of the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》), to further regulate equity management. The Board of Directors practically exerted the strategic leadership and core decision-making roles through formulating new strategic plans, promoting the completion of A-share listing, improving the remuneration and performance management system for senior management, and strengthening the management of consolidated financial accounts. The Bank strengthened the expertise in deliberation of Special Committees to continuously improve the decision-making level and operational efficiency of the Board of Directors. The Board of Supervisors strengthened the supervision on the performance of the Board of Directors and senior management and its members, and conducted an in-depth financial, risk and internal control supervision to exert the supervisory role of the Board of Supervisors.

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

II. CONVENING OF ANNUAL GENERAL MEETING AND EXTRAORDINARY GENERAL MEETING DURING THE REPORTING PERIOD

2.1 Shareholders' general meeting during the Reporting Period

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

1. On 15 May 2018, the 2017 Annual General Meeting, the 2018 First Domestic Shareholders Class Meeting and the 2018 First H Shareholders Class Meeting of the Bank were convened in the Head Office.

   A total of 33 shareholders attended the 2017 Annual General Meeting in person or by proxy, representing a total of 2,777,998,003 shares with voting rights, which accounted for 68.45% of the total number of shares of the Bank. A total of 30 domestic shareholders attended the 2018 First Domestic Shareholders Class Meeting in person or by proxy, representing a total of 1,844,950,523 domestic shares with voting rights, which accounted for 80.37% of the total number of domestic shares of the Bank. A total of three H shareholders attended the 2018 First H Shareholders Class Meeting in person or by proxy, representing a total of 933,047,480 H shares with voting rights, which accounted for 52.92% of the total number of H shares of the Bank.

   A total of 12 resolutions were considered and passed at the 2017 Annual General Meeting, namely the work report of the Board of Directors of Bank of Qingdao Co., Ltd. for 2017, the work report of the Board of Supervisors of Bank of Qingdao Co., Ltd. for 2017, the final financial accounts of Bank of Qingdao Co., Ltd. for 2017, the profit distribution plan of Bank of Qingdao Co., Ltd. for 2017, the resolution on the engagement of domestic and foreign auditors and their remuneration of Bank of Qingdao Co., Ltd. for 2018, the resolution on the election of Directors of the seventh session of the Board of Directors of Bank of Qingdao Co., Ltd., the resolution on the election of Supervisors of the seventh session of the Board of Supervisors of Bank of Qingdao Co., Ltd., the resolution on the status report on the use of previously raised funds of Bank of Qingdao Co., Ltd. as of 31 December 2017, the special report on related party transactions of Bank of Qingdao Co., Ltd. for 2017, the resolution on the extension of the validity period of the plan for the initial public offering and listing of the A shares of Bank of Qingdao Co., Ltd., the resolution on the extension of the validity period of the authorization to deal with specific matters in respect of the initial public offering and listing of the A shares, and the resolution on the general mandate to issue shares of Bank of Qingdao Co., Ltd. In addition, two matters requiring reporting on the Evaluation Report on the Performance of Duties by the Board and Directors of Bank of Qingdao Co., Ltd. for 2017 and the Evaluation Report on the Performance of Duties by Supervisors of Bank of Qingdao Co., Ltd. for 2017 were heard at the meeting.

A total of two resolutions were considered and passed at the 2018 First Domestic Shareholders Class Meeting, namely the resolution on the extension of the validity period of the plan for the initial public offering and listing of the A shares of Bank of Qingdao Co., Ltd. and the resolution on the extension of the validity period of the authorization to deal with specific matters in respect of the initial public offering and listing of the A shares.

A total of two resolutions were considered and passed at the 2018 First H Shareholders Class Meeting, namely the resolution on the extension of the validity period of the plan for the initial public offering and listing of the A shares of Bank of Qingdao Co., Ltd. and the resolution on the extension of the validity period of the authorization to deal with specific matters in respect of the initial public offering and listing of the A shares.

2. On 30 November 2018, the 2018 First Extraordinary General Meeting of the Bank was convened in the Head Office. A total of 29 shareholders attended the Meeting in person or by proxy, representing a total of 2,779,964,815 shares with voting rights, which accounted for 68.49% of the total number of shares of the Bank. A total of two resolutions were considered and passed at the Meeting, namely the resolution on the grant of authorization to purchase liability insurance for Directors, Supervisors and officers and the prospectus, and the resolution on the amendments to the Articles of Association of Bank of Qingdao Co., Ltd.

The announcements on the aforesaid relevant resolutions of general meeting were published on the official websites of the Hong Kong Stock Exchange and the Bank on the date of convening the meeting. Please refer to the following table for details:

Session of meeting	Type of meeting	Participation percentage of investors	Date of convening	Date of disclosure	Index of disclosure
2017 annual general meeting	Annual general meeting	68.45%	15 May 2018	15 May 2018	The website of the Hong Kong Stock Exchange and the official website of the Bank
2018 first domestic shareholders class meeting	Extraordinary general meeting	80.37%	15 May 2018	15 May 2018	The website of the Hong Kong Stock Exchange and the official website of the Bank
2018 first H shareholders class meeting	Extraordinary general meeting	52.92%	15 May 2018	15 May 2018	The website of the Hong Kong Stock Exchange and the official website of the Bank
2018 first extraordinary general meeting	Extraordinary general meeting	68.49%	30 November 2018	30 November 2018	The website of the Hong Kong Stock Exchange and the official website of the Bank

Note: The 2018 first domestic shareholders class meeting and the 2018 first H shareholders class meeting of the Bank were convened in succession immediately following the 2017 annual general meeting.

2.2 Request for convening of extraordinary general meeting by preference shareholders with recovered voting rights

During the Reporting Period, there was no request for convening of extraordinary general meeting by preference shareholders with recovered voting rights in the Bank.

III. BOARD OF DIRECTORS AND SPECIAL COMMITTEES

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

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

During the Reporting Period, the Board strictly implemented the resolutions passed at the general meetings, and conscientiously implemented the resolutions considered and passed at the general meetings in relation to the Profit Distribution Plan for 2017, change of session of the Board of Directors and amendments to the Articles of Association, etc.

3.2 Members of the Board

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

3.3 Changes in the Directors

For changes in the Directors, please refer to "Section X Directors, Supervisors, Senior Management and Employees" in this annual report.

3.4 Operation of the Board

During the Reporting Period, the Board convened a total of 17 meetings, of which four meetings were held in the form of physical meetings and 13 meetings were held in the form of circulation of written resolutions. At these meetings, the Board passed resolutions on 53 significant events including the work report of the President, the report on final financial accounts, operation plans, the proposal on profit distribution, the change of session of Board of Directors, the change of accounting policies and material related party transactions and also listened to or reviewed 54 special reports including risk management reports, internal and external audit reports, the proposal on external audit management and its rectification report, and opinions arising from CBIRC's on-site inspection and related rectification report.

The Directors of the Bank have acknowledged their responsibility for preparing the financial statements of the Bank for the year ended 31 December 2018. The Directors are responsible for overseeing the preparation of financial statements for each accounting period to make sure such financial statements give a true and fair view of the financial conditions, operating results and cash flows of the Bank. In preparing the financial statements for the year ended 31 December 2018, the Directors have adopted and consistently applied applicable accounting policies, and exercised prudent and reasonable judgement.

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

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

		Actual attendance/Number of meetings requiring attendance								
Categories	Directors	General meetings	Board meetings	Strategy Committee	Remuneration Committee	Nomination Committee	Related Party Transactions Control Committee	Audit Committee	Risk Management and Consumer Rights Protection Committee	Information Technology Committee
Executive Directors	GUO Shaoquan	2/2	17/17	5/5	4/4	2/2	–	–	–	4/4
	WANG Lin	1/2	17/17	5/5	–	2/2	–	–	6/6	4/4
	YANG Fengjiang	2/2	17/17	–	–	–	12/12	–	6/6	–
	LU Lan	2/2	17/17	–	–	–	12/12	–	6/6	–
Non-executive Directors	ZHOU Yunjie	2/2	15/17	2/5	2/4	1/2	–	–	–	–
	Rosario STRANO	2/2	15/17	2/5	3/4	–	–	–	–	–
	WANG Jianhui	1/1	4/5	1/2	–	–	–	2/4	–	–
	TAN Lixia	2/2	16/17	–	–	–	–	7/8	5/6	3/4
	Marco MUSSITA	2/2	17/17	–	–	–	–	–	6/6	4/4
	DENG Youcheng	1/1	7/9	0/3	–	–	–	3/4	–	–
	CHOI Chi Kin, Calvin	2/2	14/15	2/3	–	–	–	6/7	–	–
Independent Non-executive Directors	WANG Zhuquan	1/1	8/8	–	3/3	2/2	5/5	4/4	3/3	–
	WONG Tin Yau, Kelvin	2/2	16/17	3/5	3/4	2/2	12/12	7/8	–	–
	CHEN Hua	2/2	17/17	5/5	4/4	–	12/12	8/8	6/6	–
	DAI Shuping	2/2	17/17	5/5	1/1	2/2	12/12	8/8	–	–
	Simon CHEUNG	2/2	17/17	–	4/4	2/2	12/12	–	–	4/4
	FANG Qiaoling	1/1	9/9	–	–	–	7/7	4/4	3/3	–

Notes: 1. Mr. WANG Lin has other work arrangements and as such he failed to attend some general meetings of the Bank convened during the Reporting Period;

2. Mr. WANG Jianhui and Mr. WANG Zhuquan retired on expiry of their term on May 2018 and June 2018 respectively; Mr. DENG Youcheng and Ms. FANG Qiaoling performed their duties since June 2018; Ms. DAI Shuping was appointed as the chairperson of remuneration committee since the seventh session of the Board of Directors; as such the number of general meetings, Board meetings and special committee meetings required to be attended by the aforesaid persons is less than the number of meetings actually convened during the year;

3. Under the circumstance that the Directors' actual attendance of Board meetings and special committee meetings is less than required, other Directors were delegated to attend.

IV. PERFORMANCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS DURING THE REPORTING PERIOD

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

4.1 Attendance of independent non-executive Directors at Board meetings and general meetings

	Attendance of Independent Director at Board meetings and general meetings						
Name of Independent Director	Number of attendance required at Board meetings during the Reporting Period	Number of Board Meetings attended in person	Number of Board Meetings attended by telecommunications	Number of Board Meetings attended by proxy	Number of absence	Whether attended Board meetings in person for two consecutive times	Number of attendance at general meetings
WANG Zhuquan	8	2	6	0	0	No	1
WONG Tin Yau, Kelvin	17	3	13	1	0	No	2
CHEN Hua	17	4	13	0	0	No	2
DAI Shuping	17	4	13	0	0	No	2
Simon CHEUNG	17	4	13	0	0	No	2
FANG Qiaoling	9	2	7	0	0	No	1

4.2 Objections raised by Independent Non-Executive Directors on matters of the Company

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

4.3 Other explanations on the performance of duties by Independent non-executive Directors

During the Reporting Period, our five independent non-executive Directors seriously participated in the meetings of the Board and the special committees, independently and objectively gave their opinions, and emphasized the interests of minority shareholders. They kept in touch with the Bank through various means such as reviewing the newsletters of Directors and Supervisors and special investigations to provide suggestions for the development of the Bank, fully discharging the responsibilities of non-executive independent Directors. The Bank carefully studied the recommendations raised by the independent non-executive Directors, adopted and implemented according to the actual situation of the Bank.

V. PERFORMANCE OF THE SPECIAL COMMITTEES UNDER THE BOARD DURING THE REPORTING PERIOD

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

During the Reporting Period, the special committees under the Board of the Bank exercised their respective authorities and powers in an independent manner according to laws and regulations. They convened a total of 41 meetings during the year, at which 43 resolutions were considered, 26 reports of all kinds were reviewed, 20 physical special reports were listened to, which allowed the special committees under the Board to play their professional roles in deliberation, provide support for the scientific decision-making of the Board, and improve the efficiency and quality of scientific decision-making ability of the Board.

5.1 Strategy Committee

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

The primary duties of the Strategy Committee include the following:

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

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

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

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

5. reviewing amendment proposals of the Articles of Association;

6. inspecting the implementation of the above matters.

During the Reporting Period, our Strategy Committee convened five meetings in total, at which resolutions on the 2018 work plan of the Strategy Committee, the Work Report of the President, the general mandate of share issue, amendments to of the Articles of Association, Strategic Plan for 2019 to 2021 were considered and approved, which raised constructive opinions in respect of the execution of strategic positioning, strategic objectives and strategic plans.

5.2 Remuneration Committee

The Remuneration Committee of the Board consists of an executive Director, two non-executive Directors and four independent non-executive Directors. The executive Director is Mr. GUO Shaoquan. The two non-executive Directors are Mr. ZHOU Yunjie and Mr. Rosario STRANO. The four independent non-executive Directors are Mr. WONG Tin Yau, Kelvin, Mr. CHEN Hua, Ms. DAI Shuping and Mr. Simon CHEUNG. Ms. DAI Shuping is the chairperson of the committee.

The primary duties of the Remuneration Committee include the following:

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

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

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

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

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

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

During the Reporting Period, our Remuneration Committee convened four meetings in total, at which resolutions on the 2018 work plan of the Remuneration Committee, the 2017 Appropriation of the Staff Bonus and Distribution of the Performance Bonus of Senior Management at Bank Level and Senior Management Performance-related Remuneration Administrative Measures, were considered and approved, which raised recommendations for realization of long-term incentives for the purpose of optimization of market-driven remuneration system of the Bank's senior management.

5.3 Nomination Committee

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

The primary duties of the Nomination Committee include the following:

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

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

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

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

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

Nomination Policy of Directors:

The general procedure for nomination and election of the Directors is stipulated in the Articles of Association. According to the number of persons to be elected within the requirements of the Articles of Association (i.e. the Board of Directors shall be composed of 5 to 19 Directors), a list of nominated candidates for Directors can be drawn up by the Nomination Committee of the Board of Directors. Shareholders individually or jointly holding 3% or more of the total number of shares with voting rights of the Bank may also nominate candidates for directors to the Board of Directors. The Nomination Committee of the Board of Directors shall conduct preliminary verification on qualifications and eligibility of candidates for directors before submitting the list of qualified candidates to the Board of Directors for consideration. After approval by way of resolution from the Board of Directors, written proposals regarding the candidates for Directors shall be submitted to the shareholders' general meeting. Each candidate for director shall be elected on a separate basis at the shareholders' general meeting. If it is necessary to fill a vacant position for a Director, the Nomination Committee of the Board of Directors or shareholders eligible to make nominations shall submit proposals to the Board of Directors for consideration, and the position shall be elected or replaced at the shareholders' general meeting.

The procedure for nomination and election of the independent non-executive Directors are also stipulated in the Articles of Association: the Nomination Committee of the Board of Directors, the Board of Supervisors and shareholders individually or jointly holding 1% or more of the total number of shares with voting rights of the Bank may nominate independent directors who shall be elected at a shareholders' general meeting to the Board of Directors.

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

During the Reporting Period, our Nomination Committee convened two meetings in total, at which resolutions on the 2018 work plan of the Nomination Committee and the candidates for Directors of the Seventh Session of the Board of Directors were considered and approved.

5.4 Related Party Transactions Control Committee

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

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

1. identifying related parties and connected persons of the Bank;

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

During the Reporting Period, our Related Party Transaction Control Committee convened twelve meetings in total, at which it considered and passed resolutions on the 2018 Work Plan of the Related Party Transaction Control Committee, the confirmation of the list of related parties and the review of significant related party transactions, listened to or reviewed related party transaction management reports, focused on fairness of related party transactions and strengthened control over related party transactions.

5.5 Audit Committee

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

The primary duties of the Audit Committee include the following:

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

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

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

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

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

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

7. taking charge of the annual audit work;

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

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

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

During the Reporting Period, our Audit Committee convened eight meetings in total, at which it considered and passed resolutions on change of accounting policies, regular reports, engagement of auditors, the evaluation report on internal control, the financial report, the proposal on profit distribution, as well as reviewed special audit reports and rectification reports. It listened to the audit work summary, audit plan and management recommendations of external auditors. The Audit Committee made recommendations in respect of comprehensive implementation of internal control audit concept, enhancement of audit effort of off-site analysis and tracking, improvement of analyzing ability of utilizing big data, and procured the Bank to continuously optimize internal control.

5.6 Risk Management and Consumer Rights Protection Committee

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

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

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

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

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

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

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

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

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

During the Reporting Period, our Risk Management and Consumer Rights Protection Committee convened six meetings in total, at which it considered and passed the resolutions on the 2018 work plan of the Risk Management and Consumer Rights Protection Committee and the 2018 plan of risk appetite of business operation, listened to the reports on risk management of credit risk, market risk, liquidity risk and off-balance sheet risk, reviewed the reports on risk management of reputational risk, information technology risk and outsourcing risk, made recommendations on industry distribution of non-performing assets, application of big data in risk management and foreign exchange risk, which guided the Bank's improvement of risk management.

5.7 Information Technology Committee

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

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

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

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

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

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

During the Reporting Period, our Information Technology Committee convened four meetings in total, at which it considered and approved the resolutions on the 2018 work plan of the Information Technology Committee, etc., and listened to the report on the management of information technology risk, the report on the management of business continuity and other reports, and made recommendations on the investment of information technology and information security.

VI. PERFORMANCE OF BOARD OF SUPERVISORS

6.1 Board of Supervisors

The Board of Supervisors is the supervisory body of the Bank and is responsible to the general meeting. During the Reporting Period, no risk was identified in the Bank in the supervisory activities of the Board of Supervisors and the Board of Supervisors raised no objection to the supervisory matters during the Reporting Period.

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

6.2 Composition of the Board of Supervisors

The Bank's Board of Supervisors consists of shareholder supervisors, external supervisors and employee supervisors, and shareholder supervisors and external supervisors are nominated by the Board of Supervisors and elected on general meetings; employee supervisors are nominated by the labor union committee and elected by employee democratic election. As at the end of the Reporting Period, the Board of Supervisors of the Bank consists of seven Supervisors, including three employee Supervisors, namely CHEN Qing, WANG Dawei and MENG Xianzheng; one shareholder Supervisor, namely ZHANG Lanchang; and three external Supervisors, namely WANG Jianhua, FU Changxiang and HU Yanjing. The structure of composition of our Board of Supervisors complies with the requirements of laws and regulations, and the Supervisors are equipped with the required professionalism and independence for performing their duties, which allows the effective performance of supervisory function by the Board of Supervisors.

6.3 Changes in the Supervisors

For details of changes in the Supervisors of the Bank during the Reporting Period, see "Chapter VIII Directors, Supervisors, Senior Management, Employees and Institutions".

6.4 Operation of the Board of Supervisors

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

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

During the Reporting Period, the Board of Supervisors of the Bank convened eight meetings, of which three meetings were held in the form of physical meetings and five meetings were held by way of circulating written resolutions. At these meetings, the Board of Supervisors considered and approved 22 resolutions, listened to or reviewed 47 reports and carried out one themed investigation and research including operation management, final financial accounts, risk management and internal control of the Bank, as well as the performance evaluation of Directors, Supervisors and senior management. During the Reporting Period, there was no objection raised by the Board of Supervisors to the matters supervised.

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

Supervisor	Number of attendance required	Number of attendance in person	Number of attendance by proxy
CHEN Qing	8	8	–
SUN Guoliang	2	2	–
ZHANG Lanchang	6	5	1
SUN Jigang	2	2	–
XU Wansheng	2	2	–
WANG Dawei	6	6	–
MENG Xianzheng	6	6	–
WANG Jianhua	8	8	0
FU Changxiang	8	8	0
HU Yanjing	8	8	0

Note: Mr. SUN Guoliang, Mr. SUN Jigang and Mr. XU Wansheng retired upon expiry of their term on May 2018; Mr. ZHANG Lanchang, Mr. WANG Dawei and Mr. MENG Xianzheng performed their duties since May 2018; as such the number of Supervisory Committee meetings required to be attended by those persons is less than the number of meetings actually convened during the year.

6.6 Attendance at shareholders' general meetings during the Reporting Period

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

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

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

6.8 Operation of the Special Committees under the Board of Supervisors

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

No.	Committees under the Board of Supervisors	Chairman	Members
1	Supervision Committee	FU Changxiang	CHEN Qing, ZHANG Lanchang, HU Yanjing and WANG Dawei
2	Nomination and Evaluation Committee	HU Yanjing	CHEN Qing, WANG Jianhua, FU Changxiang and MENG Xianzheng

Supervision Committee

The primary duties of the Supervision Committee include the following:

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

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

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

During the Reporting Period, the Supervision Committee held six meetings in total, at which the resolutions on the report of final financial accounts, proposals for profit distribution, regular report, the engagement of auditor and evaluation report on internal control for 2017 were considered and approved, and listened to the work report of internal audit and the major risk management report.

Nomination and Evaluation Committee

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

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

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

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

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

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

6.9 Work of external supervisors

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

6.10 Training and studies undertaken by Directors and Supervisors during the Reporting Period

During the Reporting Period, all the Directors and Supervisors of the Bank participated in the themed trainings on domestic and foreign laws and regulations, including the amendments to Hong Kong Listing Rules and the Corporate Governance Code in 2018, the new regulations of CBIRC in 2018, and the obligations of Directors, Supervisors and senior management in A-share listed companies, information disclosure and related party transactions, so as to enable them to have a better understanding of the newly amended corporate governance laws and regulations, as well as the responsibilities and obligations of Directors, Supervisors and senior management upon the listing of A shares.

During the Reporting Period, Ms. DAI Shuping and Mr. Simon CHEUNG, independent Directors of the Bank, participated in the independent Director qualification training of listed companies organized by SZSE and obtained the qualification certificates for independent Directors of listed companies. Ms. CHEN Qing, Chief Supervisor of the Bank, Mr. WANG Jianhua and Mr. HU Yanjing, External Supervisors of the Bank, participated in the 47th session enhanced professional development seminar for joint members provided by The Hong Kong Institute of Chartered Secretaries to discuss risk management and governance.

During the Reporting Period, Mr. CHEN Hua, Ms. DAI Shuping and Mr. Simon CHEUNG, independent Directors of the Bank, conducted a special investigation and research on strategic planning to give targeted suggestions on macroeconomic situation, industry performance and financial technology development. Ms. FANG Qiaoling, an independent Director, conducted a special investigation and research on internal audit to discuss the duties of the internal audit with the person in charge of internal audit. Mr. CHEN Hua, an independent Director, conducted a special investigation and research on related party transactions to discuss the prevention and control of the risk of connected transactions by scientific and technological means with the lead management department of related party transactions.

During the Reporting Period, the Board of Supervisors conducted a special investigation and research on micro loan business, and raised suggestions from the aspects of product standardization, use of comprehensive financial means, increase of financial technology talents and optimization of approval mechanisms.

VII. WORK OF SENIOR MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

7.1 Delegation of authority by the Board of Directors

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

7.2 Chairman and President

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

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

7.3 Securities transactions by Directors and Supervisors

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

7.4 External auditors and remuneration

For details, please refer to “Chapter VII Significant Events” in this report.

7.5 Risk management and internal control

The Board of Directors of the Bank is responsible for ensuring the establishment and implementation of an adequate and effective internal control system and the Bank’s prudent operation under the framework set by laws and policies. The Board of Directors is also responsible for clearly determining the acceptable risk level, ensuring senior management to adopt necessary risk control measures, and supervising senior management on their monitoring and assessment of the adequacy and effectiveness of the internal control system. The Board of Directors of the Bank reviewed the risk management and internal control systems for the year ended 31 December 2018. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board of Directors of the Bank considered and approved the evaluation Report on Internal Control of Bank of Qingdao Co., Ltd. for the first half of 2018 and the 2018 evaluation Report on Internal Control of Bank of Qingdao Co., Ltd. and assessed the interim and annual risk management and internal controls of the Bank. The Board of Directors is in the opinion that such risk management and internal controls of the Bank are effective.

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

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

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

Based on rules and regulations including the "Basic Standards for Corporate Internal Control" and the "Guidelines on Internal Control of Commercial Banks", the Bank has formulated the objectives and principles of internal control and established its internal control system. The Bank takes control over the entire process of various operation and management activities, and continuously enhances the completeness, reasonableness and effectiveness of its internal control system through practice.

The Bank has established the "Weekly Inspection Practice" senior management inspection system and regular internal control inspection system. During the year, the Bank conducted a total of 47 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 151 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 four "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 the level of risk management and control.

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

During the Reporting Period, no organization or staff of the Bank participated in or was suspected of being involved in any money laundering or terrorism financing activity.

7.6 Appraisal and incentives for senior management

During the Reporting Period, the Board of Directors and the Remuneration Committee of the Bank appraised the senior management according to the annual work objectives and plans of the Bank, and granted the bonuses of senior management according to the appraisal results. The Bank will continue to improve the performance evaluation and constraint mechanism of senior management.

7.7 Company Secretaries

On 19 October 2018, Ms. LAI Siu Kuen from TMF Hong Kong Limited, a company secretarial service provider, resigned as the joint company secretary of the Bank due to change of job. Ms. YU Wing Sze from that company was appointed as the joint company secretary of the Bank to replace Ms. LAI Siu Kuen.

During the Reporting Period, Ms. LU Lan, a joint company secretary of the Bank and Ms. YU Wing Sze, both had undertaken not less than 15 hours of continuing professional training in compliance with the requirements of Rule 3.29 of the Hong Kong Listing Rules. Ms. LU Lan, one of the joint company secretaries of the Bank, is the chief liaison person of the Bank.

VIII. INFORMATION DISCLOSURE AND TRANSPARENCY

In strict compliance with the provisions of laws and regulations, the Bank released various periodic reports and temporary announcements in compliance with laws and regulations to ensure that the information disclosed is true, accurate, complete, timely and standardized to protect the lawful rights and interests of shareholders. During the Reporting Period, 17 periodic reports and 44 temporary announcements were released on the website of the Bank and HKEXnews website of the Hong Kong Stock Exchange.

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

IX. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Reporting Period, the Bank amended the Articles of Association in accordance with the requirements under the Interim Measures for the Equity Management of Commercial Banks. The Bank held the 2018 first extraordinary general meeting on 30 November 2018, during which the resolution on the amendments to the Articles of Association of Bank of Qingdao Co., Ltd. was considered and approved. The amended Articles of Association had been examined and approved by the CBRC Qingdao Office. For details of the amendments, please refer to the circular dated 8 November 2018 published on the websites of the Bank and HKEXnews of the Hong Kong Stock Exchange.

X. SHAREHOLDERS' RIGHTS

10.1 Convening of extraordinary general meetings on requisition by shareholders

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

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

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

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

10.2 Making enquiries with the Board

Shareholders of the Bank shall be entitled to inspect the relevant information of the Company in accordance with the laws, administrative regulations, departmental rules, regulatory documents, the relevant provisions of the securities regulatory authorities of the jurisdiction in which the Bank's shares are listed and the requirements of the Articles of Association of the Bank, including the status of the share capital, the minutes of the general meeting, the resolutions of the Board meeting, the resolutions of the board of Supervisors meeting and the latest audited financial statements. Shareholders of the Bank demanding inspection of the relevant information or copies of the materials mentioned in the preceding provision shall provide to the Bank written documents evidencing the class and number of shares of the Bank they hold. Upon verification of the shareholder's identity, the Bank shall provide such information at the shareholder's request.

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

10.3 Proposals of the general meeting

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

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

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

XI. INVESTOR RELATIONS

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

Address:	No. 6, Qinling Road, Laoshan District, Qingdao, Shandong Province, PRC
Postal code:	266061
Telephone number:	+86 40066 96588, then dial number 6
Facsimile number:	+86 (532) 85783866
E-mail:	ir@qdbankchina.com

XII. INTERNAL CONTROL AND INTERNAL AUDIT

12.1 Evaluation report of internal control

12.1.1 Details on the material deficiencies in internal control detected during the Reporting Period

No material deficiencies in internal control were detected in the Bank during the Reporting Period.

12.1.2 Evaluation report of internal control

Disclosure date of the full text of evaluation report of internal control	30 March 2019
Disclosure index of the full text of evaluation report of internal control	Website of CNINFO (http://www.cninfo.com.cn/)
The percentage of total assets of units included in the assessment scope to the total assets in the Company's consolidated financial statements	100%
The percentage of operating income of units included in the assessment scope to the operating income in the Company's consolidated financial statements	100%

Criteria for deficiency recognition Category	Financial Report	Non-financial Report
Qualitative criteria	Qualitative criteria of material deficiencies: issue of adverse opinion or refuse to give opinion by a certified public accountant with respect to the financial statements of the enterprise; fraud or suspected of fraud of the senior management of the enterprise; material misstatement in financial reports disclosed; lack of control or failure of financial system of the Company; failure to rectify material or major deficiencies in the internal control on financial reports.	Qualitative criteria of material deficiencies: serious impact on the realization of the Bank's overall control objectives; violation of national laws and regulations and subject to punishment; wide range of negative impacts with extensive public attention at home and abroad, and a serious negative impact on the Bank's reputation and stock price; lack of control or failure of major business system.
	Qualitative criteria of major deficiencies: deficiencies in the Company's financial procedure or system; failure to rectify major deficiencies in the internal control on financial reports; other internal control deficiencies that may cause material misstatement of financial reports.	Qualitative criteria of major deficiencies: a certain impact on the realization of the Bank's overall control objectives; significant losses as a result of violation of internal regulations of the enterprise; negative impacts within and outside the Bank, drawing public attention, and a greater negative impact on the Bank's reputation in some areas; deficiencies in major business procedure or system.
	Qualitative criteria of general deficiencies: other deficiencies in the internal control of financial reports other than the aforesaid material deficiencies and major deficiencies.	Qualitative criteria of general deficiencies: slight or no impact on the realization of the Bank's overall control objectives; in violation of internal regulations of the enterprise without loss; limited negative impacts, with low public attention, a smaller negative impact on the Bank's reputation; deficiencies in general business procedure or system.

Criteria for deficiency recognition

Category	Financial Report	Non-financial Report
Quantitative criteria	Quantitative criteria of material deficiencies: the possible impact amount of the annualized financial misstatement accounted for 5% or more of the Bank's profit before tax, and compensatory control could not effectively reduce the impact of the deficiency against the realization of the control objectives.	Quantitative criteria of material deficiencies: the amount of loss accounted for 5% or more to the Bank's profit before tax due to the internal control deficiencies shall be recognized as a material deficiency, and compensatory control could not effectively reduce the impact of the deficiency against the realization of the control objectives.
	Quantitative criteria of major deficiencies: the possible impact amount of the annualized financial misstatement accounted for 3% (inclusive) to 5% (exclusive) of the Bank's profit before tax, and compensatory control could not effectively reduce the impact of the deficiency against the realization of the control objectives.	Quantitative criteria of major deficiencies: the amount of loss accounted for 3% (inclusive) but less than 5% (exclusive) to the Bank's profit before tax due to the internal control deficiencies shall be recognized as a major deficiency, and compensatory control could not effectively reduce the impact of the deficiency against the realization of the control objectives.
	Quantitative criteria of general deficiencies: the possible impact amount of the annualized financial misstatement accounted for less than 3% of the Bank's profit before tax, and compensatory control could not effectively reduce the impact of the deficiency against the realization of the control objectives.	Quantitative criteria of general deficiencies: the amount of loss accounted for less than 3% to the Bank's profit before tax due to the internal control deficiencies shall be recognized as a general deficiency, and compensatory control could not effectively reduce the impact of the deficiency against the realization of the control objectives.

The number of material deficiencies in financial reports	–
The number of material deficiencies in non-financial reports	–
The number of major deficiencies in financial reports	–
The number of major deficiencies in non-financial reports	–

12.2 Audit report of internal control

Review of the audit report of internal control

As at 31 December 2018, the Bank has maintained effective internal control in all major aspects related to the financial statement established in accordance with the Basic Standards for Enterprise Internal Control and the Guidelines for Internal Control of Commercial Banks.

Disclosure of the audit report of internal control	Disclosed
Disclosure date of the full text of audit report of internal control	30 March 2019
Disclosure index of the full text of audit report of internal control	Website of CNINFO (http://www.cninfo.com.cn)
Opinion of the audit report of internal control	Unqualified opinion
Whether there is any material deficiency in the non-financial report	No

12.3 Internal Control

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

The Bank issued the Opinions on Strengthening the Active Compliance to Comprehensively Prevent and Control Risk (《關於加強主動合規全面防控風險的意見》) as a "No. 1 document", to carry out "1818" active compliance actions for developing eight systems, in order to promote the sustainable and sound development of the business through compliance concept; the Bank issued the Negative List (2nd Issue) for Conducts of Employees, setting out 437 prohibitions to set violation redlines for employee operations; the Bank carried out internal inspections with focus on chaos governance, comprehensive self-examination and rectification of problems, so as to further deepen the internal management and control; the Bank executed strict legal review system, having reviewed 1,565 legal documents and provided 9,085 reviewing comments; the Bank timely tracked legislation amendments on the laws and regulations and regulatory systems closely related to the banking business, and issued a total of 30 articles on risk cautions through the Bank's magazine and intranet, to ensure early warning on risk prevention was properly made.

12.4 Internal Audit

The Bank has established an audit department as its internal auditor, which is responsible for comprehensive audit evaluation of all businesses and operational management activities and operational conditions of the Bank. The Chairman directly takes charge of the work of the audit department, and audit results will be reported to the Board of Directors and Board of Supervisors via the Office of Board of Directors & Supervisors so as to achieve the independence of internal audit. The Bank continued to improve the quality and management of internal audit by improving the inspection mechanism, strengthening the audit management system, and standardizing the audit work flow. The Bank has been awarded the title of Advanced Internal Auditing Unit of Shandong Province for years.

The Bank strictly implemented the regulatory requirements, further analyzed the industry risks and rationally planned the audit projects. The internal audit team, including the Head Office's Audit Department and the auditing organizations of the branches, acted with an earnest attitude and set up integrity through self-establishment. It enhanced team cohesion through operating on site and off-site, following-up with the support of internal control review and rectification mechanism. It also focused on audit methods, studied professional skills, optimized audit processes and innovated review forms to improve audit quality and efficiency through forward-looking and targeted positioning and extension of breadth and depth.

In 2018, the Bank completed performance appraisals and audits of steady compensation, special audit of corporate credit business, special audit of financial market business, special audit of personal credit business, special audit of information security risk control and payment security and special audit of product sales management. The Bank conducted post-evaluations of new institution, audit of virtual branches against part of operating organizations and organized the Bank's internal control review meeting to sort out our problems in improving internal control and optimizing processes. The emphasis of internal audits was to make suggestions on preventing operational risks and strengthening lines management, by prompting weak links in internal control and warning of risk management deficiencies, so as to effectively follow up the implementation of rectification.

During the Reporting Period, with the continuous improvement of internal audit system, the Bank's various management mechanisms were effectively operated, and effective play to the important role of internal audit as the "third line of defense" provided a powerful guarantee for improving the quality and efficiency of the Bank's management.

XIII. OTHER INFORMATION

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

Section XII Report of the Board of Directors

I. PRINCIPAL ACTIVITIES

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

II. OPERATIONS IN COMPLIANCE WITH LAWS AND REGULATIONS

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

III. BUSINESS REVIEW AND OUTLOOK

The business review and financial indicator of the Company for the year ended 31 December 2018 and its development outlook for 2019 are set out in "Section II Corporate Information and Key Financial Highlights" and "Section VI Discussion and Analysis of Operations" of this annual report.

IV. EXPOSURE TO MAJOR RISKS

Please refer to "Section VI Discussion and Analysis of Operations" for the major risks the Bank had exposed to during the Reporting Period.

V. EARNINGS AND DIVIDENDS

The revenue of the Company for the year ended 31 December 2018 and the financial position of the Company on the same date are set out in the financial statements of this annual report. For details of the dividend, please refer to "Section VII Significant Events".

Taxation applying to dividends on ordinary Shares

In accordance with the Enterprise Income Tax Law of the PRC effective from 1 January 2008 and the related implementation provisions, the Company shall withhold and pay enterprise income tax at the rate of 10% for non-resident enterprise shareholders whose names appear on the H-share register on 28 May 2019.

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

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

For investors of the Hong Kong Stock Exchange (including enterprises and individuals) investing in the A Shares of the Bank listed on SZSE (the "**Shenzhen Southbound Trading**"), the Bank will distribute the dividends in RMB through the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited to the account of the nominee holding such Shares. The Bank will withhold income taxes at the rate of 10% on behalf of the investors and will report to the competent tax authorities for the withholding. For investors of Shenzhen Southbound Trading involved in the enjoying of tax treaty (arrangement) treatment, the withholding will be implemented in accordance with the Notice of the State Administration of Taxation on Issues about the Administrative Measures for Nonresidents to Enjoy the Treatments of Tax Treaties (Notice of the State Administration of Taxation [2015] No. 60) (《國家税務總局關於發佈〈非居民納税人享受税收協議待遇管理辦法〉的公告》(國家税務總局公告2015年第60號)) and Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets" (Cai Shui [2016] No.127) (《關於深港股票市場交易互聯互通機制試點有關税收政策的通知》(財税[2016]127號)).

The record date and the distribution date of cash dividends and other arrangements for the investors of Shenzhen Southbound Trading will be the same as those for the A shareholders of the Bank. Details of the payment of dividends to the A shareholders of the Bank and related matters will be announced in due course.

For investors of the Shanghai Stock Exchange and the SZSE (including enterprises and individuals) investing in the H Shares of the Bank listed on the Hong Kong Stock Exchange (the "**Southbound Trading**"), China Securities Depository and Clearing Corporation Limited, as the nominee holders for the investors of the Southbound Trading, shall receive the cash dividends distributed by the Bank and distribute the cash dividends received from the Bank to the relevant investors of the Southbound Trading through their depository and clearing systems. The cash dividends for the investors of Southbound Trading will be paid in RMB. Pursuant to the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Caishui 2014 No. 81) (《關於滬港股票市場交易互聯互通機制試點有關税收政策的通知》(財税[2014]81號)) and the Notice of the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Caishui 2016 No. 127) (《財政部、國家税務總局、中國證監會關於深港股票市場交易互聯互通機制試點有關税收政策的通知》(財税[2016]127號)), for dividends received by domestic investors from investing in H shares listed on the Hong Kong Stock Exchange through the Shanghai-Hong Kong stock exchanges connectivity mechanism (the "**Shanghai-Hong Kong Stock Connect**") and the Shenzhen-Hong Kong stock exchanges connectivity mechanism (the "**Shenzhen-Hong Kong Stock Connect**"), the company of such H shares shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The company of such H shares will not withhold and pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves.

The record date and the distribution date of cash dividends and other arrangements for the investors of Southbound Trading will be the same as those for the H shareholders of the Bank.

The Bank held no liability in respect of any claims arising from any delay in, or inaccurate determination of the identity of the shareholders or any disputes over the mechanism of withholding.

If in any doubt as to the above arrangement, the relevant shareholders of the Bank may consult with their tax consultants on the advices of the tax implications involved in holding and disposing of the relevant shares of the Bank in Mainland China, Hong Kong and other countries (regions).

The Bank will make a separate announcement regarding the payment of the 2018 final dividend to A Shareholders and any related matters.

VI. ANNUAL GENERAL MEETING OF 2018 AND CLOSURE OF REGISTER OF MEMBERS

The Bank's 2018 annual general meeting is scheduled to be held on Friday, 17 May 2019. In order to determine the list of shareholders who are entitled to attend and vote at the 2018 annual general meeting, the H-share register of members of the Bank will be closed from Wednesday, 17 April 2019 to Friday, 17 May 2019 (both days inclusive), during which period no share transfer will be registered. Holders of H shares of the Bank who intend to attend and vote at the annual general meeting must lodge all the transfer documents accompanied by the relevant share certificates with the Bank's H-share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 16 April 2019.

VII. DISTRIBUTABLE RESERVES

The details of distributable reserves of the Company during the Reporting Period are set out in the "Consolidated Statement of Changes in Equity" in the financial statements of this annual report.

VIII. FINANCIAL HIGHLIGHTS

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

IX. DONATIONS

The Company made charity and other donations of approximately RMB 5,275,000 in total during the Reporting Period.

X. ENVIRONMENTAL POLICIES AND PERFORMANCE

Please refer to "Section VII Significant Events" for the details of the environmental policies and performance of the Bank during the Reporting Period. For further information of the environmental policies and performance of the Bank during the Reporting Period, please refer to the 2018 Environmental, Social and Governance Report to be published by the Bank on the websites of the Bank and HKExnews website of the Hong Kong Stock Exchange in due course.

XI. PROPERTY AND EQUIPMENT

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

XII. FIXED ASSETS

The details of the changes in the fixed assets of the Company as of 31 December 2018 are set out in notes to the financial statements of this annual report.

XIII. ACQUISITIONS, DISPOSAL OF ASSETS DURING THE REPORTING PERIOD

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

XIV. RETIREMENT BENEFITS

The retirement benefits provided by the Company to employees include defined contribution plan and defined benefit plan. As for defined contribution plan, forfeited contributions may not be used by the Company to reduce the existing level of contributions. As for defined benefit plan, Towers Watson Management Consulting Co., Ltd. (韜睿惠悦管理諮詢有限公司), a qualified staff (a member of society of Actuaries in America) of an independent actuary, was engaged by the Company to assess this plan and this plan did not have corresponding asset and contribution. No significant changes incurred at the end of the Reporting Period. Details please refer to notes to the financial statements of this annual report.

XV. SUBSTANTIAL SHAREHOLDERS

Details of the Bank's substantial shareholders as at the end of the Reporting Period are set out in "Section VIII Changes in Share Capital and Information on Shareholders" and notes to the financial statements of this annual report.

XVI. PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

XVII. PRE-EMPTIVE RIGHTS

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

XVIII. EMPLOYEES AND MAJOR CUSTOMER

Please refer to "Section X Directors, Supervisors, Senior Management and Employees" and the 2018 Social Responsibility Report to be published by the Bank on the websites of the Bank and the Hong Kong Stock Exchange in due course for details of employees and employment policies of the Bank.

During the Reporting Period, the operating income from the top five largest customers of the Company did not exceed 30% of the total operating income of the Company.

XIX. ISSUANCE OF DEBENTURE

During the Reporting Period, no debenture has been issued by the Company.

XX. EQUITY-LINKED AGREEMENT

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

XXI. USE OF RAISED FUNDS

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

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

XXII. UNDERTAKINGS REGARDING THE LISTING OF H SHARES

Please refer to "Section VII Significant Events" for the undertakings regarding the listing of H shares of the Bank.

XXIII. SHARE CAPITAL

Details of the change in share capital of the Bank during the Reporting Period are set out in "Section VIII Changes in Share Capital and Information on Shareholders".

XXIV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please refer to "Section X Directors, Supervisors, Senior Management and Employees" of this report for details.

XXV. CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

Name of Director/ Supervisor/ chief executive	Type of share	Capacity	Number of shares held	Percentage of the total number of ordinary shares Note	Percentage of the total number of domestic shares Note	Long position/ Short position
GUO Shaoquan	Domestic share	Beneficial owner	500,000	0.01%	0.02%	Long position
WANG Lin	Domestic share	Beneficial owner	500,000	0.01%	0.02%	Long position
CHEN Qing	Domestic share	Beneficial owner	500,000	0.01%	0.02%	Long position
YANG Fengjiang	Domestic share	Beneficial owner	500,000	0.01%	0.02%	Long position
LU Lan	Domestic share	Beneficial owner	380,000	0.01%	0.02%	Long position
MENG Xianzheng	Domestic share	Beneficial owner	370,301	0.01%	0.02%	Long position

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

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

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

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

XXVIII. ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

Save for the continuing connected transactions which are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, as at 31 December 2018 and at any time during the year, none of the Directors or Supervisors of the Bank or any entity connected with the Directors or Supervisors had any interest, whether directly or indirectly, in any transaction, arrangement or contract of significance (excluding service contracts) in relation to the Bank's business to which the Bank is a party. None of the Directors or Supervisors have entered into any service contracts with the Bank, under which the Bank should pay compensation (other than statutory compensation) if the Bank terminates the contracts within one year.

XXX. PERMITTED INDEMNITY PROVISIONS AND INSURANCE FOR DIRECTORS

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

XXXI. MANAGEMENT CONTRACTS

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

XXXII. DIRECTORS AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

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

XXXIII. CORPORATE GOVERNANCE

Details are set out in "Section XI Corporate Governance Report".

XXXIV. CONNECTED TRANSACTIONS

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

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

XXXV. REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For details, please refer to "Section X Directors, Supervisors, Senior Management and Employees".

XXXVI. PUBLIC FLOAT

During the Reporting Period, the Bank has complied with the relevant minimum public float requirement.

On 16 January 2019, the Bank completed the initial public offering of A shares and was listed on the SZSE. 450,977,251 new A shares were issued. The Bank has applied to the Hong Kong Stock Exchange upon application of the initial public offering of A shares, and the Hong Kong Stock Exchange has approved the exemption of the Bank from the minimum public float of 25%. Based on the public information available to the Bank and to the knowledge of the Directors, as at the date of this annual report, the Bank has maintained sufficient public float as required by the Hong Kong Stock Exchange with a public float of H shares of 23.02%.

XXXVII. AUDITORS

The domestic and overseas auditors of the Bank for 2018 were KPMG Huazhen LLP and KPMG respectively. The 2018 financial statements of the Bank prepared in accordance with the Accounting Standards for Business Enterprises and International Financial Reporting Standards has been audited by KPMG Huazhen LLP and KPMG, with unqualified auditor's report issued, respectively.

By Order of the Board of Directors

GUO Shaoquan
Chairman

Section XIII Report of the Board of Supervisors

During the Reporting Period, the Board of Supervisors earnestly carried out effective supervision on areas including the performance of duties by the Board of Directors, the senior management of the Bank and their members, the financial activities, internal control and risk management and in accordance with the duties conferred by the laws and regulations such as the Company Law and the Articles of Association of the Bank, and the Board of Supervisors has no objection to the supervision during the Reporting Period.

In 2018, the Board of Supervisors held a total of 8 meetings, of which 3 were on-site meetings and 5 were written resolution meetings; and considered proposals including the 2017 report on the work of the Board of Supervisors, 2017 annual final financial accounts, 2018 interim financial report, 2017 annual report and 2018 interim report, 2017 annual and 2018 interim reports on the work of the President, 2017 evaluation report on the performance of duties by the Board of Directors, senior management and their members, 2017 evaluation report on internal control and evaluation report on internal control in the first half of 2018; and listened to reports including report on financial regulation notification and rectification, and risk management reports on major risks including credit risk, operational risk and market risk.

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

I. COMPLIANT OPERATIONS OF THE COMPANY

During the Reporting Period, the business operations of the Bank complied with the requirements of the Company Law, the Commercial Bank Law and the Articles of Association, and the decision-making procedures were legitimate and valid. The Directors and senior management of the Bank carried out their duties diligently in the course of business operation and management. None of them was found to have contravened any laws or regulations or the Articles of Association of the Bank or to have committed any acts detrimental to the interests of the Bank and its shareholders.

II. AUTHENTICITY OF FINANCIAL REPORT

KPMG Huazhen LLP and KPMG respectively audited the 2018 annual financial statements prepared by the Bank in accordance with the Accounting Standards for Business Enterprises and International Financial Reporting Standards, and respectively issued unqualified audit reports. The financial report has truly and completely reflected the financial position and operating results of the Bank as at 31 December 2018.

III. ACQUISITION AND DISPOSAL OF ASSETS

During the Reporting Period, the Board of Supervisors did not find any insider trading or any acts detrimental to the interests of shareholders or leading to a drain on the assets in acquisition or disposal of assets.

IV. RELATED PARTY TRANSACTIONS

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

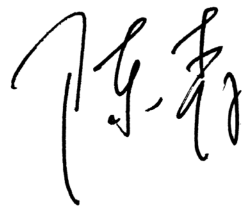
V. IMPLEMENTATION OF RESOLUTIONS OF THE SHAREHOLDERS' GENERAL MEETING

The Board of Supervisors had no objection to the reports and proposals submitted by the Board of Directors of the Bank to the shareholders' general meeting in 2018; supervised the implementation of the resolutions of the shareholders' general meeting, and considered that the Board of Directors had conscientiously implemented the relevant resolutions of the shareholders' general meeting.

VI. INTERNAL CONTROL

The Board of Supervisors reviewed the 2018 Annual Internal Control Evaluation Report of Bank of Qingdao Co., Ltd. and had no objection to the contents of the report. Please refer to the relevant internal control evaluation report on the websites of SZSE and the Bank. During the Reporting Period, there was no material deficiency in the integrity, rationality, effectiveness and implementation of the Bank's internal control mechanisms and systems were found.

By Order of the Board of Supervisors



CHEN Qing
Chief Supervisor

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

OPINION

We have audited the consolidated financial statements of Bank of Qingdao Co., Ltd. ("the Bank") and its subsidiary ("the Group") set out on pages 152 to 268, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

1. Loss allowances of loans and financial investments measured at amortized cost

Refer to the accounting policies in note 2(5), and note 20 and note 22 to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
The Group has applied the International Financial Reporting Standards 9, Financial instruments (referred to as "IFRS 9" as below), since 1 January 2018 and developed the expected credit loss model for financial assets. The determination of loss allowances using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions. In particular, the determination of the loss allowances is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses for corporate loans and financial investments measured at amortised cost are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The expected credit losses for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors. Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. Management refers to valuation reports issued by qualified third party valuers and considers the influence of various factors including the market price, location and use when assessing the value of property held a collateral. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of loss allowances as at the end of the reporting period.	Our audit procedures to assess loss allowances of loans and financial investments measured at amortized cost included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and financial investments measured at amortized cost, the credit grading process and the measurement of provisions for impairment. • with the assistance of our internal specialists in financial risk management, assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments. • assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of the loan and financial investment list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan and investment information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and investment list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources. • for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and on transition to the new accounting standard and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development.

1. Loss allowances of loans and financial investments measured at amortized cost

Refer to the accounting policies in note 2(5), and note 20 and note 22 to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
We identified the impairment of loans and advances to customers and financial investments measured at amortized cost as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Group.	• for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the logics and compilation of the overdue information and the operational process of the credit grading of corporate customers for selected samples. • evaluating the validity of management's assessment on whether the credit risk of the loan has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting risk-based samples. We analysed the portfolio by industry sector to select samples in industries more vulnerable to the current economic situation with reference to other borrowers with potential credit risk. We checked loan overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses. • for selected samples of loans and advances to customers that are credit-impaired, evaluating management's assessment of the value of any property collateral held by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, challenged the viability of the Group's recovery plans and evaluated other credit enhancements that are integral to the contract terms. • recalculating the amount of credit loss allowance for 12 month and life time credit losses using the expected credit loss model based on the above parameters and assumptions for a sample of loans and investments where the credit risk of the loan has not, or has, increased significantly since initial recognition, respectively. • assessing whether the disclosures in the consolidated financial statement in relation to impairment of loans and financial investments measured at amortized cost meet the requirements in the prevailing accounting standards.

2. Assessment of fair value of financial instruments

Refer to the accounting policies in note 2(26), and note 46 to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
The Group has applied the IFRS 9 since 1 January 2018. Under the new standard, the scope of financial instruments measured at fair value is expanded, of which the changes in fair value may affect profit or loss or other comprehensive income, and has more direct and extensive impact on the consolidated financial statements. The Group mainly holds level 2 and level 3 financial instruments measured at fair value. The valuation of financial instruments measured at fair value of the Group is based on a combination of market data and valuation models which often require a considerable number of inputs. As in the case of level 2 financial instruments measured at fair value, the inputs of valuation models are mainly observable data. As in the case of level 3 financial instruments measured at fair value, where such observable data is not readily available, estimates need to be developed which can involve significant management judgment. The Group has developed its own models to value certain level 2 and level 3 financial instruments measured at fair value, which also involves significant management judgment. We have identified assessment of the fair value of financial instruments as a key audit matter because of the complexity involved in valuing certain financial instruments and the significant judgment exercised by management in determining the inputs used in the valuation models.	Our audit procedures to assess the fair value of financial instruments included the following: • Understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the valuation, independent price verification, front office/back office reconciliations and valuation model approval for financial instruments. • performing, on a sample basis, independent valuations of level 2 and level 3 financial instruments measured at fair value and comparing these valuations with the valuations of the Group. Our procedures included comparing the valuation models of the Group with our knowledge of practice, testing inputs to the fair value calculations or, with the assistance of our internal specialists in financial risk management, establishing our own valuation models to perform revaluations. • assessing whether the disclosures in the consolidated financial statement appropriately reflect the exposure to financial instrument valuation risk and meet the requirements of the prevailing accounting standards.

3. Consolidation of structured entities

Refer to the accounting policies in note 2(26), and note 48 to the consolidated financial statements.

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

4. Transition adjustments and disclosures in relation to the change of financial instruments standards

Refer to the accounting policies in note 2(5), and note 2(2) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
The Group has applied the IFRS 9 since 1 January 2018. IFRS 9 have amended the previous classification and measurement framework of financial instruments and introduced the expected credit loss model to assess impairment. The Group is required to retrospectively apply the classification and measurement (including impairment) requirements and recognise any difference between the original carrying amount and new carrying amount at the date of initial application (i.e. 1 January 2018) in the opening retained earnings or other comprehensive income. We identified the transition adjustments and disclosures in relation to the change of financial instruments standards as a key audit matter, because of the complexity of the transition process which involved changes in internal controls of the financial reporting process, accounting treatment, application of new data and management judgment.	Our audit procedures to the transition adjustments in relation to the change in financial instruments standards included the following: • understanding and assessing the key internal controls of the financial reporting process related to the change of financial instrument standards. • evaluating the accuracy of the classification of financial instruments. We obtained information on how management applied the classification requirements of IFRS 9 and the classification results. On a sample basis we assessed the contractual cash flow characteristics of the financial assets and relevant documents in relation to the business model. • for financial assets that are measured at fair value due to changes in classification, we obtained information on the valuation method and key parameters used, selected samples to evaluate the validity of the valuation method and key parameters with the involvement of our internal specialists in financial risk management. • with the assistance of our internal specialists in financial risk management, assessing the reliability of the expected credit loss model used by management in determining loss allowances on transition and assessing the reasonableness of data used for the key parameters in the expected credit loss model. • obtaining journal entries relating to adjustments made on transition to IFRS 9 and compared the list of journal entries, the list of classification of financial instruments, the original carrying amounts, and new carrying amounts of the financial instruments to assess if the journal entries have been entirely put through the system accurately. We selected samples to assess if the accounting treatment is in accordance with the prevailing accounting standard. • selecting samples to recalculate the new carrying amount of the financial instruments and assessing the accuracy of the opening balance at the date of initial application (i.e. 1 January 2018). • assessing whether the disclosures in the consolidated financial statements in relation to the change in financial instruments standards meet the requirements of the prevailing accounting standard.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

KPMG
Certified Public Accountants

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

29 March 2019

Consolidated Statement of profit or loss and other comprehensive income

for the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Interest income		11,886,901	11,749,719
Interest expense		(7,422,872)	(6,947,311)
Net interest income	3	4,464,029	4,802,408
Fee and commission income		943,582	889,309
Fee and commission expense		(77,825)	(60,340)
Net fee and commission income	4	865,757	828,969
Net trading gains/(losses)	5	410,807	(187,764)
Net gains arising from investments	6	1,617,354	100,330
Other operating income	7	6,891	23,650
Operating income		7,364,838	5,567,593
Operating expenses	8	(2,505,650)	(1,818,922)
Impairment losses	11	(2,383,172)	(1,378,904)
Profit before taxation		2,476,016	2,369,767
Income tax expense	12	(432,627)	(466,160)
Net profit for the year		2,043,389	1,903,607
Profit attributable to:			
Equity shareholders of the Bank		2,023,352	1,900,252
Non-controlling interests		20,037	3,355
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Remeasurement of defined benefit liability		(2,498)	30
Items that may be reclassified subsequently to profit or loss			
– Net movement in the investment revaluation reserve of available-for-sale financial assets	40(4)	Not applicable	(948,623)
– Changes in fair value of debt investments at fair value through other comprehensive income	40(4)	996,848	Not applicable
– Credit losses of debt investments at fair value through other comprehensive income	40(4)	22,014	Not applicable
Other comprehensive income, net of tax		1,016,364	(948,593)
Total comprehensive income		3,059,753	955,014
Total comprehensive income attributable to:			
Equity shareholders of the Bank		3,039,716	951,659
Non-controlling interests		20,037	3,355
Basic and diluted earnings per share (in RMB)	13	0.37	0.47

The notes on pages 159 to 268 form part of these financial statements.

Consolidated Statement of financial position

as at 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2018	31 December 2017
Assets			
Cash and deposits with central bank	14	29,554,430	27,097,814
Deposits with banks and other financial institutions	15	1,542,437	1,107,946
Placements with banks and other financial institutions	16	4,110,464	2,882,727
Financial assets at fair value through profit or loss	17	22,361,816	179,078
Financial assets held under resale agreements	19	300,262	3,584,200
Loans and advances to customers	20	123,366,891	95,514,680
Financial investments at fair value through other comprehensive income	21	53,002,751	Not applicable
Financial investments measured at amortised cost	22	70,032,056	Not applicable
Available-for-sale financial assets	23	Not applicable	79,086,556
Held-to-maturity investments	24	Not applicable	38,644,926
Receivables	25	Not applicable	46,678,869
Long-term receivables	27	7,766,698	4,076,396
Property and equipment	28	3,124,355	3,089,017
Deferred tax assets	29	1,152,778	1,084,286
Other assets	30	1,343,564	3,249,597
Total assets		317,658,502	306,276,092
Liabilities			
Borrowings from central bank	31	10,878,835	584,215
Deposits from banks and other financial institutions	32	11,632,982	24,901,934
Placements from banks and other financial institutions	33	7,207,066	5,774,299
Derivative financial liabilities	18	–	353,220
Financial assets sold under repurchase agreements	34	14,850,333	11,899,583
Deposits from customers	35	177,911,247	160,083,783
Income tax payable		13,174	57,167
Debt securities issued	36	65,240,507	68,632,691
Other liabilities	37	2,427,634	7,865,991
Total liabilities		290,161,778	280,152,883

The notes on pages 159 to 268 form part of these financial statements.

Consolidated Statement of financial position (continued)

as at 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2018	31 December 2017
Equity			
Share capital	38	4,058,713	4,058,713
Other equity instrument			
Including: preference shares	39	7,853,964	7,853,964
Capital reserve	40(1)	6,826,276	6,826,276
Surplus reserve	40(2)	1,403,575	1,203,325
General reserve	40(3)	3,969,452	3,969,452
Other comprehensive income	40(4)	553,193	(885,449)
Retained earnings	41	2,319,800	2,603,573
Total equity attributable to equity shareholders of the Bank		26,984,973	25,629,854
Non-controlling interests		511,751	493,355
Total equity		27,496,724	26,123,209
Total liabilities and equity		317,658,502	306,276,092

Approved and authorised for issue by the board of directors on 29 March 2019.

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

(Company Stamp)

The notes on pages 159 to 268 form part of these financial statements.

Consolidated Statement of changes in equity

for the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Attributable to equity shareholders of the Bank								Non-controlling interests	Total equity
		Share capital	Other equity instrument	Capital reserve Note 40(1)	Surplus reserve Note 40(2)	General reserve Note 40(3)	Other comprehensive income Note 40(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 year		–	–	–	–	–	–	2,023,352	2,023,352	20,037	2,043,389
Other comprehensive income		–	–	–	–	–	1,016,364	–	1,016,364	–	1,016,364
Total comprehensive income		–	–	–	–	–	1,016,364	2,023,352	3,039,716	20,037	3,059,753
Appropriation of profit:											
– Appropriation to surplus reserve	41	–	–	–	200,250	–	–	(200,250)	–	–	–
– Cash dividends	41	–	–	–	–	–	–	(1,315,844)	(1,315,844)	–	(1,315,844)
Balance at 31 December 2018		4,058,713	7,853,964	6,826,276	1,403,575	3,969,452	553,193	2,319,800	26,984,973	511,751	27,496,724

The notes on pages 159 to 268 form part of these financial statements.

Consolidated Statement of changes in equity (continued)

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

		Attributable to equity shareholders of the Bank									
	Note	Share capital	Other equity instrument	Capital reserve Note 40(1)	Surplus reserve Note 40(2)	General reserve Note 40(3)	Other comprehensive income Note 40(4)	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017		4,058,713	–	6,826,276	1,013,649	3,696,090	63,144	1,978,101	17,635,973	–	17,635,973
Profit for the year		–	–	–	–	–	–	1,900,252	1,900,252	3,355	1,903,607
Other comprehensive income		–	–	–	–	–	(948,593)	–	(948,593)	–	(948,593)
Total comprehensive income		–	–	–	–	–	(948,593)	1,900,252	951,659	3,355	955,014
Contribution by shareholders											
– Non-controlling interests of a new subsidiary		–	–	–	–	–	–	–	–	490,000	490,000
– Capital injection by other equity shareholders	39	–	7,853,964	–	–	–	–	–	7,853,964	–	7,853,964
Appropriation of profit:											
– Appropriation to surplus reserve	41	–	–	–	189,676	–	–	(189,676)	–	–	–
– Appropriation to general reserve	41	–	–	–	–	273,362	–	(273,362)	–	–	–
– Cash dividends	41	–	–	–	–	–	–	(811,742)	(811,742)	–	(811,742)
Balance at 31 December 2017		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(885,449)	2,603,573	25,629,854	493,355	26,123,209

The notes on pages 159 to 268 form part of these financial statements.

Consolidated Cash flow statement

for the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	2018	2017
Cash flows from operating activities		
Profit before taxation	2,476,016	2,369,767
Adjustments for:		
Impairment losses	2,383,172	1,378,904
Depreciation and amortisation	408,470	315,450
Accreted interest on credit-impaired/impaired loans	(55,559)	(30,730)
Unrealised foreign exchange gains	(409,824)	(187,710)
Net losses on disposal of long-term assets	502	417
Losses from changes in fair value	303,689	354,629
Dividend income	(1,100)	(700)
Net gains arising from investment	(1,919,943)	(99,630)
Interest expense on debt securities issued	2,446,785	2,356,747
Interest income generated from non-operating activities	(5,336,522)	(6,258,325)
	295,686	198,819
Changes in operating assets		
Net decrease/(increase) in deposits with central bank	206,409	(2,433,202)
Net (increase)/decrease in deposits with banks and other financial institutions	(200,000)	2,150,470
Net increase in placements with banks and other financial institutions	(3,495,258)	(168,013)
Net increase in loans and advances to customers	(30,127,157)	(11,919,060)
Net decrease/(increase) in financial assets held under resale agreements	3,284,200	(1,212,163)
Net decrease in financial assets held for trading	–	139,828
Net increase in long-term receivables	(3,688,670)	(4,144,785)
Net increase in other operating assets	(384,261)	(298,342)
	(34,404,737)	(17,885,267)
Changes in operating liabilities		
Net increase/(decrease) in borrowings from central bank	10,194,795	(2,848,192)
Net decrease in deposits from banks and other financial institutions	(13,349,239)	(20,116,635)
Net increase/(decrease) in placements from banks and other financial institutions	1,330,560	(1,150,971)
Net increase/(decrease) in financial assets sold under repurchase agreements	2,946,548	(5,143,482)
Net increase in deposits from customers	15,592,066	18,479,022
Income tax paid	(884,309)	(786,502)
Net (decrease)/increase in other operating liabilities	(2,575,850)	3,606,979
	13,254,571	(7,959,781)
Net cash flows used in operating activities	(20,854,480)	(25,646,229)

The notes on pages 159 to 268 form part of these financial statements.

Consolidated Cash flow statement (continued)

for the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		90,679,422	85,452,509
Net cash received from investment gains and interest		6,690,448	5,642,624
Proceeds from disposal of property and equipment, intangible assets and other assets		4,878	418
Payments on acquisition of investments		(68,108,476)	(120,184,820)
Payments on acquisition of property and equipment, intangible assets and other assets		(276,737)	(610,155)
Net cash flows generated from/(used) in investing activities		28,989,535	(29,699,424)
Cash flows from financing activities			
Proceeds from issuance of other equity instrument		–	7,853,964
Capital contribution from investment to subsidiary		–	1,000,000
Net proceeds from debt securities issued	42(2)	96,917,942	193,058,940
Repayment of debt securities issued	42(2)	(102,440,000)	(167,920,000)
Interest paid on debt securities issued	42(2)	(775,930)	(525,930)
Dividends paid		(1,319,008)	(810,407)
Net cash flows (used in)/generated from financing activities		(7,616,996)	32,656,567
Effect of foreign exchange rate changes on cash and cash equivalents		15,793	(31,031)
Net increase/(decrease) in cash and cash equivalents		533,852	(22,720,117)
Cash and cash equivalents as at 1 January		9,678,330	32,398,447
Cash and cash equivalents as at 31 December	42(1)	10,212,182	9,678,330
Net cash flows generated from operating activities include:			
Interest received		6,693,776	5,712,275
Interest paid		(4,793,050)	(4,464,323)

The notes on pages 159 to 268 form part of these financial statements.

1 BACKGROUND INFORMATION

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

The Bank changed its name from Qingdao City Cooperative Bank Co., Ltd. to Qingdao City Commercial Bank Co., Ltd. in 1998 according to LuyinFu [1998] No. 76 issued by Shandong Branch of the PBOC. The Bank changed its name from Qingdao City Commercial Bank Co., Ltd. to Bank of Qingdao Co., Ltd. in 2008 according to YinJianFu [2007] No.485 issued by the 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 RMB 4.059 billion as at 31 December 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). In January 2019, the Bank's A-shares were listed on the SME Board of Shenzhen Stock Exchange (Stock code: 002948).

The Bank has 14 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Qingdao Westcoast, Laiwu, Linyi, Jining and Taian as at 31 December 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 26. 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 SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance and basis of preparation

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

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

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements that have a significant effect on the Financial Statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(26).

The measurement basis used in the preparation of financial statements is historical cost, with the exception of certain financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(5).

2 SIGNIFICANT 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" ("IFRS 15")

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")

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. The Group applied the exemption from restating comparative information and recognises any transition adjustments against the opening balance of shareholder's equity at 1 January 2018. For accounting policies related to IFRS 9, please refer to Note 2 Significant accounting policies. For accounting policies related to IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), please refer to Note 2 Significant accounting policies of the Group's financial statements for the year ended 31 December 2017.

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through other comprehensive income ("FVOCI") and (3) fair value through profit or loss ("FVTPL"):

- 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 SIGNIFICANT 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

On 1 January 2018, the effects of IFRS 9 on the classification and carrying amount of various assets of 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)	(578,868)	91,997,100
		Financial assets at FVOCI	A	–	2,938,712	3,034	2,941,746
Financial assets at FVTPL	Financial assets at FVTPL	Financial assets at FVTPL		179,078	(179,078)	–	–
		Financial assets at FVOCI	B	–	179,078	–	179,078
Available-for-sale financial assets	Available-for-sale financial assets	Financial assets at FVOCI	C	79,086,556	(51,658,288)	–	27,428,268
		Financial assets at FVTPL	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 FVOCI	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 FVTPL	D	–	7,630,671	(72,862)	7,557,809
		Financial assets at FVOCI	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 RMB 422 million in other comprehensive income (after tax) and a net decrease of RMB 791 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT 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 FVTPL 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. As at 31 December 2018, the Group did not held these debt instruments.

C. The reclassified and remeasured financial assets include certain non-trading equity investments (RMB 23.25 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 balance of these debt instrument (excluding accrued interest) as at 31 December 2018 was RMB 5.249 billion, with fair value of RMB 5.194 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 year that would have been recognised in other comprehensive income was RMB 423 million.

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	–	163,756	379,756
Financial investments at FVOCI				
– 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	–	918,671	3,750,658

Note:

(i) Loans and advances to customers include discounted bills which are recognised at FVOCI.

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

In the first-time implementation of IFRS 9 or IFRS 15, the adjusted items of consolidated financial statements items at the beginning of the first-time implementation year are as follows:

	31 December 2017	1 January 2018	Change
Assets			
Cash and deposits with central bank	27,097,814	27,097,814	–
Deposits with banks and other financial institutions	1,107,946	1,107,451	(495)
Placements with banks and other financial institutions	2,882,727	2,881,031	(1,696)
Financial assets at fair value through profit or loss	179,078	51,889,269	51,710,191
Financial assets held under resale agreements	3,584,200	3,582,389	(1,811)
Loans and advances to customers	95,514,680	94,938,846	(575,834)
Financial investments at fair value through other comprehensive income	Not applicable	33,633,555	33,633,555
Financial investments measured at amortised cost	Not applicable	79,345,883	79,345,883
Available-for-sale financial assets	79,086,556	Not applicable	(79,086,556)
Held-to-maturity investments	38,644,926	Not applicable	(38,644,926)
Receivables	46,678,869	Not applicable	(46,678,869)
Long-term receivables	4,076,396	4,071,930	(4,466)
Property and equipment	3,089,017	3,089,017	–
Deferred tax assets	1,084,286	1,207,751	123,465
Other assets	3,249,597	3,201,812	(47,785)
Total assets	306,276,092	306,046,748	(229,344)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

	31 December 2017	1 January 2018	Change
Liabilities			
Borrowings from central bank	584,215	584,215	–
Deposits from banks and other financial institutions	24,901,934	24,901,934	–
Placements from banks and other financial institutions	5,774,299	5,774,299	–
Derivative financial liabilities	353,220	353,220	–
Financial assets sold under repurchase agreements	11,899,583	11,899,583	–
Deposits from customers	160,083,783	160,083,783	–
Income tax payable	57,167	57,167	–
Debt securities issued	68,632,691	68,632,691	–
Other liabilities	7,865,991	8,007,041	141,050
Total liabilities	280,152,883	280,293,933	141,050
Equity			
Share capital	4,058,713	4,058,713	–
Other equity instrument Including: preference shares	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	(885,449)	(463,171)	422,278
Retained earnings	2,603,573	1,812,542	(791,031)
Total equity attributable to equity shareholders of the Bank	25,629,854	25,261,101	(368,753)
Non-controlling interests	493,355	491,714	(1,641)
Total equity	26,123,209	25,752,815	(370,394)
Total liabilities and equity	306,276,092	306,046,748	(229,344)

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(3) Translation of foreign currencies

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

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

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

(4) Cash and cash equivalents

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

(5) Financial instruments

(i) Recognition and initial measurement of financial assets and financial liabilities

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

A financial assets (unless it is a trade receivable without a significant financing component) and financial liabilities is measured initially at fair value. For financial assets and financial liabilities at FVTPL, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement of financial assets

(a) Classification of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI, or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. 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 doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Group's key management personnel.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The Group also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Subsequent measurement of financial assets

– *Financial assets at FVTPL*

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

– *Financial assets at amortised cost*

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

– *Debt investments at FVOCI*

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

– *Equity investments at FVOCI*

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

(iii) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as financial liabilities measured at FVTPL, financial guarantee liabilities and financial liabilities measured at amortised cost.

– *Financial liabilities at FVTPL*

A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

Financial liabilities at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

– *Financial guarantee liabilities*

Financial guarantees are contracts that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Subsequent to initial recognition, deferred income related to financial guarantee is recognised on average in profit during the term of the contract.

A financial guarantee liability is measured at the higher of the amount of the loss allowance determined in accordance with impairment policies of financial instruments (see Notes 2(5)(iv)) and the amount initially recognised less the cumulative amount of income.

– *Financial liabilities at amortised cost*

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

(iv) Impairment

The Group recognises loss allowances for expected credit loss (ECL) on:

– financial assets measured at amortised cost;

– debt investments measured at FVOCI;

– loan commitments and financial guarantee contracts issued, which are not measured at FVTPL

Financial assets measured at fair value, including debt investments or equity securities at FVTPL, equity securities designated at FVOCI and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period (including extension options) over which the group is exposed to credit risk.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the date of statement of financial position (or a shorter period if the expected life of the instrument is less than 12 months).

The Group measures loss allowance at an amount equal to 12-month ECL for the following financial instruments, and at an amount equal to lifetime ECL for all other financial instruments.

– If the financial instrument is determined to have low credit risk at the date of statement of financial position;

– If the credit risk on a financial instrument has not increased significantly since initial recognition.

Financial instruments that have low credit risk

The credit risk on a financial instrument is considered low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the date of statement of financial position with that assessed at the date of initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort, including forward-looking information. In particular, the following information is taken into account:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

– the financial asset is more than 90 days past due.

Credit-impaired financial assets

At each date of statement of financial position, the Group assesses whether financial assets carried at amortised cost and debt investments at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is 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 would not otherwise 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

– the financial asset is more than 90 days past due.

Presentation of allowance for ECL

ECLs are remeasured at each date of statement of financial position to reflect changes in the financial instruments' credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Offsetting

Financial assets and financial liabilities are generally presented separately in the statement of financial position, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the statement of financial position when both of the following conditions are satisfied:

– The Group currently has a legally enforceable right to set off the recognised amounts;

– the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(vi) Derecognition of financial assets and financial liabilities

- ***Derecognition***

Financial asset is derecognised when one of the following conditions is met:

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

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

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

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

– the carrying amount of the financial asset transferred measured at the date of derecognition;

– the sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

- ***Securitisation***

  As part of its operating activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. The Group continues to recognise the transferred assets to the extent of its continuing involvement and recognise related liabilities. When the securitisation of financial assets does not qualify for derecognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability.

- ***Sales of assets on condition of repurchase***

  The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

(vii) Derivative financial instruments

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

An embedded derivative and the host contract together form the hybrid instrument. If the host contract included in the hybrid instrument belongs to a financial asset, the hybrid contract as a whole applies the relevant classification requirements of financial assets.

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

The fair values of derivative products are principally determined by valuation models which are commonly used by market participants. Inputs to valuation models are determined from observable market data wherever possible, including foreign exchange spot and forward rates and interest rate yield curves.

(viii) Preference share

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are recognised and measured in the statements of financial position in accordance with the accounting policy set out in Note 2(5).

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are recognised and measured in accordance with the accounting policy set out in Note 2(5).

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

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

(7) Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value and subsequent changes in fair value are recorded in the statement of profit or loss.

(8) Property and equipment

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

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

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

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

Any subsequent costs including the cost of replacing part of an item of property and equipment are recognised as assets when it is probable that the economic benefits associated with the costs will flow to the Group, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Property and equipment assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see Note 2(13)).

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of a property and equipment, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life, unless the fixed asset is classified as held for sale. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

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

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

(9) Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(i) Operating leases

Lease payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent lease payments are recognised as expenses in the accounting period in which they are incurred.

(ii) Finance leases

When the Group is a lessor under finance lease, at the leasing commencement date, the minimum lease payments receivables and initial direct costs are recognised as finance lease receivables and any unguaranteed residual value is recognised at the same time. The difference between the sum of minimum lease payments receivables, initial direct costs, the unguaranteed residual value and their present value is accounted for as unearned finance income. The unearned finance income is amortised using the effective interest method over the lease period.

(10) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated in the statements of financial position at cost less accumulated amortisation and impairment losses (see Note 2(13)). The cost of intangible assets less residual value and impairment losses is amortised on a straight-line basis over the estimated useful lives, unless the intangible asset is classified as held for sale

The amortisation period for intangible assets is as follows:

Software	3 – 5 years

(11) Long-term deferred expenses

Long-term deferred expenses are amortised using a straight-line method within the expected benefit period and stated in “other assets” at actual cost less accumulated amortisation and impairment losses (see Note 2(13)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(12) Repossessed assets

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

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

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

- property and equipment
- intangible assets
- investments in subsidiaries, associates and joint ventures
- Long-term deferred expenses, etc.

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

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

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the greater of its fair value less costs of disposal and value in use.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(14) Employee benefits

(i) Short-term employee benefits

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

(ii) Post-employment benefits – Defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participated in a defined contribution basic pension insurance and unemployment insurance in the social insurance system established and managed by government organizations, and annuity plan. The Group makes contributions to basic pension insurance plans and unemployment insurance based on the applicable benchmarks and rates stipulated by the government. The Group established supplementary defined contribution – annuity plan in accordance with the national enterprise annuity policies. The contributions are recognised as liability, charged to profit or loss or recognised as part of the cost of related assets during the accounting period in which employees provide services.

(iii) Post-employment benefits – Defined benefit plans

In accordance with the projected unit credit method, the Group measures the obligations under defined benefit plans using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, and discount obligations under the defined benefit plans to determine the present value of the defined benefit liability.

The Group attributes benefit obligations under a defined benefit plan to periods of service provided by respective employees. Service cost and interest expense on the defined benefit liability are charged to profit or loss or recognised as part of the cost of assets, and remeasurements of defined benefit liability are recognised in other comprehensive income.

(iv) Termination benefits

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

– When the Group can no longer withdraw an offer of those benefits;

– When the Group has a specific, formal restructure plan involving payment of termination benefits, and the plan has started or been informed each affected party about the influence of the plan, therefore each party formed reasonable expectations.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(15) Income tax

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

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

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

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

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

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

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

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

– the taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(16) Provisions and contingent liabilities

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

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

(17) Fiduciary activities

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

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

(18) Income recognition

Revenue is the gross inflow of economic benefits arising in the course of the Group’s ordinary activities when the inflows result in increase in shareholders’ equity, other than increase relating to contributions from shareholders.

(i) Interest income

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, where appropriate, to the book value of the financial asset, or the amortized cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but does not include expected credit losses.

The Group recognises interest income based on the effective interest method. Interest income is calculated by applying the effective interest rate to the book value of financial assets, except for:

– For purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortized cost.

– Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated, in the subsequent period, by applying the effective interest rate to their amortized cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services which provides to the customers. The fee and commission income recognised by the Group reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring promised services to customers, and income is recognised when its performance obligation in contracts is satisfied.

(a) The Group recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:

– The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

– The customer controls the service provided by the Group in the course of performance; or

– The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

(b) In other cases, the Group recognises revenue at a point in time at which a customer obtains control of the promised services.

(iii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(19) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for any capital contribution from the government as an investor in the Group.

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

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

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Grants related to income are government grants other than those related to assets. A government grant related to an asset is offset against the carrying amount of the related asset or recognised as deferred income and amortised to profit or loss over the useful life of the related asset on a reasonable and systematic manner. A grant that compensates the Group for cost, expenses or loss to be incurred in the future is recognised as deferred income and offset against the related expenses or recognised in profit or loss in the same periods in which the expenses are recognised. Or recognised in profit or loss or offset against the related expenses directly.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(20) Expenses recognition

(i) Interest expenses

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

(ii) Other expenses

Other expenses are recognised on an accrual basis.

(21) Dividends

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

(22) Related parties

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

(i) A person, or a close member of that person's family, if that person:

(a) has significant influence over the Group; or

(b) is a member of the key management personnel of the Group.

(ii) An entity, if that entity:

(a) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(b) has significant influence over the Group;

(c) controls an entity identified in (ii)(b);

(d) is controlled or jointly controlled by an entity identified in (ii)(b) and (ii)(c);

(e) is controlled or jointly controlled by a person identified in (i).

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(23) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system after taking the materiality principle into account. Two or more operating segments may be aggregated into a single operating segment if the segments have the similar economic characteristics and are same or similar in respect of the nature of each segment's products and services, the nature of production processes, the types or classes of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Transactions between segments mainly represent the provision of funding to and from individual segments. These transactions are conducted on terms determined with reference to the average cost of funding. Segment accounting policies are consistent with those for the consolidated financial statements.

(24) Subsidiaries and non-controlling interests

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

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

In the Bank's statements of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 2(13)).

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(25) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements of the Group under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 2(13)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the period are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income of the Group. The Group's interest in associate or joint venture is included in the consolidated financial statements from the date that significant influence or joint control commences until the date that significant influence or joint control ends.

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

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(5)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(26) Significant accounting estimates and judgements

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. For the major accounting estimates and judgements related to IAS 39, please refer to Note 2(24) of the Group's financial statements for the year ended 31 December 2017.

(i) Measurement of ECLs

The measurement of the ECLs for debt investments measured at amortized cost and measured at FVOCI, and loan commitments and financial guarantee contracts not measured at FVTPL, is subject to complex models and a number of assumptions about future economic conditions and credit conditions (for example, the possibility of customers defaulting and the resulting losses). For the descriptions of the inputs, assumptions and estimation techniques used in measuring ECLs, please refer to Note 45(1).

(ii) Fair value of financial instruments

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

(iii) Income taxes

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Impairment of non-financial assets

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

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

(v) Depreciation and amortisation

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

(vi) Determination of control over structured entities

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

3 NET INTEREST INCOME

	2018	2017
Interest income arising from		
Deposits with central bank	372,106	340,988
Deposits with banks and other financial institutions	16,443	35,502
Placements with banks and other financial institutions	192,311	73,835
Loans and advances to customers		
– Corporate loans and advances	3,478,800	3,037,711
– Personal loans and advances	1,615,799	1,269,611
– Discounted bills	289,740	152,456
Financial assets held under resale agreements	250,380	427,684
Investments	5,336,522	6,267,263
Long-term receivables	334,800	144,669
Sub-total	11,886,901	11,749,719
Interest expense arising from		
Deposits from banks and other financial institutions	(752,819)	(1,049,733)
Placements from banks and other financial institutions	(388,629)	(203,201)
Deposits from customers	(2,985,319)	(2,605,748)
Financial assets sold under repurchase agreements	(561,802)	(698,102)
Debt securities issued	(2,446,785)	(2,356,747)
Others	(287,518)	(33,780)
Sub-total	(7,422,872)	(6,947,311)
Net interest income	4,464,029	4,802,408

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 FVTPL for the year ended 31 December 2018 amounted to RMB 11.887 billion (year ended 31 December 2017: RMB 11.741 billion).

Total interest expense arising from financial liabilities that are not at FVTPL for the year ended 31 December 2018 amounted to RMB 7.423 billion (year ended 31 December 2017: RMB 6.947 billion).

(3) Interest income arising from loans and advances to customers included RMB 55.56 million for the year ended 31 December 2018 with respect to the accreted interest on credit-impaired loans. Interest income arising from loans and advances to customers included RMB 30.73 million for the year ended 31 December 2017 with respect to the accreted interest on impaired loans.

(Expressed in thousands of Renminbi, unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

	2018	2017
Fee and commission income		
Wealth management service fees	486,879	376,949
Agency service fees	239,702	258,094
Settlement fees	30,921	80,344
Custody and bank card service fees	34,716	46,081
Others	151,364	127,841
Sub-total	943,582	889,309
Fee and commission expense	(77,825)	(60,340)
Net fee and commission income	865,757	828,969

5 NET TRADING GAINS/(LOSSES)

	Note	2018	2017
Net gains/(losses) of foreign exchange and foreign exchange rate derivative financial instruments	(i)	407,921	(186,096)
Net gains/(losses) from debt securities and others	(ii)	2,886	(1,668)
Total		410,807	(187,764)

Notes:

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

(ii) Net gains/(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 ARISING FROM INVESTMENTS

	2018	2017
Dividend income	1,100	1,500
Net gains on financial assets at FVTPL	1,503,953	–
Net gains on disposal of financial assets at FVOCI	112,301	Not applicable
Net gains on disposal of available-for-sale financial assets	Not applicable	98,830
Total	1,617,354	100,330

(Expressed in thousands of Renminbi, unless otherwise stated)

7 OTHER OPERATING INCOME

	2018	2017
Government grants	7,707	25,542
Net losses on disposal of property and equipment	(502)	(417)
Rental income	1,835	1,454
Others	(2,149)	(2,929)
Total	6,891	23,650

8 OPERATING EXPENSES

	2018	2017
Staff costs		
– Salaries, bonuses and allowances	907,718	448,987
– Social insurance and housing allowances	85,201	76,046
– Staff welfare expenses	123,240	114,812
– Staff education expenses	22,972	11,344
– Labor union expenses	18,378	9,075
– Post-employment benefits – defined contribution plans	138,262	138,098
– Supplementary retirement benefits	27,500	5,200
Sub-total	1,323,271	803,562
Property and equipment expenses		
– Depreciation and amortization	408,470	315,450
– Electronic equipment operating expenses	105,211	83,577
– Maintenance	90,995	88,122
Sub-total	604,676	487,149
Tax and surcharges	74,848	54,898
Other general and administrative expenses (Note (i))	502,855	473,313
Total	2,505,650	1,818,922

Note:

(i) Other general and administrative expenses include audit remunerations for auditors which amounted to RMB 3.71 million for the year ended 31 December 2018 (2017: RMB 3.51 million).

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

	Year ended 31 December 2018					
Name	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	Total emoluments before tax
Executive directors						
GUO Shaoquan	–	1,047	748	412	257	2,464
WANG Lin	–	951	748	333	254	2,286
YANG Fengjiang	–	687	600	229	201	1,717
LU Lan	–	687	573	185	201	1,646
Non-executive directors						
ZHOU Yunjie	124	–	–	–	–	124
Rosario STRANO	–	–	–	–	–	–
WANG Jianhui	56	–	–	–	–	56
TAN Lixia	118	–	–	–	–	118
Marco MUSSITA	–	–	–	–	–	–
DENG Youcheng	56	–	–	–	–	56
CHOI Chi Kin, Calvin	118	–	–	–	–	118
Independent non-executive directors						
WANG Zhuquan	97	–	–	–	–	97
WONG Tin Yau, Kelvin	182	–	–	–	–	182
CHEN Hua	188	–	–	–	–	188
DAI Shuping	188	–	–	–	–	188
Simon CHEUNG	188	–	–	–	–	188
FANG Qiaoling	85	–	–	–	–	85
Supervisors						
CHEN Qing	–	687	600	229	257	1,773
ZHANG Lanchang	38	–	–	–	–	38
SUN Guoliang	43	–	–	–	–	43
WANG Dawei	–	312	410	96	103	921
MENG Xianzheng	–	266	322	82	112	782
SUN Jigang	–	151	90	58	28	327
XU Wansheng	–	147	90	53	28	318
WANG Jianhua	–	–	–	–	–	–
FU Changxiang	123	–	–	–	–	123
HU Yanjing	123	–	–	–	–	123
Total	1,727	4,935	4,181	1,677	1,441	13,961

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

	Year ended 31 December 2017					
Name	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	Total emoluments before tax
Executive directors						
GUO Shaoquan	–	1,032	1,663	402	217	3,314
WANG Lin	–	940	1,259	325	214	2,738
YANG Fengjiang	–	682	784	221	160	1,847
LU Lan	–	587	758	170	158	1,673
Non-executive directors						
ZHOU Yunjie	119	–	–	–	–	119
Rosario STRANO	–	–	–	–	–	–
WANG Jianhui	113	–	–	–	–	113
TAN Lixia	125	–	–	–	–	125
Marco MUSSITA	–	–	–	–	–	–
CHOI Chi Kin, Calvin	125	–	–	–	–	125
Independent non-executive directors						
WANG Zhuquan	188	–	–	–	–	188
DU Wenhe	–	–	–	–	–	–
WONG Tin Yau, Kelvin	182	–	–	–	–	182
CHEN Hua	182	–	–	–	–	182
DAI Shuping	188	–	–	–	–	188
Simon CHEUNG	91	–	–	–	–	91
Supervisors						
CHEN Qing	–	682	784	221	217	1,904
SUN Guoliang	82	–	–	–	–	82
SUN Jigang	–	418	426	134	129	1,107
XU Wansheng	–	419	355	134	129	1,037
WANG Jianhua	–	–	–	–	–	–
FU Changxiang	131	–	–	–	–	131
HU Yanjing	131	–	–	–	–	131
Total	1,657	4,760	6,029	1,607	1,224	15,277

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Notes:

(1) The emoluments of non-executive directors ("NED"), independent non-executive directors ("INED"), shareholder supervisors and external supervisors were affected by the time of service during the reporting period. Directors and supervisors received emoluments since their assumption of duty until their departure. The changes in directors and supervisors in the year of 2018 and 2017 are as follows:

(i) In July 2017, Mr. Simon CHEUNG, INED of the Bank, began to assume his duty. Mr. DU Wenhe no longer served as INED of the Bank.

(ii) In May 2018, Mr. WANG Dawei and Mr. MENG Xianzheng, employee supervisors of the Bank, began to assume their duty. Mr. SUN Jigang and Mr. XU Wansheng no longer served as employee supervisors of the Bank.

(iii) In May 2018, Mr. ZHANG Lanchang, shareholder supervisor of the Bank, began to assume his duty. Mr. SUN Guoliang no longer served as shareholder supervisor of the Bank.

(iv) In June 2018, Ms. FANG Qiaoling, INED of the Bank, began to assume her duty. Mr. WANG Zhuquan no longer served as INED of the Bank.

(v) In June 2018, Mr. DENG Youcheng, NED of the Bank, began to assume his duty. Mr. WANG Jianhui no longer served as NED of the Bank.

(2) The emoluments of Mr. Rosario STRANO, Mr. Marco MUSSITA and Mr. WANG Jianhua were waived with their authorization. In August 2016, Mr. DU Wenhe submitted a resignation report to the Bank's board of directors and confirmed that he would not receive further emolument before the formal departure. There was no other arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the reporting period.

(3) There were no amounts paid during the reporting period to the directors and supervisors in connection with their retirement from employment or as compensation for loss of office with the Bank or as inducement to join.

(4) The total compensation package for certain directors and supervisors for the year ended 31 December 2018 have not yet been finalized. The difference in emoluments is not expected to have any significant impact on the financial statements for the year ended 31 December 2018.

(Expressed in thousands of Renminbi, unless otherwise stated)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2018, the five individuals with the highest emoluments included three directors and one supervisor of the Bank (2017: three directors and one supervisor), whose emoluments are disclosed in Note 9. The emoluments before individual income tax for the rest of the five highest paid individuals for the reporting period are as follows:

	2018	2017
Salaries and other emoluments	888	842
Discretionary bonuses	600	760
Contributions to pension schemes	224	217
Total	1,712	1,819

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

	2018	2017
HKD nil-1,000,000	–	–
HKD 1,000,001-1,500,000	–	–
HKD 1,500,001-2,000,000	1	–
HKD 2,000,001-2,500,000	–	1

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

11 IMPAIRMENT LOSSES

	2018	2017
Loans and advances to customers	2,213,707	1,284,514
Deposits with banks and other financial institutions	178	–
Placements with banks and other financial institutions	9,927	–
Financial assets held under resale agreements	(1,689)	–
Financial investments measured at amortised cost	87,746	Not applicable
Financial investments at FVOCI	26,963	Not applicable
Receivables	Not applicable	20,000
Long-term receivables	64,512	68,389
Credit commitments	(36,086)	–
Others	17,914	6,001
Total	2,383,172	1,378,904

(Expressed in thousands of Renminbi, unless otherwise stated)

12 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

	Note	2018	2017
Current tax		716,442	631,729
Deferred tax	29(2)	(283,815)	(165,569)
Total		432,627	466,160

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

	2018	2017
Profit before taxation	2,476,016	2,369,767
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	619,004	592,442
Tax effect of non-deductible expenses for tax purpose		
– Annuity	3,764	11,043
– Entertainment expenses	3,560	3,548
– Others	7,284	9,809
	14,608	24,400
Tax effect of non-taxable income for tax purpose (Note (i))	(200,985)	(150,682)
Income tax	432,627	466,160

Note:

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

13 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share was computed by dividing the profit for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue. Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the reporting period.

	Note	2018	2017
Weighted average number of ordinary shares (in thousands)	13(1)	4,058,713	4,058,713
Net profit attributable to equity shareholders of the Bank		2,023,352	1,900,252
Less: dividends on preference shares declared		504,096	–
Net profit attributable to ordinary shareholders of the Bank		1,519,256	1,900,252
Basic and diluted earnings per share (in RMB)		0.37	0.47

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

	2018	2017
Number of ordinary shares as at 1 January	4,058,713	4,058,713
Increase in weighted average number of ordinary shares	–	–
Weighted average number of ordinary shares	4,058,713	4,058,713

14 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	31 December 2018	31 December 2017
Cash on hand		451,273	608,001
Deposits with central bank			
– Statutory deposit reserves	14(1)	20,808,743	21,000,530
– Surplus deposit reserves	14(2)	8,256,128	5,447,669
– Fiscal deposits		26,992	41,614
Sub-total		29,091,863	26,489,813
Accrued interest		11,294	–
Total		29,554,430	27,097,814

(Expressed in thousands of Renminbi, unless otherwise stated)

14 CASH AND DEPOSITS WITH CENTRAL BANK (continued)

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

	31 December 2018	31 December 2017
Reserve ratio for RMB deposits	12.0%	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.

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
In Mainland China		
– Banks	1,239,298	759,466
– Other financial institutions	7,962	–
Outside Mainland China		
– Banks	285,941	348,480
Accrued interest	9,909	–
Sub-total	1,543,110	1,107,946
Less: Provision for impairment losses	(673)	–
Total	1,542,437	1,107,946

(Expressed in thousands of Renminbi, unless otherwise stated)

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
In Mainland China		
– Banks	233,486	2,785,667
– Other financial institutions	3,801,365	97,060
Accrued interest	87,236	–
Sub-total	4,122,087	2,882,727
Less: Provision for impairment losses	(11,623)	–
Total	4,110,464	2,882,727

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 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
Other debt investments at FVTPL		
Issued by the following institutions in Mainland China		
– Banks and other financial institutions	206,985	–
– Corporate entities	30,295	–
Sub-total	237,280	–
Asset management plans	9,354,611	–
Wealth management products issued by financial institutions	2,080,946	–
Trust fund plans	3,221,359	–
Investment funds	7,467,620	–
Total	22,361,816	179,078
Unlisted	22,361,816	179,078

(Expressed in thousands of Renminbi, unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2018, the Group did not held derivative financial instruments.

	31 December 2017		
	Nominal Amount	Fair value	
		Assets	Liabilities
Foreign exchange rate derivatives:			
– Currency swap	8,233,092	–	(353,220)
Total	8,233,092	–	(353,220)

19 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2018	31 December 2017
In Mainland China		
– Banks	–	3,384,400
– Other financial institutions	300,000	199,800
Accrued interest	384	–
Sub-total	300,384	3,584,200
Less: Provision for impairment losses	(122)	–
Total	300,262	3,584,200

(2) Analysed by type of security held

	31 December 2018	31 December 2017
Debt securities	300,000	3,584,200
Accrued interest	384	–
Sub-total	300,384	3,584,200
Less: Provision for impairment losses	(122)	–
Total	300,262	3,584,200

(Expressed in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	31 December 2018	31 December 2017
Measured at amortised cost:		
Corporate loans and advances		
– Corporate loans	78,264,271	64,363,848
– Discounted bills	–	2,951,203
Sub-total	78,264,271	67,315,051
Personal loans and advances		
– Residential mortgage	30,229,094	24,128,570
– Personal business loans	5,836,058	3,265,881
– Personal consumption loans	3,827,588	1,746,965
– Others	1,457,234	1,604,912
Sub-total	41,349,974	30,746,328
Accrued interest	521,250	–
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost		
– 12-month ECL	(1,276,373)	–
– lifetime ECL		
– not credit-impaired loans	(1,277,670)	–
– credit-impaired loans	(987,186)	–
– Individually assessed	–	(559,720)
– Collectively assessed	–	(1,986,979)
Total provision for impairment losses	(3,541,229)	(2,546,699)
Measured at FVOCI:		
Corporate loans and advances		
– Discounted bills	6,772,625	Not applicable
Net loans and advances to customers	123,366,891	95,514,680

(Expressed in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysed by industry (excluding accrued interest)

	31 December 2018		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	18,805,454	14.88%	4,287,884
Water, environment and public utility management	10,802,398	8.55%	5,894,822
Construction	10,788,346	8.54%	3,833,353
Wholesale and retail trade	9,654,850	7.64%	6,700,785
Real estate	8,849,735	7.00%	7,525,135
Renting and business activities	8,169,559	6.46%	4,571,741
Financial services	5,456,155	4.32%	1,206,182
Production and supply of electric and heating power, gas and water	4,711,898	3.73%	919,631
Transportation, storage and postal services	2,911,253	2.30%	1,023,463
Others	4,887,248	3.86%	1,803,082
Sub-total of corporate loans and advances	85,036,896	67.28%	37,766,078
Personal loans and advances	41,349,974	32.72%	36,363,927
Gross loans and advances to customers	126,386,870	100.00%	74,130,005

	31 December 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	16,870,734	17.20%	3,387,238
Construction	9,192,196	9.37%	2,767,280
Water, environment and public utility management	8,757,857	8.93%	3,904,059
Renting and business activities	8,184,724	8.35%	4,224,272
Wholesale and retail trade	7,275,598	7.42%	4,378,321
Financial services	4,288,439	4.37%	633,272
Real estate	4,148,613	4.23%	2,724,513
Production and supply of electric and heating power, gas and water	3,838,368	3.91%	820,120
Transportation, storage and postal services	1,950,773	1.99%	399,744
Others	2,807,749	2.88%	876,795
Sub-total of corporate loans and advances	67,315,051	68.65%	24,115,614
Personal loans and advances	30,746,328	31.35%	27,532,642
Gross loans and advances to customers	98,061,379	100.00%	51,648,256

(Expressed in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	31 December 2018					
	Credit-impaired loans and advances	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Impairment losses charged during the year	Written-off during the year
Manufacturing	1,251,213	162,653	992,604	510,428	1,760,570	1,159,407

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

(3) Analysed by type of collateral (excluding accrued interest)

	31 December 2018	31 December 2017
Unsecured loans	15,753,945	10,323,398
Guaranteed loans	36,502,920	36,089,725
Loans secured by mortgages	54,738,421	40,096,655
Pledged loans	19,391,584	11,551,601
Gross loans and advances to customers	126,386,870	98,061,379

(Expressed in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (continued)

(4) Overdue loans analysed by overdue period (excluding accrued interest)

	31 December 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	15,582	119,133	3,775	17,129	155,619
Guaranteed loans	2,055,750	1,057,182	467,798	36,332	3,617,062
Loans secured by mortgages	197,952	48,211	166,521	161,237	573,921
Pledged loans	2,500	4,714	–	–	7,214
Total	2,271,784	1,229,240	638,094	214,698	4,353,816
As a percentage of gross loans and advances to customers	1.80%	0.97%	0.50%	0.17%	3.44%

	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)

20 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

As at 31 December 2018, the provision for impairment losses of loans and advances to customers are as follows:

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

	31 December 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 (including accrued interest)	110,813,316	7,205,001	2,117,178	120,135,495
Less: Provision for impairment losses	(1,276,373)	(1,277,670)	(987,186)	(3,541,229)
Net loans and advances to customers measured at amortised cost	109,536,943	5,927,331	1,129,992	116,594,266

(ii) Provision for impairment losses on loans and advances to customers at FVOCI:

	31 December 2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired (Note (i))	Total
Gross/net loans and advances to customers at FVOCI (including accrued interest)	6,772,625	–	–	6,772,625
Provision for impairment losses through other comprehensive income	(16,577)	–	–	(16,577)

(Expressed in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (continued)

As at 31 December 2017, the provision for impairment losses of loans and advances to customers are as follows:

	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 definitions of the credit-impaired financial assets are set out in Note 2(5).

(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).

(Expressed in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (continued)

(6) Movements of provision for impairment losses

For the year ended 31 December 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:

	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 to				
– 12-month ECL	8,805	(8,216)	(589)	–
– Lifetime ECL				
– not credit-impaired loans	(61,501)	118,428	(56,927)	–
– credit-impaired loans	(22,913)	(236,336)	259,249	–
(Release)/Charge for the year	(198,605)	686,175	1,723,748	2,211,318
Write-offs and transfer out	–	–	(1,764,332)	(1,764,332)
Recoveries of loans and advances written off	–	–	36,725	36,725
Other changes	–	–	(55,559)	(55,559)
As at 31 December 2018	1,276,373	1,277,670	987,186	3,541,229

(ii) Movements of the provision for impairment losses on loans and advances to customers at FVOCI are as follows:

	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	2,389	–	–	2,389
As at 31 December 2018	16,577	–	–	16,577

(Expressed in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (continued)

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	1,146,181	1,284,514
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	–	25,021	7,210	32,231
As at 31 December	1,771,585	215,394	559,720	2,546,699

The Group enters into securitization transactions in the normal course of business. See note 49 for details.

In addition, in 2018 and 2017, the Group transferred loans and advances to independent third parties with principal amount of RMB 0.015 billion and RMB 1.475 billion respectively, and with the transfer price (including overdue interest, penalty interest, etc.) of RMB 0.017 billion and RMB 0.592 billion respectively.

(Expressed in thousands of Renminbi, unless otherwise stated)

21 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	31 December 2018
Debt securities issued by the following institutions in Mainland China		
– Government		7,116,493
– Policy banks		11,799,812
– Banks and other financial institutions		10,117,686
– Corporate entities		17,828,393
Sub-total		46,862,384
Asset management plans		5,062,908
Equity investments	21(1)	23,250
Accrued interest		1,054,209
Total		53,002,751
Listed	21(2)	306,226
Of which: listed outside Hong Kong		306,226
Unlisted		52,696,525
Total		53,002,751

(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 FVOCI, and the details are as follows:

	2018					
Investees	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Percentage of shareholding in investees (%)	Cash dividend for the year
China UnionPay Co., Ltd.	13,000	–	–	13,000	0.34	1,100
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	10,000	–	–	10,000	2.15	–
Clearing Center for City Commercial Banks	250	–	–	250	0.81	–
Total	23,250	–	–	23,250		1,100

For the year ended 31 December 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.

(2) Listed only includes bonds traded on stock exchanges.

(Expressed in thousands of Renminbi, unless otherwise stated)

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

(3) For the year ended 31 December 2018, movements of the provision for impairment losses on debt instruments of financial investments at FVOCI are as follows:

	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 to				
– 12-month ECL	–	–	–	–
– Lifetime ECL				
– not credit-impaired	(33)	33	–	–
Charge for the year	14,126	12,837	–	26,963
As at 31 December 2018	32,672	19,122	–	51,794

Provision for impairment losses on debt instruments of financial investments at FVOCI 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 31 December 2018, the Group did not have financial investments at FVOCI that were credit-impaired.

(Expressed in thousands of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

	Note	31 December 2018
Debt securities issued by the following institutions in Mainland China		
– Government		9,431,022
– Policy banks		13,887,327
– Banks and other financial institutions		11,296,117
– Corporate entities		1,229,620
Sub-total		35,844,086
Asset management plans		23,529,175
Trust fund plans		4,850,229
Beneficiary rights in margin financing		2,870,000
Beneficiary certificates		2,300,000
Sub total		33,549,404
Accrued interest		1,106,068
Less: Provision for impairment losses	22(1)	(467,502)
Total		70,032,056
Listed	22(2)	1,114,690
Of which: listed outside Hong Kong		1,114,690
Unlisted		68,917,366
Total		70,032,056

(1) For the year ended 31 December 2018, movements of the allowance for impairment losses on financial investments measured at amortised cost are as follows:

	2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	379,756	–	–	379,756
Transfer to				
– 12-month ECL	–	–	–	–
– Lifetime ECL				
– not credit-impaired	(2,335)	2,335	–	–
Charge for the year	21,275	66,471	–	87,746
As at 31 December 2018	398,696	68,806	–	467,502

(2) Listed only includes bonds traded on stock exchanges.

(Expressed in thousands of Renminbi, unless otherwise stated)

23 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Note	31 December 2017
Debt securities	23(1)	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(2)	23,250
Total		79,086,556
Unlisted		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) 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).

(3) The available-for-sale financial assets held by the Group are unlisted investments.

24 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

(Expressed in thousands of Renminbi, unless otherwise stated)

25 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

26 INVESTMENT IN SUBSIDIARY

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

As at 31 December 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 RMB 1.00 billion.

(Expressed in thousands of Renminbi, unless otherwise stated)

27 LONG-TERM RECEIVABLES

	31 December 2018	31 December 2017
Minimum finance lease receivables	8,636,534	4,631,532
Less: Unearned finance lease income	(803,079)	(486,747)
Present value of finance lease receivables	7,833,455	4,144,785
Accrued interest	70,610	–
Sub-total	7,904,065	4,144,785
Less: Provision for impairment losses		
– 12-month ECL	(137,367)	Not applicable
– Individually assessed	Not applicable	Not applicable
– Collectively assessed	Not applicable	(68,389)
Net balance	7,766,698	4,076,396

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

	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 year	64,512	–	–	64,512
As at 31 December 2018	137,367	–	–	137,367

For the year ended 31 December 2017, the Group recognised collectively assessed provision for long-term receivables of RMB 68.39 million.

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

	31 December 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	3,787,333	(383,029)	3,404,304	1,324,449	(191,009)	1,133,440
1 year to 2 years	2,039,339	(224,104)	1,815,235	1,121,668	(140,598)	981,070
2 years to 3 years	1,577,474	(129,353)	1,448,121	977,168	(92,158)	885,010
3 years to 5 years	1,232,388	(66,593)	1,165,795	1,208,247	(62,982)	1,145,265
Total	8,636,534	(803,079)	7,833,455	4,631,532	(486,747)	4,144,785

(Expressed in thousands of Renminbi, unless otherwise stated)

28 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	64,850	91,908	4,809	9,426	59,161	230,154
Decrease	(4,450)	(10,361)	(1,507)	(2,561)	(59,221)	(78,100)
As at 31 December 2018	2,935,512	566,408	62,955	86,132	210,203	3,861,210
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	(59,305)	(55,233)	(6,545)	(9,131)	–	(130,214)
Decrease	–	9,640	1,432	2,426	–	13,498
As at 31 December 2018	(297,371)	(336,089)	(46,032)	(57,363)	–	(736,855)
Net book value						
As at 31 December 2018	2,638,141	230,319	16,923	28,769	210,203	3,124,355
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 31 December 2018 was RMB 1,714 million (31 December 2017: RMB 1,869 million). As at 31 December 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 RMB 1,660 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:

	31 December 2018	31 December 2017
Held in Mainland China		
– Long-term leases (over 50 years)	17,476	17,867
– Medium-term leases (10 – 50 years)	2,618,001	2,616,327
– Short-term leases (less than 10 years)	2,664	2,852
Total	2,638,141	2,637,046

(Expressed in thousands of Renminbi, unless otherwise stated)

29 DEFERRED INCOME TAX ASSETS

(1) Analysed by nature

	31 December 2018		31 December 2017	
	Deductible/ (taxable) temporary differences	Deferred Income tax assets/ (liabilities)	Deductible temporary differences	Deferred Income tax assets
Provision for impairment losses	4,415,420	1,103,855	2,575,636	643,909
Deferred interest income from discounted bills	143,040	35,760	66,336	16,584
Change in fair value	(235,904)	(58,976)	1,528,548	382,137
Others	288,556	72,139	166,624	41,656
Total	4,611,112	1,152,778	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	282,633	19,176	(12,383)	(5,611)	283,815
Recognised in other comprehensive income	(7,338)	–	(332,282)	832	(338,788)
As at 31 December 2018	1,103,855	35,760	(58,976)	72,139	1,152,778

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)

30 OTHER ASSETS

	Note	31 December 2018	31 December 2017
Interest receivable	30(1)	37,299	2,039,205
Long-term deferred expense		566,276	574,964
Intangible assets	30(2)	165,153	197,454
Prepayments		101,521	95,001
Deferred expense		53,718	55,941
Precious metals		113,459	114,001
Repossessed assets (Note (i))		10,501	5,931
Others		296,429	167,999
Sub-total		1,344,356	3,250,496
Less: Provision for impairment losses		(792)	(899)
Total		1,343,564	3,249,597

Note:

(i) Repossessed assets mainly included premises, etc. As at 31 December 2018 and 2017, there is no need to recognise provision for impairments losses of repossessed assets.

(1) Interests receivable

	31 December 2018	31 December 2017
Interest receivable arising from:		
– Investments	–	1,598,609
– Loans and advances to customers	37,299	378,281
– Others	–	62,315
Total	37,299	2,039,205

As at 31 December 2018, interest measured using the effective interest rate method was recognised in the corresponding financial instruments. Interest overdue but not yet received is recognised in other assets.

(Expressed in thousands of Renminbi, unless otherwise stated)

30 OTHER ASSETS (continued)

(2) Intangible assets

	2018	2017
Cost		
As at 1 January	382,281	326,820
Additions	36,941	91,066
Decrease	–	(35,605)
As at 31 December	419,222	382,281
Accumulated amortisation		
As at 1 January	(184,827)	(155,159)
Additions	(69,242)	(65,273)
Decrease	–	35,605
As at 31 December	(254,069)	(184,827)
Net value		
As at 1 January	197,454	171,661
As at 31 December	165,153	197,454

Intangible assets of the Group mainly include software.

31 BORROWINGS FROM CENTRAL BANK

	31 December 2018	31 December 2017
Borrowings	10,000,000	–
Re-discounted bills	779,010	584,215
Accrued interest	99,825	–
Total	10,878,835	584,215

32 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
In Mainland China		
– Banks	3,590,947	10,162,206
– Other financial institutions	7,961,748	14,739,728
Accrued interest	80,287	–
Total	11,632,982	24,901,934

(Expressed in thousands of Renminbi, unless otherwise stated)

33 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
In Mainland China		
– Banks	6,761,699	5,251,563
Outside Mainland China		
– Banks	343,160	522,736
Accrued interest	102,207	–
Total	7,207,066	5,774,299

34 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2018	31 December 2017
In Mainland China		
– Central Bank	5,350,000	–
– Banks	9,496,131	11,599,613
– Other financial institutions	–	299,970
Accrued interest	4,202	–
Total	14,850,333	11,899,583

(2) Analysed by types of collaterals

	31 December 2018	31 December 2017
Debt securities	13,632,100	11,899,583
Discounted bills	1,214,031	–
Accrued interest	4,202	–
Total	14,850,333	11,899,583

(Expressed in thousands of Renminbi, unless otherwise stated)

35 DEPOSITS FROM CUSTOMERS

	31 December 2018	31 December 2017
Demand deposits		
– Corporate deposits	72,852,694	65,421,504
– Personal deposits	18,313,340	17,935,483
Sub-total	91,166,034	83,356,987
Time deposits		
– Corporate deposits	45,792,055	41,852,651
– Personal deposits	38,585,318	34,290,017
Sub-total	84,377,373	76,142,668
Outward remittance and remittance payables	131,519	566,193
Fiscal deposits to be transferred	923	17,935
Accrued interest	2,235,398	–
Total	177,911,247	160,083,783
Including:		
Pledged deposits	8,825,215	9,140,837

(Expressed in thousands of Renminbi, unless otherwise stated)

36 DEBT SECURITIES ISSUED

	31 December 2018	31 December 2017
Debt securities issued (Note (i))	15,188,606	18,085,491
Certificates of interbank deposit issued (Note (ii))	49,708,055	50,547,200
Accrued interest	343,846	–
Total	65,240,507	68,632,691

Note:

(i) Financial debts with fixed interest rates were issued by the Group. The details are as follows:

(a) Five-year debts were issued with an interest rate of 4.80% per annum and with a nominal amount of RMB 2.9 billion in March 2013. The debts has matured and been repaid on 5 March 2018 with annual interest payments. As at 31 December 2017, the fair value of the debts was: RMB 2.895 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 RMB 2.2 billion in March 2015. The debts will mature on 5 March 2025 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2018, the fair value of the debts was RMB 2.184 billion (31 December 2017: RMB 2.133 billion).

(c) Three-year Green Bonds were issued with an interest rate of 3.25% per annum and with a nominal amount of RMB 3.5 billion in March 2016. The debts will mature on 14 March 2019 with annual interest payments. As at 31 December 2018, the fair value of the debts was RMB 3.499 billion (31 December 2017: RMB 3.410 billion).

(d) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB 0.5 billion in March 2016. The debts will mature on 14 March 2021 with annual interest payments. As at 31 December 2018, the fair value of the debts was RMB 0.493 billion (31 December 2017: RMB 0.468 billion).

(e) Three-year Green Bonds were issued with an interest rate of 3.30% per annum and with a nominal amount of RMB 3.0 billion in November 2016. The debts will mature on 24 November 2019 with annual interest payments. As at 31 December 2018, the fair value of the debts was RMB 2.990 billion (31 December 2017: RMB 2.882 billion).

(f) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB 1.0 billion in November 2016. The debts will mature on 24 November 2021 with annual interest payments. As at 31 December 2018, the fair value of the debts was RMB 0.981 billion (31 December 2017: RMB 0.922 billion).

(g) Ten-year debts were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB 3.0 billion in June 2017. The debts will mature on 29 June 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2018, the fair value of the debts was RMB 2.834 billion (31 December 2017: RMB 2.758 billion).

(h) Ten-year debts were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB 2.0 billion in July 2017. The debts will mature on 14 July 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2018, the fair value of the debts was RMB 1.889 billion (31 December 2017: RMB 1.838 billion).

(ii) The Group issued a number of certificates of interbank deposit with duration between 1 month and 1 year. As at 31 December 2018 and 2017, the outstanding fair value of certificates of interbank deposit was RMB 49.727 billion and RMB 50.479 billion respectively.

(Expressed in thousands of Renminbi, unless otherwise stated)

37 OTHER LIABILITIES

	Note	31 December 2018	31 December 2017
Interest payable	37(1)	–	2,797,902
Financial liabilities related to precious metals		–	2,859,395
Employee benefits payable	37(2)	755,237	699,855
Payable raising from fiduciary activities		392,684	299,583
Settlement payable		143,327	241,646
Dividend payable		15,353	18,517
Taxes payable	37(3)	106,534	17,027
ECL on credit commitments	37(4)	104,964	Not applicable
Others		909,535	932,066
Total		2,427,634	7,865,991

(1) Interest payable

	31 December 2018	31 December 2017
Interest payable arising from:		
– Deposits from customers	–	2,094,557
– Debt securities issued	–	459,019
– Deposits and placements from banks and other financial institutions	–	235,883
– Financial assets sold under repurchase agreements	–	2,773
– Others	–	5,670
Total	–	2,797,902

As at 31 December 2018, interest measured using the effective interest rate method was recognised in the corresponding financial instruments. Interest overdue but not yet paid is recognised in other liabilities. As at 31 December 2018, the Group had no interest overdue but not yet paid.

(Expressed in thousands of Renminbi, unless otherwise stated)

37 OTHER LIABILITIES (continued)

(2) Employee benefits payable

	31 December 2018	31 December 2017
Salaries, bonuses and allowances payable	640,704	582,381
Social insurance and housing allowances payable	145	43,992
Staff welfare expenses	–	1,751
Staff education expenses	20,034	2,781
Labor union expenses	18,504	12,325
Post-employment benefits-defined contribution plans	150	145
Supplementary retirement benefits (Note (i))	75,700	56,480
Total	755,237	699,855

Note:

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

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The Group accounts for the respective obligations in accordance with the accounting policies in Note 2(14).

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees. The Group accounted for the respective obligations in accordance with the accounting policies in Note 2(14).

(3) Taxes payable

	31 December 2018	31 December 2017
Value added tax payable	94,462	12,192
Urban construction tax and surcharges payable	11,397	4,586
Others	675	249
Total	106,534	17,027

37 OTHER LIABILITIES (continued)

(4) Expected credit loss on credit commitments

For the year ended 31 December 2018, movements of expected credit loss on credit commitments are as follows:

	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 to				
– 12-month ECL	3,239	(3,239)	–	–
– Lifetime ECL				
– not credit-impaired	(1,872)	1,872	–	–
(Release)/Charge for the year	(34,413)	(1,684)	11	(36,086)
As at 31 December 2018	103,845	1,101	18	104,964

38 SHARE CAPITAL

Authorised and issued share capital

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

39 PREFERENCE SHARES

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

Financial instrument outstanding	Issue date	Accounting classification	Dividend rate	Issue price	Amount	In original currency	In RMB	Maturity	Conversion
					(in thousands of shares)	(in thousands)	(in thousands)		
Overseas Preference Shares	19 Sep 2017	Equity	5.5%	20USD/Share	60,150	1,203,000	7,883,259	None	None
Total							7,883,259		
Less: Issue fees							(29,295)		
Book value							7,853,964		

(2) Main Clauses

(a) Dividend

There is a fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. Dividends will be paid annually.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends. The Bank may elect to cancel any dividend, but such cancellation will require a shareholder's resolution to be passed.

(c) Dividend stopper

If the Bank cancels all or part of the dividends to the preference shareholders, the Bank shall not make any dividend distribution to ordinary shareholders before the Bank pays the dividends for the current dividend period to the preference shareholders in full.

(d) Order of distribution and liquidation method

The USD preference shareholders will rank equally for payment. The preference shareholders will be subordinated to the depositors, ordinary creditors and holders of Tier 2 capital bonds, but will be senior to the ordinary shareholders.

39 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 CBRC but without the need for the consent of preference shareholders or ordinary shareholders, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Bank to above 5.125%; If preference shares were converted to H shares, it could not be converted to preference shares again.

Upon the occurrence of a Tier 2 Capital Trigger Event (Earlier of the two situations: (1) CBRC has determined that the Bank would become non-viable if there is no conversion or write-down of capital; (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable), the Bank shall have the right to convert all preference shares into H shares, having notified and obtained the consent of CBRC but without the need for the consent of preference shareholders or ordinary shareholders. If preference shares were converted to H shares, it could not be converted to preference shares again.

(f) Redemption

Under the premise of obtaining the approval of the CBRC and condition of redemption, the Bank has right to redeem all or some of overseas preference stocks in first call date and subsequent any dividend payment date. The first call date after issuance and subsequent any dividend payment date (redemption price is equal to issue price plus accrued dividend in current period).

The first redemption date of USD preference shares is five years after issuance.

(g) Dividend setting mechanism

Non-cumulative dividend is a dividend on preference shares which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, preference shareholders of the Bank will not participate the distribution of residual profits with ordinary shareholders.

(3) Changes in preference shares outstanding

1 January 2018		Increase during the year		31 December 2018	
Amount (in thousands of shares)	Book value (in thousands of RMB)	Amount (in thousands of shares)	Book value (in thousands of RMB)	Amount (in thousands of shares)	Book value (in thousands of RMB)
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 RMB)	Amount (in thousands of shares)	Book value (in thousands of RMB)	Amount (in thousands of shares)	Book value (in thousands of RMB)
–	–	60,150	7,853,964	60,150	7,853,964

(Expressed in thousands of Renminbi, unless otherwise stated)

39 PREFERENCE SHARES (continued)

(4) Interests attribute to equity instruments' holders

Item	31 December 2018	31 December 2017
Total equity attribute to equity holders of the Bank	26,984,973	25,629,854
– Equity attribute to ordinary shareholders of the Bank	19,131,009	17,775,890
– Equity attribute to preference shareholders of the Bank	7,853,964	7,853,964
Total equity attribute to non-controlling interests	511,751	493,355
– Equity attribute to non-controlling interests of ordinary shares	511,751	493,355

40 RESERVES

(1) Capital reserve

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

(2) Surplus reserve

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

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

(3) General reserve

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

The Bank set aside a general reserve upon approval by the shareholders in general meetings. The general reserve balance of the Bank as at 31 December 2018 amounted to RMB 3.969 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)

40 RESERVES (continued)

(4) Other comprehensive income

Item	Balance at the beginning of the year	2018 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 year
Items that will not be reclassified to profit or loss						
Including: Remeasurements of defined benefit plan	(3,443)	(3,330)	–	832	(2,498)	(5,941)
Items that may be reclassified to profit or loss						
Including: Changes in fair value from debt investments at FVOCI	(488,992)	1,441,431	(112,301)	(332,282)	996,848	507,856
Credit losses of debt investments at FVOCI	29,264	59,104	(29,752)	(7,338)	22,014	51,278
Total	(463,171)	1,497,205	(142,053)	(338,788)	1,016,364	553,193

Item	Balance at the beginning of the year	2017 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 year
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)

40 RESERVES (continued)

(5) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
Balance at 31 December 2017		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(885,449)	2,600,081	25,626,362
Changes in accounting policies		–	–	–	–	–	422,278	(789,323)	(367,045)
Balance at 1 January 2018		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(463,171)	1,810,758	25,259,317
Profit for the year		–	–	–	–	–	–	2,002,500	2,002,500
Other comprehensive income		–	–	–	–	–	1,016,364	–	1,016,364
Total comprehensive income		–	–	–	–	–	1,016,364	2,002,500	3,018,864
Appropriation of profit:									
– Appropriation to surplus reserve	41	–	–	–	200,250	–	–	(200,250)	–
– Cash dividends	41	–	–	–	–	–	–	(1,315,844)	(1,315,844)
Balance at 31 December 2018		4,058,713	7,853,964	6,826,276	1,403,575	3,969,452	553,193	2,297,164	26,962,337

	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
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
Profit for the year		–	–	–	–	–	–	1,896,760	1,896,760
Other comprehensive income		–	–	–	–	–	(948,593)	–	(948,593)
Total comprehensive income		–	–	–	–	–	(948,593)	1,896,760	948,167
Contribution by shareholders									
– Capital injection by other equity shareholders	39	–	7,853,964	–	–	–	–	–	7,853,964
Appropriation of profit:									
– Appropriation to surplus reserve	41	–	–	–	189,676	–	–	(189,676)	–
– Appropriation to general reserve	41	–	–	–	–	273,362	–	(273,362)	–
– Cash dividends	41	–	–	–	–	–	–	(811,742)	(811,742)
Balance at 31 December 2017		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(885,449)	2,600,081	25,626,362

41 PROFIT APPROPRIATION

(1) At the Bank's board of directors meeting held on 29 March 2019, the directors approved the following profit appropriation for the year ended 31 December 2018:

- Appropriated RMB 200 million to surplus reserve
- Declared cash dividends to all ordinary shareholders of approximately RMB 902 million representing RMB 0.20 per share (before tax).

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

(2) At the 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, and the amount of dividend is equivalent to approximately RMB 504 million (including tax).

(3) 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 RMB 190 million to surplus reserve;
- Appropriated RMB 273 million to general reserve;
- Declared cash dividends to all ordinary shareholders of approximately RMB 812 million representing RMB 0.20 per share (before tax).

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

(Expressed in thousands of Renminbi, unless otherwise stated)

42 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(1) Cash and cash equivalents:

	31 December 2018	31 December 2017
Cash	451,273	608,001
Surplus deposit reserves with central bank	8,256,128	5,447,669
Original maturity within three months:		
– Deposits with banks and other financial institutions	1,333,201	1,107,946
– Placements with banks and other financial institutions	171,580	2,514,714
Total	10,212,182	9,678,330

(2) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Debt securities issued	Interest payable arising from debt securities issued	Total
Balance at 1 January 2018	68,632,691	459,019	69,091,710
Changes from financing cash flows:			
– Net proceeds from debt securities issued	96,917,942	–	96,917,942
– Interest paid on debt securities issued	–	(775,930)	(775,930)
– Repayment of debt securities issued	(102,440,000)	–	(102,440,000)
Total changes from financing cash flows	(5,522,058)	(775,930)	(6,297,988)
Other changes:			
– Interest expense	1,786,028	660,757	2,446,785
Balance at 31 December 2018	64,896,661	343,846	65,240,507

	Debt securities issued	Interest payable arising from debt securities issued	Total
Balance at 1 January 2017	41,786,221	335,732	42,121,953
Changes from financing cash flows:			
– Net proceeds from debt securities issued	193,058,940	–	193,058,940
– Interest paid on debt securities issued	–	(525,930)	(525,930)
– Repayment of debt securities issued	(167,920,000)	–	(167,920,000)
Total changes from financing cash flows	25,138,940	(525,930)	24,613,010
Other changes:			
– Interest expense	1,707,530	649,217	2,356,747
Balance at 31 December 2017	68,632,691	459,019	69,091,710

43 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 and investment, import and export of goods and technology	Limited company	WANG Jianhui
Qingdao Haier Investment and Development Co., Ltd. ("Haier Investment")	409,693	10.09%	Qingdao	Investment consulting and financial consulting	Limited company	ZHANG Ruimin
AMTD Strategic Investment Limited ("AMTD")	301,800	7.44%	Hong Kong	Outbound investment	Limited company	YAU Wai Man, Philip
Qingdao Haier Air-Conditioning Electronic Co., Ltd. ("Haier Air-Conditioning")	218,692	5.39%	Qingdao	Production, sales and service of air conditioners and refrigeration equipment	Limited company	WANG Li

(Expressed in thousands of Renminbi, unless otherwise stated)

43 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Changes in ordinary shares of the Bank held by major shareholders

	ISP		Qingdao Conson		Haier Investment		AMTD		Haier Air-Conditioning	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
As at 1 January 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 31 December 2018	624,754	15.39%	503,556	12.41%	409,693	10.09%	301,800	7.44%	218,692	5.39%

Changes in registered capital of major shareholders

	Currency	31 December 2018	31 December 2017
ISP	EUR	9,085 Million	8,732 Million
Qingdao Conson	RMB	2,000 Million	2,000 Million
Haier Investment	RMB	252 Million	252 Million
AMTD	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 26.

(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.

(Expressed in thousands of Renminbi, unless otherwise stated)

43 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Related party transactions and balances

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

(a) Transactions with the related parties except subsidiary (excluding remuneration of key management personnel)

	ISP and its group	Qingdao Conson and its group	Haier Investment/ Haier Air-conditioning and its group	AMTD and its group (Note(i))	Companies and other organizations controlled by key management personnel (Note(ii)) (Other than shareholders and its group above)	Others	Total	Proportion to gross amount/ balance of similar transactions
As at 31 December 2018								
On-balance sheet items:								
Loans and advances to customers (Note(iii))	–	1,502,647	300,578	–	456,412	13,476	2,273,113	1.79%
Financial investments measured at amortised cost (Note(iv))	–	–	1,712,538	–	–	–	1,712,538	2.43%
Financial investments at FVOCI	–	–	–	–	310,108	–	310,108	0.59%
Financial assets at FVTPL	–	–	–	2,435,724	–	–	2,435,724	10.89%
Deposits with banks and other financial institutions	270	–	–	–	–	–	270	0.02%
Placements with banks and other financial institutions	–	–	830,722	–	–	–	830,722	20.15%
Deposits from customers	253,749	1,312,963	242,432	–	314,764	54,144	2,178,052	1.22%
Deposits from banks and other financial institutions	–	–	1,376	–	230	–	1,606	0.01%
Off-balance sheet items:								
Letters of guarantees (Note(v))	–	–	212,933	–	–	–	212,933	8.83%
2018								
Interest income	2,475	64,453	114,433	–	37,104	559	219,024	1.84%
Interest expense	1,882	11,452	1,827	–	4,898	692	20,751	0.28%
Fee and commission income	–	–	23,851	–	5	–	23,856	2.53%
Operating expenses	–	566	–	–	–	–	566	0.02%
Other operating losses	–	–	–	–	545	–	545	7.43%

(Expressed in thousands of Renminbi, unless otherwise stated)

43 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 (Note(i))	Companies and other organizations controlled by key management personnel (Note(ii)) (Other than shareholders and its group above)	Others	Total	Proportion to gross amount/ balance of similar transactions
As at 31 December 2017								
On-balance sheet items:								
Loans and advances to customers (Note(iii))	–	1,279,000	–	–	515,000	6,851	1,800,851	1.84%
Receivables (Note(iv))	–	–	1,780,000	–	–	–	1,780,000	3.80%
Available-for-sale financial assets	–	–	–	2,239,147	137,537	–	2,376,684	3.01%
Deposits with banks and other financial institutions	4,373	–	–	–	–	–	4,373	0.39%
Placements with banks and other financial institutions	270,000	–	–	–	–	–	270,000	9.37%
Interest receivable	11,025	1,993	2,559	–	2,160	10	17,747	0.87%
Deposits from customers	82,757	88,693	134,728	–	187,387	118,490	612,055	0.38%
Deposits from banks and other financial institutions	–	–	12,293	–	–	–	12,293	0.05%
Interest payable	36	87	172	–	94	2,282	2,671	0.10%
Off-balance sheet items:								
Letters of guarantees (Note(v))	–	–	177,727	–	56	–	177,783	8.45%
2017								
Interest income	26,653	55,282	81,762	114,259	29,064	317	307,337	2.62%
Interest expense	1,396	1,495	501	–	2,372	1,677	7,441	0.11%
Fee and commission income	–	–	24,491	–	–	–	24,491	2.75%
Operating expenses	–	1,981	–	–	–	–	1,981	0.11%
Other operating losses	–	–	–	–	2,200	–	2,200	27.86%

Note:

(i) In 2017, AMTD Asset Management Limited, the Group's related party, as one of the Joint Global Coordinator of the Bank's issuance of offshore non-public preference shares, received an underwriting commission from the Group, the amount of which is not significant. The above underwriting commission is capitalized as issuance costs of preference shares.

(ii) Companies and other organizations 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

43 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(iii) Loans of related parties (excluding accrued interest)

	31 December 2018	31 December 2017
Qingdao Conson Financial Holdings Co., Ltd.	1,500,000	1,279,000
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	450,000	450,000
Haier Financial Factoring (Chongqing) Co., Ltd.	300,000	–
Qingdao Huatong Military Industry Investment Co., Ltd.	5,000	–
Aucma Co., Ltd.	–	65,000
Individuals	13,447	6,851
Total	2,268,447	1,800,851

(iv) Financial investments measured at amortised cost (excluding accrued interest)/receivables of related parties

	31 December 2018	31 December 2017
Qingdao Changyuan Land Co., Ltd.	960,000	980,000
Qingdao Haier Real Estate Group Co., Ltd.	750,000	800,000
Total	1,710,000	1,780,000

(v) Letters of guarantees of related parties

	31 December 2018	31 December 2017
Qingdao Haier Home Integration Co., Ltd.	211,933	177,227
Haier Information Technology (Shenzhen) Co. Limited	1,000	500
Aucma Co., Ltd.	–	56
Total	212,933	177,783

(Expressed in thousands of Renminbi, unless otherwise stated)

43 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(b) Transactions with subsidiary

	31 December 2018	31 December 2017
Balances at the end of the year:		
On-balance sheet items:		
Deposits from banks and other financial institutions	39,932	127,841
Interest payable	–	27

	2018	2017
Transactions during the year:		
Interest income	6,100	–
Interest expense	1,023	937
Fee and commission income	20	12
Other operating income	3,306	–

(3) Key management personnel

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

	2018	2017
Remuneration of key management personnel	19,093	20,689

The total compensation package for certain key management personnel for the year ended 31 December 2018 have not yet been finalized. The difference in emoluments is not expected to have significant impact on the Group's financial statements for the year ended 31 December 2018.

As at 31 December 2018, outstanding loans to the key management personnel amounted to RMB 0.09 million (31 December 2017: RMB 1.19 million), which have been included in loans and advances to related parties stated in Note 43(2).

44 SEGMENT REPORTING

Segment reporting is disclosed in accordance with the accounting policy set out in Note 2(23).

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

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

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

Corporate banking

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

Retail banking

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

Financial market business

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

Un-allocated items and others

This segment contains related business of the subsidiary, head office assets, liabilities, income and expenses that are not directly attributable to a segment.

(Expressed in thousands of Renminbi, unless otherwise stated)

44 SEGMENT REPORTING (continued)

	2018				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	2,143,735	499,624	1,741,444	79,226	4,464,029
Internal net interest income/(expense)	1,485,911	601,546	(2,082,386)	(5,071)	–
Net interest income	3,629,646	1,101,170	(340,942)	74,155	4,464,029
Net fee and commission income	77,645	395,153	282,534	110,425	865,757
Net trading gains	138,686	83,858	188,263	–	410,807
Net gains arising from investments	15,379	–	1,601,975	–	1,617,354
Other operating income	1,224	1,644	102	3,921	6,891
Operating income	3,862,580	1,581,825	1,731,932	188,501	7,364,838
Operating expenses	(1,258,954)	(680,274)	(504,211)	(62,211)	(2,505,650)
Impairment losses	(1,786,889)	(408,647)	(123,124)	(64,512)	(2,383,172)
Profit before taxation	816,737	492,904	1,104,597	61,778	2,476,016
Other segment information					
– Depreciation and amortisation	(168,120)	(225,609)	(13,945)	(796)	(408,470)
– Capital expenditure	113,866	152,801	9,445	625	276,737

	31 December 2018				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	103,982,904	53,224,994	151,498,294	7,799,532	316,505,724
Deferred tax assets					1,152,778
Total assets					317,658,502
Segment liabilities/Total liabilities	131,071,510	59,123,648	93,135,714	6,830,906	290,161,778
Credit commitments	17,013,157	1,698,681	–	–	18,711,838

(Expressed in thousands of Renminbi, unless otherwise stated)

44 SEGMENT REPORTING (continued)

	2017				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	1,958,337	236,682	2,546,823	60,566	4,802,408
Internal net interest income/(expense)	919,154	632,903	(1,550,098)	(1,959)	–
Net interest income	2,877,491	869,585	996,725	58,607	4,802,408
Net fee and commission income	129,953	295,601	326,401	77,014	828,969
Net trading losses	–	–	(187,764)	–	(187,764)
Net gains arising from investments	–	–	100,330	–	100,330
Other operating income	1,240	1,691	91	20,628	23,650
Operating income	3,008,684	1,166,877	1,235,783	156,249	5,567,593
Operating expenses	(941,258)	(461,355)	(358,656)	(57,653)	(1,818,922)
Impairment losses	(1,222,366)	(68,149)	(20,000)	(68,389)	(1,378,904)
Profit before taxation	845,060	637,373	857,127	30,207	2,369,767
Other segment information					
– Depreciation and amortisation	(129,233)	(176,398)	(9,508)	(311)	(315,450)
– Capital expenditure	248,416	339,076	18,276	4,387	610,155

	31 December 2017				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	85,404,515	41,750,418	173,894,074	4,142,799	305,191,806
Deferred tax assets					1,084,286
Total assets					306,276,092
Segment liabilities/Total liabilities	108,835,812	55,028,688	113,004,905	3,283,478	280,152,883
Credit commitments	19,013,368	407,964	–	–	19,421,332

45 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, industries, etc. for loans and advances, financial guarantees and similar exposures, and limiting concentrations of exposure by issuer, market liquidity, etc. 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.

- Developing and maintaining the Group's processes for measuring ECL.

- 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, and 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.

45 RISK MANAGEMENT (continued)

Without taking account of any collateral and other credit enhancements, 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 47(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 47(1).

(b) 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 as rescheduled loans. Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

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.

45 RISK MANAGEMENT (continued)

(c) 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 product of probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account the time value of the currency. 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 (for definition of default, see Note 2(5)).

- 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 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 year ended 31 December 2018, there has been no significant changes in the estimate techniques and key assumptions of the Group.

The impairment loss on credit-impaired corporate loans and advance to customers applied cash flow discount method, if there is objective evidence that an impairment loss on a loan or advance has incurred, the amount of the loss is measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in the statement of profit or loss. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the borrower's business plan;

- The borrower's ability to improve performance once a financial difficulty has arisen;

- The estimated recoverable cash flows from projects and liquidation;

- The availability of other financial support and the realisable value of collateral; and

- The timing of the expected cash flows.

It may not be possible to identify a single, or discrete events that result in the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each reporting period, unless unforeseen circumstances require more careful attention.

45 RISK MANAGEMENT (continued)

(d) 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

45 RISK MANAGEMENT (continued)

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

	31 December 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 balance	2,117,178	–	–	–	–
Provision for impairment losses of credit-impaired financial assets measured at amortized cost	(987,186)	–	–	–	–
Net balance	1,129,992	–	–	–	–
Overdue but not credit-impaired (Note (i))					
Within 3 months (inclusive)	2,271,708	–	–	–	–
Gross balance	2,271,708	–	–	–	–
Provision for impairment losses of financial assets which are measured at amortized cost and overdue but not credit-impaired	(302,169)	–	–	–	–
Net balance	1,969,539	–	–	–	–
Neither overdue nor credit-impaired (including accrued interest)					
Gross balance	122,519,234	7,904,065	5,665,197	300,384	145,840,875
Provision for impairment losses of financial assets measured at amortized cost which are neither overdue nor credit-impaired	(2,251,874)	(137,367)	(12,296)	(122)	(467,502)
Net balance	120,267,360	7,766,698	5,652,901	300,262	145,373,373
Book value	123,366,891	7,766,698	5,652,901	300,262	145,373,373

(Expressed in thousands of Renminbi, unless otherwise stated)

45 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

45 RISK MANAGEMENT (continued)

Notes:

(i) As at 31 December 2018, the principal amount of the Group's credit-impaired corporate loans and advances to customers was RMB 1,804 million. The fair value of collaterals held against these loans and advances was RMB 166 million. As at 31 December 2017, the principal amount of the Group's impaired corporate loans and advances to customers was RMB 1,294 million. The fair value of collaterals held against these loans and advances was RMB 186 million..

As at 31 December 2018, the principal amount of the Group's corporate loans and advances to customers overdue but not credit-impaired was RMB 2,081 million. The secured portion of these loans and advances were RMB 120 million. The fair value of collaterals held against these loans and advances was RMB 250 million. As at 31 December 2017, the principal amount of the Group's corporate loans and advances to customers overdue but not impaired was RMB 1,671 million. The secured portion of these loans and advances were RMB 164 million. The fair value of collaterals held against these loans and advances was RMB 388 million.

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

(ii) Investments include financial assets at FVTPL, financial investment measured at amortized cost, non-equity investments classified as financial investment measured at FVOCI and 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)

45 RISK MANAGEMENT (continued)

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

	31 December 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	29,554,430	489,559	29,064,871	–	–	–
Deposits with banks and other financial institutions	1,542,437	9,909	1,332,609	199,919	–	–
Placements with banks and other financial institutions	4,110,464	87,236	932,723	3,090,505	–	–
Financial assets held under resale agreements	300,262	384	299,878	–	–	–
Loans and advances to customers (Note (i))	123,366,891	521,250	46,007,345	69,134,140	6,010,630	1,693,526
Investments (Note (ii))	145,396,623	2,183,527	9,197,205	20,171,587	70,734,644	43,109,660
Long-term receivables	7,766,698	70,610	6,244,867	1,451,221	–	–
Others	5,620,697	5,620,697	–	–	–	–
Total assets	317,658,502	8,983,172	93,079,498	94,047,372	76,745,274	44,803,186
Liabilities						
Borrowings from central bank	10,878,835	99,825	252,891	10,526,119	–	–
Deposits from banks and other financial institutions	11,632,982	80,287	5,095,694	6,457,001	–	–
Placements from banks and other financial institutions	7,207,066	102,207	3,333,630	3,586,416	184,813	–
Financial assets sold under repurchase agreements	14,850,333	4,202	14,846,131	–	–	–
Deposits from customers	177,911,247	2,366,917	120,420,179	28,622,624	26,113,704	387,823
Debt securities issued	65,240,507	343,846	16,636,912	39,570,111	1,499,470	7,190,168
Others	2,440,808	2,440,808	–	–	–	–
Total liabilities	290,161,778	5,438,092	160,585,437	88,762,271	27,797,987	7,577,991
Asset-liability gap	27,496,724	3,545,080	(67,505,939)	5,285,101	48,947,287	37,225,195

(Expressed in thousands of Renminbi, unless otherwise stated)

45 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 31 December 2018 includes overdue loans and advances (net of provision for impairment losses) of RMB 3,077 million (31 December 2017: RMB 2,527 million).

(ii) Investments include financial assets at FVTPL, financial investment measured at FVOCI, 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)

45 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	31 December 2018 Increase/ (Decrease)	31 December 2017 Increase/ (Decrease)
Interest rates increase by 100 bps	(635,421)	(399,892)
Interest rates decrease by 100 bps	635,421	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)

45 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 currency exposures of the Group's assets and liabilities as at the end of the reporting period are as follows:

	31 December 2018			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	29,522,481	28,105	3,844	29,554,430
Deposits with banks and other financial institutions	1,187,598	332,317	22,522	1,542,437
Placements with banks and other financial institutions	3,874,944	235,520	–	4,110,464
Financial assets held under resale agreements	300,262	–	–	300,262
Loans and advances to customers	123,210,169	153,093	3,629	123,366,891
Investments (Note (i))	135,931,485	9,465,138	–	145,396,623
Long-term receivables	7,766,698	–	–	7,766,698
Others	5,617,694	2,252	751	5,620,697
Total assets	307,411,331	10,216,425	30,746	317,658,502
Liabilities				
Borrowings from central bank	10,878,835	–	–	10,878,835
Deposits from banks and other financial institutions	11,632,982	–	–	11,632,982
Placements from banks and other financial institutions	6,240,715	966,351	–	7,207,066
Financial assets sold under repurchase agreements	14,850,333	–	–	14,850,333
Deposits from customers	177,223,409	631,187	56,651	177,911,247
Debt securities issued	65,240,507	–	–	65,240,507
Others	2,411,680	27,363	1,765	2,440,808
Total liabilities	288,478,461	1,624,901	58,416	290,161,778
Net position	18,932,870	8,591,524	(27,670)	27,496,724
Off-balance sheet credit commitments	18,038,135	482,852	190,851	18,711,838

(Expressed in thousands of Renminbi, unless otherwise stated)

45 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 FVTPL, financial investment measured at FVOCI, 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. As at 31 December 2018, the nominal principal of derivatives financial instruments was nil.

(Expressed in thousands of Renminbi, unless otherwise stated)

45 RISK MANAGEMENT (continued)

Changes in annualized net profit	31 December 2018 Increase/(Decrease)	31 December 2017 Increase/(Decrease)
Foreign exchange rate increase by 100 bps	9,358	9,747
Foreign exchange rate decrease by 100 bps	(9,358)	(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 recognised as a result of 100 basis point fluctuation in the foreign currency exchange rates against RMB;

(ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously;

(iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity.

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

(3) Liquidity risk

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

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

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

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

(Expressed in thousands of Renminbi, unless otherwise stated)

45 RISK MANAGEMENT (continued)

(a) Maturity analysis

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

	31 December 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	20,835,735	8,718,695	–	–	–	–	–	29,554,430
Deposits with banks and other financial institutions	–	1,341,224	–	–	201,213	–	–	1,542,437
Placements with banks and other financial institutions	–	–	239,838	713,109	3,157,517	–	–	4,110,464
Financial assets held under resale agreements	–	–	300,262	–	–	–	–	300,262
Loans and advances to customers	2,156,367	940,792	6,331,329	10,979,327	41,645,801	25,418,753	35,894,522	123,366,891
Investments (Note (i))	23,250	–	1,378,417	7,684,772	21,216,658	71,838,897	43,254,629	145,396,623
Long-term receivables	–	–	200,327	758,346	2,456,543	4,351,482	–	7,766,698
Others	5,601,299	19,398	–	–	–	–	–	5,620,697
Total assets	28,616,651	11,020,109	8,450,173	20,135,554	68,677,732	101,609,132	79,149,151	317,658,502
Liabilities								
Borrowings from central bank	–	–	176,217	76,674	10,625,944	–	–	10,878,835
Deposits from banks and other financial institutions	–	1,817,247	2,397,146	906,887	6,511,702	–	–	11,632,982
Placements from banks and other financial institutions	–	–	1,368,515	2,025,440	3,628,030	185,081	–	7,207,066
Financial assets sold under repurchase agreements	–	–	14,850,333	–	–	–	–	14,850,333
Deposits from customers	–	91,748,668	18,338,126	10,846,766	29,388,722	27,201,142	387,823	177,911,247
Debt securities issued	–	–	4,779,439	12,064,185	39,707,245	1,499,470	7,190,168	65,240,507
Others	119,499	143,478	639,057	56,053	710,163	696,858	75,700	2,440,808
Total liabilities	119,499	93,709,393	42,548,833	25,976,005	90,571,806	29,582,551	7,653,691	290,161,778
Net position	28,497,152	(82,689,284)	(34,098,660)	(5,840,451)	(21,894,074)	72,026,581	71,495,460	27,496,724

(Expressed in thousands of Renminbi, unless otherwise stated)

45 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 FVTPL, financial investment measured at FVOCI, 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 credit-impaired/impaired or overdue for more than one month, and the balance not credit-impaired/impaired but overdue within one month is included in "repayable on demand".

(Expressed in thousands of Renminbi, unless otherwise stated)

45 RISK MANAGEMENT (continued)

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

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

	31 December 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	–	–	176,370	76,950	10,845,905	–	–	11,099,225	10,878,835
Deposits from banks and other financial institutions	–	1,817,247	2,399,559	911,385	6,641,162	–	–	11,769,353	11,632,982
Placements from banks and other financial institutions	–	–	1,370,635	2,045,181	3,749,160	194,204	–	7,359,180	7,207,066
Financial assets sold under repurchase agreements	–	–	14,855,016	–	–	–	–	14,855,016	14,850,333
Deposits from customers	–	91,748,668	18,351,229	10,892,065	29,816,577	29,487,700	461,810	180,758,049	177,911,247
Debt securities issued	–	–	4,790,000	12,163,730	40,863,000	3,093,920	8,445,960	69,356,610	65,240,507
Others	119,499	143,478	639,057	56,053	710,163	696,858	75,700	2,440,808	2,440,808
Total non-derivative liabilities	119,499	93,709,393	42,581,866	26,145,364	92,625,967	33,472,682	8,983,470	297,638,241	290,161,778

	31 December 2017								
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central bank	–	–	80,000	278,880	230,000	–	–	588,880	584,215
Deposits from banks and other financial institutions	–	1,570,147	4,653,266	3,472,332	15,437,299	177,536	–	25,310,580	24,901,934
Placements from banks and other financial institutions	–	–	1,299,346	1,509,562	3,028,511	–	–	5,837,419	5,774,299
Financial assets sold under repurchase agreements	–	–	11,902,034	–	–	–	–	11,902,034	11,899,583
Deposits from customers	–	84,605,945	15,958,670	11,584,685	26,178,569	23,857,402	152,146	162,337,417	160,083,783
Debt securities issued	–	–	5,830,000	23,122,930	26,063,000	9,857,670	8,818,940	73,692,540	68,632,691
Others	16,174	291,126	628,215	732,125	4,608,648	1,727,777	56,480	8,060,545	7,923,158
Total non-derivative liabilities	16,174	86,467,218	40,351,531	40,700,514	75,546,027	35,620,385	9,027,566	287,729,415	279,799,663

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

(Expressed in thousands of Renminbi, unless otherwise stated)

45 RISK MANAGEMENT (continued)

(c) Analysis on contractual undiscounted cash flows of derivatives

As at 31 December 2018, the nominal principal of derivatives financial instruments held by the Group was nil. The following tables provide an analysis of the contractual undiscounted cash flow of the derivative financial liabilities as at 31 December 2017:

	31 December 2017							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow
Cash flows of derivatives								
Derivatives settled on a gross basis								
Of which: cash inflow	–	–	391,633	1,332,307	6,727,493	–	–	8,451,433
cash outflow	–	–	(396,460)	(1,432,512)	(6,990,066)	–	–	(8,819,038)
Total derivative financial instruments	–	–	(4,827)	(100,205)	(262,573)	–	–	(367,605)

(4) Operational risk

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

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

(5) Capital management

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

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

The Group considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testing and other measures to forecast, plan and manage capital adequacy ratio. The required information is filed with the regulatory authority by the Group periodically.

(Expressed in thousands of Renminbi, unless otherwise stated)

45 RISK MANAGEMENT (continued)

As at 31 December 2017 and 2018, the Group calculated the capital adequacy ratios in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法（試行）) issued by the CBRC in 2012 and relevant requirements promulgated by the CBRC as follows:

	31 December 2018	31 December 2017
Total core tier-one capital	19,433,753	17,931,217
– Share capital	4,058,713	4,058,713
– Qualifying portion of capital reserve	6,826,276	6,826,276
– Surplus reserve	1,403,575	1,203,325
– General reserve	3,969,452	3,969,452
– Retained earnings	2,319,800	2,603,573
– Other comprehensive income	553,193	(885,449)
– Qualifying portion of non-controlling interests	302,744	155,327
Core tier-one capital deductions	(165,153)	(197,454)
Net core tier-one capital	19,268,600	17,733,763
Other tier-one capital	7,894,330	7,874,674
Net tier-one capital	27,162,930	25,608,437
Tier two capital	8,858,726	8,197,676
– Qualifying portions of tier-two capital instruments issued	7,200,000	7,200,000
– Surplus provision for loan impairment	1,577,994	956,255
– Qualifying portion of non-controlling interests	80,732	41,421
Net capital base	36,021,656	33,806,113
Total risk weighted assets	229,776,495	203,708,884
Core tier-one capital adequacy ratio	8.39%	8.71%
Tier-one capital adequacy ratio	11.82%	12.57%
Capital adequacy ratio	15.68%	16.60%

46 FAIR VALUE

(1) Methods and assumptions for measurement of fair value

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

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

(a) Debt securities investments

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

(b) Receivables and other non-derivative financial assets

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

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

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

(d) Derivative financial instruments

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

(Expressed in thousands of Renminbi, unless otherwise stated)

46 FAIR VALUE (continued)

(2) Financial instruments recorded at fair value

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

	31 December 2018			
	Level 1 Note (i)	Level 2 Note (i)	Level 3 Note (i) ~ (ii)	Total
Financial assets at FVTPL				
– Debt securities	–	237,280	–	237,280
– Asset management plans	–	–	9,354,611	9,354,611
– Wealth management products issued by financial institutions	–	–	2,080,946	2,080,946
– Trust fund plans	–	–	3,221,359	3,221,359
– Investment funds	–	7,417,936	49,684	7,467,620
Financial investments at FVOCI				
– Debt securities	–	47,796,047	–	47,796,047
– Asset management plans	–	5,183,454	–	5,183,454
– Equity investments	–	–	23,250	23,250
Loans and advances to customers at FVOCI	–	–	6,772,625	6,772,625
Total	–	60,634,717	21,502,475	82,137,192

(Expressed in thousands of Renminbi, unless otherwise stated)

46 FAIR VALUE (continued)

	31 December 2017			
	Level 1 Note (i)	Level 2 Note (i)	Level 3 Note (i) ~ (ii)	Total
Financial assets at FVTPL				
– 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)

46 FAIR VALUE (continued)

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

				Total gains or losses for the year		Purchases, issues, disposals and settlements				
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 31 December	Total gains or losses for the year included in profit or loss for assets held at the end of the year
Financial assets at FVTPL										
– Asset management plans	10,863,060	–	–	146,488	–	2,249,559	–	(3,904,496)	9,354,611	137,908
– Wealth management products issued by financial institutions	20,992,466	–	–	183,456	–	5,000,000	–	(24,094,976)	2,080,946	78,405
– Trust fund plans	8,456,436	–	–	77,401	–	395,000	–	(5,707,478)	3,221,359	76,794
– Investment funds	60,155	–	–	1,501	–	–	–	(11,972)	49,684	1,465
Financial investments at FVOCI										
– Asset management plans	3,203,033	–	–	67,501	(5,938)	–	–	(3,264,596)	–	–
– Equity investments	23,250	–	–	–	–	–	–	–	23,250	–
Loans and advances to customers at FVOCI	2,941,746	–	–	249,566	15,908	28,225,793	–	(24,660,388)	6,772,625	96,223
Total	46,540,146	–	–	725,913	9,970	35,870,352	–	(61,643,906)	21,502,475	390,795

				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 year included in profit or loss for assets held at the end of the year
Available-for-sale financial assets										
– Asset management plans	2,003,746	–	–	146,267	–	2,900,000	–	(1,860,041)	3,189,972	89,131
– Wealth management products issued by financial institutions	1,502,025	–	–	455,001	(40,197)	20,600,000	–	(1,519,700)	20,997,129	437,326
– Trust fund plans	1,001,753	–	–	129,751	–	4,700,000	–	(1,016,471)	4,815,033	115,033
Total	4,507,524	–	–	731,019	(40,197)	28,200,000	–	(4,396,212)	29,002,134	641,490

46 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)

46 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 instruments measured at amortised cost, held-to-maturity investments and debt securities issued:

	31 December 2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial investments measured at amortised cost					
– Debt securities	36,665,810	36,674,559	–	36,583,883	90,676
Total	36,665,810	36,674,559	–	36,583,883	90,676
Financial liabilities					
Securities issued					
– Debt securities	15,532,452	15,212,729	–	15,212,729	–
– Certificates of interbank deposit	49,708,055	49,726,684	–	49,726,684	–
Total	65,240,507	64,939,413	–	64,939,413	–

	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)

47 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

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

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

	31 December 2018	31 December 2017
Bank acceptances	13,700,722	14,892,929
Letters of credit	657,499	1,887,946
Letters of guarantees	2,410,966	2,103,693
Unused credit card commitments	1,698,681	407,964
Irrevocable loan commitments	243,970	128,800
Total	18,711,838	19,421,332

Irrevocable loan commitments only include unused loan commitments granted to syndicated loans.

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.

For details of ECL of credit commitments, please refer to Note 37(4).

(2) Credit risk-weighted amount

	31 December 2018	31 December 2017
Credit risk-weighted amount of contingent liabilities and commitments	9,694,305	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.

(3) Operating lease commitments

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

	31 December 2018	31 December 2017
Within one year (inclusive)	108,802	110,311
After one year but within five years (inclusive)	320,161	277,915
After five years	90,464	84,216
Total	519,427	472,442

(Expressed in thousands of Renminbi, unless otherwise stated)

47 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(4) Capital commitments

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

	31 December 2018	31 December 2017
Contracted but not paid for	213,625	295,637
Total	213,625	295,637

(5) Outstanding litigations and disputes

As at 31 December 2018 and 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.

(6) Bonds redemption obligations

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

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

	31 December 2018	31 December 2017
Bonds redemption obligations	4,153,146	3,834,175

(7) Pledged assets

	31 December 2018	31 December 2017
Investment securities	28,618,903	14,062,133
Discounted bills	1,214,031	–
Total	29,832,934	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 14). These deposits are not available for the Group's daily operations.

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

48 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

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

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

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 31 December 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:

	31 December 2018				
	Financial assets at FVTPL	Financial investments at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Asset management plans	9,354,611	5,183,454	23,345,844	37,883,909	37,883,909
Trust fund plans	3,221,359	–	4,749,685	7,971,044	7,971,044
Wealth management products issued by financial institutions	2,080,946	–	–	2,080,946	2,080,946
Asset-backed securities	–	1,952,607	–	1,952,607	1,952,607
Investment funds	7,467,620	–	–	7,467,620	7,467,620
Total	22,124,536	7,136,061	28,095,529	57,356,126	57,356,126

	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.

48 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (continued)

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

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

As at 31 December 2018, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB 71.534 billion (31 December 2017: RMB 51.044 billion).

In addition, the unconsolidated structured entities sponsored by the Group also include asset-backed securities. As at 31 December 2018, the balances of these asset-backed securities was RMB 0 million (31 December 2017: RMB 24 million).

(3) Structured entities sponsored and issued by the Group after 1 January but matured before 31 December at the end of the reporting period in which the Group no longer holds an interest

During the year ended 31 December 2018, the amount of fee and commission income recognised from the above mentioned structured entities by the Group was RMB 172 million (2017: RMB 78 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 31 December 2018 was RMB 113.520 billion (2017: RMB 137.437 billion).

49 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 2017, the Group entrusted a portfolio of customer loans with a book value of RMB 2.000 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 recognised.

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.

(Expressed in thousands of Renminbi, unless otherwise stated)

50 FIDUCIARY ACTIVITIES

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

As at 31 December 2018, the entrusted loans balance of the Group was RMB 4.163 billion (31 December 2017: RMB 9.386 billion).

51 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2018	31 December 2017
Assets		
Cash and deposits with central bank	29,554,430	27,097,814
Deposits with banks and other financial institutions	1,540,521	1,088,521
Placements with banks and other financial institutions	4,110,464	2,882,727
Financial assets at fair value through profit or loss	22,361,816	179,078
Financial assets held under resale agreements	300,262	3,584,200
Loans and advances to customers	123,366,891	95,514,680
Financial investments at fair value through other comprehensive income	53,002,751	Not applicable
Financial investments measured at amortised cost	70,032,056	Not applicable
Available-for-sale financial assets	Not applicable	79,086,556
Held-to-maturity investments	Not applicable	38,644,926
Receivables	Not applicable	46,678,869
Investment in subsidiary	510,000	510,000
Property and equipment	3,123,069	3,087,317
Deferred tax assets	1,116,928	1,064,602
Other assets	1,313,932	3,204,319
Total assets	310,333,120	302,623,609

(Expressed in thousands of Renminbi, unless otherwise stated)

51 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (continued)

	31 December 2018	31 December 2017
Liabilities		
Borrowings from central bank	10,878,835	584,215
Deposits from banks and other financial institutions	11,672,892	25,029,775
Placements from banks and other financial institutions	966,351	2,754,299
Derivative financial liabilities	–	353,220
Financial assets sold under repurchase agreements	14,850,333	11,899,583
Deposits from customers	177,911,247	160,083,783
Income tax payable	–	37,057
Debt securities issued	65,240,507	68,632,691
Other liabilities	1,850,618	7,622,624
Total liabilities	283,370,783	276,997,247
Equity		
Share capital	4,058,713	4,058,713
Other equity instrument		
Including: preference shares	7,853,964	7,853,964
Capital reserve	6,826,276	6,826,276
Surplus reserve	1,403,575	1,203,325
General reserve	3,969,452	3,969,452
Other comprehensive income	553,193	(885,449)
Retained earnings	2,297,164	2,600,081
Total equity	26,962,337	25,626,362
Total liabilities and equity	310,333,120	302,623,609

Approved and authorised for issue by the board of directors on 29 March 2019.

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

(Company Stamp)

(Expressed in thousands of Renminbi, unless otherwise stated)

52 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the issuance date of the financial statements, the IASB has issued a number of new and revised IFRSs. For the purpose of preparing the financial statements, the Group has adopted all the new and revised IFRSs in issue which are relevant to the Group for the reporting period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2018. The revised and new accounting standards and interpretations probably related to the Group, which are issued but not yet effective for the accounting period ended 31 December 2018, are set out below:

	Effective for accounting periods beginning on or after
IFRS 16, *Leases*	1 January 2019

In January 2016, the IASB issued IFRS 16, Leases, which replaces the current guidance in IAS 17. The new standard requires the companies to bring leases on-balance sheet for lessees. The new standard also makes changes in accounting over the life of the lease, and introduces a stark dividing line between leases and service contracts.

Under IFRS 16 there is no longer a distinction between finance leases and operating leases so far as lessees are concerned. Instead, subject to practical expedients, a lessee recognises all leases on-balance sheet by recognising a right-of-use (ROU) asset and lease liability.

Lessor accounting is substantially unchanged – i.e. lessors continue to classify leases as finance and operating leases. However, there are a number of changes in the details of lessor accounting. For example, lessors apply the new definition of a lease, sale-and-leaseback guidance, sub-lease guidance and disclosure requirements.

The standard is expected to have no material impact on financial position and financial performance.

53 SUBSEQUENT EVENTS

The RMB ordinary shares of the Bank were issued publicly on 16 January 2019 and listed on Shenzhen Stock Exchange. 450,977,251 shares were issued (with a par value of RMB 1.00 per share) at an issue price of RMB 4.52 per share and raised gross proceeds of RMB 2,038,417,174.52. After deducting various issuance costs of RMB 75,847,135.06 (excluding VAT), the actual net proceeds raised was RMB 1,962,570,039.46. The accumulated paid-up capital (share capital) of the Bank after the public offering was RMB 4,509,690,000.

The profit appropriation of the Bank was proposed in accordance with the resolution of the Bank's board of directors meeting as disclosed in Note 41.

Up to the approval date of the financial statements, except for the above, the Group has no other significant subsequent events for disclosure.

54 COMPARATIVE FIGURES

For financial statements disclosure purpose, the Group made reclassification adjustments to some comparative figures.

(Expressed in thousands of Renminbi, unless otherwise stated)

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

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

1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO

(1) Liquidity coverage ratio

The liquidity coverage ratio is calculated in accordance with the relevant regulations promulgated by the 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 31 December 2018	As at 31 December 2017
Qualified and high-quality current assets	52,974,850	51,274,632
Net cash outflows in next 30 days	42,058,582	29,629,985
Liquidity coverage ratio (RMB and foreign currency)	125.95%	173.05%

(2) Leverage ratio

	As at 31 December 2018	As at 31 December 2017
Leverage ratio	7.92%	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

	31 December 2018			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	10,216,425	25,396	5,350	10,247,171
Spot liabilities	(1,624,901)	(18,547)	(39,869)	(1,683,317)
Net long position	8,591,524	6,849	(34,519)	8,563,854

	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 at the reporting periods.

(Expressed in thousands of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

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

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

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

	31 December 2018			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	26,023	4,834,807	5,100,075	9,960,905
– of which attributed to Hong Kong	–	3,133,618	–	3,133,618
– North and South America	–	271,312	–	271,312
– Europe	–	1,257	–	1,257
	26,023	5,107,376	5,100,075	10,233,474

	31 December 2017			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	289,623	7,745,205	264,135	8,298,963
– of which attributed to Hong Kong	–	2,958,528	–	2,958,528
– North and South America	–	277,939	–	277,939
– Europe	–	10,759	–	10,759
	289,623	8,033,903	264,135	8,587,661

(Expressed in thousands of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	31 December 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)	422,827	280,804
– between 6 months and 1 year (inclusive)	806,413	635,442
– over 1 year	852,792	1,045,334
Total	2,082,032	1,961,580
As a percentage of total gross loans and advances (excluding accrued interest)		
– between 3 and 6 months (inclusive)	0.33%	0.29%
– between 6 months and 1 year (inclusive)	0.64%	0.64%
– over 1 year	0.67%	1.07%
Total	1.64%	2.00%

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