

BQD  
青島銀行

## 2019 Interim Report

**Bank of Qingdao Co., Ltd.**  
**青島銀行股份有限公司**

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

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

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## SECTION I IMPORTANT NOTICE, CONTENTS AND DEFINITIONS

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1. The Board of Directors, Board of Supervisors, Directors, Supervisors and senior management of the Bank assure that the information in this report contains no false records, misleading statements or material omissions, and severally and jointly take full responsibility for the authenticity, accuracy and completeness of the information in this report.
2. The proposal on the 2019 Interim Report of Bank of Qingdao Co., Ltd. and its Summary was considered and approved at the 26th meeting of the seventh session of the Board of Directors of the Bank held on 23 August 2019. There were 15 Directors eligible for attending the meeting, of whom 12 Directors attended the meeting and 3 Directors attended by proxy. CHOI Chi Kin, Calvin, the non-executive Director, entrusted TAN Lixia, WONG Tin Yau, Kelvin, the independent non-executive Director, entrusted DAI Shuping, and CHEN Hua, the independent non-executive Director, entrusted FANG Qiaoling to attend the meeting on their behalf due to other work arrangements.
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 financial reports in this report.
4. The financial statements of the Company for the six months ended 30 June 2019 prepared in accordance with Accounting Standards for Business Enterprises have been reviewed by KPMG Huazhen LLP; the interim financial reports of the Company for the six months ended 30 June 2019 prepared in accordance with International Accounting Standards have been reviewed by KPMG.
5. No ordinary share cash dividend distribution, no bonus shares distribution and no increase in share capital with provident fund were planned by the Bank in 2019 during the interim period.
6. Unless otherwise specified, the currency of the amounts mentioned in this report is RMB.
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 cultivate the adequate risk awareness in this regard, understand the differences between plans, forecasts and commitments, and 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 invites investors to read the full text of this report carefully. 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 IV Management Discussion and Analysis".

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## DEFINITIONS

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| Term                     | Definition  |
|--------------------------|---|
| PRC or China             | The People's Republic of China  |
| Company                  | Bank of Qingdao Co., Ltd. and its subsidiaries and branches   |
| Bank                     | Bank of Qingdao Co., Ltd. and its branches  |
| A Share(s)               | shares issued in China, listed on the domestic stock exchanges and subscribed for and traded in RMB   |
| H Share(s)               | shares issued outside the mainland area of China, listed on The Stock Exchange of Hong Kong Limited and subscribed for and traded in foreign currency |
| CBIRC                    | China Banking and Insurance Regulatory Commission   |
| Hong Kong Stock Exchange | The Stock Exchange of Hong Kong Limited   |
| SZSE                     | the Shenzhen Stock Exchange   |
| CSRC                     | China Securities Regulatory Commission  |
| Hong Kong Listing Rules  | Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited  |
| Articles of Association  | Articles of Association of the Bank of Qingdao Co., Ltd.  |
| SFO                      | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)   |
| Reporting Period         | the six months ended 30 June 2019   |
| RMB                      | the lawful currency of the PRC  |
| Model Code               | Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to 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  |
| 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 oil refining, tyres, electrolytic aluminum, 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  |
| IFRS 9   | International Financial Reporting Standard 9 Financial Instruments issued by the International Accounting Standards Board and effective from 1 January 2018   |
| IFRS 16  | International Financial Reporting Standard 16 Lease issued by the International Accounting Standards Board and effective from 1 January 2019  |

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## SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

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### I. CORPORATE INFORMATION

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

## SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

### 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. OTHER INFORMATION

#### (I) Contact information of the Bank

The registered address, office address and the corresponding postal code, our website and E-mail address have not changed during the Reporting Period.

#### (II) Information disclosure and place of inspection

The names of the newspapers designated by the Bank for information disclosure, the websites designated by the CSRC that publish the interim report, and the place of inspection for interim report of the Bank remain unchanged during the Reporting Period.

#### Medias designated by the Bank for information disclosure

|   |   |
|---|---|
| <b>Domestic</b>   | the website of the SZSE ( <a href="http://www.szse.com.cn/">http://www.szse.com.cn/</a> ), Cninfo website ( <a href="http://www.cninfo.com.cn/">http://www.cninfo.com.cn/</a> ), China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily and the website of the Bank ( <a href="http://www.qdccb.com/">http://www.qdccb.com/</a> ) |
| <b>Overseas</b>   | HKEX news website of the Hong Kong Stock Exchange ( <a href="http://www.hkexnews.hk/">http://www.hkexnews.hk/</a> ) and the website of the Bank ( <a href="http://www.qdccb.com/">http://www.qdccb.com/</a> )   |
| <b>Website designated by the CSRC for publication of interim report</b> | Cninfo website ( <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> )  |
| <b>Place of inspection for interim report of the Company</b>            | office of the Board of Directors and the Board of Supervisors of the Bank   |

## SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

### (III) Change of registration

On 16 January 2019, the Bank completed the initial public offering of A Shares and listed on the SZSE. After listing, the registered capital of the Bank increased from RMB4,058,712,749 to RMB4,509,690,000. During the Reporting Period, the Bank has completed the change of business registration of registered capital and obtained a new business license.

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

### (IV) Accounting firms engaged by the Bank

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

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

CITIC Securities Co., Ltd., the sponsor engaged by the Bank to perform continuous supervision duties, has appointed Mr. WANG Chen to replace Mr. WU ling as the sponsor representative of continuous supervision of the Bank since 26 March 2019.

| <b>Name of sponsor</b>     | <b>Office address of sponsor</b>  | <b>Sponsor representatives</b> | <b>Continuous supervision period</b>     |
|----------------------------|---|--------------------------------|--|
| 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 |

## SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

### (VI) Legal advisors engaged by the Bank

|  |                               |
|--|-------------------------------|
| <b>Legal advisor as to PRC law</b>       | King & Wood Mallesons Beijing |
| <b>Legal advisor as to Hong Kong law</b> | Clifford Chance               |

### (VII) Share registrars of the Bank

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

## IV. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS

| <b>Item</b>   | <b>January to<br/>June 2019</b> | January to<br>June 2018 | <b>Year-on<br/>-year<br/>change</b> |
|---|---------------------------------|-------------------------|-------------------------------------|
| <b>Business performance (RMB'000)</b>               |                                 |                         | <b>Change (%)</b>                   |
| Net interest income                                 | <b>3,144,543</b>                | 1,736,292               | 81.11                               |
| Net non-interest income                             | <b>1,390,025</b>                | 1,393,819               | (0.27)                              |
| Operating income                                    | <b>4,534,568</b>                | 3,130,111               | 44.87                               |
| Operating expenses                                  | <b>(1,266,489)</b>              | (964,113)               | 31.36                               |
| Impairment losses                                   | <b>(1,428,195)</b>              | (516,515)               | 176.51                              |
| Profit before taxation                              | <b>1,839,884</b>                | 1,649,483               | 11.54                               |
| Net profit  | <b>1,466,129</b>                | 1,330,876               | 10.16                               |
| Net profit attributable to shareholders of the Bank | <b>1,438,462</b>                | 1,321,444               | 8.86                                |
| <b>Per share (RMB)</b>                              |                                 |                         | <b>Change (%)</b>                   |
| Basic earnings per share <sup>(1)</sup>             | <b>0.32</b>                     | 0.33                    | (3.03)                              |
| Diluted earnings per share <sup>(1)</sup>           | <b>0.32</b>                     | 0.33                    | (3.03)                              |

## SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

| Item   | 30 June<br>2019    | 31<br>December<br>2018 | Change<br>from<br>the end of<br>last year |
|--|--------------------|------------------------|---|
| <b>Scale indicators (RMB'000)</b>  |                    |                        | <b>Change (%)</b>                         |
| Total assets <sup>(2)</sup>  | <b>345,230,946</b> | 317,658,502            | 8.68                                      |
| Loans and advances to customers <sup>(2)</sup>   | <b>143,343,578</b> | 123,366,891            | 16.19                                     |
| Provision for loan impairment <sup>(3)</sup>   | <b>(3,699,154)</b> | (3,557,806)            | 3.97                                      |
| Total liabilities <sup>(2)</sup>   | <b>315,232,865</b> | 290,161,778            | 8.64                                      |
| Deposits from customers <sup>(2)</sup>   | <b>188,360,223</b> | 177,911,247            | 5.87                                      |
| Share capital  | <b>4,509,690</b>   | 4,058,713              | 11.11                                     |
| Equity attributable to the shareholders of the Bank  | <b>29,458,663</b>  | 26,984,973             | 9.17                                      |
| Equity attributable to shareholders  | <b>29,998,081</b>  | 27,496,724             | 9.10                                      |
| Net assets per share attributable to ordinary<br>shareholders of the Bank <sup>(4)</sup> (RMB per share) | <b>4.79</b>        | 4.71                   | 1.70                                      |
| Net capital base   | <b>38,300,520</b>  | 36,021,656             | 6.33                                      |
| Among which: Net core tier-one capital   | <b>21,789,938</b>  | 19,268,600             | 13.09                                     |
| Other tier-one capital   | <b>7,899,710</b>   | 7,894,330              | 0.07                                      |
| Tier-two capital   | <b>8,610,872</b>   | 8,858,726              | (2.80)                                    |
| Total risk-weighted assets   | <b>236,429,937</b> | 229,776,495            | 2.90                                      |

| Item   | January to<br>June 2019 | January to<br>June 2018 | Year-on<br>-year<br>change |
|--|-------------------------|-------------------------|----------------------------|
| <b>Profitability indicators (%)</b>                                  |                         |                         | <b>Change</b>              |
| Return on average total assets <sup>(5)</sup> (annualized)           | <b>0.88</b>             | 0.88                    | –                          |
| Weighted average return on net assets <sup>(1)</sup><br>(annualized) | <b>13.49</b>            | 14.62                   | (1.13)                     |
| Net interest spread <sup>(6)</sup> (annualized)                      | <b>2.03</b>             | 1.47                    | 0.56                       |
| Net interest margin <sup>(7)</sup> (annualized)                      | <b>2.06</b>             | 1.35                    | 0.71                       |
| Net fee and commission income to<br>operating income                 | <b>12.81</b>            | 10.94                   | 1.87                       |
| Cost-to-income ratio <sup>(8)</sup>                                  | <b>26.84</b>            | 29.67                   | (2.83)                     |

## SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

| Item  | 30 June<br>2019 | 31<br>December<br>2018 | Change<br>from the<br>end of last<br>year |
|---|-----------------|------------------------|---|
| <b>Asset quality indicators (%)</b>                 |                 |                        |   |
| Non-performing loan ratio                           | <b>1.68</b>     | 1.68                   | –   |
| Provision coverage ratio                            | <b>150.42</b>   | 168.04                 | (17.62)                                   |
| Loan provision ratio                                | <b>2.53</b>     | 2.82                   | (0.29)                                    |
| <b>Indicators of capital adequacy ratio (%)</b>     |                 |                        |   |
| Core tier-one capital adequacy ratio <sup>(9)</sup> | <b>9.22</b>     | 8.39                   | 0.83                                      |
| Tier-one capital adequacy ratio <sup>(9)</sup>      | <b>12.56</b>    | 11.82                  | 0.74                                      |
| Capital adequacy ratio <sup>(9)</sup>               | <b>16.20</b>    | 15.68                  | 0.52                                      |
| Total equity to total assets                        | <b>8.69</b>     | 8.66                   | 0.03                                      |
| <b>Other indicators (%)</b>                         |                 |                        |   |
| Liquidity coverage ratio                            | <b>180.02</b>   | 125.95                 | 54.07                                     |
| Liquidity ratio                                     | <b>67.73</b>    | 60.55                  | 7.18                                      |
| Net stable fund ratio                               | <b>102.03</b>   | 102.80                 | (0.77)                                    |

*Notes:*

- (1) 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). Weighted average return on net assets (annualized) decreased by 1.13 percentage points as compared to that of previous year. Basic earnings per share decreased by RMB0.01 as compared to that of previous year, primarily due to the Bank completed the initial public offering of 451,000,000 A Shares in the first half of the year, and raised a net proceeds of RMB1.963 billion and the weighted average net assets and share capital for the current period increased significantly.
- (2) For details of the structure of total assets, total liabilities, loans and advances to customers and deposits from customers, please refer to “Section IV Management Discussion and Analysis – 4. Analysis of Major Items of the Statement of Financial Position” of this report.
- (3) Provision for loan impairment includes impairment provision for loans and advances to customers measured at amortized cost of RMB3.679 billion and impairment provision for loans and advances to customers at fair value through other comprehensive income of RMB20 million.
- (4) Net assets per share attributable to shareholders of the Bank = (equity attributable to shareholders of the Bank – other equity instruments)/number of ordinary shares at the end of the period.

## SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

- (5) Return on average total assets = net profit/average balance of total assets at the beginning and the end of the period, of which total assets at the beginning of 2018 is the balance after the adoption of IFRS 9, and total assets at the beginning of 2019 is the balance after the adoption of IFRS 16.
- (6) Net interest spread = average yield of interest-earning assets – average cost rate of interest-bearing liabilities.
- (7) Net interest margin = net interest income/average interest-earning assets.
- (8) Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income.
- (9) The relevant indicators of capital adequacy ratios in the above table were calculated in accordance with the “Regulation Governing Capital of Commercial Banks (Provisional)” (《商業銀行資本管理辦法(試行)》) and other relevant regulatory regulations.
- (10) For details of the changes in accounting policies and impacts, please refer to the announcement on the changes in accounting policies dated 23 August 2019 published by the Bank and “Notes to the Unaudited Interim Financial Report – 2(3) Changes in Accounting Policies” of this report.

### V. 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 disclosed in the interim financial report of the Company prepared in accordance with International Accounting Standards.

### VI. SUPPLEMENTARY FINANCIAL INDICATORS

|                                    | Regulatory<br>standard | 30 June<br>2019 | 31<br>December<br>2018 | 31<br>December<br>2017 |
|------------------------------------|------------------------|-----------------|------------------------|------------------------|
| <b>Customer loan ratio (%)</b>     |                        |                 |                        |                        |
| Single largest customer loan ratio | ≤10                    | <b>4.70</b>     | 4.16                   | 4.32                   |
| Ten largest customers loan ratio   | ≤50                    | <b>30.38</b>    | 29.06                  | 29.21                  |

|                                     | 30 June<br>2019 | 31<br>December<br>2018 | 31<br>December<br>2017 |
|-------------------------------------|-----------------|------------------------|------------------------|
| <b>Migration rate (%)</b>           |                 |                        |                        |
| Normal loan migration rate          | <b>1.74</b>     | 3.06                   | 2.51                   |
| Special mention loan migration rate | <b>49.87</b>    | 44.53                  | 53.57                  |
| Substandard loan migration rate     | <b>61.53</b>    | 36.28                  | 67.75                  |
| Doubtful loan migration rate        | <b>39.25</b>    | 21.41                  | 10.31                  |

## SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

| <b>Liquidity coverage ratio item (RMB' 000)</b>            | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|--|-------------------------|---------------------|
| Qualified and high-quality current assets                  | <b>65,054,000</b>       | 52,974,850          |
| Net cash outflows in next 30 days                          | <b>36,137,989</b>       | 42,058,582          |
| <b>Liquidity coverage ratio (RMB and foreign currency)</b> | <b>180.02%</b>          | 125.95%             |

| <b>Net stable fund ratio item<br/>(RMB' 000)</b> | <b>30 June 2019</b>    |                    | 31 March 2019  |             | 31 December 2018 |             |
|--|------------------------|--------------------|----------------|-------------|------------------|-------------|
|  | <b>The<br/>Company</b> | <b>The Bank</b>    | The<br>Company | The Bank    | The<br>Company   | The Bank    |
| Stable funds available                           | <b>188,183,992</b>     | <b>186,315,742</b> | 183,312,473    | 181,737,448 | 178,819,503      | 177,025,810 |
| Stable funds required                            | <b>184,434,976</b>     | <b>178,763,840</b> | 183,106,383    | 177,578,756 | 173,945,290      | 168,986,433 |
| <b>Net stable fund ratio</b>                     | <b>102.03%</b>         | <b>104.22%</b>     | 100.11%        | 102.34%     | 102.80%          | 104.76%     |

*Note:* Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, net stable fund ratio for commercial banks shall not be less than 100%.

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## SECTION III BUSINESS OVERVIEW

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### 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. Facing various external factors including economic “new normality”, strict industry supervision and reshaping of traditional banking business through financial technology, the Bank has 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 138. 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.

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 RMB345.231 billion, capital adequacy ratio was 16.20%, and non-performing loan ratio was 1.68%, which is the same as that of the end of last year. During the Reporting Period, the accumulated net profit was RMB1.466 billion, representing an increase of 10.16% over the same period of last year.

### II. ANALYSIS OF THE CORE COMPETITIVENESS

Centering on the development vision of “Innovative Finance, Brilliant Banking”, the Bank is firmly committed to the strategic goal of “being a technology-driven bank that offers new quality financial products with lean management and outstanding features”, and its sustainable development capacity is constantly enhanced. The Bank’s core competitiveness is mainly reflected in:

In terms of corporate governance, after years of careful layout, the Bank has gradually formed a diversified shareholding structure covering state-owned legal entities, overseas investors, private enterprises, professional institutional investors and public shareholders, which is a typical representative of mixed ownership. The Bank’s major shareholders have a balanced shareholding ratio and are all stable strategic investors who can act in a scientific and reasonable manner in accordance with the law to support the Bank’s long-term development. The senior management team of the Bank is hired through market-oriented recruitment and has a strong industry knowledge and market-oriented management philosophy.

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## SECTION III BUSINESS OVERVIEW

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In terms of “Interface Banking” strategy, the Bank penetrates the “Interface Banking” strategy into various business fields and continuously innovates products and services. The Bank creates a wealth of customer contacts to expand the number of customers. Also, The Bank integrates the service resources all over the Bank to achieve cross-selling. In the fields of retail banking, corporate banking and financial market business, we are constantly creating new “interfaces” to promote the transformation and development of retail banking business, stabilize the role of the corporate business pillar, and maintain the dominant position of the financial market business, so as to provide inexhaustible impetus for the Bank’s sustainable development.

In terms of risk management, the Bank attaches great importance to the initiative identification and management of risks, and has prudent risk preference, and has not involved in major risk events. The Bank is committed to creating a professional and efficient risk management model with solid and stable risk control and timely and sufficient risk management, laying a solid foundation for the stable and sound development of asset quality.

In terms of technology-empowered capability, the Bank implements the strategy of “prominent technology” at level of the whole Bank, continues to invest in the construction of information technology systems and the cultivation of technological talents with the new financial concept of “Finance + Technology + Scenarios”, actively explores the practical application of new technology, strengthens the construction in key projects including mobile Internet, big data, cloud computing and other fields, and promotes the science and technology’s strategic support capability to the business development and risk prevention and control.

In terms of customer service, the Bank regards service quality as the foundation of its business. We set up specialised departments to coordinate customer service management and upgrade the service value by focusing on target customer groups, so as to make attentive service become a well-established brand for the Bank to attract customers and expand the market.

In terms of soft power of corporate culture, the Bank integrates the values advocated by corporate culture into the words and deeds of employees and promotes the establishment of distinctive and differentiated business development mode that cannot be duplicated, and its social influence continues to rise. “Integrity, Cohesion, Solidarity, Motivation” is the core concept of the Bank’s corporate culture, which is in line with the corporate culture system composed of caring culture, service culture, compliance culture, risk culture and devotion culture, and constitutes a solid soft strength of the Bank’s corporate culture.

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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### 1. OVERVIEW

In the first half of 2019, global economic growth remained anemic. Against the backdrop of external instability and increasing uncertainties, China's domestic economy maintained an overall stable development trend. The overall tone of China's prudent monetary policy remained unchanged, the size of social financing and loan scale continued to increase, and the support for the economy from finance was continuously enhancing. With the implementation of positive fiscal policy, the effect of tax reduction continued to increase in the first half of the year, while the issuance of local government bonds increased significantly, which stabilized the social investment. In the first half of 2019, although the economic growth of Shandong Province and Qingdao slowed down, the economic structure adjustment has started, the growth rate of consumption as well as import and export accelerated as compared to that of last year, and new economic growth points are forming.

### 2. SUMMARY OF THE OVERALL OPERATION

#### 2.1 Status of Key Operational Indicators Achievements

- (1) Total assets amounted to RMB345.231 billion, representing an increase of RMB27.572 billion or 8.68% as compared with that at the end of the previous year;
- (2) Loans and advances to customers amounted to RMB143.344 billion, representing an increase of RMB19.977 billion or 16.19% as compared with that at the end of the previous year;
- (3) Deposits from customers amounted to RMB188.360 billion, representing an increase of RMB10.449 billion or 5.87% as compared with that at the end of the previous year;
- (4) Net profit amounted to RMB1.466 billion, representing a year-on-year increase of RMB135 million or 10.16%;
- (5) Non-performing loan ratio was 1.68%, remaining flat as compared with that at the end of previous year; provision coverage ratio was 150.42%; capital adequacy ratio was 16.20%, representing an increase of 0.52 percentage point as compared with that at the end of the previous year. All indicators above meet the regulatory requirements;
- (6) Return on average total assets (annualized) was 0.88%, remaining flat as compared with that of the same period of previous year;
- (7) Weighted average return on net assets (annualized) was 13.49%, representing a year-on-year decrease of 1.13 percentage points; basic earnings per share was RMB0.32, representing a year-on-year decrease of RMB0.01, mainly due to the fact that the Bank completed the initial public offering of 451 million A Shares in the first half of the year, and raised the net proceeds of RMB1.963 billion and the weighted average net assets and share capital for the current period increased significantly.

### 2.2 Major Tasks of Operation and Management

- (1) Enhance customer experience and build a diversified service system for retail banking customers. During the Reporting Period, the retail banking customer base and their assets retained in the Bank continued to grow steadily. Credit card issuance speed continued to rise rapidly, wealth management business achieved rapid growth, personal loan business achieved both volume and price increases, and mid-to-high-end retail banking products continued to enrich. Mobile banking 4.0 was launched successfully and completed the reconstruction work on the cloud platform, which continuously optimized the customer experience of all channels.
- (2) Focus on target customer groups and strengthen the comprehensive operation capability of corporate banking business. During the Reporting Period, the corporate banking business focused on the strategy of expanding customer base. Through product innovation and system optimization, the Bank implemented a number of major projects in respect of strategic customers, bank and government cooperation, which effectively boosted the growth of credit and deposit scale and consolidated the development basis of the Bank.
- (3) Enhance investment quality and efficiency in financial market business, and expand diversified financing channels. During the Reporting Period, on the basis of maintaining the traditional advantages of capital trading business, the scale of bond underwriting increased steadily. The Bank vigorously developed direct financing business by relying on three major product lines, namely debt financing instruments, wealth management direct financing instruments and debt financing plans. Under unfavorable market environment, the Bank successfully issued two tranches of financial bonds with total amount of RMB8.0 billion. The Bank promoted the transformation and upgrading of net-worth products in accordance with the new requirements of asset management, and achieved the compliance growth of management scale and high-quality improvement of profit contribution.
- (4) Deepen management transformation and promote the “enhancement plan” to go further and become more precise. During the Reporting Period, the Bank continued to promote the construction of bank for centralized operation process, and 90% of the counter business achieved centralized authorization. A new round of counter marketing and exploration activities were carried out to explore potential customers and achieve deposit enhancement. The Bank explored innovation of centralized credit approval system to improve the quality and efficiency of credit approval.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 3. ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF PROFIT OR LOSS

#### 3.1 Financial Performance Summary

During the Reporting Period, the Company's profit before tax amounted to RMB1.840 billion, representing a year-on-year increase of RMB190 million or 11.54%; net profit amounted to RMB1.466 billion, representing a year-on-year increase of RMB135 million or 10.16%; and effective income tax rate was 20.31%, representing a year-on-year increase of 0.99 percentage point, mainly due to the increase in proportion of the taxable interest income on loans in the Company's operating income. The following table sets forth the changes in the Company's major profit items for the periods indicated.

Unit: RMB'000

| Item  | January to<br>June 2019 | January to<br>June 2018 | Change in<br>amount | Change (%) |
|---|-------------------------|-------------------------|---------------------|------------|
| Net interest income   | 3,144,543               | 1,736,292               | 1,408,251           | 81.11      |
| Net fee and commission income   | 580,810                 | 342,487                 | 238,323             | 69.59      |
| Net trading gains, net gains arising from<br>investments and other operating<br>income, net | 809,215                 | 1,051,332               | (242,117)           | (23.03)    |
| Operating expenses  | (1,266,489)             | (964,113)               | (302,376)           | 31.36      |
| Impairment losses   | (1,428,195)             | (516,515)               | (911,680)           | 176.51     |
| Profit before taxation  | 1,839,884               | 1,649,483               | 190,401             | 11.54      |
| Income tax expense  | (373,755)               | (318,607)               | (55,148)            | 17.31      |
| <b>Net profit</b>   | <b>1,466,129</b>        | 1,330,876               | 135,253             | 10.16      |
| Of which: Net profit attributable to<br>shareholders of the Bank                            | 1,438,462               | 1,321,444               | 117,018             | 8.86       |
| Net profit attributable to<br>non-controlling interests                                     | 27,667                  | 9,432                   | 18,235              | 193.33     |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 3.2 Operating Income

During the Reporting Period, the Company's operating income amounted to RMB4.535 billion, representing a year-on-year increase of RMB1.404 billion or 44.87%, mainly due to the Company's optimization of asset and liability structure, resulting in a faster growth in net interest income. The Company improved the level of intermediary business, and the net fee and commission income increased fast. Among the operating income, net interest income accounted for 69.35%, representing a year-on-year increase of 13.88 percentage points, and net fee and commission income accounted for 12.81%, representing a year-on-year increase of 1.87 percentage points. The following table sets forth the principal composition of the Company's operating income and the changes during the periods indicated.

*Unit: RMB'000*

| Item  | January to June 2019 |                | January to June 2018 |                | Percentage changes (percentage point) |
|---|----------------------|----------------|----------------------|----------------|---------------------------------------|
|   | Amount               | Percentage (%) | Amount               | Percentage (%) |                                       |
| Net interest income   | 3,144,543            | 69.35          | 1,736,292            | 55.47          | 13.88                                 |
| Interest income   | 6,825,818            | 150.53         | 5,453,245            | 174.22         | (23.69)                               |
| Among which:  |                      |                |                      |                |                                       |
| Loans and advances to customers   | 3,441,917            | 75.90          | 2,412,614            | 77.08          | (1.18)                                |
| Financial investments   | 2,685,687            | 59.23          | 2,534,605            | 80.97          | (21.74)                               |
| Deposits with banks and other financial institutions                                  | 8,670                | 0.19           | 9,671                | 0.31           | (0.12)                                |
| Placements with banks and other financial institutions                                | 142,484              | 3.14           | 52,706               | 1.68           | 1.46                                  |
| Deposits with central bank  | 168,832              | 3.72           | 188,787              | 6.03           | (2.31)                                |
| Financial assets held under resale agreements   | 133,225              | 2.94           | 123,596              | 3.95           | (1.01)                                |
| Long-term receivables   | 245,003              | 5.40           | 131,266              | 4.19           | 1.21                                  |
| Interest expense  | (3,681,275)          | (81.18)        | (3,716,953)          | (118.75)       | 37.57                                 |
| Net non-interest income   | 1,390,025            | 30.65          | 1,393,819            | 44.53          | (13.88)                               |
| Among which:  |                      |                |                      |                |                                       |
| Net fee and commission income   | 580,810              | 12.81          | 342,487              | 10.94          | 1.87                                  |
| Net trading gains, net gains arising from investments and other operating income, net | 809,215              | 17.85          | 1,051,332            | 33.59          | (15.74)                               |
| Operating income  | 4,534,568            | 100.00         | 3,130,111            | 100.00         | -                                     |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 3.3 Net Interest Income

During the Reporting Period, the Company's net interest income was RMB3.145 billion, representing a year-on-year increase of RMB1.408 billion or 81.11%, mainly due to the Company's net interest margin improved significantly while the scale of the Company's interest-earning assets expanded. The following table sets forth the average balance of interest-earning assets and interest-bearing liabilities items, interest income/expense and average yield/cost rate of the Company for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities represent the daily average balances.

Unit: RMB' 000

| Item   | January to June 2019 |                         |                             | January to June 2018 |                         |                             |
|--|----------------------|-------------------------|-----------------------------|----------------------|-------------------------|-----------------------------|
|  | Average balance      | Interest income/expense | Average yield/cost rate (%) | Average balance      | Interest income/expense | Average yield/cost rate (%) |
| <b>Interest-earning assets</b>   |                      |                         |                             |                      |                         |                             |
| Loans and advances to customers  | 137,694,343          | 3,441,917               | 5.04                        | 101,107,742          | 2,412,614               | 4.81                        |
| Financial investments  | 117,755,709          | 2,685,687               | 4.60                        | 113,377,563          | 2,534,605               | 4.51                        |
| Deposits and placements with banks and other financial institutions <sup>(1)</sup> | 21,055,983           | 284,379                 | 2.72                        | 14,618,405           | 185,973                 | 2.57                        |
| Deposits with central bank   | 22,209,675           | 168,832                 | 1.53                        | 24,971,505           | 188,787                 | 1.52                        |
| Long-term receivables  | 8,590,242            | 245,003                 | 5.75                        | 5,064,684            | 131,266                 | 5.23                        |
| <b>Total</b>   | <b>307,305,952</b>   | <b>6,825,818</b>        | <b>4.48</b>                 | <b>259,139,899</b>   | <b>5,453,245</b>        | <b>4.24</b>                 |
| <b>Interest-bearing liabilities</b>  |                      |                         |                             |                      |                         |                             |
| Deposits from customers  | 176,323,940          | 1,591,835               | 1.82                        | 160,024,453          | 1,432,119               | 1.80                        |
| Deposits and placements from banks and other financial institutions <sup>(2)</sup> | 46,107,855           | 659,773                 | 2.89                        | 49,744,286           | 869,619                 | 3.53                        |
| Debt securities issued   | 69,715,302           | 1,257,153               | 3.64                        | 56,866,676           | 1,328,313               | 4.71                        |
| Others   | 11,081,843           | 172,514                 | 3.14                        | 3,971,042            | 86,902                  | 4.41                        |
| <b>Total</b>   | <b>303,228,940</b>   | <b>3,681,275</b>        | <b>2.45</b>                 | <b>270,606,457</b>   | <b>3,716,953</b>        | <b>2.77</b>                 |
| <b>Net interest income</b>   | /                    | <b>3,144,543</b>        | /                           | /                    | <b>1,736,292</b>        | /                           |
| <b>Net interest spread</b>   | /                    | /                       | <b>2.03</b>                 | /                    | /                       | <b>1.47</b>                 |
| <b>Net interest margin</b>   | /                    | /                       | <b>2.06</b>                 | /                    | /                       | <b>1.35</b>                 |

Notes: (1) Deposits and placements with banks and other financial institutions include financial assets held under resale agreements.

(2) Deposits and placements from banks and other financial institutions include financial assets sold under repurchase agreements.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the average balance of interest-earning assets was RMB307.306 billion, representing a year-on-year increase of RMB48.166 billion or 18.59%, which was mainly attributable to the business development and the growth of loan scale. Net interest margin was 2.06%, representing a year-on-year increase of 0.71 percentage point, and net interest spread was 2.03%, representing a year-on-year increase of 0.56 percentage point, which was mainly due to the Company's optimization of asset and liability structure, the increase in both the scale and the yield of interest-earning assets, and while the scale of liabilities increased, the cost rate of the interbank bonds and debt securities issued decreased.

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*

| <b>Item</b>  | <b>January to June 2019 vs.<br/>January to June 2018</b> |                        |                                    |
|--|--|------------------------|------------------------------------|
|  | <b>Due to<br/>volume</b>                                 | <b>Due to<br/>rate</b> | <b>Net increase<br/>(decrease)</b> |
| <b>Assets</b>  |  |                        |                                    |
| Loans and advances to customers  | 913,985  | 115,318                | 1,029,303                          |
| Financial investments  | 100,481  | 50,601                 | 151,082                            |
| Deposits and placements with banks and<br>other financial institutions | 87,532   | 10,874                 | 98,406                             |
| Deposits with central bank   | (21,193)   | 1,238                  | (19,955)                           |
| Long-term receivables  | 100,677  | 13,060                 | 113,737                            |
| <b>Interest income changes</b>   | <b>1,181,482</b>   | <b>191,091</b>         | <b>1,372,573</b>                   |
| <b>Liabilities</b>   |  |                        |                                    |
| Deposits from customers  | 143,845  | 15,871                 | 159,716                            |
| Deposits and placements from banks and<br>other financial institutions | (51,973)   | (157,873)              | (209,846)                          |
| Debt securities issued   | 230,576  | (301,736)              | (71,160)                           |
| Others   | 110,621  | (25,009)               | 85,612                             |
| <b>Interest expense changes</b>  | <b>433,069</b>   | <b>(468,747)</b>       | <b>(35,678)</b>                    |
| <b>Net interest income changes</b>                                     | <b>748,413</b>   | <b>659,838</b>         | <b>1,408,251</b>                   |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 3.4 Interest Income

During the Reporting Period, the Company's interest income was RMB6.826 billion, representing a year-on-year increase of RMB1.373 billion or 25.17%. It was mainly due to the increase in loan scale and increase in yield on interest-earning assets. The interest income from loans and advances to customers and financial investments constituted the major part of the interest income of the Company.

#### ***Interest income of loans and advances to customers***

During the Reporting Period, the Company's interest income from loans and advances to customers amounted to RMB3.442 billion, representing a year-on-year increase of RMB1.029 billion or 42.66%. It was mainly due to the Company's optimization and adjustment of asset structure, resulting in a rapid growth of loan volume and increase in overall loan return. The following table sets forth the average balance, interest income and average yield of each component of the Company's loans and advances to customers for the periods indicated.

*Unit: RMB' 000*

| Item               | January to June 2019 |                  |                   | January to June 2018 |                  |                   |
|--------------------|----------------------|------------------|-------------------|----------------------|------------------|-------------------|
|                    | Average balance      | Interest income  | Average yield (%) | Average balance      | Interest income  | Average yield (%) |
| Corporate loans    | 83,599,410           | 2,127,391        | 5.13              | 66,156,112           | 1,596,552        | 4.87              |
| Discounted bills   | 10,789,367           | 212,008          | 3.96              | 4,276,161            | 104,800          | 4.94              |
| Personal loans     | 43,305,566           | 1,102,518        | 5.13              | 30,675,469           | 711,262          | 4.68              |
| <b>Total loans</b> | <b>137,694,343</b>   | <b>3,441,917</b> | <b>5.04</b>       | <b>101,107,742</b>   | <b>2,412,614</b> | <b>4.81</b>       |

#### ***Interest income from financial investments***

During the Reporting Period, the Company's interest income from financial investments was RMB2.686 billion, representing a year-on-year increase of RMB151 million or 5.96%, which was mainly attributable to the Company's optimization of investment structure, moderate increase of investment in credit bonds under pre-conditions of compliance and prudence and increase in the yield of newly added investment assets.

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

During the Reporting Period, the Company's interest income from deposits and placements with banks and other financial institutions amounted to RMB284 million, representing a year-on-year increase of RMB98 million or 52.91%, which was mainly attributable to the Company's adjustment of capital allocation and the increase in the scale of placements with banks and other financial institutions as compared to the corresponding period of previous year.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 3.5 Interest Expense

During the Reporting Period, the Company's interest expenses amounted to RMB3.681 billion, representing a year-on-year decrease of RMB36 million or 0.96%, which was mainly due to the fact that the Company optimized its debt structure and lowered the cost rate of interbank liabilities and debt securities issued while expanding its debt scale. Interest expenses on deposits from customers and debt securities issued were major parts of interest expense of the Company.

#### ***Interest expense on deposits from customers***

During the Reporting Period, the Company's interest expense on deposits from customers was RMB1.592 billion, representing a year-on-year increase of RMB160 million or 11.15%. The following table sets forth the average balance, interest expense and average cost rate of each component of the Company's deposits from customers for the periods indicated.

*Unit: RMB' 000*

| Item                                 | January to June 2019 |                  |                       | January to June 2018 |                  |                       |
|--------------------------------------|----------------------|------------------|-----------------------|----------------------|------------------|-----------------------|
|                                      | Average balance      | Interest expense | Average cost rate (%) | Average balance      | Interest expense | Average cost rate (%) |
| <b>Corporate deposits</b>            |                      |                  |                       |                      |                  |                       |
| Demand                               | 68,776,120           | 257,471          | 0.75                  | 59,739,406           | 210,696          | 0.71                  |
| Time                                 | 48,880,541           | 643,916          | 2.66                  | 46,608,814           | 637,029          | 2.76                  |
| <b>Sub-total</b>                     | <b>117,656,661</b>   | <b>901,387</b>   | <b>1.54</b>           | <b>106,348,220</b>   | <b>847,725</b>   | <b>1.61</b>           |
| <b>Personal deposits</b>             |                      |                  |                       |                      |                  |                       |
| Demand                               | 18,282,267           | 27,430           | 0.30                  | 17,913,853           | 28,606           | 0.32                  |
| Time                                 | 40,385,012           | 663,018          | 3.31                  | 35,762,380           | 555,788          | 3.13                  |
| <b>Sub-total</b>                     | <b>58,667,279</b>    | <b>690,448</b>   | <b>2.37</b>           | <b>53,676,233</b>    | <b>584,394</b>   | <b>2.20</b>           |
| <b>Total deposits from customers</b> | <b>176,323,940</b>   | <b>1,591,835</b> | <b>1.82</b>           | <b>160,024,453</b>   | <b>1,432,119</b> | <b>1.80</b>           |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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

During the Reporting Period, the Company's interest expense on deposits and placements from banks and other financial institutions amounted to RMB660 million, representing a year-on-year decrease of RMB210 million or 24.13%, which was mainly due to the decrease in the cost rate and scale of deposits and placements from banks and other financial institutions.

### ***Interest expense on debt securities issued***

During the Reporting Period, the Company's interest expense on debt securities issued amounted to RMB1.257 billion, representing a year-on-year decrease of RMB71 million or 5.36%, which was mainly due to the fact that the Company optimized the structure of active liabilities and increased the low-cost certificates of interbank deposit issued based on the loose liquidity in the financial market.

### **3.6 Net Non-interest Income**

During the Reporting Period, the Company's net non-interest income was RMB1.390 billion, representing a year-on-year decrease of RMB4 million or 0.27%. The following table sets forth the major components of the Company's net non-interest income for the periods indicated.

*Unit: RMB' 000*

| <b>Item</b>  | <b>January to<br/>June 2019</b> | January to<br>June 2018 |
|--|---------------------------------|-------------------------|
| Fee and commission income  | <b>614,082</b>                  | 373,336                 |
| Less: fee and commission expense   | <b>(33,272)</b>                 | (30,849)                |
| Net fee and commission income  | <b>580,810</b>                  | 342,487                 |
| Net trading gains, net gains arising from<br>investments and other operating income, net | <b>809,215</b>                  | 1,051,332               |
| <b>Net non-interest income</b>   | <b>1,390,025</b>                | 1,393,819               |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 3.7 Net Fee and Commission Income

During the Reporting Period, the Company's net fee and commission income amounted to RMB581 million, representing a year-on-year increase of RMB238 million or 69.59%, mainly due to an increase in income of service fees as a result of the rapid development of wealth management, agency service and other businesses.

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

*Unit: RMB'000*

| <b>Item</b>                          | <b>January to<br/>June 2019</b> | January to<br>June 2018 |
|--------------------------------------|---------------------------------|-------------------------|
| <b>Fee and commission income</b>     |                                 |                         |
| Wealth management service fees       | <b>318,278</b>                  | 144,994                 |
| Agency service fees                  | <b>155,930</b>                  | 128,835                 |
| Custody and bank card service fees   | <b>37,535</b>                   | 17,402                  |
| Settlement fees                      | <b>17,798</b>                   | 16,423                  |
| Others                               | <b>84,541</b>                   | 65,682                  |
| <b>Total</b>                         | <b>614,082</b>                  | 373,336                 |
| <b>Fee and commission expense</b>    | <b>(33,272)</b>                 | (30,849)                |
| <b>Net fee and commission income</b> | <b>580,810</b>                  | 342,487                 |

During the Reporting Period, the Company's wealth management service fees amounted to RMB318 million, representing a year-on-year increase of RMB173 million or 119.51%, mainly due to the improvement of the Company's wealth management products operating capacity; agency service fees amounted to RMB156 million, representing a year-on-year increase of RMB27 million or 21.03%, mainly due to an increase in commission income from the sales agency business for trust products and underwriting fees for bond financing instruments; custody and bank card service fees amounted to RMB38 million, representing a year-on-year increase of RMB20 million or 115.69%, mainly due to an increase in credit card service fees; settlement fees amounted to RMB18 million, representing a year-on-year increase of RMB1 million or 8.37%.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 3.8 Net Trading Gains, Net Gains Arising from Investments and Other Operating Income, Net

During the Reporting Period, the Company's net trading gains, net gains arising from investments and other operating income, net amounted to RMB809 million, representing a year-on-year decrease of RMB242 million. In particular, net trading gains amounted to RMB15 million, representing a year-on-year decrease of RMB79 million, mainly due to the fluctuation of market exchange rates; net gains arising from investments amounted to RMB786 million, representing a year-on-year decrease of RMB166 million, mainly due to a decline in corresponding investment income as a result of the decrease in both yield and scale of the financial investments measured at fair value through profit or loss resulting from the Company's implementation of macro-policy guidance to compress non-standard assets. The following table sets forth the major components of the Company's net trading gains, net gains arising from investments and other operating income, net for the periods indicated.

Unit: RMB'000

| Item                               | January to<br>June 2019 | January to<br>June 2018 |
|------------------------------------|-------------------------|-------------------------|
| Net trading gains                  | 15,362                  | 94,640                  |
| Net gains arising from investments | 785,541                 | 951,247                 |
| Other operating income, net        | 8,312                   | 5,445                   |
| <b>Total</b>                       | <b>809,215</b>          | <b>1,051,332</b>        |

### 3.9 Operating Expenses

During the Reporting Period, the Company's operating expenses amounted to RMB1.266 billion, representing a year-on-year increase of RMB302 million or 31.36%. In particular, staff costs increased by RMB223 million or 47.04% on a year-on-year basis, mainly due to the business development and staff increase. The following table sets forth the major components of the Company's operating expenses for the periods indicated.

Unit: RMB'000

| Item                                      | January to<br>June 2019 | January to<br>June 2018 |
|---|-------------------------|-------------------------|
| Staff costs                               | 696,838                 | 473,897                 |
| Property and equipment expenses           | 283,311                 | 267,798                 |
| Tax and surcharges                        | 49,349                  | 35,454                  |
| Other general and administrative expenses | 236,991                 | 186,964                 |
| <b>Total operating expenses</b>           | <b>1,266,489</b>        | <b>964,113</b>          |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 3.10 Impairment Losses

During the Reporting Period, the Company's impairment losses amounted to RMB1.428 billion. Impairment losses from loans and advances to customers constituted the largest component of impairment losses. The following table sets forth the major components of the Company's impairment losses for the periods indicated.

*Unit: RMB'000*

| <b>Item</b>  | <b>January to<br/>June 2019</b> | January to<br>June 2018 |
|--|---------------------------------|-------------------------|
| Deposits with banks and other financial institutions                   | <b>51</b>                       | 474                     |
| Placements with banks and other financial institutions                 | <b>(4,029)</b>                  | 8,089                   |
| Financial assets held under resale agreements                          | <b>(122)</b>                    | (362)                   |
| Loans and advances to customers  | <b>1,382,222</b>                | 526,238                 |
| Financial investments measured at amortized cost                       | <b>(75,701)</b>                 | (36,311)                |
| Financial investments at fair value through other comprehensive income | <b>63,809</b>                   | 7,438                   |
| Long-term receivables  | <b>58,718</b>                   | 16,135                  |
| Credit commitments   | <b>(3,905)</b>                  | (15,836)                |
| Others   | <b>7,152</b>                    | 10,650                  |
| <b>Total impairment losses</b>   | <b>1,428,195</b>                | 516,515                 |

During the Reporting Period, impairment losses from loans and advances to customers amounted to RMB1.382 billion, representing an increase of RMB856 million or 162.66% over the same period of last year, mainly due to an increase in provision for impairment to adapt to the loan risk conditions, as the regional economy was faced with pressure of replacing old drivers with new ones and the operational risk of borrowers increased.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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

#### 4.1 Assets

As at the end of the Reporting Period, the Company's total assets amounted to RMB345.231 billion, representing an increase of RMB27.572 billion or 8.68% as compared with that at the end of last year. The following table sets forth the components of the Company's total assets as at the dates indicated.

Unit: RMB'000

| Item  | 30 June 2019       |               | 31 December 2018   |               | Change from the end of last year |                  | 31 December 2017   |               |
|---|--------------------|---------------|--------------------|---------------|----------------------------------|------------------|--------------------|---------------|
|   | Amount             | % of total    | Amount             | % of total    | Amount change (%)                | Ratio change (%) | Amount             | % of total    |
| Loans and advances to customers   | 143,343,578        | 41.52         | 123,366,891        | 38.84         | 16.19                            | 2.68             | 95,514,680         | 31.19         |
| Financial investments measured at amortized cost                                | 66,573,268         | 19.28         | 70,032,056         | 22.05         | (4.94)                           | (2.77)           | N/A                | N/A           |
| Financial investments measured at fair value through other comprehensive income | 52,507,189         | 15.21         | 53,002,751         | 16.69         | (0.93)                           | (1.48)           | N/A                | N/A           |
| Financial investments measured at fair value through profit or loss             | 27,333,616         | 7.92          | 22,361,816         | 7.04          | 22.23                            | 0.88             | 179,078            | 0.06          |
| Cash and deposits with central bank   | 34,600,099         | 10.02         | 29,554,430         | 9.30          | 17.07                            | 0.72             | 27,097,814         | 8.85          |
| Deposits with banks and other financial institutions                            | 1,321,082          | 0.38          | 1,542,437          | 0.49          | (14.35)                          | (0.11)           | 1,107,946          | 0.36          |
| Placements with banks and other financial institutions                          | 4,588,207          | 1.33          | 4,110,464          | 1.29          | 11.62                            | 0.04             | 2,882,727          | 0.94          |
| Derivative financial assets   | 323                | 0.00          | -                  | -             | -                                | -                | -                  | -             |
| Financial assets held under resale agreements                                   | -                  | -             | 300,262            | 0.09          | (100.00)                         | (0.09)           | 3,584,200          | 1.17          |
| Available-for-sale financial assets   | N/A                | N/A           | N/A                | N/A           | N/A                              | N/A              | 79,086,556         | 25.82         |
| Held-to-maturity investments  | N/A                | N/A           | N/A                | N/A           | N/A                              | N/A              | 38,644,926         | 12.62         |
| Receivables   | N/A                | N/A           | N/A                | N/A           | N/A                              | N/A              | 46,678,869         | 15.24         |
| Long-term receivables   | 8,800,422          | 2.55          | 7,766,698          | 2.44          | 13.31                            | 0.11             | 4,076,396          | 1.33          |
| Property and equipment  | 3,089,560          | 0.90          | 3,124,355          | 0.98          | (1.11)                           | (0.08)           | 3,089,017          | 1.01          |
| Deferred tax assets   | 1,331,453          | 0.39          | 1,152,778          | 0.36          | 15.50                            | 0.03             | 1,084,286          | 0.35          |
| Other assets  | 1,742,149          | 0.50          | 1,343,564          | 0.43          | 29.67                            | 0.07             | 3,249,597          | 1.06          |
| <b>Total assets</b>   | <b>345,230,946</b> | <b>100.00</b> | <b>317,658,502</b> | <b>100.00</b> | <b>8.68</b>                      | <b>-</b>         | <b>306,276,092</b> | <b>100.00</b> |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 4.1.1 Loans and advances to customers

As at the end of the Reporting Period, the Company's loans and advances to customers amounted to RMB143.344 billion, representing an increase of RMB19.977 billion or 16.19% as compared with that at the end of the previous year, and accounted for 41.52% of the Company's total assets, representing an increase of 2.68 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*

| Item   | 30 June 2019       |               | 31 December 2018   |               | Change from the end of last year |                  | 31 December 2017  |               |
|--|--------------------|---------------|--------------------|---------------|----------------------------------|------------------|-------------------|---------------|
|  | Amount             | % of total    | Amount             | % of total    | Amount change (%)                | Ratio change (%) | Amount            | % of total    |
| Corporate loans  | 89,494,765         | 61.13         | 78,264,271         | 61.92         | 14.35                            | (0.79)           | 64,363,848        | 65.64         |
| Discounted bills   | 12,116,688         | 8.28          | 6,772,625          | 5.36          | 78.91                            | 2.92             | 2,951,203         | 3.01          |
| Personal loans   | 44,780,905         | 30.59         | 41,349,974         | 32.72         | 8.30                             | (2.13)           | 30,746,328        | 31.35         |
| <b>Sub-total</b>   | <b>146,392,358</b> | <b>100.00</b> | <b>126,386,870</b> | <b>100.00</b> | <b>15.83</b>                     | <b>-</b>         | <b>98,061,379</b> | <b>100.00</b> |
| <b>Accrued interest</b>  | <b>630,061</b>     | <b>/</b>      | <b>521,250</b>     | <b>/</b>      | <b>20.88</b>                     | <b>/</b>         | <b>N/A</b>        | <b>N/A</b>    |
| Less: Provision for impairment on loans and advances to customers measured at amortized cost | (3,678,841)        | /             | (3,541,229)        | /             | 3.89                             | /                | (2,546,699)       | /             |
| <b>Loans and advances to customers</b>   | <b>143,343,578</b> | <b>/</b>      | <b>123,366,891</b> | <b>/</b>      | <b>16.19</b>                     | <b>/</b>         | <b>95,514,680</b> | <b>/</b>      |

#### *Corporate loans*

As at the end of the Reporting Period, the Company's corporate loans amounted to RMB89.495 billion, representing an increase of RMB11.230 billion or 14.35% as compared with that at the end of last year, and accounted for 61.13% of the total loans and advances to customers (excluding accrued interest, same hereinafter). During the Reporting Period, the Company continued to support the development of the real economy, constantly optimized the portfolio allocation of risk assets, increased credit support to Small and Micro Enterprises, the real economy, the replacement of old growth drivers with new ones and strategic emerging areas.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### *Discounted bills*

As at the end of the Reporting Period, the Company's discounted bills amounted to RMB12.117 billion, representing an increase of RMB5.344 billion or 78.91% as compared with that at the end of last year, and accounted for 8.28% of the total loans and advances to customers. During the Reporting Period, the Company improved the resource allocation of bill business, responded to the regulatory authorities' requirements of serving the real economy, grasped market opportunities, effectively improved the bill business income and integrated its linkage with marketing efficiency, flexibly allocated bill resources, and moderately increased the issuance of discounted bills.

### *Personal loans*

As at the end of the Reporting Period, the Company's personal loans amounted to RMB44.781 billion, representing an increase of RMB3.431 billion or 8.30% as compared with that at the end of last year, and accounted for 30.59% of total loans and advances to customers. During the Reporting Period, the Company grasped the market opportunities and realized a balanced business development in personal housing loans, personal business loans and personal consumption loans under the objective condition of severe market competition; besides, revenue improvement, business development and structure optimization were carried out simultaneously.

### **4.1.2 Financial investments**

As at the end of the Reporting Period, the Company's carrying value of financial investments amounted to RMB146.414 billion, representing an increase of RMB1.017 billion or 0.70% as compared with that at the end of last year. The following table sets forth the components of the Company's investment portfolio as at the dates indicated.

*Unit: RMB'000*

| <b>Item</b>   | <b>30 June 2019</b> |                   | <b>31 December 2018</b> |                   |
|---|---------------------|-------------------|-------------------------|-------------------|
|   | <b>Amount</b>       | <b>% of total</b> | <b>Amount</b>           | <b>% of total</b> |
| Financial investments measured at fair value through profit or loss             | <b>27,333,616</b>   | <b>18.67</b>      | 22,361,816              | 15.38             |
| Financial investments measured at fair value through other comprehensive income | <b>52,507,189</b>   | <b>35.86</b>      | 53,002,751              | 36.45             |
| Financial investments measured at amortized cost                                | <b>66,573,268</b>   | <b>45.47</b>      | 70,032,056              | 48.17             |
| <b>Total</b>  | <b>146,414,073</b>  | <b>100.00</b>     | 145,396,623             | 100.00            |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### *Financial investments measured at fair value through profit or loss*

As at the end of the Reporting Period, the Company's carrying value of financial investments measured at fair value through profit or loss amounted to RMB27.334 billion, representing an increase of RMB4.972 billion or 22.23% as compared with that at the end of last year. The increase was mainly due to the increased investment in public bond funds with tax-exempt advantages and higher returns. The following table sets forth, as at the dates indicated, the components of the Company's financial investments measured at fair value through profit or loss.

*Unit: RMB'000*

| <b>Item</b>   | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|---|-------------------------|---------------------|
| Other debt securities investments at fair value through profit or loss      | <b>549,746</b>          | 237,280             |
| Including: Debt securities issued by banks and other financial institutions | <b>518,043</b>          | 206,985             |
| Debt securities issued by corporate entities                                | <b>31,703</b>           | 30,295              |
| Investment funds  | <b>12,829,787</b>       | 7,467,620           |
| Asset management plans  | <b>8,775,971</b>        | 9,354,611           |
| Trust fund plans  | <b>3,143,259</b>        | 3,221,359           |
| Wealth management products issued by financial institutions                 | <b>2,034,853</b>        | 2,080,946           |
| <b>Financial investments measured at fair value through profit or loss</b>  | <b>27,333,616</b>       | 22,361,816          |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### *Financial investments measured at fair value through other comprehensive income*

As at the end of the Reporting Period, the Company's carrying value of financial investments measured at fair value through other comprehensive income amounted to RMB52.507 billion, representing a decrease of RMB496 million or 0.93% as compared with that at the end of last year. The decrease was mainly due to the appropriate reduction of the volume of policy financial bonds according to the overall market condition and taking into account the returns. The following table sets forth, as at the dates indicated, the components of the Company's financial investments measured at fair value through other comprehensive income.

*Unit: RMB'000*

| <b>Item</b>  | <b>30 June<br/>2019</b> | <b>31 December<br/>2018</b> |
|--|-------------------------|-----------------------------|
| Government bonds   | <b>8,198,717</b>        | 7,116,493                   |
| Debt securities issued by policy banks   | <b>8,077,726</b>        | 11,799,812                  |
| Debt securities issued by banks and<br>other financial institutions                            | <b>10,935,325</b>       | 10,117,686                  |
| Debt securities issued by corporate entities   | <b>17,496,041</b>       | 17,828,393                  |
| Asset management plans   | <b>6,172,084</b>        | 5,062,908                   |
| Other investments  | <b>703,305</b>          | –                           |
| Equity investments   | <b>23,250</b>           | 23,250                      |
| Accrued interest   | <b>900,741</b>          | 1,054,209                   |
| <b>Financial investments measured at<br/>fair value through other<br/>comprehensive income</b> | <b>52,507,189</b>       | <b>53,002,751</b>           |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### *Financial investments measured at amortized cost*

As at the end of the Reporting Period, the Company's carrying value of financial investments measured at amortized cost amounted to RMB66.573 billion, representing a decrease of RMB3.459 billion or 4.94% as compared with that at the end of last year. The reason was that the Company reduced investment in asset management plans and trust asset management plans of some brokers upon the expiration of such assets as a result of our implementation of the macro-policy guidance and strengthening market research and judgment. The following table sets forth, as at the dates indicated, the components of the Company's financial investments measured at amortized cost.

*Unit: RMB'000*

| <b>Item</b>   | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|---|-------------------------|---------------------|
| Government bonds  | <b>11,475,992</b>       | 9,431,022           |
| Debt securities issued by policy banks  | <b>13,889,189</b>       | 13,887,327          |
| Debt securities issued by banks and<br>other financial institutions           | <b>11,096,198</b>       | 11,296,117          |
| Debt securities issued by corporate entities                                  | <b>2,179,687</b>        | 1,229,620           |
| Asset management plans  | <b>18,940,246</b>       | 23,529,175          |
| Trust fund plans  | <b>3,643,550</b>        | 4,850,229           |
| Other investments   | <b>4,750,000</b>        | 5,170,000           |
| <b>Total financial investments measured at<br/>amortized cost</b>             | <b>65,974,862</b>       | 69,393,490          |
| <b>Accrued interest</b>   | <b>990,207</b>          | 1,106,068           |
| Less: provision for impairment losses   | <b>(391,801)</b>        | (467,502)           |
| <b>Carrying value of financial investments<br/>measured at amortized cost</b> | <b>66,573,268</b>       | 70,032,056          |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### *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:

*Unit: RMB'000*

| <b>Name of bond</b> | <b>Maturity date</b> | <b>Interest rates (%)</b> | <b>Nominal value</b> | <b>Impairment data</b> |
|---------------------|----------------------|---------------------------|----------------------|------------------------|
| 16 Guo Kai 05       | 2036-01-25           | 3.80                      | 4,270,000            | 422                    |
| 16 Jin Chu 10       | 2026-09-05           | 3.18                      | 2,780,000            | 273                    |
| 18 Guo Kai 11       | 2023-08-14           | 3.76                      | 1,940,000            | 196                    |
| 18 Nong Fa 06       | 2028-05-11           | 4.65                      | 1,920,000            | 197                    |
| 17 Guo Kai 10       | 2027-04-10           | 4.04                      | 1,742,000            | 174                    |
| 15 Jin Chu 19       | 2036-01-12           | 3.88                      | 1,500,000            | 157                    |
| 17 Nong Fa 05       | 2027-01-06           | 3.85                      | 1,440,000            | 139                    |
| 17 Nong Fa 15       | 2027-09-08           | 4.39                      | 1,330,000            | 132                    |
| 16 Nong Fa 10       | 2036-02-26           | 3.95                      | 1,200,000            | 120                    |
| 17 Jin Chu 03       | 2027-03-20           | 4.11                      | 1,170,000            | 115                    |

### **4.1.3 Derivative financial instruments**

*Unit: RMB'000*

| <b>Item</b>                           | <b>30 June 2019</b>   |                             |                                  |
|---------------------------------------|-----------------------|-----------------------------|----------------------------------|
|                                       | <b>Nominal amount</b> | <b>Fair value of assets</b> | <b>Fair value of liabilities</b> |
| <b>Interest rate swaps and others</b> | <b>19,309,283</b>     | <b>323</b>                  | <b>(273)</b>                     |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 4.2 Liabilities

As at the end of the Reporting Period, the Company's total liabilities amounted to RMB315.233 billion, representing an increase of RMB25.071 billion or 8.64% as compared with that at the end of last year. The following table sets forth the components of the Company's total liabilities as at the dates indicated.

*Unit: RMB'000*

| Item   | 30 June 2019       |               | 31 December 2018   |               | Change from the end of last year |                  | 31 December 2017   |               |
|--|--------------------|---------------|--------------------|---------------|----------------------------------|------------------|--------------------|---------------|
|  | Amount             | % of total    | Amount             | % of total    | Amount change (%)                | Ratio change (%) | Amount             | % of total    |
| Deposits from customers                                | 188,360,223        | 59.75         | 177,911,247        | 61.31         | 5.87                             | (1.56)           | 160,083,783        | 57.14         |
| Deposits from banks and other financial institutions   | 14,900,225         | 4.73          | 11,632,982         | 4.01          | 28.09                            | 0.72             | 24,901,934         | 8.89          |
| Borrowings from central bank                           | 10,186,784         | 3.23          | 10,878,835         | 3.75          | (6.36)                           | (0.52)           | 584,215            | 0.21          |
| Placements from banks and other financial institutions | 8,718,411          | 2.77          | 7,207,066          | 2.48          | 20.97                            | 0.29             | 5,774,299          | 2.06          |
| Derivative financial liabilities                       | 273                | 0.00          | -                  | -             | N/A                              | -                | 353,220            | 0.13          |
| Financial assets sold under repurchase agreements      | 13,654,122         | 4.33          | 14,850,333         | 5.12          | (8.06)                           | (0.79)           | 11,899,583         | 4.25          |
| Income tax payable                                     | 18,021             | 0.01          | 13,174             | 0.01          | 36.79                            | -                | 57,167             | 0.02          |
| Debt securities issued                                 | 75,161,060         | 23.84         | 65,240,507         | 22.48         | 15.21                            | 1.36             | 68,632,691         | 24.50         |
| Other liabilities                                      | 4,233,746          | 1.34          | 2,427,634          | 0.84          | 74.40                            | 0.50             | 7,865,991          | 2.80          |
| <b>Total liabilities</b>                               | <b>315,232,865</b> | <b>100.00</b> | <b>290,161,778</b> | <b>100.00</b> | <b>8.64</b>                      | <b>-</b>         | <b>280,152,883</b> | <b>100.00</b> |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 4.2.1 Deposits from customers

As at the end of the Reporting Period, deposits from customers of the Company amounted to RMB188.360 billion, representing an increase of RMB10.449 billion or 5.87% as compared to the that at the end of previous year, accounting for 59.75% of the total liabilities of the Company, representing a decrease of 1.56 percentage points as compared with the end of last year, and was the Company's primary source of funding. The following table sets forth the composition of the Company's deposits from customers by product type and customer type as at the dates indicated.

Unit: RMB' 000

| Item  | 30 June 2019       |               | 31 December 2018 |            | Change from the end of last year |                  | 31 December 2017 |            |
|---|--------------------|---------------|------------------|------------|----------------------------------|------------------|------------------|------------|
|   | Amount             | % of total    | Amount           | % of total | Amount Change (%)                | Ratio Change (%) | Amount           | % of total |
| <b>Corporate deposits</b>                         | <b>126,830,494</b> | <b>68.24</b>  | 118,644,749      | 67.54      | 6.90                             | 0.70             | 107,274,155      | 67.01      |
| Demand deposits                                   | 73,178,464         | 39.37         | 72,852,694       | 41.47      | 0.45                             | (2.10)           | 65,421,504       | 40.87      |
| Time deposits                                     | 53,652,030         | 28.87         | 45,792,055       | 26.07      | 17.16                            | 2.80             | 41,852,651       | 26.14      |
| <b>Personal deposits</b>                          | <b>58,836,530</b>  | <b>31.66</b>  | 56,898,658       | 32.39      | 3.41                             | (0.73)           | 52,225,500       | 32.62      |
| Demand deposits                                   | 18,603,287         | 10.01         | 18,313,340       | 10.43      | 1.58                             | (0.42)           | 17,935,483       | 11.20      |
| Time deposits                                     | 40,233,243         | 21.65         | 38,585,318       | 21.96      | 4.27                             | (0.31)           | 34,290,017       | 21.42      |
| <b>Outward remittance and remittance payables</b> | <b>194,129</b>     | <b>0.10</b>   | 131,519          | 0.07       | 47.61                            | 0.03             | 566,193          | 0.36       |
| <b>Fiscal deposits to be transferred</b>          | <b>8,824</b>       | <b>0.00</b>   | 923              | 0.00       | 856.01                           | 0.00             | 17,935           | 0.01       |
| <b>Sub-total</b>                                  | <b>185,869,977</b> | <b>100.00</b> | 175,675,849      | 100.00     | 5.80                             | 0.00             | 160,083,783      | 100.00     |
| <b>Accrued interests</b>                          | <b>2,490,246</b>   | <b>/</b>      | 2,235,398        | /          | 11.40                            | /                | N/A              | N/A        |
| <b>Deposits from customers</b>                    | <b>188,360,223</b> | <b>/</b>      | 177,911,247      | /          | 5.87                             | /                | 160,083,783      | /          |

As at the end of the Reporting Period, the Company's demand deposits accounted for 49.38% of the total deposits from customers (excluding accrued interest), representing a decrease of 2.52 percentage points as compared with that at the end of last year. Among those deposits, corporate demand deposits accounted for 57.70% of corporate deposits, representing a decrease of 3.71 percentage points as compared with that at the end of last year; and personal demand deposits accounted for 31.62% of personal deposits, representing a decrease of 0.57 percentage point 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 Reporting Period, the Company's deposits from banks and other financial institutions amounted to RMB14.900 billion, representing an increase of RMB3.267 billion or 28.09% as compared with that at the end of last year, which was mainly due to the fact that the Company controlled the total amount of interbank liabilities and adjusted the structure, so as to enhance the stability of the debt structure, and appropriately increased deposits from banks and reduced financial assets sold under repurchase agreements.

### **4.2.3 Borrowings from central bank**

As at the end of the Reporting Period, the Company's borrowings from the central bank amounted to RMB10.187 billion, representing a decrease of RMB692 million or 6.36% as compared with that at the end of previous year, mainly due to a decrease in the relending volume of the Company.

### **4.2.4 Financial assets sold under repurchase agreements**

As at the end of the Reporting Period, the Company's financial assets sold under repurchase agreements amounted to RMB13.654 billion, representing a decrease of RMB1.196 billion or 8.06% as compared with that at the end of last year, which was mainly due to the fact that the Company controlled the total amount of interbank liabilities and adjusted the structure, so as to enhance the stability of the debt structure, and appropriately increased deposits from banks and reduced financial assets sold under repurchase agreements.

### **4.2.5 Debt securities issued**

As at the end of the Reporting Period, the Company's debt securities issued amounted to RMB75.161 billion, representing an increase of RMB9.921 billion or 15.21% as compared with that at the end of last year, which was mainly due to the issuance of two tranches of financial bonds with fixed interest rate totaling RMB8.000 billion by the Company in May 2019. For details of the bonds, please refer to "Notes to the Unaudited Interim Financial Report – 31 Debt Securities Issued" of this report.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 4.3 Equity Attributable to Shareholders

As at the end of the Reporting Period, the shareholders' equity of the Company was RMB29.998 billion, representing an increase of RMB2.501 billion or 9.10% as compared with that at the end of the previous year. Equity attributable to the shareholders of the Bank was RMB29.459 billion, representing an increase of RMB2.474 billion or 9.17% as compared with that at the end of the previous year. On 16 January 2019, the Bank completed the initial public offering and listing of A Shares on the SZSE at the issue price of RMB4.52 per share. The number of shares issued was 450,977,251 and capital reserve increased by RMB1.512 billion.

*Unit: RMB' 000*

| Item  | 30 June<br>2019   | 31 December<br>2018 |
|---|-------------------|---------------------|
| Share capital   | 4,509,690         | 4,058,713           |
| Other equity instruments  |                   |                     |
| Including: Preference shares                                    | 7,853,964         | 7,853,964           |
| Capital reserve   | 8,337,869         | 6,826,276           |
| Other comprehensive income                                      | 527,789           | 553,193             |
| Surplus reserve   | 1,403,575         | 1,403,575           |
| General reserve   | 3,969,452         | 3,969,452           |
| Retained earnings   | 2,856,324         | 2,319,800           |
| Total equity attributable to equity<br>shareholders of the Bank | 29,458,663        | 26,984,973          |
| Non-controlling interests                                       | 539,418           | 511,751             |
| <b>Total equity</b>   | <b>29,998,081</b> | <b>27,496,724</b>   |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 4.4 Assets and Liabilities Measured at Fair Value

*Unit: RMB' 000*

| <b>Main item</b>   | <b>31<br/>December<br/>2018</b> | <b>Changes in<br/>fair value<br/>included in<br/>profit or loss<br/>for the<br/>current<br/>period</b> | <b>Cumulative<br/>changes in<br/>fair value<br/>recognized<br/>in equity</b> | <b>Impairment<br/>provided<br/>during the<br/>current<br/>period</b> | <b>30 June<br/>2019</b> |
|--|---------------------------------|--|--|--|-------------------------|
| Financial investments measured at fair value through profit or loss              | 22,361,816                      | 31,250   | N/A  | N/A  | <b>27,333,616</b>       |
| Loans and advances to customers at fair value through other comprehensive income | 6,772,625                       | –  | 6,911  | (3,736)  | <b>12,116,688</b>       |
| Financial investments measured at fair value through other comprehensive income  | 53,002,751                      | –  | 568,813  | (63,809)   | <b>52,507,189</b>       |
| Derivative financial assets  | –                               | 323  | N/A  | N/A  | <b>323</b>              |
| Derivative financial liabilities   | –                               | (273)  | N/A  | N/A  | <b>(273)</b>            |

*Note:* Measurement attributes of major assets of the Company did not have material change during the Reporting Period.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 5. ANALYSIS OF QUALITY OF LOANS

During the Reporting Period, the Company strengthened the quality control of credit assets. While the credit assets grew steadily, the quality of credit assets remained stable and the non-performing loan ratio remained flat as compared with that at the beginning of the year. As at the end of the Reporting Period, the total amount of loans of the Company (excluding accrued interest) was RMB146.392 billion, representing an increase of 15.83% as compared with that at the end of last year; total non-performing loans amounted to RMB2.459 billion, representing an increase of RMB342 million as compared with that at the end of last year; non-performing loan ratio was 1.68%, remaining flat as compared with that at the end of last year. For the purpose of discussion and analysis, unless otherwise specified, the amount of loans presented in the analysis below excludes accrued interest.

#### 5.1 Distribution of Loans by Five Categories

*Unit: RMB'000*

| Item                              | 30 June 2019       |               | 31 December 2018   |               |
|-----------------------------------|--------------------|---------------|--------------------|---------------|
|                                   | Amount             | % of total    | Amount             | % of total    |
| Normal loan                       | 137,288,966        | 93.78         | 117,153,054        | 92.69         |
| Special mention loan              | 6,644,194          | 4.54          | 7,116,638          | 5.63          |
| Substandard loan                  | 1,151,310          | 0.79          | 1,158,565          | 0.92          |
| Doubtful loan                     | 1,167,164          | 0.80          | 806,110            | 0.64          |
| Loss loan                         | 140,724            | 0.09          | 152,503            | 0.12          |
| <b>Total loans to customers</b>   | <b>146,392,358</b> | <b>100.00</b> | <b>126,386,870</b> | <b>100.00</b> |
| <b>Total non-performing loans</b> | <b>2,459,198</b>   | <b>1.68</b>   | <b>2,117,178</b>   | <b>1.68</b>   |

Under the five-category classification system for loan supervision, the non-performing loans of the Company included the substandard, doubtful and loss loans. As at the end of the Reporting Period, the proportion of substandard loans decreased by 0.13 percentage point as compared with that at the end of last year to 0.79%, and the proportion of doubtful loans increased by 0.16 percentage point as compared with that at the end of last year to 0.80%.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 5.2 Distribution of Loans and Non-performing Loans by Product Type

*Unit: RMB'000*

| Item                                 | 30 June 2019       |               |                                |                             | 31 December 2018 |            |                                |                             |
|--------------------------------------|--------------------|---------------|--------------------------------|-----------------------------|------------------|------------|--------------------------------|-----------------------------|
|                                      | 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 % |
| <b>Corporate loans</b>               | <b>101,611,453</b> | <b>69.41</b>  | <b>2,105,461</b>               | <b>2.07</b>                 | 85,036,896       | 67.28      | 1,804,412                      | 2.12                        |
| Working capital loans                | 55,363,764         | 37.82         | 1,890,290                      | 3.41                        | 51,737,819       | 40.94      | 1,582,176                      | 3.06                        |
| Fixed asset loans                    | 33,404,044         | 22.82         | 111,881                        | 0.33                        | 25,903,427       | 20.50      | 139,275                        | 0.54                        |
| Import and export bills transactions | 623,667            | 0.43          | –                              | –                           | 517,563          | 0.41       | –                              | –                           |
| Discounted bills                     | 12,116,688         | 8.28          | –                              | –                           | 6,772,625        | 5.36       | –                              | –                           |
| Others                               | 103,290            | 0.06          | 103,290                        | 100.00                      | 105,462          | 0.08       | 82,961                         | 78.66                       |
| <b>Retail loans</b>                  | <b>44,780,905</b>  | <b>30.59</b>  | <b>353,737</b>                 | <b>0.79</b>                 | 41,349,974       | 32.72      | 312,766                        | 0.76                        |
| Personal housing loans               | 32,440,634         | 22.16         | 35,750                         | 0.11                        | 30,229,094       | 23.92      | 22,906                         | 0.08                        |
| Personal business loans              | 5,258,703          | 3.59          | 298,103                        | 5.67                        | 5,836,058        | 4.62       | 265,325                        | 4.55                        |
| Personal consumption loans           | 5,715,103          | 3.90          | 13,776                         | 0.24                        | 3,827,588        | 3.03       | 12,503                         | 0.33                        |
| Others                               | 1,366,465          | 0.94          | 6,108                          | 0.45                        | 1,457,234        | 1.15       | 12,032                         | 0.83                        |
| <b>Total loans to customers</b>      | <b>146,392,358</b> | <b>100.00</b> | <b>2,459,198</b>               | <b>1.68</b>                 | 126,386,870      | 100.00     | 2,117,178                      | 1.68                        |

During the Reporting Period, in response to the state's supply side reform and policy on the replacement of old drivers with new ones in Shandong province, the Company promptly formulated and adjusted credit policies to maintain the stable growth of credit volume. As at the end of the Reporting Period, the proportion of corporate loans of the Company increased by 2.13 percentage points to 69.41% and its non-performing loan ratio decreased by 0.05 percentage point to 2.07%. Meanwhile, the Company kept optimizing its personal credit asset structure, made the personal housing loans maintain steady growth, while steadily developed online consumer loans.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 5.3 Distribution of Loans and Non-performing Loans by Industry

Unit: RMB'000

| Item   | 30 June 2019       |               |                                |                             | 31 December 2018 |            |                                |                             |
|--|--------------------|---------------|--------------------------------|-----------------------------|------------------|------------|--------------------------------|-----------------------------|
|  | 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 % |
| <b>Corporate loans</b>   | <b>101,611,453</b> | <b>69.41</b>  | <b>2,105,461</b>               | <b>2.07</b>                 | 85,036,896       | 67.28      | 1,804,412                      | 2.12                        |
| Manufacturing  | 19,556,702         | 13.36         | 1,487,347                      | 7.61                        | 18,805,454       | 14.88      | 1,243,740                      | 6.61                        |
| Construction   | 14,817,399         | 10.12         | 72,290                         | 0.49                        | 10,788,346       | 8.54       | 93,000                         | 0.86                        |
| Wholesale and retail trade   | 11,940,692         | 8.16          | 314,646                        | 2.64                        | 9,654,849        | 7.64       | 198,476                        | 2.06                        |
| Real estate  | 11,423,823         | 7.80          | 106,911                        | 0.94                        | 8,849,735        | 7.00       | 102,600                        | 1.16                        |
| Renting and business services                                      | 11,200,358         | 7.65          | 7,119                          | 0.06                        | 8,169,559        | 6.46       | 33,309                         | 0.41                        |
| Water conservancy, environment and public facility management      | 10,624,867         | 7.26          | -                              | -                           | 10,802,398       | 8.55       | -                              | -                           |
| Financial services   | 7,744,938          | 5.29          | -                              | -                           | 5,456,155        | 4.32       | -                              | -                           |
| Others   | 6,806,196          | 4.65          | 112,148                        | 1.65                        | 4,887,249        | 3.86       | 100,287                        | 2.05                        |
| Production and supply of electric and heating power, gas and water | 5,010,241          | 3.42          | 5,000                          | 0.10                        | 4,711,898        | 3.73       | 5,000                          | 0.11                        |
| Transportation, storage and postal services                        | 2,486,237          | 1.70          | -                              | -                           | 2,911,253        | 2.30       | 28,000                         | 0.96                        |
| <b>Retail loans</b>  | <b>44,780,905</b>  | <b>30.59</b>  | <b>353,737</b>                 | <b>0.79</b>                 | 41,349,974       | 32.72      | 312,766                        | 0.76                        |
| <b>Total loans to customers</b>                                    | <b>146,392,358</b> | <b>100.00</b> | <b>2,459,198</b>               | <b>1.68</b>                 | 126,386,870      | 100.00     | 2,117,178                      | 1.68                        |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 5.4 Distribution of Loans and Non-performing Loans by Region

*Unit: RMB'000*

| Region                 | 30 June 2019    |            |                                |                             | 31 December 2018 |            |                                |                             |
|------------------------|-----------------|------------|--------------------------------|-----------------------------|------------------|------------|--------------------------------|-----------------------------|
|                        | 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 % |
| Shandong Province      | 146,392,358     | 100.00     | 2,459,198                      | 1.68                        | 126,386,870      | 100.00     | 2,117,178                      | 1.68                        |
| Of which: Qingdao City | 83,146,818      | 56.81      | 729,944                        | 0.88                        | 72,941,750       | 57.72      | 624,440                        | 0.86                        |

### 5.5 Distribution of Loans and Non-performing Loans by Type of Collateral

*Unit: RMB'000*

| Item                            | 30 June 2019       |               |                                |                             | 31 December 2018   |               |                                |                             |
|---------------------------------|--------------------|---------------|--------------------------------|-----------------------------|--------------------|---------------|--------------------------------|-----------------------------|
|                                 | 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 % |
| Unsecured loans                 | 19,570,327         | 13.37         | 142,174                        | 0.73                        | 15,753,945         | 12.46         | 140,184                        | 0.89                        |
| Guaranteed loans                | 36,610,210         | 25.01         | 1,930,400                      | 5.27                        | 36,502,920         | 28.88         | 1,596,311                      | 4.37                        |
| Mortgage loans                  | 63,132,054         | 43.12         | 386,624                        | 0.61                        | 54,738,421         | 43.32         | 375,969                        | 0.69                        |
| Pledged loans                   | 27,079,767         | 18.50         | -                              | -                           | 19,391,584         | 15.34         | 4,714                          | 0.02                        |
| <b>Total loans to customers</b> | <b>146,392,358</b> | <b>100.00</b> | <b>2,459,198</b>               | <b>1.68</b>                 | <b>126,386,870</b> | <b>100.00</b> | <b>2,117,178</b>               | <b>1.68</b>                 |

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 3.16 percentage points to 18.50%; and the proportion of mortgage loans was 43.12%, the highest among all types of secured loans. The non-performing loan ratio of unsecured loans decreased by 0.16 percentage point to 0.73%.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 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                 | Renting and business services                                | 1,800,000   | 4.70                        | 1.25                        |
| B                 | Financial services   | 1,500,000   | 3.92                        | 1.02                        |
| C                 | Water conservancy, environment and public utility management | 1,430,000   | 3.73                        | 0.98                        |
| D                 | Water conservancy, environment and public utility management | 1,332,500   | 3.48                        | 0.91                        |
| E                 | Financial services   | 1,128,908   | 2.95                        | 0.77                        |
| F                 | Renting and business services                                | 969,140   | 2.53                        | 0.66                        |
| G                 | Construction   | 909,900   | 2.38                        | 0.62                        |
| H                 | Financial services   | 900,000   | 2.35                        | 0.61                        |
| I                 | Renting and business services                                | 840,588   | 2.19                        | 0.57                        |
| J                 | Construction   | 825,000   | 2.15                        | 0.56                        |
| <b>Total</b>      |  | <b>11,636,036</b>                                     | <b>30.38</b>                | <b>7.95</b>                 |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 5.7 Distribution of Loans by Overdue Period

*Unit: RMB'000*

| <b>Overdue period</b>                              | <b>30 June 2019</b>        |                   | 31 December 2018   |            |
|--|----------------------------|-------------------|--------------------|------------|
|  | <b>Amount of<br/>loans</b> | <b>% of total</b> | Amount of<br>loans | % of total |
| Overdue for 3 months (inclusive) or less           | <b>1,537,682</b>           | <b>1.05</b>       | 2,271,784          | 1.80       |
| Overdue for over 3 months to 1 year<br>(inclusive) | <b>1,133,489</b>           | <b>0.77</b>       | 1,229,240          | 0.97       |
| Overdue for over 1 year to 3 years<br>(inclusive)  | <b>610,932</b>             | <b>0.42</b>       | 638,094            | 0.50       |
| Overdue for over 3 years                           | <b>188,213</b>             | <b>0.13</b>       | 214,698            | 0.17       |
| <b>Total overdue loans</b>                         | <b>3,470,316</b>           | <b>2.37</b>       | 4,353,816          | 3.44       |
| <b>Total loans to customers</b>                    | <b>146,392,358</b>         | <b>100.00</b>     | 126,386,870        | 100.00     |

As at the end of the Reporting Period, the overdue loans of the Company amounted to RMB3.470 billion, representing a decrease of RMB884 million as compared with that at the end of last year; the overdue loans accounted for 2.37% of the total loans of the Company, representing a decrease of 1.07 percentage points as compared with that at the beginning of the year. Particularly, the loans overdue for 90 days or less reached RMB1.538 billion, accounting for 44.31% of the overdue loans, representing a decrease of 7.87 percentage points as compared with that at the beginning of the 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 0.79, representing a decrease of 0.19 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 RMB14.2789 million with no provision for impairment, and the net amount of repossessed assets was RMB14.2789 million.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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

*Unit: RMB'000*

| <b>Item</b>  | <b>January to<br/>June 2019</b> | <b>2018</b> |
|--|---------------------------------|-------------|
| <b>Balance at the beginning of the period/year</b> | <b>3,557,806</b>                | 3,127,265   |
| Charge for the period/year                         | <b>1,382,222</b>                | 2,213,707   |
| Write-offs for the period/year                     | <b>(1,250,824)</b>              | (1,764,332) |
| Recovery of write-offs for the period/year         | <b>37,651</b>                   | 36,725      |
| Other changes                                      | <b>(27,701)</b>                 | (55,559)    |
| <b>Balance at the end of the period/year</b>       | <b>3,699,154</b>                | 3,557,806   |

As at the end of the Reporting Period, the Company's provision for impairment of loans (including discounted bills) amounted to RMB3.699 billion, representing an increase of RMB141 million or 3.97% as compared with that at the end of last year. The provision coverage ratio reached 150.42%; the provision rate of loans stood at 2.53%, both provision indicators satisfying regulatory requirements.

### 5.10 Countermeasures Taken against Non-performing Assets

During the Reporting Period, the Company accelerated the disposal of non-performing loans and continued to optimize its asset quality. Firstly, the Bank 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 purpose sought was to fully protect and safeguard its own legitimate rights and interests, to maximize the benefits of collection and to strengthen the collection by law and promote effective collection. Secondly, the Bank continued to intensify efforts to proactively and promptly cancel the loans verified as non-performing and heighten the subsequent clearing and receiving of the cancelled assets. Thirdly, the Bank further sped up the construction of specialized collection team, optimized department functions, improved the evaluation mechanism, strengthened policy studies and dedicated studies, thus to propel the disposal of non-performing assets and the effective implementation of legal rights protection through judicial ways.

### 5.11 Credit Extension to Group Customers and Risk Management

The Company adhered to the principles of “implementing unified credit extension, providing an appropriate amount, employing classified management, conducting real-time monitoring and adopting a leading bank system” in extending credit to group customers. With continuous improvement on the management of corporate family trees of group customers, the solvency, business characteristics, financing habits, capital usage and actual demand of each member were reviewed, taking into account also, amongst others, the credit standing, credit extension risk, credit demand, and debts of group customers. In the principle of priority to leading industries, advantageous industries and quality enterprises, the overall credit limit of group customers was verified with the core enterprises that are engaged in the principal businesses of their group considered as the financing entities, and a unified credit extension proposal for group customers was formulated and executed. To enhance centralized management of group customers for preventing the risk of large-sum credit extension, the Bank established the Large-sum Credit Extension Review Committee composed of senior management at the headquarter level, which was in charge of reviewing and approving the business that meets the standards of large-sum credit extension bankwide. Meantime, the pre-warning mechanism of group customer risk was improved to continuously and effectively monitor, prevent and defuse risks, so that the control of overall credit extension risk of group customers was ensured.

### 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.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 5.13 Rescheduled Loans

Unit: RMB'000

| Item                                  | 30 June 2019    |            | 31 December 2018 |            |
|---------------------------------------|-----------------|------------|------------------|------------|
|                                       | Amount of loans | % of total | Amount of loans  | % of total |
| Rescheduled loans                     | 366,664         | 0.25       | 317,536          | 0.25       |
| Total loans and advances to customers | 146,392,358     | 100.00     | 126,386,870      | 100.00     |

## 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 capital risk and boost return on capital, and on this basis, it reasonably identified the Company's capital adequacy ratio target and guided 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 terms of internal capital management, the Company reinforced the allocation and management functions of economic capital, coordinated the development of assets business 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 the CBIRC and other relevant regulatory provisions. The on-balance sheet weighted risk assets are calculated with different risk weights determined in accordance with each asset, credit of the counterparty, market and other relevant risks and by considering the effects of qualified pledge and guarantee. The same method is also applied to the calculation of off-balance sheet exposure. Market risk-weighted assets are calculated with the standard approach, and the operational risk-weighted assets are calculated with the basic indicator approach. During the Reporting Period, the Company complied with the capital requirements prescribed by the regulators.

As at the end of the Reporting Period, the Company's capital adequacy ratio was 16.20%, representing an increase of 0.52 percentage point as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 9.22%, representing an increase of 0.83 percentage point as compared with that at the end of last year. Changes in capital adequacy ratio of the Company during the Reporting Period were mainly attributable to the Company's initial public offering of 451 million A Shares completed in the first half of the year, the net proceeds from which was RMB1.963 billion, resulting in an increase of the core tier-one capital.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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

*Unit: RMB'000*

| <b>The Company</b>                              | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|---|-------------------------|---------------------|
| <b>Total core tier-one capital</b>              |                         |                     |
| Share capital                                   | 4,509,690               | 4,058,713           |
| Qualifying portion of capital reserve           | 8,337,869               | 6,826,276           |
| Other comprehensive income                      | 527,789                 | 553,193             |
| Surplus reserve                                 | 1,403,575               | 1,403,575           |
| General reserve                                 | 3,969,452               | 3,969,452           |
| Retained earnings                               | 2,856,324               | 2,319,800           |
| Qualifying portion of non-controlling interests | 343,094                 | 302,744             |
| <b>Core tier-one capital adjustments</b>        | <b>(157,855)</b>        | <b>(165,153)</b>    |
| <b>Net core tier-one capital</b>                | <b>21,789,938</b>       | 19,268,600          |
| <b>Other tier-one capital</b>                   | <b>7,899,710</b>        | 7,894,330           |
| <b>Net tier-one capital</b>                     | <b>29,689,648</b>       | 27,162,930          |
| <b>Tier-two capital</b>                         | <b>8,610,872</b>        | 8,858,726           |
| <b>Net capital base</b>                         | <b>38,300,520</b>       | 36,021,656          |
| Total credit risk-weighted assets               | 195,437,929             | 187,513,305         |
| Total market risk-weighted assets               | 29,139,625              | 30,410,807          |
| Total operational risk-weighted assets          | 11,852,383              | 11,852,383          |
| <b>Total risk-weighted assets</b>               | <b>236,429,937</b>      | 229,776,495         |
| <b>Core tier-one capital adequacy ratio</b>     | <b>9.22%</b>            | 8.39%               |
| <b>Tier-one capital adequacy ratio</b>          | <b>12.56%</b>           | 11.82%              |
| <b>Capital adequacy ratio</b>                   | <b>16.20%</b>           | 15.68%              |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the Reporting Period, at the level of the Bank, the capital adequacy ratio was 16.36%, representing an increase of 0.60 percentage point as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 9.19%, representing an increase of 0.87 percentage point as compared with that at the end of last year.

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

*Unit: RMB'000*

| <b>The Bank</b>                             | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|---|-------------------------|---------------------|
| <b>Total core tier-one capital</b>          |                         |                     |
| Share capital                               | <b>4,509,690</b>        | 4,058,713           |
| Qualifying portion of capital reserve       | <b>8,337,869</b>        | 6,826,276           |
| Other comprehensive income                  | <b>527,789</b>          | 553,193             |
| Surplus reserve                             | <b>1,403,575</b>        | 1,403,575           |
| General reserve                             | <b>3,969,452</b>        | 3,969,452           |
| Retained earnings                           | <b>2,804,892</b>        | 2,297,164           |
| <b>Core tier-one capital adjustments</b>    | <b>(665,451)</b>        | (672,533)           |
| <b>Net core tier-one capital</b>            | <b>20,887,816</b>       | 18,435,840          |
| <b>Other tier-one capital</b>               | <b>7,853,964</b>        | 7,853,964           |
| <b>Net tier-one capital</b>                 | <b>28,741,780</b>       | 26,289,804          |
| <b>Tier-two capital</b>                     | <b>8,425,983</b>        | 8,640,628           |
| <b>Net capital base</b>                     | <b>37,167,764</b>       | 34,930,432          |
| Total credit risk-weighted assets           | <b>186,403,673</b>      | 179,519,234         |
| Total market risk-weighted assets           | <b>29,139,625</b>       | 30,410,807          |
| Total operational risk-weighted assets      | <b>11,651,288</b>       | 11,651,288          |
| <b>Total risk-weighted assets</b>           | <b>227,194,586</b>      | 221,581,329         |
| <b>Core tier-one capital adequacy ratio</b> | <b>9.19%</b>            | 8.32%               |
| <b>Tier-one capital adequacy ratio</b>      | <b>12.65%</b>           | 11.86%              |
| <b>Capital adequacy ratio</b>               | <b>16.36%</b>           | 15.76%              |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 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)” (《商業銀行槓桿率管理辦法(修訂)》) of the CBIRC. As at the end of the Reporting Period, the Company’s leverage ratio was 7.98% as calculated according to the “Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)”, which satisfied the regulatory requirements.

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<br>at 30 June<br>2019 | Balance as at<br>31 December<br>2018 |
|-----|---|----------------------------------|--------------------------------------|
| 1   | Total consolidated assets                                       | <b>345,230,946</b>               | 317,658,502                          |
| 2   | Consolidated adjustments  | –                                | –                                    |
| 3   | Customer assets adjustments                                     | –                                | –                                    |
| 4   | Derivative adjustments  | <b>18,278</b>                    | –                                    |
| 5   | Securities financing transactions adjustments                   | –                                | –                                    |
| 6   | Off-balance sheet items adjustments                             | <b>27,107,137</b>                | 25,314,087                           |
| 7   | Other adjustments   | <b>(157,855)</b>                 | (165,153)                            |
| 8   | Balance of assets on and off balance sheet<br>after adjustments | <b>372,198,506</b>               | 342,807,436                          |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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

Unit: RMB'000

| No. | Item   | Balance as at<br>30 June<br>2019 | Balance as at<br>31 December<br>2018 |
|-----|--|----------------------------------|--------------------------------------|
| 1   | Assets on the balance sheet (excluding derivatives and securities financing transactions)  | 345,230,623                      | 317,358,240                          |
| 2   | Less: tier-one capital deductions  | (157,855)                        | (165,153)                            |
| 3   | The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)                     | 345,072,768                      | 317,193,087                          |
| 4   | Replacement cost of various types of derivatives (net of qualified margins)  | 323                              | –                                    |
| 5   | Potential risk exposure in various types of derivatives  | –                                | –                                    |
| 6   | The sum of collaterals deducted from the balance sheet   | –                                | –                                    |
| 7   | Less: assets receivables formed due to qualified margins provided  | –                                | –                                    |
| 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   | 18,278                           | –                                    |
| 10  | Less: the balance of sold credit derivatives assets which can be deducted  | –                                | –                                    |
| 11  | The balance of derivatives assets  | 18,601                           | –                                    |
| 12  | The balance of accounting assets for securities financing transactions   | –                                | 300,262                              |
| 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                              |
| 17  | The balance of items off balance sheet   | 27,107,137                       | 25,314,087                           |
| 18  | Less: the balance of items off balance sheet reduced due to credit conversion  | –                                | –                                    |
| 19  | The balance of items off balance sheet after adjustments   | 27,107,137                       | 25,314,087                           |
| 20  | Net tier-one capital   | 29,689,648                       | 27,162,930                           |
| 21  | The balance of assets on and off balance sheet after adjustments   | 372,198,506                      | 342,807,436                          |
| 22  | Leverage ratio   | 7.98%                            | 7.92%                                |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets out, as at the dates indicated, the relevant information of the Company's leverage ratio:

Unit: RMB'000

| Item  | 30 June<br>2019 | 31 March<br>2019 | 31 December<br>2018 | 30 September<br>2018 |
|---|-----------------|------------------|---------------------|----------------------|
| Leverage ratio (%)  | 7.98            | 8.45             | 7.92                | 7.93                 |
| Net tier-one capital  | 29,689,648      | 29,819,904       | 27,162,930          | 26,404,872           |
| The balance of assets on and off<br>balance sheet after adjustments | 372,198,506     | 352,899,833      | 342,807,436         | 332,929,600          |

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](http://www.qdccb.com)).

## 7. INVESTMENT ANALYSIS

### 7.1 Overview

Unit: RMB'000

| Investees   | At the<br>beginning of<br>the period | At the end<br>of the period | Percentage of<br>shareholding<br>in investees<br>(%) | Cash<br>dividend for<br>the current<br>period |
|---|--------------------------------------|-----------------------------|--|---|
| China UnionPay Co., Ltd.  | 13,000                               | 13,000                      | 0.34   | -   |
| Shandong City Commercial Bank<br>Cooperation Alliance Co., Ltd. | 10,000                               | 10,000                      | 2.15   | -   |
| Clearing Center for City Commercial Banks                       | 250                                  | 250                         | 0.81   | -   |
| <b>Total</b>  | <b>23,250</b>                        | <b>23,250</b>               | -  | -   |

As at the end of the Reporting Period, for details of other information concerning the Bank's investments, please refer to "Section IV Management Discussion and Analysis – 4. Analysis of Major Items of the Statement of Financial Position – 4.1.2 Financial Investments" and "11. Analysis of Main Shares Holding Companies and Joint Stock Companies" of this report.

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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### **7.2 Significant Equity Investments Made during the Reporting Period**

During the Reporting Period, the Company did not make any significant equity investment.

### **7.3 Significant Non-equity Investments in Progress during the Reporting Period**

During the Reporting Period, the Company did not have any significant non-equity investments in progress.

### **7.4 Financial Assets Measured at Fair Value**

At the end of the Reporting Period, for details of the financial assets measured at fair value of the Company, please refer to “Section IV Management Discussion and Analysis – 4. Analysis of Major Items of the Statement of Financial Position – 4.4 Assets and Liabilities Measured at Fair Value” of this report.

### **7.5 Securities Investments**

At the end of the Reporting Period, for details of the securities investments of the Company, please refer to “Section IV Management Discussion and Analysis – 4. Analysis of Major Items of the Statement of Financial Position – 4.1.2 Financial Investments” of this report.

### **7.6 Derivative Investments**

At the end of the Reporting Period, for details of the derivative investments of the Company, please refer to “Section IV Management Discussion and Analysis – 4. Analysis of Major Items of the Statement of Financial Position – 4.1.3 Derivative Financial Instruments” of this report.

### **7.7 Use of Proceeds**

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

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

The proceeds from issuance of A shares of the Bank had been used in accordance with the intended usage as disclosed in the A share prospectus of the Bank. All of the proceeds raised from the A share issuance of the Bank (after deduction of the issuance expenses) had been used to replenish the capital of the Bank to support the continuous and healthy growth of its business.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 8. 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, etc. The following table shows a summary of the operating performance of each business segment of the Company during the periods presented.

*Unit: RMB'000*

| <b>Item</b>                   | <b>January to June 2019</b>     |                  | January to June 2018     |           |
|-------------------------------|---------------------------------|------------------|--------------------------|-----------|
|                               | <b>Segment operating income</b> | <b>Ratio (%)</b> | Segment operating income | Ratio (%) |
| Corporate banking             | <b>2,336,421</b>                | <b>51.52</b>     | 1,580,842                | 50.50     |
| Retail banking                | <b>950,593</b>                  | <b>20.96</b>     | 658,612                  | 21.04     |
| Financial market business     | <b>1,079,937</b>                | <b>23.82</b>     | 820,480                  | 26.21     |
| Un-allocated items and others | <b>167,617</b>                  | <b>3.70</b>      | 70,177                   | 2.25      |
| <b>Total</b>                  | <b>4,534,568</b>                | <b>100.00</b>    | 3,130,111                | 100.00    |

*Unit: RMB'000*

| <b>Item</b>                   | <b>January to June 2019</b>      |                  | January to June 2018      |           |
|-------------------------------|----------------------------------|------------------|---------------------------|-----------|
|                               | <b>Segment profit before tax</b> | <b>Ratio (%)</b> | Segment profit before tax | Ratio (%) |
| Corporate banking             | <b>391,993</b>                   | <b>21.31</b>     | 743,320                   | 45.06     |
| Retail banking                | <b>526,391</b>                   | <b>28.61</b>     | 250,408                   | 15.18     |
| Financial market business     | <b>839,695</b>                   | <b>45.64</b>     | 624,426                   | 37.86     |
| Un-allocated items and others | <b>81,805</b>                    | <b>4.44</b>      | 31,329                    | 1.90      |
| <b>Total</b>                  | <b>1,839,884</b>                 | <b>100.00</b>    | 1,649,483                 | 100.00    |

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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### 9. OTHER FINANCIAL INFORMATION

#### 9.1 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. As at the end of the Reporting Period, the balance of credit commitments reached RMB23.764 billion. For details, please refer to "Notes to the Unaudited Interim Financial Report – 42 Commitments and Contingent Liabilities" of this report.

#### 9.2 Overdue and Outstanding Debts

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

#### 9.3 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 "Notes to the Unaudited Interim Financial Report – 42(7) Pledged Assets" of this report.

#### 9.4 Analysis of Cash Flows Statement

As at the end of the Reporting Period, net cash flows generated from operating activities of the Company was RMB-6.644 billion, representing a decrease of RMB8.589 billion as compared with the same period of the previous year, which was mainly due to an increase in net increase in loans and advances to customers of RMB11.395 billion. Among which, cash outflows generated from operating assets increased by RMB7.568 billion and cash inflows generated from operating liabilities decreased by RMB2.466 billion.

Net cash flows generated from investing activities was RMB3.317 billion, representing a decrease of RMB20.722 billion as compared with the same period of the previous year, which was mainly due to a decrease in proceeds from disposal and redemption of investments of RMB17.599 billion.

Net cash flows generated from financing activities was RMB10.626 billion, representing an increase of RMB33.447 billion as compared with the same period of the previous year, which was mainly due to a decrease in cash paid by the Company for repayment of debt securities issued of RMB26.480 billion.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 9.5 Major Statement Items and Financial Indicators with a Change Rate of over 30% and Its Main Reasons

*Unit: RMB'000*

| Item  | January to<br>June 2019 | January to<br>June 2018 | Changes<br>(%) | Main reasons   |
|---|-------------------------|-------------------------|----------------|--|
| Net interest income                         | <b>3,144,543</b>        | 1,736,292               | 81.11          | Net interest yield improved significantly while the Company expanded the scale of its interest-bearing assets  |
| Fee and commission income                   | <b>614,082</b>          | 373,336                 | 64.49          | The businesses such as wealth management and agency service developed rapidly  |
| Net fee and commission income               | <b>580,810</b>          | 342,487                 | 69.59          | Increase in fee and commission income  |
| Net trading gains                           | <b>15,362</b>           | 94,640                  | (83.77)        | The impact of exchange rate fluctuations   |
| Other operating income, net                 | <b>8,312</b>            | 5,445                   | 52.65          | Income fluctuations caused by the Company's normal operating, and the absolute amount was small  |
| Total operating income                      | <b>4,534,568</b>        | 3,130,111               | 44.87          | Net interest income increased rapidly through optimizing the structure of assets and liabilities by the Company; fee and commission income increased rapidly through improving intermediate business level   |
| Operating expenses                          | <b>(1,266,489)</b>      | (964,113)               | 31.36          | Employee compensation increased caused by business development and staff growth  |
| Impairment losses                           | <b>(1,428,195)</b>      | (516,515)               | 176.51         | Increase in loan impairment loss   |
| Non-controlling gain and loss               | <b>27,667</b>           | 9,432                   | 193.33         | Increase in profit of subsidiaries   |
| Other comprehensive income, net of taxation | <b>(25,404)</b>         | 421,494                 | (106.03)       | Decrease in changes in fair value of debt investments measured at fair value through other comprehensive income  |
| Net interest spread                         | <b>2.03</b>             | 1.47                    | 38.10          | The scale of interest-bearing assets and its yield improved together through optimizing the structure of assets and liabilities by the Company, the cost rate of interbank liabilities and debt securities issued decreased with the expansion of scale of liabilities |
| Net interest margin                         | <b>2.06</b>             | 1.35                    | 52.59          | The scale of interest-bearing assets and its yield improved together through optimizing the structure of assets and liabilities by the Company, the cost rate of interbank liabilities and debt securities issued decreased with the expansion of scale of liabilities |

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

Unit: RMB'000

| Item  | 30 June<br>2019 | 31 December<br>2018 | Changes<br>(%) | Main reasons   |
|---|-----------------|---------------------|----------------|--|
| Derivative financial assets                   | 323             | -                   | N/A            | Changes in fair value of interest rate swaps and other derivative financial instruments  |
| Financial assets held under resale agreements | -               | 300,262             | (100.00)       | During the Reporting Period, the Company adjusted the structure of assets and liabilities, reduced the business scale of financial assets held under resale agreements |
| Derivative financial liabilities              | 273             | -                   | N/A            | Changes in fair value of interest rate swaps and other derivative financial instruments  |
| Income tax payable                            | 18,021          | 13,174              | 36.79          | Increase in provision of income tax of subsidiaries  |
| Other liabilities                             | 4,233,746       | 2,427,634           | 74.40          | The cash dividends of RMB902 million that have not been paid at the end of the Reporting Period and the lease liability items under IFRS 16 are listed here            |

### 9.6 Provision for Bad Debts

Unit: RMB'000

| Item                     | 30 June<br>2019 | 31 December<br>2018 | Changes  |
|--------------------------|-----------------|---------------------|----------|
| Other receivables        | 251,528         | 333,728             | (82,200) |
| Less: Bad debt provision | (1,003)         | (792)               | (211)    |

### 10. MATERIAL DISPOSAL OF ASSETS AND EQUITY INTEREST

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

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 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; other businesses approved by the banking regulatory authorities. | 10                 | 90.06        | 11.01      | 1.63             | 0.74             | 0.56       |

#### 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, which was the first financial leasing company in Qingdao, with a registered capital of RMB1.00 billion, and was initiated and established by the Bank. The Bank holds 51% of the share capital of BQD Financial Leasing. BQD Financial Leasing adheres to the business philosophy of “specialization, differentiation and marketization”, focuses on providing the financing leasing service of large and medium-sized equipment in medical and health care, cultural tourism, public utilities industries, and gives full play to its leasing function that has the characteristics of integrating “financing of capital and chattels”, helps enterprises make good use of their existing assets and facilitate supply-side structural reform. BQD Financial Leasing always adheres to the goal of serving the real economy, focuses on key industries and supports quality industries to achieve the replacement of old drivers with new ones by way of financial leasing while keeping a foothold of Shandong peninsula blue economic zone market and combining with Qingdao characteristic and its economic development circumstance.

### 12. OVERVIEW OF BUSINESS DEVELOPMENT

#### 12.1 Business Development Strategy

During the Reporting Period, the Bank took “building on customers and employees, taking on social responsibilities and shareholders’ return, pursuing better lives with happiness” as its core values, and achieved sound and effective development for the three major business segments, including retail banking, corporate banking and financial market through 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, deepened customer value, strengthened the asset business and implemented channel integration by making full use of financial technology innovation and creating core products, so as to gradually achieve new retail transformation under introduction of advanced technology. In respect of corporate banking business, the Bank continued to expand its corporate customer base and build the featured product service system, professional financial technology support system and sound risk management system by focusing on developing “transaction banking + investment banking” and building on the featured finance, listed enterprises finance and public finance so as to promote the featured transformation of corporate banking business. In respect of financial market business, the Bank continued to improve business structure, implemented refined management, continually enhanced its capabilities of collaborative research and development, client marketing and investment research, promoted steady and compliance development of asset management plans and enhanced the level of investment banking business so as to drive the high-quality development of financial market business.

#### 12.2 Overview of Business Development

##### 12.2.1 Retail banking

During the Reporting Period, the Bank continued to strengthen the product system, risk control management and service capabilities of retail banking, stepped up the application of financial technology and expanded on-line and offline channels to meet the needs of customers in respect of payment and settlement, personal loans, credit card consumption, wealth management and other aspects, which would offer retail customers with convenient services and smooth experiences. By doing so, the Bank would improve the financial assets of its retail customers while solidifying its retail customer base so as to increase the comprehensive contribution of its retail banking. During the Reporting Period, the Company recorded the operating income of RMB951 million in respect of retail banking, representing a year-on-year increase of 44.33%, and accounting for 20.96% of the Company’s operating income.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 1. *Retail customers and customer asset management*

As at the end of the Reporting Period, the number of retail customers of the Bank reached 4,321.3 thousand, representing an increase of 243 thousand or 5.96% as compared with that at the end of the previous year. The assets retained by retail customers in the Bank reached a total of RMB143.916 billion, representing an increase of 9.62% as compared with that at the end of the previous year. The number of customers with financial assets of over RMB200,000 amounted to 180.8 thousand, representing an increase of 20.1 thousand as compared with that at the end of the previous year, with a total assets scale of RMB119.586 billion retained in the Bank. They accounted for 83.09% in its total retail banking customers, representing an increase of 2.14 percentage points as compared with that at the end of the previous year.

As at the end of the Reporting Period, the Bank's balance of retail deposits reached RMB58.837 billion, representing an increase of RMB1.938 billion or 3.41% as compared with that at the end of the previous year and accounting for 31.65% of the balance of various deposits (excluding accrued interest). In particular, demand deposits reached RMB18.603 billion, representing an increase of RMB290 million or 1.58% as compared with that at the end of the previous year.

The Bank focused on exploring payroll agency business. By leveraging the customer resources of payroll companies, the Company realized the linkage between public and private businesses, handled mobile banking, fast payment and other businesses for corporate employees, and increased customer loyalty. The Bank launched 25 tranches of exclusive wealth management products for employees of enterprises which enjoyed our payroll agency service and raised RMB3.010 billion of wealth management funds. As at the end of the Reporting Period, the payroll agency business led to an increase of 119.3 thousand retail customers and the retail deposits related to the payroll agency business reached RMB11.795 billion, representing an increase of RMB1.464 billion or 14.17% as compared with that at the end of last year.

The Bank continued to expand the "cloud-based payment" (雲繳費) business. Through the "cloud-based payment" platform, the Bank transferred the offline payment scenarios of the payment collection units to the Bank's online banking and mobile banking, and provided electronic payment platforms for the payment individuals with various fees such as tuition fees, property management fees and party membership dues. During the Reporting Period, the Bank opened 54 new contracted units for "cloud-based payment", which led to an increase of 11.6 thousand retail customers and a total of 399 thousand payments for the first half of this year, representing a year-on-year increase of 273%, with a total payment amount of RMB217 million for the first half of this year, representing a year-on-year increase of 143%.

Smart outlets were successfully piloted. During the Reporting Period, the average replacement rate of the Bank's smart outlets reached 80%, and the service quality and efficiency and product sales success rate at the bank halls improved significantly, laying the foundation for the next large-scale promotion.

### 2. *Retail loans*

As at the end of the Reporting Period, the balance of retail loans of the Bank amounted to RMB44.781 billion, representing an increase of RMB3.431 billion or 8.30% as compared to the end of last year, accounting for 30.59% of the total balance of loans (excluding accrued interest). The number of retail loan customers was 652.1 thousand, representing an increase of 131.8 thousand as compared to the end of last year. During the Reporting Period, the Bank seized market opportunities and achieved business volume growth, revenue growth and asset quality improvement under the market condition of severe competition.

Various loan products developed in a coordinative manner. Firstly, the Bank steadily developed housing loans. During the Reporting Period, the Bank reasonably arranged the allocation of individual housing loans based on the principle of supporting residents' reasonable demand for purchasing house for own use. As at the end of the Reporting Period, the balance of personal housing loans amounted to RMB32.441 billion, representing an increase of RMB2.212 billion or 7.32% as compared to the end of last year. Secondly, the Bank vigorously developed personal business loans. During the Reporting Period, the Bank implemented the national policies and regulatory requirements, actively carried out personal business loan business and supported the financing needs of individual business owners and owners of Small and Micro Enterprises. As at the end of the Reporting Period, the balance of personal business loans was RMB5.259 billion, and the number of personal business loans customers reached 8,671. Thirdly, the Bank actively developed consumption loans. During the Reporting Period, the Bank continued to promote the development of micro-consumption loan business, and applied Internet technology to provide customers with fast, convenient and high-quality products and services under the general trend of consumption upgrade. As at the end of the Reporting Period, the balance of personal consumption loans amounted to RMB5.715 billion, representing an increase of RMB1.888 billion or 49.31% as compared with the end of last year.

The proportion of interest income continued to increase. During the Reporting Period, interest income from retail loan business amounted to RMB1.103 billion, representing an increase of RMB391 million or 55.01% as compared to the corresponding period of last year, accounting for 32.03% of the interest income from loans of the Bank, representing an increase of 2.55 percentage points as compared to the corresponding period of last year. The average interest rate of retail loans was 5.13%, representing an increase of 0.45 percentage point as compared to the same period of last year, which was 0.09 percentage point higher than the average level of the bank-wide loan interest rate.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

The quality of assets was stable and improved. The Bank achieved remarkable results in non-performing loan control. As at the end of the Reporting Period, retail loans have applied the standard of “being overdue for over 60 days shall be classified into non-performing category” and the balance of non-performing loans to retail customers amounted to RMB354 million according to this standard and the non-performing loan ratio to retail customers was 0.79%. The recovery and settlement of non-performing loans of retail customers achieved results with the completion of cash collection of RMB31.1890 million.

The Bank continued to develop our micro loan financial featured business. In respect of supply chain finance, the Bank cooperated with 14 domestic leading fast-moving consumer goods enterprises, and granted credit of RMB1.040 billion to a total of 1,564 distributors during the Reporting Period, with a loan balance of RMB353 million as at the end of the Reporting Period. In respect of internet online personal loans, the Bank cooperated with well-known domestic internet companies to develop business of internet-based small-amount consumption loans, operation loan business of Small and Micro Enterprises and individual business owners. During the Reporting Period, the Bank granted a total of 760.1 thousand loans with an amount of RMB6.533 billion. As at the end of the Reporting Period, the balance of loans was RMB6.911 billion, representing an increase of 11.36% as compared with that at the end of the previous year.

### 3. *Wealth management and private banking business*

The wealth management and private banking business of the Bank adhered to the operation and service philosophy of “customer-centered and market-oriented”, constantly enriched investment instruments, provided customers with comprehensive wealth management planning and asset allocation services, and satisfied customers’ increasingly diversified wealth management needs. Currently, the Bank has established a multi-level product system covering cash, fixed income and equity, and continued to optimize the product supply strategy. While enriching the product shelf, the Bank also provided high-quality and marketable products to promote the steady increase in the number of customers, asset scale and business income. As at the end of the Reporting Period, retail customers with assets under management of over RMB2.00 million reached 7,896, representing an increase of 834 or 11.81% as compared to the end of last year, and the assets retained in the Bank amounted to RMB33.202 billion, representing an increase of RMB1.944 billion or 6.22% as compared to the end of last year.

During the Reporting Period, the Bank newly commenced sales agency business for trust products, and sales agency volume of trust products reached 10 in aggregate with a sales agency amount of RMB2.698 billion. Insurance premiums from agency sales amounted to RMB285 million, and agency sales of open-ended funds amounted to RMB1.779 billion. During the Reporting Period, the Bank realized wealth management fee and commission income of RMB42 million, representing a year-on-year increase of 126.14%, of which fee and commission income from agency sales of trust products amounted to RMB21 million.

### 4. *Customer service management*

During the Reporting Period, the Bank managed customer groups based on improving customer experience, and firmly grasped the “customer-centered” strategy to promote the Bank’s service brand, service reputation and service capabilities to a new level. Firstly, under the guidance of service culture, we created a service “DNA” with the Bank’s characteristics, promoted the transformation of the service brand essence of “Qingxin Service, Care for You” into service actions for each customer, and created more touching services and satisfactory services in interaction with customers. Secondly, we transformed our services into customer-acquisition capability and developed new service capabilities from the perspective of customer acquisition awareness and customer acquisition skills of our employees, so as to transform service experience into new advantages of retail operations in attracting customers and expanding our customers.

### **12.2.2 Corporate banking**

During the Reporting Period, the corporate banking business of the Bank was supported by financial technology, product portfolio across all business lines and professional solutions. On the basis of maintaining the advantages of public finance, the Bank explored core customer groups, expanded strategic customer groups, and promoted the new development of corporate banking business. During the Reporting Period, the Company’s corporate banking business recorded operating income of RMB2.336 billion, representing a year-on-year increase of 47.80%, accounting for 51.52% of the Company’s operating income.

#### 1. *Corporate deposits*

The Bank explored core customers, and achieved continuous growth in corporate deposits through product innovation, business process optimization and large-scale marketing activities. As at the end of the Reporting Period, the balance of corporate deposits reached RMB126.830 billion, accounting for 68.24% of the balance of various deposits (excluding accrued interest) and representing an increase of RMB8.185 billion or 6.90% as compared with that at the end of the previous year. In particular, demand deposit amounted to RMB73.178 billion, accounting for 57.70% of corporate deposits.

#### 2. *Corporate loans*

As at the end of the Reporting Period, the balance of corporate loans of the Bank (including discounted bills) reached RMB101.611 billion, accounting for 69.41% of the balance of various loans (excluding accrued interest) and representing an increase of RMB16.575 billion or 19.49% as compared with that at the end of the previous year.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

The Bank supported the supply-side reform, adapted to the new requirements of the continued transition from old to new growth drivers, 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 and technology finance. Also, the Bank continued to support the key engineering and construction projects and to meet the loan needs of traditional enterprises in respect of industrial upgrading, technological transformation and energy conservation and environmental protection projects.

As at the end of the Reporting Period, the balance of small and micro enterprise loans under inclusive finance with a single-person credit of less than RMB10 million of the Bank was RMB9.755 billion, representing an increase of 46.52% as compared with that at previous year, the growth rate is higher than 36.58% of other loans of the Bank. Small and micro enterprise loans volume amounted to 9,522, representing an increase of 4,297 as compared with that at previous year, satisfying “two increases” requirement of regulatory authorities. The balance of private enterprise loans was RMB44.457 billion, representing an increase of RMB2.836 billion as compared with that at the beginning of previous year, and the growth rate was 6.81%. The balance of Green Credit was RMB10.640 billion, representing an increase of RMB1.155 billion or 12.18% as compared with the beginning of the year and accounting for 10.47% of the Bank’s total corporate loans. The balance of technology credit was RMB5.684 billion, representing an increase of RMB336 million or 6.28% as compared with the beginning of the year and accounting for 5.59% of the Bank’s total corporate loans.

### 3. *Corporate customers*

As at the end of the Reporting Period, the Bank had 159.1 thousand corporate customers, representing an increase of 10.5 thousand or 7.07% as compared with that at the end of the previous year, continuously reinforcing the customer base. During the Reporting Period, the Bank focused on six core customer bases, including public finance, listed/to-be-listed enterprises and state-owned entities enterprises, etc. During the Reporting Period, the Bank entered into strategic cooperation agreements with six large group customers in the fields of education, publishing and environmental protection, which further expanded the strategic customer base. Entering into strategic cooperation agreements with group customers deepened business relations with large group customers, and exerted effort of the whole bank to provide comprehensive financial services of cash management, capital settlement, debt securities issuance and credit financing, consolidating all-around business interaction with large group customers.

### 4. *Corporate products*

The Bank carried out product research and development in response to customer pain points and difficulties in demand, continuously enriched and improved its corporate banking product system and provided systematic solutions to customers in respect of comprehensive financial needs such as financing and settlement.

In response to the needs of large corporate customers, the Bank continued to innovate on cash management products and launched “account keeping” (記賬通), “cash collection” (資金歸集), “bidding” (招標通) and “corporate account overdraft” (法人賬戶透支). Cash management products played a positive role in attracting quality core enterprises, exploring customer demands and driving the growth of liabilities. As at the end of the Reporting Period, the Bank had 146 contracted customers for cash management business, representing an increase of 34 as compared with that at the end of the previous year, and the balance of deposits for contracted customers amounted to RMB4.943 billion, representing an increase of 34% as compared with that at the end of the previous year.

In response to the needs of customers in the capital market, the Bank vigorously promoted investment banking products. As at the end of the Reporting Period, the Bank’s total loans for mergers and acquisitions amounted to RMB1.869 billion, representing an increase of RMB1.797 billion as compared with the beginning of the year. Private fund custody business increased by RMB2.541 billion.

In response to the needs of foreign trade enterprises, the Bank strengthened its cooperation with Qingdao customs office to help import and export enterprises fully enjoy the benefits of customs reform. The Bank successively and independently developed and launched innovative products and services such as the “Yin Mao Tong”(銀貿通), “Guan Bao Tong”(關保通), “Yin Guan Bao”(銀關保) and the new generation of electronic payment system for customs duties, which created the “first order in China” for a number of bank-related cooperation products, improved the efficiency of customs clearance and lowered the corporate finance costs, and was widely well-received by the import and export enterprises. The “Yin Mao Tong”(銀貿通) product was awarded with the “Top Ten Financial Service Innovation Award for Private Enterprises” in the 2019 China Financial Innovation Award.

### 12.2.3 Financial market business

During the Reporting Period, in face of the complicated and ever-changing domestic and overseas macroeconomic environment, the Bank, with internal control management and system construction as guarantee, steadily promoted the business development and product innovation in the financial market, continued to optimize the structure of financial investment, and continued to improve the quality and efficiency of investment. During the Reporting Period, the Bank comprehensively utilized various financial market tools to provide services to the real economy through investment and financing business linkage. During the Reporting Period, the Company recorded the operating income of RMB1.080 billion in respect of financial market business, representing a year-on-year increase of 31.62%, and accounting for 23.82% of the Company's operating income.

#### 1. *Proprietary investment*

During the Reporting Period, the financial market was generally abundant of liquidity, and the interest rate on bonds fluctuated moderately. In such situation, the Bank continued to improve the investment portfolio and, while controlling the scale of investment, to increase the overall income on financial investment. As at the end of the Reporting Period, the Bank's proprietary investment (excluding accrued interests) reached RMB144.915 billion, representing an increase of RMB1.211 billion or 0.84% as compared with that at the end of the previous year. In particular, the bond investment (excluding accrued interests) reached RMB83.899 billion, representing an increase of RMB6.343 billion or 8.18% as compared to that of at the end of previous year, which was mainly attributable to the increase in investment in central government bonds as well as local government bonds and credit bonds. The non-standard debt investment (excluding accrued interests) reached RMB60.993 billion, representing a decrease of RMB6.915 billion or 10.18% on a year-on-year basis, which was mainly attributable to the reduction of investment in special purpose vehicles, asset management plans and trust plans.

#### 2. *Interbank business*

During the Reporting Period, the Bank extended the duration of interbank liabilities to improve liquidity management while reducing the cost of interbank liabilities. As at the end of the Reporting Period, the balance of interbank deposits was RMB15.032 billion, representing an increase of 28.78% as compared with that at the end of the previous year and accounting for 4.89% of the total liabilities. In particular, the interbank demand deposit accounted for 21.31%, up by 5.40 percentage points as compared with that at the end of the previous year. The balance of interbank deposit certificates issued amounted to RMB55.225 billion, representing an increase of 11.10% as compared with that at the end of the previous year and accounting for 17.96% of the total liabilities.

During the Reporting Period, the delivery amount of bonds of the Bank in the interbank market nationwide was RMB4,994.952 billion. In the ranking of delivery amount of bonds set by China Central Depository & Clearing Co., Ltd. in the first half of 2019, the Bank ranked No. 32 among national financial institutions and No. 11 among city commercial banks. The Bank also actively participated in innovative deals in the currency market. In the X-REPO deal, a flagship trading method in the currency market, the Bank performed well and became the first institution being awarded “the Best City Commercial Bank”. In addition, the Bank was on the X-REPO active trader list for successive six months, and ranked among the top three in the market.

### 3. *Asset management*

The Bank’s asset management business, in the principle of “compliant management and robust transformation”, continued to increase wealth management scale and improve profitability. During the Reporting Period, the Bank’s service fee revenue from wealth management products was RMB318 million, representing a year-on-year increase of 119.51%. As at the end of the Reporting Period, wealth management products of the Bank reached 846, and the balance amounted to RMB83.313 billion in aggregate, representing an increase of RMB21.508 billion or 34.80% on a year-on-year basis. In particular, non-principal-guaranteed wealth management products reached 811, and the balance was RMB82.161 billion, representing an increase of RMB27.370 billion or 49.95% on a year-on-year basis. Principal-guaranteed wealth management products reached 35, and the balance was RMB1.152 billion, representing a decrease of RMB5.863 billion or 83.58% on a year-on-year basis. During the Reporting Period, all wealth management products issued by the Bank have produced expected earnings or satisfied the performance benchmark.

During the Reporting Period, wealth management products issued by the Bank reached 1,013, raising a total amount of RMB190.045 billion. In particular, non-principal-guaranteed wealth management products issued was 937, with an amount of RMB187.393 billion raised, representing an increase of 6.46% on a year-on-year basis and accounting for 98.60% of the total amount raised by the wealth management products. Principal-guaranteed wealth management products issued was 76, with an amount of RMB2.652 billion raised, representing a decrease of 84.20% on a year-on-year basis and accounting for 1.40% of the total amount raised by the wealth management products.

At the end of the Reporting Period, the balance of the Bank’s wealth management products amounted to RMB99.086 billion, and asset types directly and indirectly invested mainly include fixed return type, nonstandard debt assets type and capital market assets type, etc. Among which, fixed return assets amounted to RMB82.389 billion, accounting for 83.15%, non-standard debt assets amounted to RMB9.955 billion, accounting for 10.05%, capital market assets amounted to RMB3.153 billion, accounting for 3.18%, and public funds amounted to RMB3.589 billion, accounting for 3.62%.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

The Bank intensified efforts for the net-worth transformation of products. During the Reporting Period, the Bank reduced the issuance of principal-guaranteed wealth management products, downscaled the products with expected income, and accomplished the goal of net-worth transformation of products in stages, during the transition period for implementation of the new regulation on asset management. As at the end of the Reporting Period, the balance of net-worth wealth management products was RMB46.856 billion, accounting for 56.24% of the total scale of wealth management products and up by 48.94 percentage points as compared with that at the corresponding period of the previous year.

The Bank expanded, in an energetic way, the channels for commission sale of wealth management products. During the Reporting Period, the Bank's wealth management products realized commission sale business on the national deposits financial institutions, which enabled the Bank's wealth management products to explore national presence, and enhanced the popularity of the Bank's wealth management products. During the Reporting Period, the Bank has sold 54 wealth management products through the agency, with a scale of RMB3.762 billion. As at the end of the Reporting Period, the balance of wealth management products sold through agents was RMB2.502 billion.

The Bank continued to improve the portfolio of customer base. The wealth management business of the Bank maintained a customer portfolio dominated by retail customers and supplemented by corporate customers, retail wealth management products accounting for over 95% of the total for a long time. The personal retail customer structure ensured the stability of the source of liabilities, enjoying a larger advantage in the local market.

During the Reporting Period, the Bank was honored as 2018 Outstanding City Commercial Bank of National Banking Financial Information Registration and was granted Outstanding Organization Award for National Banking Financial Investor Registration and Direct Contact Work (全國銀行業理財投資者登記暨直聯工作優秀組織獎). On the Evaluation on Net Worth Wealth Management Capability of Banks list issued by China Securities Journal · Golden Bull Wealth Management for the first time, the Bank ranked No. 6 among the national city commercial banks in terms of the net-worth products management capability by virtue of its excelling performance in net-worth wealth management products.

#### 4. *Investment banking*

As the only legal-person financial institution in Shandong Province with the qualification of Class B independent lead underwriter, the Bank closely monitored market dynamics and developed innovative market instruments that would enhance its competitive edges in the financial market, providing comprehensive financing solutions for quality corporate customers, in order to build a service brand of the Bank in the debt capital market.

During the Reporting Period, under the macro environment of loose currency and tight credit, credit spread in the bond market continued to expand. The Bank, being flexible in using debt financing instruments, wealth management direct financing instruments, debt financing plans and other products, continued to create credit risk mitigation warrants for financing the bond issuance by enterprises through multiple channels. During the Reporting Period, the Bank underwrote to issue 15 bonds of various types, with RMB6.030 billion raised in total, representing an increase of 41.22% as compared with that in the same period of the previous year.

### **12.2.4 Distribution channels**

#### *1. Physical distribution channels*

The business outlets of the Bank are based in Qingdao with a footprint extending to other regions of Shandong Province. As at the end of the Reporting Period, the Bank set up 138 business outlets in 14 cities, namely Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Laiwu, Linyi, Jining and Tai'an in Shandong Province, including 14 branches. The Bank set up one headquarter business department, one branch, and 78 sub-branches in Qingdao. The Bank's holding subsidiary BQD Financial Leasing is headquartered in Qingdao and has an office in Shanghai.

#### *2. Self-service banking channels*

As at the end of the Reporting Period, the Bank had 104 self-service banks with 301 self-service devices, including 57 self-service ATMs, 166 self-service Cash Deposit and Teller machines (CTM) and 78 self-service terminals. These units provide services such as withdrawal, deposit, transfer, account enquiry and payment. During the Reporting Period, the Bank had recorded 2.7085 million transactions through self-service bank with a total transaction amount of RMB7.727 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.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### (1) Internet banking

During the Reporting Period, the online banking business of the Bank kept steady development and the customer size and transaction volume remained basically stable. As at the end of the Reporting Period, the Bank recorded 106.7 thousand corporate customers of online banking, representing an increase of 20.02% as compared with that at the end of the previous year. During the Reporting Period, the Bank recorded 6.5369 million transactions, representing an increase of 90.15% as compared with that in the same period of the previous year; a transaction amount of RMB583.103 billion, representing a decrease of 22.82% as compared with that in the same period of the previous year. The Bank recorded 0.7283 million individual customers of online banking, representing an increase of 0.66% as compared with that at the end of the previous year. During the Reporting Period, the Bank recorded 52.0383 million transactions, representing a decrease of 10.65% as compared with that in the same period of the previous year; a transaction amount of RMB190.359 billion, representing a decrease of 40.67% as compared with that in the same period of the previous year.

### (2) Mobile finance

The Bank continued to accelerate the intelligent and personalized construction of mobile banking. During the Reporting Period, the Bank successfully released the version 4.0 of mobile banking based on the cloud platform, and made revolutionary upgrade and replacement of the mobile banking infrastructure, which improved the efficiency of the mobile banking version updates, function development, fault repairing and other works, laying a solid foundation for the online digital operation based on big data analysis in the future. The intuitive changes brought to customers were the significant increase in the operation speed of mobile banking, the further optimization of common transaction processes such as transfer and inquiry, and the more smooth customer experience. During the Reporting Period, the Bank further enriched the functions of mobile banking by making use of mobile banking for fingerprint login, mobile phone number transfer, cross-bank payment and structured deposits, which effectively enhanced the user experience.

The mobile banking user size and transaction volume of the Bank maintained rapid growth. As at the end of the Reporting Period, the Bank recorded 1.9156 million mobile banking users, representing an increase of 22.47% as compared with that at the end of the previous year; 31.2235 million transactions, representing an increase of 5.39% as compared with that in the same period of the previous year; the transaction amount of RMB186.514 billion, representing an increase of 11.15% as compared with that in the same period of the previous year.

The volume of wealth management products sold via mobile banking was constantly improved. During the Reporting Period, the sales amount of wealth management products of the Bank sold via mobile banking totaled RMB41.526 billion. Transaction volume of wealth management products sold via mobile banking accounted for 64.96% of that via various channels, representing an increase of 11.64 percentage points as compared with that at the end of the previous year.

### **12.2.5 Information technology**

During the Reporting Period, the Bank comprehensively implemented the strategy of scientific and technological innovations, combined with the new financial concept of “financial + technology + scenarios”, accelerated the application and innovation of digital technology, focused on strengthening the construction of key projects in areas such as mobile internet, big data and cloud computing, continued to enhance the overall ability of prevention and control of information technology risks, effectively supporting the achievement of business strategic objectives during the Reporting Period.

1. *Promoted the construction of key projects and strived to achieve key breakthroughs in data application and other aspects*

During the Reporting Period, the Bank stepped up its efforts in the construction of technology projects, launched 9 new IT projects, and successfully completed the launch of 14 major projects, including the second phase of smart outlets, internet financing platforms, operation decision analysis platforms and asset management agency sales, and fully promoted the construction of 33 projects under construction.

During the Reporting Period, the first and second phase of smart outlet projects were launched. The project integrates marketing services into “close” business services to customers, deeply explores and enhances the value of customer services from our counters, and comprehensively performs various functions such as business guidance, operation and product marketing in outlet services to achieve one-stop financial services for customers. The smart outlet project utilized a large amount of key technologies such as face recognition and big data analysis to complete the customer 360 view, which not only enhanced the security level, but also effectively improved the user experience.

The mobile terminal of the operation decision analysis platforms based on big data completed the gated launch, further expanded the channels for business inquiry and data analysis, and enhanced the independent business data analysis capability. Based on the big data technology, the corporate knowledge platform has newly added the real-time monitoring and early warning of seven types of abnormal transactions in second and third-class accounts, so as to enhance the security of accounts.

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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2. *Strengthened information technology risk management and fully safeguarded the security of information system*

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, and effectively prevent external threats.

During the Reporting Period, the Bank carried out local and city-wide high-availability switching drills for disaster recovery in the core business system, continuously improved the high availability of internet channel system, and continuously enhanced the operation and maintenance management capability and level. The Bank has passed recertification audit for information security management system (ISO27001) to ensure the reliable, stable, continuous and efficient operation of information system.

3. *Carried out in-depth research on the application of cutting-edge technologies and continued to integrate business technology resources*

With cutting-edge technology research as the guidance, the Bank continued to conduct research on the application of cloud computing, big data, artificial intelligence and 5G technologies in the financial sector, and continued to enhance its independent control and independent innovation capabilities. During the Reporting Period, the elastic load balancing method in the cloud environment independently developed by the Bank was awarded the invention patent by the State Patent Office, which realized the flexible expansion of application system resources and effectively addressed the scenario of sudden business peak.

The Bank continued to optimize its internal organizational structure, continued to absorb outstanding scientific and technological talents, focused on improving the overall quality of employees and the independent research and development capability of the team, strengthened the in-depth integration of technology business, and effectively responded to the new requirements of market competition and business development under the internet trend.

### 13. STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

Structured entities controlled by the Company are mainly principal-guaranteed wealth management products issued by the Company. Please refer to “IV. Management Discussion and Analysis – 12. Overview of Business Development – 12.2.3 Financial Market Business – 3. Assets Management” of this report.

### 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 Company's credit risks mainly come from loan portfolios, investment portfolios, guarantees and commitments.

The Company is committed to continuously improving its credit risk management system and establishing a management and control process and mechanism covering risk identification, assessment, measurement, monitoring, control, mitigation and reporting. The Company is committed to taking various measures to improve its overall management ability of credit risk, including timely adjustment of credit policies, improvement of centralized credit approval mechanism, strengthening overdue management, innovation of post-loan management methods, acceleration of disposal of non-performing loans and optimization of credit risk management system. During the Reporting Period, the Bank adopted the following measures to strengthen its credit risk management:

1. Implementing centralized approval of corporate credit business. During the Reporting Period, the Bank continuously improved the centralized approval mechanism and continuously optimized the relevant management procedures.
2. Further clarifying the duties and responsibilities of the asset preservation department. In accordance with the principle of "market-oriented", the Bank formulated assessment plans to improve the quality and efficiency of asset preservation and collection of non-performing loans, so as to benefit from the quality of assets and free up more credit facilities to support private and Small and Micro Enterprises.
3. Continuously optimizing the management and control mechanism of overdue loans. The Bank promoted the management of overdue loans, strengthened the early monitoring and early warning disposal of overdue loans, implemented progress dynamic management in stages, timely monitored overdue loans, accelerated information transmission and improved decision-making efficiency.
4. Exploring innovative post-loan inspection model. In combination with management practices, the Bank formulated the post-loan supervision measures for corporate business, and conducted special inspections on key institutions, key links, key customers and key industries with post-loan inspection as the starting point, which covered the whole process of "before-loan investigation, loan-granting review and after-loan inspection", standardized the post-loan management and promoted the sustainable and steady development of the credit business.

5. Adhering to the development direction of green finance. The Bank implemented list control over the obsolete enterprises with backward production capacity in “High Pollution, High Energy-Consumption, Over-Capacity” Industries, strictly controlled new project loans, and supported the credit demand for industrial upgrading and technological transformation of enterprises.
6. Continuously improving the functions of the credit risk management system. During the Reporting Period, the Bank further regulated the business operation procedures, prevented the operational risk of the credit risk management system, and satisfied the needs of business development and risk management.

### 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 sustain its asset growth or perform repayment obligations when it falls due even if a bank remains solvent.

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.

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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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, the Company continuously increased the allocation proportion of loans. As for liabilities, while making considerable efforts to drive the growth of its deposit, the Company increased its long-term assets allocation through issuance of bonds and the stability of its liabilities further enhanced.
2. Strengthening management of positions on a daily basis, and promptly monitoring the inflow and outflow of funds and the gap changes, and paying full attention to the impact of market funds and changes in the Company's business on the position at the end of the month, quarter and other key time points. The Bank reasonably arranged the level of position and reserve funds, and improved the utilization efficiency of funds under the premise of ensuring liquidity needs.
3. The Bank strengthened active liability management, coordinated the active liability instruments such as central bank financing instruments and issuance of interbank certificates of deposit, and flexibly arranged active liability strategies according to its own liquidity needs and market conditions.
4. The Bank carried out dynamic monitoring on various liquidity risk limit indicators in strict compliance with relevant regulatory requirements. Based on its business scale, nature, complexity and risk profile, the Bank conducts stress tests on liquidity risk in multiple stress scenarios, including individual bank, market and mixed level.

For details of the liquidity risk management of the Company, please refer to "Notes to the Unaudited Interim Financial Report – 40(3) Liquidity Risk" of this report.

### 14.3 Market Risk Management

Market risk is the potential risk of causing losses to the future revenue or future cash flows 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 mainly 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 authorization, 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.

During the Reporting Period, the Company conducted in-depth research and continuously tracked the changes in macro-economy and monetary policy, regularly monitored the risk limit indicators, and all market risk indicators were stable without any over-limit circumstance.

#### **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.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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 according to various risk sources, and puts forward management recommendations and business adjustment strategies based on report arrived from 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, risk exposure and stop-loss are set, and the implementation of these limits is also effectively monitored, managed and reported on a regular basis with market risk stress tests carried out.

### 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 30 June 2019 and 31 December 2018.

*Unit: RMB'000*

| <b>Item</b>                              | <b>30 June 2019<br/>(Decrease)/<br/>Increase</b> | 31 December<br>2018<br>(Decrease)/<br>Increase |
|--|--|--|
| Change in annualized net interest income |  |  |
| Interest rate increase by 100 bps        | <b>(508,669)</b>                                 | (635,421)                                      |
| Interest rate decrease by 100 bps        | <b>508,669</b>                                   | 635,421  |

This sensitivity analysis is based on a static interest rate risk profile of the Company's assets and liabilities. The analysis measures only 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);

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

2. There is a parallel shift in the yield curve and in interest rates;
3. There are no other changes to assets and liabilities 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 currency mismatches of the non-RMB assets and liabilities held in the banking book of the Company. The Company controlled the exchange rate risk of banking book at a reasonable level through strictly controlling risk exposure. 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 30 June 2019 and 31 December 2018.

*Unit: RMB'000*

| <u>Item</u>                               | <u>30 June 2019<br/>Increase/<br/>(Decrease)</u> | <u>31 December<br/>2018 Increase/<br/>(Decrease)</u> |
|---|--|--|
| Change in annualised net profit           |  |  |
| Foreign exchange rate increase by 100 bps | <b>9,631</b>                                     | 9,358  |
| Foreign exchange rate decrease by 100 bps | <b>(9,631)</b>                                   | (9,358)  |

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. Our operational risk mainly arises from personnel risk, process risk, information system risk and external event risk.

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. During the Reporting Period, the Bank actively improved operational risk management system, deeply explored potential risk, effectively identified, evaluated, monitored, controlled and minimized operational risk, vigorously promoted the enhancement of operational risk management, and enhanced its operational risk management ability. During the Reporting Period, the Bank focused on enhancing its operational risk management in the following areas:

1. Strengthening the application of operational risk management tools. The Bank comprehensively monitored operational risks through various means such as system monitoring, risk screening, internal check, and business line supervision, etc., and properly collected and analyzed key indicators of operational risk and lost data and issued early warning, improved the construction of internal procedures, and prevented operational risks in an all-round manner.
2. Focusing on key businesses and key areas of the Bank, combined with regulatory inspections and risk screening in certain key areas, the Bank rectified problems through self-knowledge and self-autonomy process, addressed operation and management loopholes, eliminated risks in the early stage and strictly controlled the spread of operational risks.

3. The Bank strengthened the security protection of information technology system and outsourcing risk management, analyzed the operation of important systems, the launch of IT projects and the external IT risk events, strengthened information security management and control, conducted risk assessment on the contents of outsourcing services, and strengthened the control and inspection of the risks during the process of implementation of outsourcing projects.
4. The Bank continued to promote business continuity management, improved the system construction of emergency plans, organized business continuity drills, and enhanced the relevant personnel's ability to respond to emergencies and their ability to work together.

### 15. DEVELOPMENT PLAN IN THE SECOND HALF OF 2019 OF THE COMPANY

#### 15.1 Operating Situation Analysis for the Second Half of the Year

In the second half of 2019, the global economy is still in a downward cycle. Under the influence of the Sino-US trade friction, China's economy will still face greater uncertainty, but will generally maintain stable operation with steady progress. The general tone of prudent monetary policy will remain unchanged, but the possibility of targeted adjustment and control will increase, and active fiscal policy will continue to be implemented.

#### 15.2 Development Guiding Ideology for the Second Half of the Year

In the second half of 2019, the Bank will continue to follow the overall strategic planning requirements, and steadily promote the four development themes of "customer base expansion, financial technology empowerment, featured advantages cultivation and management mechanism transformation" under the guidance of the strategic goal of creating "a technology-driven bank that offers new quality financial products with lean management and outstanding features". The Company will continue to follow the basic operation guiding ideology of "strategic guidance, characteristic growth driver, compliance with rules and regulations, and continuous improvement", adheres to serving the real economy, steadily promotes structural adjustment, and ensures the completion of all annual work plans on the basis of steady development and quality control.

#### 15.3 Major Work Measures in the Second Half of the Year

- (1) Enrich the product system, improve the service level, expand the retail customer base and promote the increase of deposit;
- (2) Optimize product mix, develop key business, exert great efforts in customer base construction and enhance deposit contribution;
- (3) Expand investment banking business, develop financial management in the manner of compliance, optimize asset allocation and improve profitability;

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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- (4) Optimize activation, improve comprehensive income, improve efficiency to acquire customer, and achieve a breakthrough in card issuance;
- (5) Adhere to centralized examination and approval, strictly control new risks, and improve the system to ensure stable asset quality;
- (6) Focus on key projects, improve delivery efficiency, optimize mechanism and strengthen scientific and technological support capacity.

## SECTION V SIGNIFICANT EVENTS

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

#### 1.1 Shareholders' general meeting during the Reporting Period

| Session of meeting          | Type of meeting        | Participation           | Date of convening | Date of disclosure | Index of disclosure   |
|-----------------------------|------------------------|-------------------------|-------------------|--------------------|---|
|                             |                        | percentage of investors |                   |                    |   |
| 2018 annual general meeting | Annual general meeting | 64.588547%              | 17 May 2019       | 17 May 2019        | Announcement of resolutions of the 2018 annual general meeting (Announcement No. 2019-019) published on China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily, the Cninfo website ( <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> ), the website of the Hong Kong Stock Exchange ( <a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a> ) and the website of the Bank ( <a href="http://www.qdccb.com">http://www.qdccb.com</a> ) |

#### 1.2 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.

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

The Bank will not distribute cash dividend of ordinary shares or bonus share, or conduct conversion of capital reserves into share capital in the interim period.

### III. UNDERTAKINGS FULFILLED DURING THE REPORTING PERIOD AND NOT FULFILLED AS AT THE END OF THE REPORTING PERIOD BY THE DE FACTO CONTROLLERS, SHAREHOLDERS, RELATED PARTIES, ACQUIRER, THE BANK AND OTHER PARTY INVOLVED IN UNDERTAKING

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

### IV. ENGAGEMENT OR DISMISSAL OF ACCOUNTING FIRMS

The interim financial report of the Company is unaudited. The Bank has not changed its accounting firm during the Reporting Period.

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## SECTION V SIGNIFICANT EVENTS

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### V. MATTERS RELATED TO BANKRUPTCY AND REORGANIZATION

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

### VI. LITIGATION

#### 6.1 Material litigation, arbitration and material cases during the Reporting Period

During the Reporting Period, there was no significant litigation and arbitration and material cases.

#### 6.2 Other litigation and arbitration during the Reporting Period

The Bank is involved in several litigations in the daily operation due to loan collection and other reasons. The Bank does not anticipate that these litigations will have a material adverse impact on our financial or business results. At the end of the Reporting Period, there were 7 outstanding litigations against the Bank, involving an amount of RMB2,719.5 thousand, which will not have a significant adverse impact on the financial or business results of the Bank, and no provisions were formed.

### VII. MEDIA QUESTIONING

During the Reporting Period, the Bank has no general questions from the media.

### VIII. 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.

### IX. CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

There was no controlling shareholders and de facto controllers of the Bank. During the Reporting Period, the largest shareholder of the Bank and its de facto controller do not have any failure to comply with any effective court judgement or settle any material debts that have fallen due.

### X. IMPLEMENTATION OF THE EQUITY INCENTIVE PLAN, EMPLOYEE SHAREHOLDING PLAN OR OTHER EMPLOYEE INCENTIVE MEASURE OF THE COMPANY

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

## XI. RELATED PARTY TRANSACTIONS

### 11.1 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.

Pursuant to the relevant provisions of the CBIRC, in accordance with commercial principles, the Bank approved related party transactions on conditions not more favorable than those for comparable transactions with non-related parties. The terms of the transactions were fair and reasonable and in the interest of all Shareholders and the Bank as a whole and have no negative impact on the operating results and financial condition of the Bank. All credit-related related party transactions were conducted in accordance with relevant laws and regulations, credit granting conditions and the review procedures, and 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, there were four proposals on significant related party transactions approved by the Board of Directors, which were the related party transactions with Qingdao Haiqi Real Estate Development Co., Ltd. (青島海啟房地產開發有限公司), Qingdao Haizhi Weichuang Estate Co., Ltd. (青島海智偉創置業有限公司), Qingdao Haitang Real Estate Co., Ltd. (青島海唐置業有限公司) and Haier Consumer Finance Co., Ltd. As at the end of the Reporting Period, the Bank's balance of credit-related significant related party transactions was RMB4,290 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                             | 3.92%   |
| Qingdao Changyuan Land Co., Ltd.                           | Non-standard debt         | Guarantee        | 9.50   | 9.50                              | 2.48%   |
| Haier Consumer Finance Co., Ltd.                           | Interbank borrowing       | Guarantee        | 7.00   | 7.00                              | 1.83%   |
| Qingdao Haier Home Integration Co., Ltd.                   | Commercial bill financing | Pledge           | 3.83   | 3.83                              | 1.00%   |
| Haier Financial Factoring (Chongqing) Co., Ltd.            | Loan                      | Guarantee        | 3.00   | 3.00                              | 0.78%   |
| Haier Group Finance Co., Ltd.                              | Interbank bill credit     | -                | 2.20   | 2.20                              | 0.57%   |
| Qingdao Haier Industry and City Innovation Group Co., Ltd. | Factoring                 | Pledge           | 1.97   | 1.97                              | 0.51%   |
| Qingdao Haiqi Real Estate Development Co., Ltd.            | Commercial bill financing | Guarantee        | 0.28   | 0.28                              | 0.07%   |
| Qingdao Haizhi Weichuang Estate Co., Ltd.                  | Commercial bill financing | Guarantee        | 0.12   | 0.12                              | 0.03%   |

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## SECTION V SIGNIFICANT EVENTS

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According to the provisions of the CSRC, the Bank has made a forecast of the daily related party transactions in 2019. The related party transactions in the Reporting Period have not exceeded the forecast. The details are as follows:

- (1) The estimated limit of credit-related transactions in respect of Haier Group Corporation (海爾集團公司) and its related parties was RMB3,600 million, and the balance at the end of the Reporting Period was RMB2,789 million;
- (2) The estimated limit of credit-related transactions in respect of Intesa Sanpaolo S.p.A. and its related parties was RMB400 million, and there is no balance at the end of the Reporting Period; the estimated limit of non-credit transactions was RMB7.2000 million, and the actual amount was RMB1.9686 million during the Reporting Period;
- (3) The estimated limit of credit-related transactions in respect of Qingdao Conson Development (Group) Co., Ltd. and its related parties was RMB2,000 million, and the balance at the end of the Reporting Period was RMB1,785 million; the estimated limit of non-credit transactions was RMB56.43 million, and the actual amount was RMB16.4432 million during the Reporting Period;
- (4) The estimated limit of non-credit transactions in respect of AMTD Group Company Limited (尚乘集團有限公司) and its related parties was RMB30 million, and the actual amount was RMB12.0307 million during the Reporting Period;
- (5) The estimated limit of credit-related transactions in respect of Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. and its related parties was RMB1,805 million, and the balance at the end of the Reporting Period was RMB1,305 million; the estimated limit of non-credit transactions was RMB1.55 million, and the actual amount was RMB0.1328 million during the Reporting Period;
- (6) The estimated limit of credit-related transactions in respect of Shandong State-owned Assets Investment Holdings Co., Ltd. was RMB240 million, and the balance at the end of the Reporting Period was RMB240 million;
- (7) The estimated limit of credit-related transactions in respect of BQD Financial Leasing was RMB700 million, and there is no balance at the end of the Reporting Period;
- (8) The estimated limit of credit-related transactions in respect of related natural persons was RMB353 million, the balance at the end of the Reporting Period was RMB198 million and the risk exposure was RMB198 million.

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## SECTION V SIGNIFICANT EVENTS

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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 latest audited net asset value of the Bank, which was the loan granted by the Bank to Qingdao Conson Financial Holdings Co., Ltd. (“**Conson Financial Holdings**”), which was within the scope of estimate of ordinary related party transactions in 2019. The loan granted by the Bank to Conson Financial Holdings was conducted on business principles and terms no favourable than those offered to non-related parties for similar transactions. The balance of the loan granted by the Bank to Conson Financial Holdings at the end of the Reporting Period was RMB1.5 billion, accounting for 1.05% of the Bank’s loans and advances to customers. The loan of the Bank shall be interest paid monthly and principal repaid on maturity. The weighted average interest rate of the loan was 5.76%.

The related party transactions disclosed in this section were transactions entered into by the Bank in its ordinary course of business with related 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 related party transactions were fully exempted from disclosure requirements.

### **11.2 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.

### **11.3 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.

### **11.4 Related creditors’ rights and debts transactions**

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

### **11.5 Other significant related party transactions**

There was no other significant related party transactions of the Bank during the Reporting Period.

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## SECTION V SIGNIFICANT EVENTS

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### XII. MATERIAL CONTRACTS AND IMPLEMENTATION THEREOF

#### 12.1 Custody, contracting and leasing

In the material contracts entered into by the Bank, there was no matter related to custody, contracting, and leasing of assets of other companies by the Bank, or matter related to custody, contracting, and leasing of assets of the Bank by other companies which was occurred during the Reporting Period or which was occurred in previous periods and continued to the Reporting Period.

#### 12.2 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. For details, please refer to “Notes to the Unaudited Interim Financial Report – 42 Commitments and Contingent Liabilities” of this report.

#### 12.3 Other material contracts

There was no other material contracts of the Bank during the Reporting Period.

### XIII. SOCIAL RESPONSIBILITY

#### 13.1 Performance of social responsibility

During the Reporting Period, bearing in mind its mission of returning finance to the source and serving the real economy, the Bank integrated its social responsibility into the new development strategic plan to struggle for a comprehensive balance of economic, social and environmental values.

In terms of economic responsibility, we still focused on the national structural reform on the supply side, the replacement of old growth drivers with new ones in Shandong Province and “fifteen strategies” of Qingdao. Our policies were weighted toward the financial support for the growth of the real economy. By practicing the concept of inclusive finance, we continued to explore the professional branch model, micro-credit center model and digital platform model to serve private enterprises and small and micro-sized enterprises. Innovative inclusive financial services were launched, such as small and micro enterprise secured loans for entrepreneurship, “Loan Business Guaranteed by Government (政銀保)”, loans designated for transformation of scientific and technological achievements, subsidized loans for high-tech enterprises, and subsidized loans for blue-ocean listed enterprises. The direct financing was promoted by completing 15 direct financing projects for various enterprises, where an amount of RMB6,030 million was raised; two credit risk mitigation warrants totaling RMB150 million were created, helping private enterprises out of difficulties.

In terms of environmental responsibility, continuing with green development, the Bank's balance of Green Credit was RMB10.64 billion during the Reporting Period, representing an increase of RMB1,155 million or 12.18% over the beginning of the year. To offer green low-carbon services, mobile banking 4.0 was launched and reconstructed on the cloud platform, on which basis the Bank's online digital targeted services became available. We accelerated the construction of centralized operation banking and optimized process of online multi-channel account opening appointment. Also for better customer experience, smart lobby system was constructed under which new "cash order model" and "channel reservation and backend centralized processing" service model were developed. The Bank continued to advocate a culture of frugality and enhance the awareness of all staff on environmental protection through various initiatives taken to reduce energy consumption, as well as wide varieties of green environmental welfare activities.

In terms of social responsibility, the Bank, in the capacity of a pilot bank to launch and operate complaint monitoring data reporting system, has become the first bank that utilized digital data transmission under the national complaint classification standard. Led by "Qingcheng" consumer rights protection brand, the Bank carried out multi-dimensional financial knowledge education activities, including "financial knowledge classroom", publicity of campus online loans, financial knowledge lectures, etc. We continued to serve the community by means of various public welfare activities and volunteer services, and through activities such as financial assistance to students and financial assistance to the poor.

### 13.2 Significant environmental protection issues

The Bank and its subsidiaries are not the key pollutant discharge units announced by the environmental protection department. During the Reporting Period, the Bank and its subsidiaries have not been punished for violating relevant laws and regulations on environmental protection. In the monetary and financial service industry, no pollutants specified in the Provisions on the Management of List of Key Sewage Discharging Units (《重點排污單位名錄管理規定》) are produced from the Bank's principal business. In the future production and operation, the Bank and its subsidiaries will conscientiously implement the Environmental Protection Law of the PRC and other environmental laws and regulations.

### 13.3 Fulfilment of social responsibility for precision poverty alleviation

#### (1) Precision poverty alleviation plan

The Bank shall actively carry on precise poverty alleviation in accordance with the State's guidance on poverty alleviation loan work and the division arrangement within the Bank. As per the financial poverty alleviation target and plan formulated by the Bank, various branches or sub-branches of the Bank have actively carried out corresponding work. Within the scope delineated by the government, the Bank increased the promotion of such products as "Planting Loan (種植寶)", "Breeding Loan (養殖寶)", "rural contracted land operation right secured loans", "farmer housing property right secured loans", "government-subsidized micro secured loan" and "individual student loans".

### **(2) Summary of interim precision poverty alleviation**

In order to better implement the general requirements of the CPC Central Committee and the State Council on poverty alleviation work and give full play to the guiding role of central bank funds, branches of the Bank shall be active in promoting industry poverty alleviation loan with central bank funds as required by regulatory documents and in line with the Bank's provisions on credit management.

We will launch targeted credit products for precise granting to the poor, so that more micro agricultural loans are extended to poor farmers on a conditional basis, and larger number of poor farmers are covered by the loans. Construction of infrastructure is encouraged in poverty-stricken areas, and for new agricultural operators such as leading poverty-alleviation enterprises, farmers' cooperatives, large farmers and family farms, the Bank innovates and introduces credit products fit for their needs. We are enhancing support of loans on projects such as the renovation of rural school buildings and carrying out education-based financial aid work. We extend loans to support projects such as the renovation and expansion of rural medical and health infrastructure. We promote the penetration of rural "two-right" mortgage loans, extending the term of loans and offering preferential interest rates.

The Bank will optimize the approval process for agricultural loans. Some policies and operational procedures related to loans for Sannong are finetuned by introducing "widening, simplifying and optimizing" measures for personal business loans. So that the Bank can streamline time-consuming process and reduce unnecessary data for granting credit. We will speed up the development of the "Debit and Credit in All" agricultural loan card business to build a rural payment service environment in Qingdao.

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### (3) Effectiveness of precise poverty alleviation

| Indicator   | Unit of measurement | Number/Status |
|---|---------------------|---------------|
| <b>Overall situation</b>  | -                   | -             |
| Including: 1. Capital   | RMB'0,000           | 345.30        |
| 2. Cash converted from materials  | RMB'0,000           | -             |
| 3. Number of registered poor people being lifted out of poverty               | Person              | -             |
| <b>Project status</b>   | -                   | -             |
| <b>Poverty alleviation through industrial development</b>                     | -                   | -             |
| Including: 1. Type of industrial development project for poverty alleviation  | -                   | -             |
| 2. Number of industrial development projects for poverty alleviation          | Piece               | 4             |
| 3. Invested amount in industrial development projects for poverty alleviation | RMB'0,000           | 75.30         |
| 4. Number of registered poor people being lifted out of poverty               | Person              | -             |
| <b>Educational poverty alleviation</b>  | -                   | -             |
| Including: 1. Invested amount to endow poor students                          | RMB'0,000           | 270.00        |
| 2. Number of endowed poor students  | Person              | -             |
| 3. Invested amount to improve the educational resources in impoverished areas | RMB'0,000           | -             |
| <b>Other projects</b>   | -                   | -             |
| Including: 1. Number of projects  | Piece               | 4             |
| 2. Investment amount  | RMB'0,000           | -             |
| 3. Number of registered poor people being lifted out of poverty               | Person              | -             |

### (4) Precise poverty alleviation follow-up programs

The Bank will continue to improve and optimize financial services-based precise poverty alleviation by enhancing the service awareness and publicity of financial precision poverty alleviation and further strengthening the innovation in financial products and services. Riding on special national policies enjoyed by specific regions and its own advantages in risk control system, the Bank will, jointly with local governments and professional financing guarantee companies, carry out batch marketing to the customers of specific industries and specific groups of Small and Micro Enterprises. For the next, the Bank will vigorously develop innovative financial products, such as online banking, mobile phone banking, and “Jufuma (聚付碼)”, to provide convenient payment and settlement services through such channels for poor households who can pay and transfer funds at home without leaving their homes.

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## SECTION V SIGNIFICANT EVENTS

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### XIV. OTHER MATTERS OF SIGNIFICANCE

#### 14.1 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.

#### 14.2 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 unaudited interim financial report of this report for the specific guarantee and commitments.

#### 14.3 Non-performing loans of shareholders and their associated companies

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 associated companies.

#### 14.4 Changes in accounting policies

The relevant information and impact of the changes of accounting policies are detailed in the announcement on the changes in accounting policies dated 23 August 2019 published by the Bank and “Notes to the Unaudited Interim Financial Report – Note 2(3) Changes in accounting policies” in this report.

#### 14.5 Publishing of interim report

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

The Chinese version of the interim report prepared by the Company in accordance with the Accounting Standards for Business Enterprises and the semi-annual report compilation rules is available at the website of the SZSE and the website of the Company.

### **XV. MAJOR ISSUES OF THE BANK'S SUBSIDIARIES**

On 23 April 2019, BQD Financial Leasing held the 2018 annual general meeting. A total of 4 resolutions were considered and passed at the meeting, including the work report of the board of directors, the work report of the board of supervisors, the financial statement and budget report, and the profit distribution plan. During the Reporting Period, BQD Financial Leasing does not have any other major matters that need to be disclosed.

### **XVI. PROTECTION OF CONSUMER RIGHTS**

During the Reporting Period, the Bank's consumer rights protection work closely followed "strategic guidance, characteristic growth driver, compliance with rules and regulations, and continuous improvement" as its basic guiding principle for operations, seriously implemented the regulatory requirements, with the maintenance of the legitimate rights and interests of financial consumers as the core, earnestly implemented the main responsibility, earnestly handled complaints, constantly strengthened the financial knowledge and education, and continued to improve inclusive financial services, thereby all work has been steadily advanced with remarkable results.

#### **1. Improve institutional mechanisms, strengthen senior leadership, and implement the main responsibility**

Firstly, give full play to the consumer rights protection function of the Board of Directors, and strengthen senior executives' performance of their duties. The management team will complete the 2018 annual report on consumer rights protection on schedule and report to the Board of Directors. Secondly, work out an annual plan to protect the rights and interests of consumers, improve weak links, and further promote the protection of consumer rights and interests. Thirdly, revise the measures for evaluating and managing the protection of consumer rights and interests, strengthen incentives and constraints, and increase the internal impetus for the protection of consumer rights and interests. Fourthly, make overview report on on-site inspection of sales activities in business places to fill in gaps and ensure that the protection of consumers' rights and interests is in place.

#### **2. Optimize complaint handling, improve service experience and create service value**

Firstly, taking the pilot work of complaints by the People's Bank of China as an opportunity to improve the complaints management system and consolidate the core competitiveness of complaints management. Secondly, carry out branch service certification work of two national standards, which was unanimously recognized by the certification inspection team with good environment and quality service, and achieved 46 branch certification with excellent performance. Thirdly, implement the system of receiving visitors by president, carry out "cornerstone action" and other training programs, focus the service culture on "customer-centered", and effectively improve customer service experience.

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## SECTION V SIGNIFICANT EVENTS

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### 3. Highlight brand leadership, enrich publicity channels, and improve effectiveness of publicity and education

Firstly, guided by the brand of “Qingcheng” consumer rights protection, adhere to the working philosophy of “Dedicated, benevolent and sincere (青心傾意·仁信篤誠)”, closely follow social hot spots and public concerns, highlight key points and focus on difficulties, and continuously promote the in-depth development of financial knowledge propaganda and education. Secondly, actively organize “3.15 Consumer Rights Day”, “Keep Your Money Safe” and other theme publicity activities, assume social responsibility, and practice the concept of “education first”. Thirdly, strengthen independent publicity and education, realize the normalization of consumer rights protection publicity through “five-in-one”, such as “Weibo, WeChat and news Apps”, “Young Bankers”, “Bank of Qingdao consumer rights protection lecture group”, community lecture hall and network publicity. Fourthly, actively participate in the activities such as “Bringing Financial Knowledge into Communities and Cinemas” carried out by People’s Bank of China, the local financial supervision administration and the banking association, push notifications for lectures and sketches, which are widely praised. During the Reporting Period, the Bank participated in more than 130 publicity outlets, distributed more than 200,000 promotional materials, organized more than 1,100 publicity activities, published 20 self-media publicity articles, and published 3 articles through Tsingtao Daily and Qingdao Evening News. Our events benefited nearly 300,000 consumers, which brought out a good atmosphere of actively popularizing financial knowledge and earnestly safeguarding the legitimate rights and interests of financial consumers.

### 4. Practice “Inclusive Finance”, deepen product innovation, and improve the business environment

Firstly, implement the central government’s strategy of inclusive finance and rural revitalization, set up integrated service stations for inclusive finance, open up the “last mile” of rural financial services, and provide services that benefit rural residents. Secondly, continue to deepen innovation in science, technology and finance, strengthen product innovation, build three product lines of technology finance, inclusive finance and agricultural finance, and strive to solve the problem of “difficulties in and high cost of financing” for small and micro businesses. Thirdly, improve the business process of credit granting to small enterprises, promote the establishment of comprehensive financial service platforms for small enterprises, optimize the business environment, and improve the quality and efficiency of services.

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

### I. CHANGES IN SHAREHOLDINGS

#### 1.1 Changes in Shareholdings

Unit: Share

| Item   | As at 31 December 2018 |                | Increase/decrease during the Reporting Period |             |                          |              |                    | As at 30 June 2019   |                |
|--|------------------------|----------------|---|-------------|--------------------------|--------------|--------------------|----------------------|----------------|
|  | Number of shares       | Percentage     | New issue                                     | Bonus issue | Conversion from reserves | Others       | Sub-total          | Number of shares     | Percentage     |
| <b>I. Shares with selling restrictions</b>                       | 2,295,677,769          | 56.56%         | 500   | -           | -                        | -            | 500                | <b>2,295,678,269</b> | <b>50.91%</b>  |
| 1. State-owned shares  | -                      | -              | -   | -           | -                        | -            | -                  | -                    | -              |
| 2. Shares held by state-owned legal entities                     | 667,111,940            | 16.44%         | -   | -           | -                        | 30,898,023   | 30,898,023         | <b>698,009,963</b>   | <b>15.48%</b>  |
| 3. Shares held by other domestic investors                       | 1,628,565,829          | 40.12%         | 500   | -           | -                        | (30,898,023) | (30,897,523)       | <b>1,597,668,306</b> | <b>35.43%</b>  |
| Of which: Shares held by domestic non-state-owned legal entities | 1,576,753,870          | 38.85%         | -   | -           | -                        | (29,259,629) | (29,259,629)       | <b>1,547,494,241</b> | <b>34.31%</b>  |
| Shares held by domestic individuals                              | 51,811,959             | 1.27%          | 500   | -           | -                        | (1,638,394)  | (1,637,894)        | <b>50,174,065</b>    | <b>1.11%</b>   |
| 4. Shares held by foreign investors                              | -                      | -              | -   | -           | -                        | -            | -                  | -                    | -              |
| Of which: Shares held by foreign legal entities                  | -                      | -              | -   | -           | -                        | -            | -                  | -                    | -              |
| Shares held by foreign individuals                               | -                      | -              | -   | -           | -                        | -            | -                  | -                    | -              |
| <b>II. Shares without selling restrictions</b>                   | 1,763,034,980          | 43.44%         | 450,976,751                                   | -           | -                        | -            | 450,976,751        | <b>2,214,011,731</b> | <b>49.09%</b>  |
| 1. RMB ordinary shares   | -                      | -              | 450,976,751                                   | -           | -                        | -            | 450,976,751        | <b>450,976,751</b>   | <b>10.00%</b>  |
| 2. Domestic listed foreign shares                                | -                      | -              | -   | -           | -                        | -            | -                  | -                    | -              |
| 3. Overseas listed foreign shares                                | 1,763,034,980          | 43.44%         | -   | -           | -                        | -            | -                  | <b>1,763,034,980</b> | <b>39.09%</b>  |
| 4. Others  | -                      | -              | -   | -           | -                        | -            | -                  | -                    | -              |
| <b>III. Total number of shares</b>                               | <b>4,058,712,749</b>   | <b>100.00%</b> | <b>450,977,251</b>                            | <b>-</b>    | <b>-</b>                 | <b>-</b>     | <b>450,977,251</b> | <b>4,509,690,000</b> | <b>100.00%</b> |

Notes:

- For the reasons for the Bank's change of the total number of shares and the approval of the change of shares during the Reporting Period, please refer to "Changes of Shares with Selling Restrictions" and "Securities Issuance and the Listing" in this section. The above changes in shares do not involve share transfer.

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

- The Bank did not conduct share repurchase during the Reporting Period.
- The Bank completed the initial public offering of 451 million A Shares in January 2019 and raised net proceeds of RMB1.963 billion. From January to June 2019, the basic earnings per share were RMB0.32 and the diluted earnings per share were RMB0.32, both of which decreased by RMB0.01 year-on-year. At the end of 2019, the net assets per share attributable to ordinary shareholders of the Bank were RMB4.79, which increased by RMB0.08 from RMB4.71 at the end of the previous year.

### 1.2 Changes of Shares with Selling Restrictions

- During the Reporting Period, shares with selling restrictions of the Bank increased by 500 shares, which is due to Ms. TAN Lixia, the Bank's Director, acquired 500 new A Shares of the Bank through online subscription. According to the Administrative Guidelines of Shenzhen Stock Exchange for Shareholdings and Changes in Shareholdings in a Listed Company by its Directors, Supervisors and Senior Management, all of these shares are locked up and thus the Bank's shares with selling restrictions recorded a corresponding increase. The details are set out in the following table:

*Unit: Share*

| Name of shareholder | Number of shares with selling restrictions at the beginning of the period | Number of shares released from selling restrictions during the period | Increase in the number of shares with selling restrictions during the period | Number of shares with selling restrictions at the end of the period | Reasons for selling restrictions   | Date of release from selling restrictions |
|---------------------|---|---|--|---|------------------------------------|---|
| TAN Lixia           | -   | -   | 500  | 500   | Locked shares held by the Director | 16 January 2020                           |
| Total               | -   | -   | 500  | 500   | -                                  | -   |

- The changes in the number of shares with selling restrictions held by state-owned legal entities, domestic non-state-owned legal entities and domestic natural individuals are caused by reasons including the changes in the nature of the shareholders' securities accounts and the transfer of the specialised securities account for the custody of shares without affirmed ownership to domestic non-state-owned legal entities, etc.

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

### 1.3 Securities Issuance and the Listing

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 not more than 450,977,251 new A Shares. On 16 January 2019, the Bank completed the initial public offering of A Shares and listed on the SZSE. The issue price is RMB4.52 per share and the issue size is 450,977,251 shares. For details, please refer to the Bank’s initial public offering prospectus (A Shares) dated 18 January 2019 published on the Cninfo website (<http://www.cninfo.com.cn/>). During the Reporting Period, the Bank did not publicly issue corporate bonds listed on the stock exchange.

## II. NUMBER OF SHAREHOLDERS AND THEIR SHAREHOLDINGS IN THE BANK

*Unit: Share*

|  |         |  |   |
|--|---------|--|---|
| Total number of ordinary shareholders at the end of the Reporting Period | 117,461 | Total number of preferred shareholders whose voting rights were resumed at the end of the Reporting Period | - |
|--|---------|--|---|

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

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

| Name of shareholder   | Capacity of shareholder               | Percentage of shareholding | Number of ordinary shares held as at the end of the Reporting Period | Increase or decrease during the Reporting Period | Number of ordinary shares with selling restrictions held | Number of ordinary shares without selling restrictions held | Pledge or freeze Status of shares | Number of shares |
|---|---------------------------------------|----------------------------|--|--|--|---|-----------------------------------|------------------|
| Hong Kong Securities Clearing Company Nominees Limited  | Overseas legal entity                 | 25.23%                     | 1,137,872,880  | 13,000   | -  | 1,137,872,880   | Unknown                           | Unknown          |
| Intesa Sanpaolo S.p.A. (意大利聯合聖保羅銀行)   | Overseas legal entity                 | 13.85%                     | 624,753,980  | -  | -  | 624,753,980   | -                                 | -                |
| Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)  | State-owned legal entity              | 11.17%                     | 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 | 9.08%                      | 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 | 4.85%                      | 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 | 3.37%                      | 152,170,000  | -  | 152,170,000  | -   | Pledge                            | 149,200,000      |
| Haier Smart Home Co., Ltd. (海爾智家股份有限公司)   | Domestic non-state-owned legal entity | 3.22%                      | 145,297,405  | -  | 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 | 2.97%                      | 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              | 2.11%                      | 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 | 2.02%                      | 90,936,164   | -  | 90,936,164   | -   | -                                 | -                |

Strategic investors or general legal entities becoming one of the top ten ordinary shareholder of the Bank as a result of placing of new shares

No strategic investors or general legal entities becoming one of the top ten ordinary shareholder of the Bank as a result of placing of new shares.

Explanation on the related relationship or concerted action of the abovementioned shareholders

For the above shareholders, Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd. and Haier Smart Home Co., Ltd. are all under Haier Group, and Qingdao Haier Investment and Development Co., Ltd. and Qingdao Haier Air-Conditioner Electronics Co., Ltd. have entrusted Haier Smart Home Co., Ltd. to exercise the voting rights of the shareholders corresponding to their shares. The Bank is not aware of any other related relationship among other shareholders or whether they are parties acting in concert.

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

### Shareholdings of the top ten shareholders without selling restrictions

| Name of shareholder   | Number of ordinary shares held without selling restrictions as at the end of the Reporting Period | Types of shares                |               |
|---|---|--------------------------------|---------------|
|   |   | Types of shares                | Number        |
| Hong Kong Securities Clearing Company Nominees Limited                    | 1,137,872,880   | Overseas listed foreign shares | 1,137,872,880 |
| Intesa Sanpaolo S.p.A.  | 624,753,980   | Overseas listed foreign shares | 624,753,980   |
| Agricultural Bank of China Limited – CSI 500 Index Exchange-Traded Fund   | 6,622,100   | RMB ordinary shares            | 6,622,100     |
| ZHANG Xubin (張旭彬)   | 6,063,500   | RMB ordinary shares            | 6,063,500     |
| SHEN Yousheng (沈幼生)   | 5,594,700   | RMB ordinary shares            | 5,594,700     |
| XU Zhidi (許芝弟)  | 4,785,717   | RMB ordinary shares            | 4,785,717     |
| LIN Han (林含)  | 3,103,054   | RMB ordinary shares            | 3,103,054     |
| Hong Kong Securities Clearing Company Limited                             | 3,018,385   | RMB ordinary shares            | 3,018,385     |
| Tibet Kunlun Dingxin Investment and Management Co., Ltd. (西藏昆侖鼎信投資管理有限公司) | 2,782,500   | RMB ordinary shares            | 2,782,500     |
| ZHANG Wentao (張文韜)  | 2,417,000   | RMB ordinary shares            | 2,417,000     |

Explanation on the related relationship or concerted action among the top ten ordinary shareholders without selling restrictions and that between the top ten ordinary shareholders without selling restrictions and the top ten ordinary shareholders

Hong Kong Securities Clearing Company Nominees Limited is a wholly-owned subsidiary of Hong Kong Securities Clearing Company Limited. The Bank is not aware of any related relationship among the top ten ordinary shareholders without selling restrictions and among the remaining top ten ordinary shareholders without selling restrictions and the top ten ordinary shareholders or whether they are parties acting in concert.

Explanation on the margin trading and short selling by top ten ordinary shareholders

The Bank is not aware of margin trading and short selling by holder of shares in which Hong Kong Securities Clearing Company Nominees Limited acts as an agent. At the end of the Reporting Period, among the top 10 ordinary shareholders, the remaining shareholders did not participate in the margin trading and short selling.

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## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

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### Notes

1. Among the total number of ordinary shareholders at the end of the Reporting Period, there are 117,291 A Share shareholders and 170 H Share shareholders;
2. The shares held by Hong Kong Securities Clearing Company Nominees Limited are the total number of shares in the Bank's H shareholders accounts traded on the trading platform of Hong Kong Securities Clearing Company Nominees Limited by it as an agent. Hong Kong Securities Clearing Company Limited is an institution that is designated by others to hold shares, including the Shenzhen Stock Connect shares held by Hong Kong and overseas investors, on behalf of others in its capacity as nominee shareholder;
3. At the end of the Reporting Period, Intesa Sanpaolo S.p.A. held 622,306,980 H Shares as the registered H shareholder of the Bank, and the remaining 2,447,000 H Shares were represented under the name of Hong Kong Securities Clearing Company Nominees Limited. Different from the presentation method in 2018 annual report and 2019 first quarterly report, in this table, the agent shares have been deducted from the number of shares held by Hong Kong Securities Clearing Company Nominees Limited;
4. On 20 June 2019, "Qingdao Haier Co., Ltd." was renamed as "Haier Smart Home Co., Ltd.";
5. The top 10 ordinary shareholders and the top 10 ordinary shareholders without selling restrictions of the Bank did not conduct any transactions on agreed repurchases during the Reporting Period.

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

### III. CHANGES IN CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

At the end of the Reporting Period, the Bank has no controlling shareholder and no de facto controller.

### IV. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS UNDER HONG KONG REGULATIONS

At the end of the Reporting Period, 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  | Notes | Type of shares | Capacity                           | Number of shares held | Approximate percentage of the total number of shares <sup>(9)</sup> | Approximate percentage of the total number of A Shares <sup>(9)</sup> | Approximate percentage of the total number of H Shares <sup>(9)</sup> | Long/short position |
|--|-------|----------------|------------------------------------|-----------------------|---|---|---|---------------------|
| Haier Group Corporation (海爾集團公司)                                   | 1     | A Shares       | Interest of controlled corporation | 812,214,572           | 18.01   | 29.57   | -   | Long                |
| Qingdao Haier Investment and Development Co., Ltd. (青島海爾投資發展有限公司)  | 2     | A Shares       | Beneficial owner                   | 409,693,339           | 9.08  | 14.92   | -   | Long                |
| Haier Smart Home Co., Ltd. (海爾智家股份有限公司)                            | 3     | A Shares       | Beneficial owner                   | 145,297,405           | 3.22  | 5.29  | -   | Long                |
|  |       |                | Other interest                     | 402,521,233           | 8.93  | 14.65   | -   | Long                |
|  |       |                | Interest of controlled corporation | 244,680,795           | 5.43  | 8.91  | -   | Long                |
| Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司) | -     | A Shares       | Beneficial owner                   | 218,692,010           | 4.85  | 7.96  | -   | Long                |
| Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限公司)      | 4     | A Shares       | Interest of controlled corporation | 503,556,341           | 11.17   | 18.33   | -   | Long                |
| Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)                   | 4     | A Shares       | Beneficial owner                   | 503,556,341           | 11.17   | 18.33   | -   | Long                |
| GE Shoujiao (葛守蛟)  | 5     | A Shares       | Interest of controlled corporation | 152,170,000           | 3.37  | 5.54  | -   | Long                |
| LENG Qiyuan (冷歌媛)  | 5     | A Shares       | Interest of controlled corporation | 152,170,000           | 3.37  | 5.54  | -   | Long                |
| Shandong Sanliyuan Trading Co., Ltd. (山東三利源經貿有限公司)                 | 5     | A Shares       | Beneficial owner                   | 152,170,000           | 3.37  | 5.54  | -   | Long                |

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

| Name of shareholder                                | Notes | Type of shares | Capacity                                    | Number of shares held | Approximate   | Approximate   | Approximate   | Long/short position |
|--|-------|----------------|---|-----------------------|---|---|---|---------------------|
|  |       |                |   |                       | percentage of the total number of shares <sup>(9)</sup> | percentage of the total number of A Shares <sup>(9)</sup> | percentage of the total number of H Shares <sup>(9)</sup> |                     |
| Intesa Sanpaolo S.p.A.                             | -     | H Shares       | Beneficial owner                            | 624,753,980           | 13.85   | -   | 35.44   | Long                |
| L.R. Capital Management Company (Cayman) Limited   | 6     | H Shares       | Interest of controlled corporation          | 401,800,000           | 8.91  | -   | 22.79   | Long                |
|  |       |                | Interest of controlled corporation          | 196,882,000           | 4.37  | -   | 11.17   | Short               |
| L.R. Capital MNP Limited                           | 6     | H Shares       | Interest of controlled corporation          | 401,800,000           | 8.91  | -   | 22.79   | Long                |
|  |       |                | Interest of controlled corporation          | 196,882,000           | 4.37  | -   | 11.17   | Short               |
| China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) | 6     | H Shares       | Interest of controlled corporation          | 401,800,000           | 8.91  | -   | 22.79   | Long                |
| CM International Capital Limited (中民國際資本有限公司)      | 6     | H Shares       | Interest of controlled corporation          | 401,800,000           | 8.91  | -   | 22.79   | Long                |
| CM International Capital Limited                   | 6     | H Shares       | Interest of controlled corporation          | 401,800,000           | 8.91  | -   | 22.79   | Long                |
| L.R. Capital Holdings Limited                      | 6     | H Shares       | Interest of controlled corporation          | 100,000,000           | 2.22  | -   | 5.67  | Long                |
|  |       |                | Person having a security interest in shares | 301,800,000           | 6.69  | -   | 17.12   | Long                |
|  |       |                | Person having a security interest in shares | 196,882,000           | 4.37  | -   | 11.17   | Short               |
| L.R. Capital Financial Holdings Limited            | 6     | H Shares       | Interest of controlled corporation          | 401,800,000           | 8.91  | -   | 22.79   | Long                |
| AMTD Group Company Limited (尚乘集團有限公司)              | 6     | H Shares       | Interest of controlled corporation          | 401,800,000           | 8.91  | -   | 22.79   | Long                |
| AMTD Asia (Holdings) Limited                       | 6     | H Shares       | Interest of controlled corporation          | 401,800,000           | 8.91  | -   | 22.79   | Long                |
| AMTD Asia Limited                                  | 6     | H Shares       | Interest of controlled corporation          | 401,800,000           | 8.91  | -   | 22.79   | Long                |
| AMTD Strategic Capital Group                       | 6     | H Shares       | Interest of controlled corporation          | 401,800,000           | 8.91  | -   | 22.79   | Long                |
| AMTD Investments Limited                           | 6     | H Shares       | Interest of controlled corporation          | 401,800,000           | 8.91  | -   | 22.79   | Long                |
| AMTD Investment Solutions Limited                  | 6     | H Shares       | Interest of controlled corporation          | 401,800,000           | 8.91  | -   | 22.79   | Long                |
| AMTD Strategic Investment Limited                  | 6     | H Shares       | Beneficial owner                            | 301,800,000           | 6.69  | -   | 17.12   | Long                |
| AMTD Investment Solutions Group Limited            | 6     | H Shares       | Beneficial owner                            | 100,000,000           | 2.22  | -   | 5.67  | Long                |

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

| Name of shareholder   | Notes | Type of shares | Capacity                                    | Number of shares held | Approximate percentage of the total number of shares <sup>(9)</sup> | Approximate percentage of the total number of A Shares <sup>(9)</sup> | Approximate percentage of the total number of H Shares <sup>(9)</sup> | Long/short position |
|---|-------|----------------|---|-----------------------|---|---|---|---------------------|
| 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           | 4.43  | -   | 11.34   | Long                |
| Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)                     | 7     | H Shares       | Interest of controlled corporation          | 100,000,000           | 2.22  | -   | 5.67  | Long                |
| Qingdao Conson Financial Holdings Co., Ltd. (青島國信金融控股有限公司)                          | 7     | H Shares       | Interest of controlled corporation          | 100,000,000           | 2.22  | -   | 5.67  | Long                |
| Haitian (HK) Holdings Limited (海天(香港)控股有限公司)  | 7     | H Shares       | Beneficial owner                            | 100,000,000           | 2.22  | -   | 5.67  | Long                |
| CITIC Securities Co., Ltd. (中信證券股份有限公司)   | -     | H Shares       | Interest of controlled corporation          | 619,113,603           | 13.73   | -   | 35.12   | Long                |
|   |       |                | Interest of controlled corporation          | 498,690,000           | 11.06   | -   | 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       | Person having a security interest in shares | 196,882,000           | 4.37  | -   | 11.17   | Long                |
| Goncius I Limited   | -     | H Shares       | Beneficial owner                            | 488,911,765           | 10.84   | -   | 27.73   | Long                |
|   |       |                | Beneficial owner                            | 488,911,765           | 10.84   | -   | 27.73   | Short               |

### Notes:

- 812,214,572 shares of the Bank are held by its directly or indirectly controlled companies of Haier Group Corporation.
- These 812,214,572 shares are held as to 409,693,339 shares directly by Qingdao Haier Investment and Development Co., Ltd., as to 402,521,233 shares by its controlled companies and its person acting in concert.
- On 20 June 2019, "Qingdao Haier Co., Ltd." was renamed as "Haier Smart Home Co., Ltd.". 145,297,405 shares are held directly by Haier Smart Home Co., Ltd. and 244,680,795 shares are held by its controlled companies.
- Qingdao Conson Industrial Co., Ltd. is 100% owned by Qingdao Conson Development (Group) Co., Ltd. Therefore, Qingdao Conson Development (Group) Co., Ltd. is deemed or taken to be interested in all our shares held by Qingdao Conson Industrial Co., Ltd.
- GE Shoujiao and LENG Qiyuan hold 55% and 45% equity interest in Shandong Sanliyuan Trading Co., Ltd. respectively. Therefore, GE Shoujiao and LENG Qiyuan are deemed or taken to be interested in all our shares held by Shandong Sanliyuan Trading Co., Ltd.

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## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

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6. 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 (中國國際資本有限公司), which is in turn 100% owned by China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司). Therefore, AMTD Investment Solutions Limited, AMTD Investments Limited, AMTD Strategic Capital Group, AMTD Asia Limited, AMTD Asia (Holdings) Limited, AMTD Group Company Limited, L.R. Capital Financial Holdings Limited, L.R. Capital Holdings Limited, L.R. Capital MNP Limited, L.R. Capital Management Company (Cayman) Limited, CM International Capital Limited, CM International Capital Limited (中國國際資本有限公司) and China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) are deemed to be interested in the shares held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited.
7. 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.
8. 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.
9. As at 30 June 2019, the number of the Bank's total issued ordinary shares, A Shares and H Shares are 4,509,690,000 shares, 2,746,655,020 shares and 1,763,034,980 shares, respectively.

At the end of the Reporting Period, 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.

### V. SUBSTANTIAL SHAREHOLDERS OF THE BANK

#### (I) Haier Group Corporation

Haier Group Corporation was established on 24 March 1980 with its legal representative of ZHANG Ruimin and a registered capital of RMB311.18 million. It is mainly engaged in household appliances, electronic products, communications equipment, electronic computers and accessories, general machinery, kitchen utensils, industrial robot manufacturing; domestic commercial wholesale and retail; import and export business; economic and technical consultation; research and development and transfer of technological achievements; and self-owned property lease.

As at the end of the Reporting Period, Haier Group Corporation held a total of 812,214,572 A Shares of the Bank via eight companies within the group, which accounted for 18.01% 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<sup>1</sup> with Haier Group was RMB2,789 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

#### (II) Intesa Sanpaolo S.p.A.

Intesa Sanpaolo S.p.A. was established on 5 January 2007 (through merger of UniCredit SpA (意大利聯合銀行) and Sanpaolo Imi S.p.A. (意大利聖保羅意米銀行)) 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 4,100 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 7.3 million customers in the above regions. In addition, Intesa Sanpaolo S.p.A. has set up branches in 25 countries and regions around the world to support its corporate business customers.

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 13.85% 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.

<sup>1</sup>Note: Statistics of related party transactions in this section were made in accordance with provisions of the CBIRC.

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## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

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### (III) 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 RMB3 billion. It is mainly engaged in the investment, construction and operation of major urban and rural infrastructure projects, and major public welfare projects of the government; business services such as real estate, tourism and land development, 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 A Shares and 100,000,000 H Shares, which together accounted for 13.38% 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 Conson Group was RMB1,500 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

### (IV) AMTD Group Company Limited

AMTD Group Company Limited was established 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 8.91% 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.

## VI. 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.

## SECTION VII PREFERENCE SHARES

### I. ISSUANCE AND LISTING OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the Reporting Period, the Bank did not issue new preference shares.

### II. NUMBER OF SHAREHOLDERS OF PREFERENCE SHARES AND THEIR SHAREHOLDINGS

*Unit: Shares*

|   |   |
|---|---|
| Total number of shareholders of preference shares as at the end of the Reporting Period | 1 |
|---|---|

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

| Name of shareholder                                | Nature of shareholder | 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-restricted shares held | Share pledged or lock-up Status of shares | Number  |
|--|-----------------------|----------------------------|---|--|----------------------------------|--------------------------------------|---|---------|
| The Bank of New York Depository (Nominees) Limited | Overseas legal person | 100%                       | 60,150,000  | -  | -                                | -                                    | Unknown                                   | Unknown |

Explanation on the different settings of other provisions other than dividend distribution and residual properties distribution in respect of preference shares held: Holders of preference shares of the Bank do not have different settings on other provisions other than dividend distribution and residual properties distribution

Explanation on the related 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 relationship or acting in concerted relationship between the above stockholders of preference shares and the top 10 shareholders of ordinary shares

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## SECTION VII PREFERENCE SHARES

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### III. REPURCHASE OR CONVERSION OF PREFERENCE SHARES

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

### IV. RESUMPTION OR EXERCISE OF VOTING RIGHTS OF PREFERENCE SHARES

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

### V. 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 Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments and the Accounting Standards for Business Enterprises No. 37 – Presentation and Reporting of Financial Instruments. As the Company's preference shares issued and outstanding 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.

## SECTION VIII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

### I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| Name                 | Gender | Age | Status of office | Position                           | 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) | Shareholding at the end of the period (shares) | Number of   | Number of  | Number of   |
|----------------------|--------|-----|------------------|------------------------------------|------------------------------|--------------------------|--|--|--|--|---|--|---|
|                      |        |     |                  |                                    |                              |                          |  |  |  |  | restricted shares granted at the beginning of the period (shares) | restricted shares granted during the period (shares) | restricted shares granted at the end of the period (shares) |
| GUO Shaoquan         | Male   | 56  | Incumbent        | Chairman                           | 12 May 2010                  | 14 May 2021              | 500,000  | -  | -  | 500,000  | -   | -  | -   |
|                      |        |     |                  | Executive Director                 | 12 May 2010                  | 14 May 2021              |  |  |  |  |   |  |   |
| WANG Lin             | Male   | 55  | Incumbent        | Executive Director                 | 31 March 2012                | 14 May 2021              | 500,000  | -  | -  | 500,000  | -   | -  | -   |
|                      |        |     |                  | President                          | 31 March 2012                | 14 May 2021              |  |  |  |  |   |  |   |
| YANG Fengjiang       | Male   | 54  | Incumbent        | Executive Director                 | 25 May 2012                  | 14 May 2021              | 500,000  | -  | -  | 500,000  | -   | -  | -   |
|                      |        |     |                  | Vice president                     | 5 September 2007             | 14 May 2021              |  |  |  |  |   |  |   |
| LU Lan               | Female | 54  | Incumbent        | Executive Director                 | 13 December 2016             | 14 May 2021              | 380,000  | -  | -  | 380,000  | -   | -  | -   |
|                      |        |     |                  | Secretary to the Board             | 29 October 2010              | 14 May 2021              |  |  |  |  |   |  |   |
| ZHOU Yunjie          | Male   | 52  | Incumbent        | Non-executive Director             | 9 June 2015                  | 14 May 2021              | -  | -  | -  | -  | -   | -  | -   |
| Rosario STRANO       | Male   | 56  | Incumbent        | Non-executive Director             | 15 June 2012                 | 14 May 2021              | -  | -  | -  | -  | -   | -  | -   |
| TAN Lixia            | Female | 48  | Incumbent        | Non-executive Director             | 25 May 2012                  | 14 May 2021              | -  | 500  | -  | 500  | -   | -  | -   |
| Marco MUSSITA        | Male   | 60  | Incumbent        | Non-executive Director             | 22 December 2011             | 14 May 2021              | -  | -  | -  | -  | -   | -  | -   |
| DENG Youcheng        | Male   | 47  | Incumbent        | Non-executive Director             | 27 June 2018                 | 14 May 2021              | -  | -  | -  | -  | -   | -  | -   |
| CHOI Chi Kin, Calvin | Male   | 40  | Incumbent        | Non-executive Director             | 13 December 2016             | 14 May 2021              | -  | -  | -  | -  | -   | -  | -   |
| WONG Tin Yau, Kelvin | Male   | 58  | Incumbent        | Independent non-executive Director | 9 June 2015                  | 14 May 2021              | -  | -  | -  | -  | -   | -  | -   |
| CHEN Hua             | Male   | 51  | Incumbent        | Independent non-executive Director | 9 June 2015                  | 14 May 2021              | -  | -  | -  | -  | -   | -  | -   |

## SECTION VIII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

| Name           | Gender | Age | Status of office | Position                              | 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) | Shareholding at the end of the period (shares) | Number of restricted shares granted at the beginning of the period (shares) | Number of restricted shares granted during the period (shares) | Number of restricted shares granted at the end of the period (shares) |
|----------------|--------|-----|------------------|---------------------------------------|------------------------------|--------------------------|--|--|--|--|---|--|---|
|                |        |     |                  |                                       |                              |                          |  |  |  |  |   |  |   |
| DAI Shuping    | Female | 59  | Incumbent        | Independent non-executive Director    | 13 December 2016             | 14 May 2021              | -  | -  | -  | -  | -   | -  | -   |
| Simon CHEUNG   | Male   | 48  | Incumbent        | Independent non-executive Director    | 24 July 2017                 | 14 May 2021              | -  | -  | -  | -  | -   | -  | -   |
| FANG Qiaoling  | Female | 43  | Incumbent        | Independent non-executive Director    | 27 June 2018                 | 14 May 2021              | -  | -  | -  | -  | -   | -  | -   |
| CHEN Qing      | Female | 60  | Incumbent        | Chairlady of the Board of Supervisors | 15 December 2016             | 14 May 2021              | 500,000  | -  | -  | 500,000  | -   | -  | -   |
|                |        |     |                  | Employee Supervisor                   | 14 December 2016             | 14 May 2021              |  |  |  |  |   |  |   |
| WANG Dawei     | Male   | 45  | Incumbent        | Employee Supervisor                   | 15 May 2018                  | 14 May 2021              | -  | -  | -  | -  | -   | -  | -   |
| MENG Xianzheng | Male   | 51  | Incumbent        | Employee Supervisor                   | 15 May 2018                  | 14 May 2021              | 370,301  | -  | -  | 370,301  | -   | -  | -   |
| FU Changxiang  | Male   | 47  | Incumbent        | External Supervisor                   | 10 April 2015                | 14 May 2021              | -  | -  | -  | -  | -   | -  | -   |
| HU Yanjing     | Male   | 60  | Incumbent        | External Supervisor                   | 10 April 2015                | 14 May 2021              | -  | -  | -  | -  | -   | -  | -   |
| ZHANG Lanchang | Male   | 54  | Resigned         | Former shareholder Supervisor         | 15 May 2018                  | 16 May 2019              | -  | -  | -  | -  | -   | -  | -   |
| WANG Jianhua   | Male   | 65  | Resigned         | Former external Supervisor            | 10 April 2015                | 30 March 2019            | -  | -  | -  | -  | -   | -  | -   |
| WANG Yu        | Female | 51  | Incumbent        | Vice president                        | 5 September 2007             | 14 May 2021              | 500,000  | -  | -  | 500,000  | -   | -  | -   |
| YANG Changde   | Male   | 59  | Incumbent        | Vice president                        | 19 September 2012            | 14 May 2021              | -  | -  | -  | -  | -   | -  | -   |
| CHEN Shuang    | Female | 51  | Incumbent        | Vice president                        | 22 January 2017              | 14 May 2021              | 350,000  | -  | -  | 350,000  | -   | -  | -   |
| Total          | -      | -   | -                | -                                     | -                            | -                        | 3,600,301  | 500  | -  | 3,600,801                                      | -   | -  | -   |

### Notes:

- (1) During the Reporting Period, Ms. TAN Lixia, a Director of the Bank obtained 500 new A Shares of the Bank through online subscription. Apart from the above, there are no changes in the shareholding of Directors, Supervisors and senior management of the Bank.
- (2) 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; shareholder Supervisors and external Supervisors are nominated by the Board of Supervisors, employee Supervisors are nominated by the labor union, and all of such Supervisors are elected in accordance with the election procedures as specified in the Articles of Association.

## SECTION VIII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

### II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| Name           | Position previously held   | Type of change | Date of change | Reason for change                          |
|----------------|--|----------------|----------------|--|
| ZHANG Lanchang | Shareholder Supervisor and member of the supervisory committee under the Board of Supervisors            | Resigned       | 16 May 2019    | Work reason                                |
| WANG Jianhua   | External Supervisor and member of the nomination and evaluation committee under the Board of Supervisors | Resigned       | 30 March 2019  | Requirement from the company he worked for |

Apart from the above, during the Reporting Period, there were no other changes in the Directors, Supervisors and senior management of the Bank.

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

- Ms. TAN Lixia, non-executive Director, has ceased to be the chief financial officer of Haier Group Corporation since 26 March 2019.
- Mr. DENG Youcheng, non-executive Director, has served as the general manager of Qingdao Conson Development (Group) Co., Ltd. and ceased to be the deputy general manager of the company since 3 July 2019.
- Mr. WONG Tin Yau, Kelvin, independent non-executive Director, has ceased to be the independent non-executive director of Mingfa Group (International) Company Limited (明發集團(國際)有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 00846) since 6 March 2019.
- Mr. CHEN Hua, independent non-executive Director, has served as a consultant in respect of taxation and finance for the people's government in Yutai county of Jining City in Shandong province since 26 June 2019.
- Mr. Simon CHEUNG, independent non-executive Director, has ceased to be the chief technology officer at WeShare (Shenzhen) Limited (新分享科技服務(深圳)有限公司) since 22 February 2019; and has been the chief technology officer of ExcelNet since 1 March 2019. Since 1 July 2019, he has served as the chief technology officer of Fusion Bank and ceased to be the chief technology officer of ExcelNet.

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

## SECTION VIII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

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

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

| Name of Director/<br>Supervisor/chief<br>executive | Type of shares | Capacity         | Number of<br>shares held | Percentage<br>of the total<br>number of<br>ordinary<br>shares <sup>Note</sup> | Percentage<br>of the total<br>number of<br>A Shares <sup>Note</sup> | Long position/<br>Short position |
|--|----------------|------------------|--------------------------|---|---|----------------------------------|
|  |                |                  |                          |   |   |                                  |
| GUO Shaoquan                                       | A Shares       | Beneficial owner | 500,000                  | 0.01%   | 0.02%   | Long position                    |
| TAN Lixia  | A Shares       | Beneficial owner | 500                      | 0.00001%  | 0.00002%  | Long position                    |
| WANG Lin   | A Shares       | Beneficial owner | 500,000                  | 0.01%   | 0.02%   | Long position                    |
| CHEN Qing  | A Shares       | Beneficial owner | 500,000                  | 0.01%   | 0.02%   | Long position                    |
| YANG Fengjiang                                     | A Shares       | Beneficial owner | 500,000                  | 0.01%   | 0.02%   | Long position                    |
| LU Lan   | A Shares       | Beneficial owner | 380,000                  | 0.01%   | 0.01%   | Long position                    |
| MENG Xianzheng                                     | A Shares       | Beneficial owner | 370,301                  | 0.01%   | 0.01%   | Long position                    |

*Note:* The aforementioned percentages are calculated according to the total number of shares of 4,509,690,000 shares and the total number of A Shares of 2,746,655,020 at the end of the Bank's Reporting Period.

Save as disclosed above, in so far as the Directors, Supervisors and chief executives of the Bank are aware, as at the end of the Reporting Period, no other persons 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.

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## SECTION VIII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

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### V. EMPLOYEES AND HUMAN RESOURCES MANAGEMENT

#### 5.1 Details of Employees

##### *5.1.1 Composition of employees*

As at the end of the Reporting Period, the Bank had 3,794 employees, including 722 at the head office, accounting for 19.03%; 1,575 at branches and sub-branches in Qingdao, accounting for 41.51%; and 1,497 at branches in other cities, accounting for 39.46%.

##### *5.1.2 Composition by age*

The average age of the employees of the Bank was 34.8, of which 1,334 were aged 20 or above to below 30, accounting for 35.16%; 1,540 were aged 30 or above to below 40, accounting for 40.59%; 722 were aged 40 or above to below 50, accounting for 19.03%; and 198 were aged 50 or above, accounting for 5.22%.

##### *5.1.3 Composition by education*

There were 629 employees of the Bank with a master's degree or above, accounting for 16.58%, of which 11 were doctoral degree holders; 2,707 were bachelor's degree holders, accounting for 71.35%; and 458 were college graduates or below, accounting for 12.07%.

##### *5.1.4 Composition by gender*

There were 1,736 male employees, accounting for 45.76%; and 2,058 female employees, accounting for 54.24%.

##### *5.1.5 Composition by profession*

The Bank had 291 management personnel, accounting for 7.67%; 2,857 business personnel, accounting for 75.30%; and 646 general administrative personnel, accounting for 17.03%.

#### 5.2 Human Resources Overview

During the Reporting Period, the Bank carried out the human resources management closely around its operation philosophy in accordance with its development strategies planning requirements as well as business development needs. By continuing to aim at "serving business operation, core tasks and every sector", the Bank continuously consolidated the foundation of human resources management, innovated and broaden the vision of human resource management, firmly captured the development trend of human resource management, continuously learned the latest human resource management philosophy, focused on building a modern human resources management system to achieve upgrades in terms of reformation, management and efficiency and provide strong human resources support for the Bank's rapid and healthy development.

### 5.3 Policy on Employee Remuneration

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

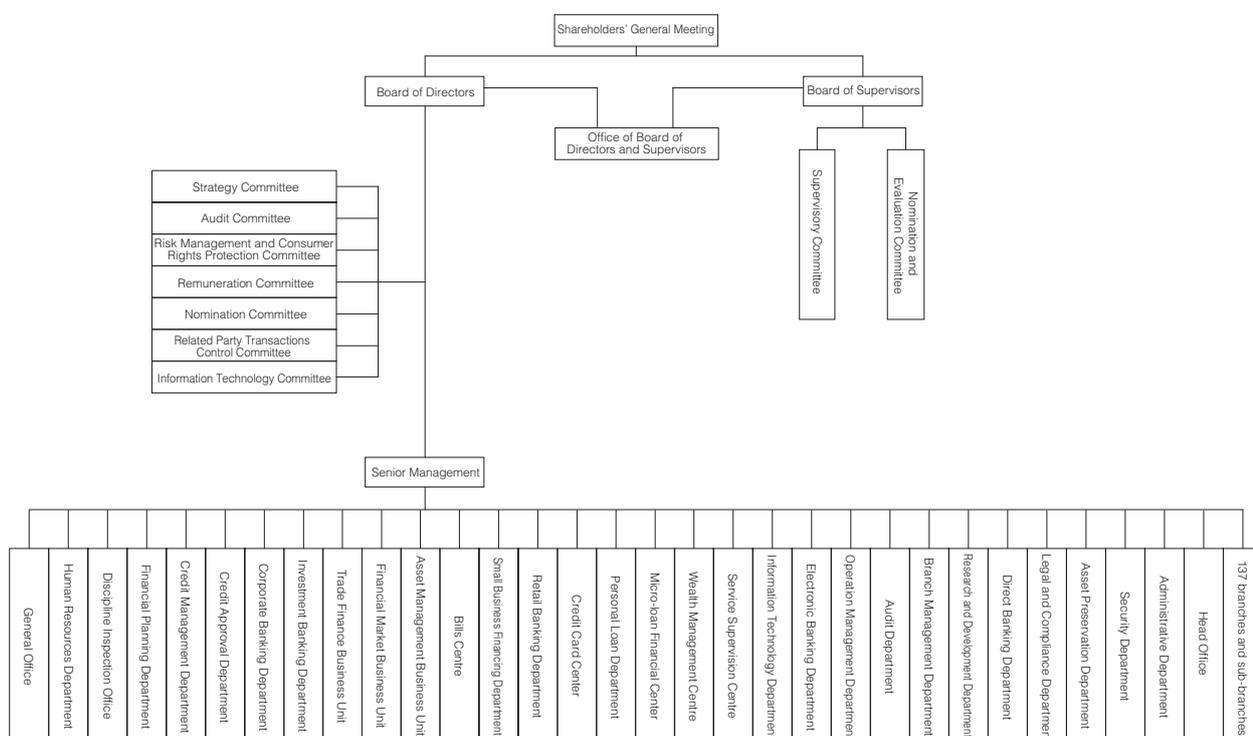
The Bank has formulated scientific evaluation measures, and utilizes such measures as a guideline to optimize resources allocation and actively mobilize employees' initiatives, so as to enhance the Bank's overall efficiency. Employees' performance-based remuneration is decided based on the performance evaluation results of the whole Bank, the institutions or departments they work in and their own.

### 5.4 Training for Employees

During the Reporting Period, focusing on the development strategy, the Bank continuously improved the training system construction, optimized the training resources allocation, enriched the training content and forms, and comprehensively carried out various training work towards middle and senior management, business personnel and new employees, so as to constantly improve the professional skills and comprehensive quality of all staff. During the Reporting Period, the total number of training activities organized by the Bank reached 986 and the aggregate number of participants of staff training activities reached 35,395, with each participant participating in such activities for 9 times on average.

# SECTION VIII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

## VI. ORGANISATION CHART



## SECTION VIII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

### VII. BRANCHES AND SUB-BRANCHES

| No. | Name of branch/<br>sub-branch | Business address   | Institutions under its<br>administration        | No. of staff | Total assets<br>(in 100<br>million) |
|-----|-------------------------------|--|---|--------------|-------------------------------------|
| 1   | Qingdao                       | –  | One head office, one branch and 78 sub-branches | 2,297        | 2,671.05                            |
| 2   | Jinan Branch                  | Building 6, Yinfeng Fortune Plaza, No.1 Longaoxi Road, Lixia District, Jinan                                       | 11 sub-branches under it                        | 304          | 103.55                              |
| 3   | Dongying Branch               | No. 72 Fuqian Avenue, Dongying District, Dongying  | 6 sub-branches under it                         | 172          | 81.67                               |
| 4   | Weihai Branch                 | No.112, No.3-4 Shichang Avenue, Weihai   | 8 sub-branches under it                         | 195          | 139.55                              |
| 5   | Zibo Branch                   | No. 266 Liantong Road, Zhangdian District, Zibo  | 3 sub-branches under it                         | 117          | 61.81                               |
| 6   | Dezhou Branch                 | No. 717 Dexing Middle Avenue, Decheng District, Dezhou   | 2 sub-branches under it                         | 87           | 21.44                               |
| 7   | Zaozhuang Branch              | No. 215 Qingtan North Road, Shizhong District, Zaozhuang   | 5 sub-branches under it                         | 109          | 35.29                               |
| 8   | Yantai Branch                 | Hongyuan Business Building, No. 29 Jinsha Road, Development Zone, Yantai   | 4 sub-branches under it                         | 121          | 51.35                               |
| 9   | Binzhou Branch                | No. 471 Huanghe 8th Road, Bincheng District, Binzhou   | 2 sub-branches under it                         | 66           | 39.83                               |
| 10  | Weifang Branch                | No. 124, Building 7, No. 6636 Fushou East Street, Kuiwen District, Weifang   | 2 sub-branches under it                         | 110          | 87.72                               |
| 11  | Laiwu Branch                  | No. 57 Wanfu North Road, Laicheng District, Laiwu  | 1 sub-branch under it                           | 52           | 11.58                               |
| 12  | Linyi Branch                  | Building 9, Hongxing International Plaza, Intersection of Jinan Road and Xiaohe Road, Beicheng New District, Linyi | 1 sub-branch under it                           | 65           | 33.03                               |
| 13  | Jining Branch                 | Welfare Lottery Building, No. 24 Hongxing Middle Road, Jining  | –   | 57           | 21.97                               |
| 14  | Tai'an Branch                 | No. 237 Dongyue Street, Tai'an   | –   | 42           | 8.82                                |

The Bank will focus on the target of establishment of regulated, market-oriented and featured corporate governance. In accordance with the regulatory requirements, the Bank will continue to improve corporate governance mechanisms and continuously enhance corporate governance effectiveness, with a view to promote the continuous and stable development of various businesses through high-quality corporate governance. During the Reporting Period, the Bank's shareholders' general meeting, Board of Directors, Board of Supervisors and senior management achieved the independent operation, effective check and balance, cooperation and coordinate operation, and performed decision-making, execution and supervision duties scientifically and efficiently.

### **I. CONVENING OF SHAREHOLDERS' GENERAL MEETING**

For shareholders' general meeting held during the Reporting Period, please refer to "Section V Significant Events" in this report.

### **II. CONVENING OF MEETINGS OF THE BOARD AND SPECIAL COMMITTEES**

During the Reporting Period, the Board of Directors convened 8 meetings, of which 1 was on-site meeting and 7 were conference meetings, considering 38 resolutions and receiving 42 reports in total. Special committees of the Board of Directors convened 24 meetings, including 2 meetings of the strategy committee, 5 meetings of the risk management and consumer rights protection committee, 5 meetings of the audit committee, 2 meetings of the remuneration committee, 1 meeting of the nomination committee, 7 meetings of the related party transactions control committee and 2 meetings of the information technology committee, considering 26 resolutions and receiving 30 reports in total.

### **III. CONVENING OF MEETINGS OF THE BOARD OF SUPERVISORS AND SPECIAL COMMITTEES**

During the Reporting Period, the Board of Supervisors convened 4 meetings, of which 1 was on-site meeting and 3 were conference meetings, considering 14 resolutions, receiving 39 reports in total. The special committees of the Board of Supervisors convened 5 meetings, including 4 meetings of the supervisory committee and 1 meeting of the nomination and evaluation committee, considering 12 resolutions and receiving 29 reports in total.

### **IV. RISK MANAGEMENT AND INTERNAL CONTROL**

The Board of Directors of the Bank is responsible for ensuring the establishment and implementation of an adequate and effective internal control system and the Bank's prudential operation under the framework set by laws and policies. The Board of Directors is also responsible for explicitly determining the acceptable risk level, ensuring the senior management to adopt necessary risk control measures, and supervising the senior management on their monitoring and assessment of the adequacy and effectiveness of the risk management and internal control systems.

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

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## SECTION IX CORPORATE GOVERNANCE

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

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

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

The Bank has continued to launch activities including “Year of Establishment”, “Year of Implementation”, “Year of Assessment”, “Year of Improvement” and “System Standardization Construction” to promote system construction and formulate smooth and useful systems and structures. The Bank has established the “Weekly Inspection Practice,” a senior management inspection system, and regular compliance inspection system. During the Reporting Period, the Bank conducted 22 inspections, and identified and promptly rectified the system implementation problems and potential risks. The Bank has established a sound internal control evaluation and post-evaluation mechanism, conducted annual regular audits, responsibility audits, departure audits and special audits, created an innovative audit model named “virtual branch” by temporarily substituting regular staff by ad hoc staff, and established a new operational risk assessment and rectification mechanism with sustained effectiveness. Through convening quarterly “internal control assessment meetings”, the Bank has enhanced the awareness of risk prevention and control at all levels, which in turn ensures the early identification and timely rectification of risks as well as edges up the standards of its risk management and control.

### V. REPRESENTATION ON COMPLIANCE WITH THE HONG KONG LISTING RULES

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

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

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

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

**INTRODUCTION**

We have reviewed the interim financial report set out on pages 118 to 210 which comprises the consolidated statement of financial position of Bank of Qingdao Co., Ltd. (the “**Bank**”) and its subsidiary (collectively the “**Group**”) as of 30 June 2019 and the related consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

**SCOPE OF REVIEW**

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Auditing and Assurance Standards Board. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

**CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

**KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

23 August 2019

## SECTION XI UNAUDITED INTERIM FINANCIAL REPORT

### UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

|  | Note | Six months ended 30 June |                     |
|--|------|--------------------------|---------------------|
|  |      | 2019<br>(unaudited)      | 2018<br>(unaudited) |
| Interest income                                  |      | 6,825,818                | 5,453,245           |
| Interest expense                                 |      | (3,681,275)              | (3,716,953)         |
| <b>Net interest income</b>                       | 3    | <b>3,144,543</b>         | 1,736,292           |
| Fee and commission income                        |      | 614,082                  | 373,336             |
| Fee and commission expense                       |      | (33,272)                 | (30,849)            |
| <b>Net fee and commission income</b>             | 4    | <b>580,810</b>           | 342,487             |
| Net trading gains                                | 5    | 15,362                   | 94,640              |
| Net gains arising from investments               | 6    | 785,541                  | 951,247             |
| Other operating income, net                      | 7    | 8,312                    | 5,445               |
| <b>Operating income</b>                          |      | <b>4,534,568</b>         | 3,130,111           |
| Operating expenses                               | 8    | (1,266,489)              | (964,113)           |
| Impairment losses                                | 9    | (1,428,195)              | (516,515)           |
| <b>Profit before taxation</b>                    |      | <b>1,839,884</b>         | 1,649,483           |
| Income tax expense                               | 10   | (373,755)                | (318,607)           |
| <b>Net profit for the period</b>                 |      | <b>1,466,129</b>         | 1,330,876           |
| <b>Profit attributable to:</b>                   |      |                          |                     |
| Equity shareholders of the Bank                  |      | 1,438,462                | 1,321,444           |
| Non-controlling interests                        |      | 27,667                   | 9,432               |
| Basic and diluted earnings per share<br>(in RMB) | 11   | 0.32                     | 0.33                |

The notes on pages 127 to 210 form part of this interim financial report.

## UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2019  
(Expressed in thousands of Renminbi, unless otherwise stated)

|   | Note  | Six months ended 30 June |                     |
|---|-------|--------------------------|---------------------|
|   |       | 2019<br>(unaudited)      | 2018<br>(unaudited) |
| <b>Net profit for the period</b>  |       | <b>1,466,129</b>         | 1,330,876           |
| <b>Other comprehensive income:</b>  |       |                          |                     |
| Items that will not be reclassified to profit or loss   |       |                          |                     |
| – Remeasurement of defined benefit liability  |       | –                        | (1,005)             |
| Items that may be reclassified subsequently to profit or loss   |       |                          |                     |
| – Changes in fair value of debt investments measured at fair value through other comprehensive income | 35(4) | (76,063)                 | 409,729             |
| – Credit losses of debt investments measured at fair value through other comprehensive income         | 35(4) | 50,659                   | 12,770              |
| <b>Other comprehensive income, net of tax</b>   |       | <b>(25,404)</b>          | 421,494             |
| <b>Total comprehensive income</b>   |       | <b>1,440,725</b>         | 1,752,370           |
| <b>Total comprehensive income attributable to:</b>  |       |                          |                     |
| Equity shareholders of the Bank   |       | 1,413,058                | 1,742,938           |
| Non-controlling interests   |       | 27,667                   | 9,432               |

The notes on pages 127 to 210 form part of this interim financial report.

## UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

|   | Note | 30 June<br>2019<br>(unaudited) | 31 December<br>2018<br>(audited) |
|---|------|--------------------------------|----------------------------------|
| <b>Assets</b>   |      |                                |                                  |
| Cash and deposits with central bank   | 12   | 34,600,099                     | 29,554,430                       |
| Deposits with banks and other financial institutions                              | 13   | 1,321,082                      | 1,542,437                        |
| Placements with banks and other financial institutions                            | 14   | 4,588,207                      | 4,110,464                        |
| Derivative financial assets   | 15   | 323                            | –                                |
| Financial assets held under resale agreements                                     | 16   | –                              | 300,262                          |
| Loans and advances to customers   | 17   | 143,343,578                    | 123,366,891                      |
| Financial investments:  |      |                                |                                  |
| – Financial investments measured at fair value through profit or loss             | 18   | 27,333,616                     | 22,361,816                       |
| – Financial investments measured at fair value through other comprehensive income | 19   | 52,507,189                     | 53,002,751                       |
| – Financial investments measured at amortised cost                                | 20   | 66,573,268                     | 70,032,056                       |
| Long-term receivables   | 22   | 8,800,422                      | 7,766,698                        |
| Property and equipment  | 23   | 3,089,560                      | 3,124,355                        |
| Deferred tax assets   | 24   | 1,331,453                      | 1,152,778                        |
| Other assets  | 25   | 1,742,149                      | 1,343,564                        |
| <b>Total assets</b>   |      | <b>345,230,946</b>             | <b>317,658,502</b>               |
| <b>Liabilities</b>  |      |                                |                                  |
| Borrowings from central bank  | 26   | 10,186,784                     | 10,878,835                       |
| Deposits from banks and other financial institutions                              | 27   | 14,900,225                     | 11,632,982                       |
| Placements from banks and other financial institutions                            | 28   | 8,718,411                      | 7,207,066                        |
| Derivative financial liabilities  | 15   | 273                            | –                                |
| Financial assets sold under repurchase agreements                                 | 29   | 13,654,122                     | 14,850,333                       |
| Deposits from customers   | 30   | 188,360,223                    | 177,911,247                      |
| Income tax payable  |      | 18,021                         | 13,174                           |
| Debt securities issued  | 31   | 75,161,060                     | 65,240,507                       |
| Other liabilities   | 32   | 4,233,746                      | 2,427,634                        |
| <b>Total liabilities</b>  |      | <b>315,232,865</b>             | <b>290,161,778</b>               |

The notes on pages 127 to 210 form part of this interim financial report.

## UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

as at 30 June 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

|   | Note  | 30 June<br>2019<br>(unaudited) | 31 December<br>2018<br>(audited) |
|---|-------|--------------------------------|----------------------------------|
| <b>Equity</b>   |       |                                |                                  |
| Share capital   | 33    | 4,509,690                      | 4,058,713                        |
| Other equity instrument   |       |                                |                                  |
| Including: preference shares                                    | 34    | 7,853,964                      | 7,853,964                        |
| Capital reserve   | 35(1) | 8,337,869                      | 6,826,276                        |
| Surplus reserve   | 35(2) | 1,403,575                      | 1,403,575                        |
| General reserve   | 35(3) | 3,969,452                      | 3,969,452                        |
| Other comprehensive income                                      | 35(4) | 527,789                        | 553,193                          |
| Retained earnings   | 36    | 2,856,324                      | 2,319,800                        |
| <hr/>   |       |                                |                                  |
| Total equity attributable to equity<br>shareholders of the Bank |       | 29,458,663                     | 26,984,973                       |
| Non-controlling interests                                       |       | 539,418                        | 511,751                          |
| <hr/>   |       |                                |                                  |
| <b>Total equity</b>   |       | <b>29,998,081</b>              | 27,496,724                       |
| <hr/>   |       |                                |                                  |
| <b>Total liabilities and equity</b>                             |       | <b>345,230,946</b>             | 317,658,502                      |

Approved and authorised for issue by the board of directors on 23 August 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 127 to 210 form part of this interim financial report.

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

| Note   | Attributable to equity shareholders of the Bank |                         |                                      |                                      |                                      |   | Retained earnings | Total      | Non-controlling interests | Total equity |
|--|---|-------------------------|--------------------------------------|--------------------------------------|--------------------------------------|---|-------------------|------------|---------------------------|--------------|
|  | Share capital                                   | Other equity instrument | Capital reserve<br><i>Note 35(1)</i> | Surplus reserve<br><i>Note 35(2)</i> | General reserve<br><i>Note 35(3)</i> | Other comprehensive income<br><i>Note 35(4)</i> |                   |            |                           |              |
| Balance at 1 January 2019                    | 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   |
| Profit for the period                        | -   | -                       | -                                    | -                                    | -                                    | -   | 1,438,462         | 1,438,462  | 27,667                    | 1,466,129    |
| Other comprehensive income                   | -   | -                       | -                                    | -                                    | -                                    | (25,404)  | -                 | (25,404)   | -                         | (25,404)     |
| Total comprehensive income                   | -   | -                       | -                                    | -                                    | -                                    | (25,404)  | 1,438,462         | 1,413,058  | 27,667                    | 1,440,725    |
| Issue of ordinary shares                     | 450,977   | -                       | 1,511,593                            | -                                    | -                                    | -   | -                 | 1,962,570  | -                         | 1,962,570    |
| Appropriation of profit:<br>- Cash dividends | <i>36</i>                                       | -                       | -                                    | -                                    | -                                    | -   | (901,938)         | (901,938)  | -                         | (901,938)    |
| Balance at 30 June 2019<br>(unaudited)       | 4,509,690                                       | 7,853,964               | 8,337,869                            | 1,403,575                            | 3,969,452                            | 527,789   | 2,856,324         | 29,458,663 | 539,418                   | 29,998,081   |

| Note   | Attributable to equity shareholders of the Bank |                         |                                      |                                      |                                      |   | Retained earnings | Total      | Non-controlling interests | Total equity |
|--|---|-------------------------|--------------------------------------|--------------------------------------|--------------------------------------|---|-------------------|------------|---------------------------|--------------|
|  | Share capital                                   | Other equity instrument | Capital reserve<br><i>Note 35(1)</i> | Surplus reserve<br><i>Note 35(2)</i> | General reserve<br><i>Note 35(3)</i> | Other comprehensive income<br><i>Note 35(4)</i> |                   |            |                           |              |
| Balance at 31 December 2017                  | 4,058,713                                       | 7,853,964               | 6,826,276                            | 1,203,325                            | 3,969,452                            | (885,449)                                       | 2,603,573         | 25,629,854 | 493,355                   | 26,123,209   |
| Changes in accounting policies               | -   | -                       | -                                    | -                                    | -                                    | 422,278   | (791,031)         | (368,753)  | (1,641)                   | (370,394)    |
| Balance at 1 January 2018                    | 4,058,713                                       | 7,853,964               | 6,826,276                            | 1,203,325                            | 3,969,452                            | (463,171)                                       | 1,812,542         | 25,261,101 | 491,714                   | 25,752,815   |
| Profit for the period                        | -   | -                       | -                                    | -                                    | -                                    | -   | 1,321,444         | 1,321,444  | 9,432                     | 1,330,876    |
| Other comprehensive income                   | -   | -                       | -                                    | -                                    | -                                    | 421,494   | -                 | 421,494    | -                         | 421,494      |
| Total comprehensive income                   | -   | -                       | -                                    | -                                    | -                                    | 421,494   | 1,321,444         | 1,742,938  | 9,432                     | 1,752,370    |
| Appropriation of profit:<br>- Cash dividends | <i>36</i>                                       | -                       | -                                    | -                                    | -                                    | -   | (811,748)         | (811,748)  | -                         | (811,748)    |
| Balance at 30 June 2018<br>(unaudited)       | 4,058,713                                       | 7,853,964               | 6,826,276                            | 1,203,325                            | 3,969,452                            | (41,677)  | 2,322,238         | 26,192,291 | 501,146                   | 26,693,437   |

The notes on pages 127 to 210 form part of this interim financial report.

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the six months ended 30 June 2019  
(Expressed in thousands of Renminbi, unless otherwise stated)

|                                       | Attributable to equity shareholders of the Bank |               |                         |                               |                               |                               |  | Retained earnings | Total       | Non-controlling interests | Total equity |
|---------------------------------------|---|---------------|-------------------------|-------------------------------|-------------------------------|-------------------------------|--|-------------------|-------------|---------------------------|--------------|
|                                       | Note  | Share capital | Other equity instrument | Capital reserve<br>Note 35(1) | Surplus reserve<br>Note 35(2) | General reserve<br>Note 35(3) | Other comprehensive income<br>Note 35(4) |                   |             |                           |              |
| 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    | 36  | -             | -                       | -                             | 200,250                       | -                             | -  | (200,250)         | -           | -                         | -            |
| - Cash dividends                      | 36  | -             | -                       | -                             | -                             | -                             | -  | (1,315,844)       | (1,315,844) | -                         | (1,315,844)  |
| Balance at 31 December 2018 (audited) |   | 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 127 to 210 form part of this interim financial report.

## UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

|   | Six months ended 30 June |                     |
|---|--------------------------|---------------------|
|   | 2019<br>(unaudited)      | 2018<br>(unaudited) |
| <b>Cash flows from operating activities</b>                                       |                          |                     |
| Profit before taxation  | 1,839,884                | 1,649,483           |
| <i>Adjustments for:</i>   |                          |                     |
| Impairment losses   | 1,428,195                | 516,515             |
| Depreciation and amortisation   | 212,737                  | 196,286             |
| Unrealised foreign exchange gains   | (14,385)                 | (395,158)           |
| Net losses/(gains) on disposal of long-term assets                                | 582                      | (40)                |
| (Gains)/losses from changes in fair value   | (31,300)                 | 362,083             |
| Dividend income   | -                        | (1,100)             |
| Net gains arising from investment   | (754,291)                | (1,312,230)         |
| Interest expense on debt securities issued  | 1,257,153                | 1,328,313           |
| Interest income generated from non-operating activities                           | (2,685,687)              | (2,533,920)         |
| Others  | (27,701)                 | (29,876)            |
|   | <b>1,225,187</b>         | (219,644)           |
| <i>Changes in operating assets</i>  |                          |                     |
| Net decrease/(increase) in deposits with central bank                             | 795,841                  | (1,001,385)         |
| Net decrease/(increase) in deposits with banks and other financial institutions   | 200,000                  | (200,000)           |
| Net decrease/(increase) in placements with banks and other financial institutions | 7,542                    | (1,065,070)         |
| Net increase in loans and advances to customers                                   | (21,291,600)             | (9,896,545)         |
| Net decrease in financial assets held under resale agreements                     | 300,000                  | 859,200             |
| Net increase in long-term receivables   | (1,074,973)              | (2,003,067)         |
| Net increase in other operating assets  | (102,093)                | (290,288)           |
|   | <b>(21,165,283)</b>      | (13,597,155)        |

The notes on pages 127 to 210 form part of this interim financial report.

## UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

*for the six months ended 30 June 2019  
(Expressed in thousands of Renminbi, unless otherwise stated)*

|   | Six months ended 30 June |                     |
|---|--------------------------|---------------------|
|   | 2019<br>(unaudited)      | 2018<br>(unaudited) |
| <i>Changes in operating liabilities</i>   |                          |                     |
| Net (decrease)/increase in borrowings from central bank                               | (749,709)                | 2,522,919           |
| Net increase/(decrease) in deposits from banks and other financial institutions       | 3,270,197                | (1,910,575)         |
| Net increase in placements from banks and other financial institutions                | 1,533,428                | 1,557,166           |
| Net (decrease)/increase in financial assets sold under repurchase agreements          | (1,194,617)              | 7,000,483           |
| Net increase in deposits from customers   | 10,194,128               | 6,115,828           |
| Income tax paid   | (463,843)                | (148,084)           |
| Net increase in other operating liabilities   | 706,149                  | 623,576             |
|   | <b>13,295,733</b>        | 15,761,313          |
| <b>Net cash flows (used in)/generated from operating activities</b>                   | <b>(6,644,363)</b>       | 1,944,514           |
| <b>Cash flows from investing activities</b>   |                          |                     |
| Proceeds from disposal and redemption of investments                                  | 35,112,823               | 52,712,059          |
| Net cash received from investment gains and interest                                  | 3,645,625                | 3,748,339           |
| Proceeds from disposal of property and equipment, intangible assets and other assets  | 301                      | 1,907               |
| Payments on acquisition of investments  | (35,282,062)             | (32,310,321)        |
| Payments on acquisition of property and equipment, intangible assets and other assets | (159,286)                | (112,592)           |
| <b>Net cash flows generated from investing activities</b>                             | <b>3,317,401</b>         | 24,039,392          |
| <b>Cash flows from financing activities</b>   |                          |                     |
| Proceeds from issuance of ordinary shares   | 1,962,570                | –                   |
| Net proceeds from debt securities issued  | 44,598,684               | 40,540,627          |
| Repayment of debt securities issued   | (35,530,000)             | (62,010,000)        |
| Interest paid on debt securities issued   | (405,284)                | (542,930)           |
| Dividends paid  | (62)                     | (808,788)           |
| <b>Net cash flows generated from/(used in) financing activities</b>                   | <b>10,625,908</b>        | (22,821,091)        |

The notes on pages 127 to 210 form part of this interim financial report.

## UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

for the six months ended 30 June 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

|   |      | Six months ended 30 June |                     |
|---|------|--------------------------|---------------------|
|   | Note | 2019<br>(unaudited)      | 2018<br>(unaudited) |
| <b>Effect of foreign exchange rate changes on cash and cash equivalents</b> |      | <b>7,115</b>             | 131,232             |
| <b>Net increase in cash and cash equivalents</b>                            |      | <b>7,306,061</b>         | 3,294,047           |
| <b>Cash and cash equivalents as at 1 January</b>                            |      | <b>10,212,182</b>        | 9,678,330           |
| <b>Cash and cash equivalents as at 30 June</b>                              | 37   | <b>17,518,243</b>        | 12,972,377          |
| <b>Net cash flows generated from operating activities include:</b>          |      |                          |                     |
| Interest received   |      | <b>4,305,389</b>         | 2,973,099           |
| Interest paid   |      | <b>(2,138,247)</b>       | (2,208,163)         |

The notes on pages 127 to 210 form part of this interim financial report.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

## 1 BACKGROUND INFORMATION

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

The Bank changed its name from Qingdao City Cooperative Bank Co., Ltd. to Qingdao City Commercial Bank Co., Ltd. in 1998 according to LuyinFu [1998] No. 76 issued by Shandong Branch of the PBOC. The Bank changed its name from Qingdao City Commercial Bank Co., Ltd. to Bank of Qingdao Co., Ltd. in 2008 according to YinJianFu [2007] No.485 issued by the former 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”). 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 share capital of the Bank is RMB 4.51 billion as at 30 June 2019.

The Bank has 14 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Qingdao Westcoast, Laiwu, Linyi, Jining and Taian as at 30 June 2019. 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 21. The Bank mainly operates in Shandong Province.

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

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

### (1) *Basis of preparation*

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue by the Bank’s Board of Directors on 23 August 2019.

The interim financial reports and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”), and should be read in conjunction with the Group’s last annual financial report for the year ended 31 December 2018.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with International Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the International Auditing and Assurance Standards Board (“IAASB”).

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

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### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

#### (2) Accounting judgements and estimates

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the preparation of the consolidated financial statements for the year ended 31 December 2018.

#### (3) Changes in accounting policies

Except as described below, the accounting policies applied in these interim financial report are the same as those applied in the preparation of the consolidated financial statements for the year ended 31 December 2018. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ended 31 December 2019.

The Group has initially adopted IFRS 16 Lease ("IFRS 16") from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

IFRS 16 refines the lease definition, and the Group assesses whether the contract is, or contains, a lease in accordance with the lease definition under IFRS 16. For contracts that have been existed before the date of initial application, the Group chose not to reassess whether they are, or contain leases on the date of initial application.

##### (a) The Group as the lessee

Under International Accounting Standards No.17 – Lease ("IAS 17"), the Group classifies a lease as either a finance lease or an operating lease based on whether the lease substantially transfers all the risks and rewards incidental to ownership of a leased asset to the Group.

The Group no longer classifies a lease as either a finance lease or an operating lease under IFRS 16. The Group recognizes a right-of-use (ROU) asset and lease liability for all leases (other than short-term leases and leases of low-value assets with simplified accounting treatments).

When separating lease components and non-lease components, the Group allocates the consideration of the contract based on the relative proportion between the stand-alone price of each lease component and the aggregate stand-alone price of the non-lease components.

The Group chooses to adjust the opening balance of retained earnings (if any) and the amount of relevant items in the financial statements at the beginning of the year that initially applying IFRS 16 in accordance with the cumulative effect of initial application of IFRS 16, while the information during the comparative period is not adjusted.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

For operating leases prior to the initial application of IFRS 16, the Group measures the lease liability in the present value of remaining lease payments discounted based on the incremental borrowing rate at the date of initial application on the initial application date, and measures the right-of-use assets according to the following methods:

- Amounts equal to the lease liability and necessary adjustments based on the prepaid rent. The Group adopts this method for all leases.

For operating leases prior to the date of initial application, the Group adopts the following simplified accounting treatments when applying the above method:

- Account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases;
- Apply a single discount rate to leases with similar characteristics when measuring the lease liability;
- Exclude initial direct costs from the measurement of the right-of-use asset;
- If there are options to extend or terminate, determine the lease term based on the actual execution of the options and other latest circumstances before the date of initial application;
- As an alternative to performing an impairment review on the right-of-use assets, adjust the right-of-use assets in accordance with the loss allowances for onerous contracts included in the balance sheet before the date of initial application;
- The Group does not adopt the retrospective approach on lease changes prior to the beginning of the year that initially applying IFRS 16, and performs accounting treatments under IFRS 16 based on the final arrangement of the lease changes.

#### (b) *The Group as the lessor*

The Group does not need to adjust the opening balance of retained earnings and the amount of other items in the financial statements at the beginning of the year that initially applying IFRS 16 for leases that the Group is the lessor. The Group performs accounting treatments under IFRS 16 for the date of initial application.

Under IFRS 16, the Group allocates the consideration in the contract between each lease component and non-lease component according to the transaction price allocation requirements in the new revenue standards.

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

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### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(c) *Effects on the financial statements arising from the adoption of IFRS 16 as at 1 January 2019*

The Group recognized the lease liability of RMB 459 million and the right-of-use asset of RMB 897 million. Based on the cumulative effect on the date of initial application, the Group adjusted the opening retained earnings on the date of initial application while the information during the comparative period is not adjusted. The Group chose to measure the right-of-use assets in the balance of the lease liability, and made adjustments based on prepaid lease payment or provisions for lease payment related to the lease and included in the statement of financial position on the date of initial application. Changes in the standards have no effect on the opening retained earnings.

In measuring the lease liability, the Group discounted the lease payment with the incremental borrowing rate at 1 January 2019. The weighted average interest rate used by the Group was 3.91%.

|  | <b>The Group</b> |
|--|------------------|
| Outstanding minimum lease payments of significant operating leases disclosed in the consolidated financial statements as at 31 December 2018 | 519,427          |
| Present value discounted with the Group's incremental borrowing rate on 1 January 2019   | 444,751          |
| Lease liabilities on 1 January 2019 under IFRS 16  | 458,964          |
| <u>Difference between the above discounted present value and the lease liabilities</u>   | <u>(14,213)</u>  |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 3 NET INTEREST INCOME

|  | Six months ended 30 June |             |
|--|--------------------------|-------------|
|  | 2019                     | 2018        |
| <b>Interest income arising from</b>                    |                          |             |
| Deposits with central bank                             | 168,832                  | 188,787     |
| Deposits with banks and other financial institutions   | 8,670                    | 9,671       |
| Placements with banks and other financial institutions | 142,484                  | 52,706      |
| Loans and advances to customers                        |                          |             |
| – Corporate loans and advances                         | 2,127,391                | 1,596,552   |
| – Personal loans and advances                          | 1,102,518                | 711,262     |
| – Discounted bills                                     | 212,008                  | 104,800     |
| Financial assets held under resale agreements          | 133,225                  | 123,596     |
| Financial investments                                  | 2,685,687                | 2,534,605   |
| Long-term receivables                                  | 245,003                  | 131,266     |
| Sub-total  | <b>6,825,818</b>         | 5,453,245   |
| <b>Interest expense arising from</b>                   |                          |             |
| Deposits from banks and other financial institutions   | (190,952)                | (422,665)   |
| Placements from banks and other financial institutions | (207,222)                | (150,016)   |
| Deposits from customers                                | (1,591,835)              | (1,432,119) |
| Financial assets sold under repurchase agreements      | (261,599)                | (296,938)   |
| Debt securities issued                                 | (1,257,153)              | (1,328,313) |
| Others   | (172,514)                | (86,902)    |
| Sub-total  | <b>(3,681,275)</b>       | (3,716,953) |
| <b>Net interest income</b>                             | <b>3,144,543</b>         | 1,736,292   |

### 4 NET FEE AND COMMISSION INCOME

|                                      | Six months ended 30 June |          |
|--------------------------------------|--------------------------|----------|
|                                      | 2019                     | 2018     |
| <b>Fee and commission income</b>     |                          |          |
| Wealth management service fees       | 318,278                  | 144,994  |
| Agency service fees                  | 155,930                  | 128,835  |
| Custody and bank card service fees   | 37,535                   | 17,402   |
| Settlement fees                      | 17,798                   | 16,423   |
| Others                               | 84,541                   | 65,682   |
| Sub-total                            | <b>614,082</b>           | 373,336  |
| <b>Fee and commission expense</b>    | <b>(33,272)</b>          | (30,849) |
| <b>Net fee and commission income</b> | <b>580,810</b>           | 342,487  |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 5 NET TRADING GAINS

|  | Note | Six months ended 30 June |               |
|--|------|--------------------------|---------------|
|  |      | 2019                     | 2018          |
| Net gains of foreign exchange rate derivative financial instruments and foreign exchange | (i)  | 16,918                   | 91,793        |
| Net (losses)/gains from debt securities and others                                       | (ii) | (1,606)                  | 2,847         |
| Change in fair value of non-exchange derivative financial instruments                    |      | 50                       | –             |
| <b>Total</b>   |      | <b>15,362</b>            | <b>94,640</b> |

Notes:

- (i) Net gains/(losses) of foreign exchange rate derivative financial instruments and foreign exchange 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 debt securities held for trading.

### 6 NET GAINS ARISING FROM INVESTMENTS

|   | Six months ended 30 June |                |
|---|--------------------------|----------------|
|   | 2019                     | 2018           |
| Net gains on financial investments measured at fair value through profit or loss                    | 512,826                  | 944,090        |
| Net gains on disposal of financial assets measured at fair value through other comprehensive income | 272,715                  | 6,057          |
| Dividend income   | –                        | 1,100          |
| <b>Total</b>  | <b>785,541</b>           | <b>951,247</b> |

Note: IFRS 9 “Financial Instruments” contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (“FVTPL”) and (3) fair value through other comprehensive income (“FVOCI”).

### 7 OTHER OPERATING INCOME, NET

|   | Six months ended 30 June |              |
|---|--------------------------|--------------|
|   | 2019                     | 2018         |
| Government grants   | 4,173                    | 3,868        |
| Rental income   | 1,033                    | 1,033        |
| Net (losses)/gains on disposal of property and equipment and other assets | (582)                    | 40           |
| Others  | 3,688                    | 504          |
| <b>Total</b>  | <b>8,312</b>             | <b>5,445</b> |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 8 OPERATING EXPENSES

|   | Six months ended 30 June |         |
|---|--------------------------|---------|
|   | 2019                     | 2018    |
| Staff costs   |                          |         |
| – Salaries, bonuses and allowances                      | 492,444                  | 311,516 |
| – Social insurance and housing allowances               | 50,382                   | 40,956  |
| – Staff welfare expenses                                | 34,804                   | 28,579  |
| – Staff education expenses                              | 12,420                   | 7,923   |
| – Labor union expenses                                  | 15,136                   | 6,338   |
| – Post-employment benefits – defined contribution plans | 87,932                   | 69,205  |
| – Supplementary retirement benefits                     | 3,720                    | 9,380   |
| Sub-total   | 696,838                  | 473,897 |
| Property and equipment expenses                         |                          |         |
| – Depreciation and amortisation                         | 212,737                  | 196,286 |
| – Electronic equipment operating expenses               | 35,349                   | 39,309  |
| – Maintenance   | 35,225                   | 32,203  |
| Sub-total   | 283,311                  | 267,798 |
| Tax and surcharges                                      | 49,349                   | 35,454  |
| Other general and administrative expenses               | 236,991                  | 186,964 |
| Total   | 1,266,489                | 964,113 |

### 9 IMPAIRMENT LOSSES

|  | Six months ended 30 June |          |
|--|--------------------------|----------|
|  | 2019                     | 2018     |
| Loans and advances to customers                        | 1,382,222                | 526,238  |
| Deposits with banks and other financial institutions   | 51                       | 474      |
| Placements with banks and other financial institutions | (4,029)                  | 8,089    |
| Financial assets held under resale agreements          | (122)                    | (362)    |
| Financial investments measured at amortised cost       | (75,701)                 | (36,311) |
| Financial investments measured at FVOCI                | 63,809                   | 7,438    |
| Long-term receivables                                  | 58,718                   | 16,135   |
| Credit commitments                                     | (3,905)                  | (15,836) |
| Others   | 7,152                    | 10,650   |
| Total  | 1,428,195                | 516,515  |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 10 INCOME TAX EXPENSE

#### (1) Income tax for the reporting period:

|              | Note  | Six months ended 30 June |                |
|--------------|-------|--------------------------|----------------|
|              |       | 2019                     | 2018           |
| Current tax  |       | 543,962                  | 331,162        |
| Deferred tax | 24(2) | (170,207)                | (12,555)       |
| <b>Total</b> |       | <b>373,755</b>           | <b>318,607</b> |

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

|   | Six months ended 30 June |                |
|---|--------------------------|----------------|
|   | 2019                     | 2018           |
| Profit before taxation                                      | 1,839,884                | 1,649,483      |
| Statutory tax rate  | 25%                      | 25%            |
| Income tax calculated at statutory tax rate                 | 459,971                  | 412,371        |
| Tax effect of non-deductible expenses for tax purpose       |                          |                |
| – Annuity   | 2,136                    | 3,723          |
| – Entertainment expenses                                    | 1,296                    | 1,409          |
| – Others  | 1,072                    | 2,219          |
| Subtotal  | 4,504                    | 7,351          |
| Tax effect of non-taxable income for tax purpose (Note (i)) | (90,720)                 | (101,115)      |
| <b>Income tax</b>   | <b>373,755</b>           | <b>318,607</b> |

Note:

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 11 BASIC AND DILUTED EARNINGS PER SHARE

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

|  | Note  | Six months ended 30 June |           |
|--|-------|--------------------------|-----------|
|  |       | 2019                     | 2018      |
| Weighted average number of ordinary shares (in thousands)    | 11(1) | 4,434,527                | 4,058,713 |
| Net profit attributable to equity shareholders of the Bank   |       | 1,438,462                | 1,321,444 |
| Less: dividends on preference shares declared                |       | –                        | –         |
| Net profit attributable to ordinary shareholders of the Bank |       | 1,438,462                | 1,321,444 |
| Basic and diluted earnings per share (in RMB)                |       | 0.32                     | 0.33      |

Note:

As stated in Note 34, the Bank issued 60,150,000 shares in respect of the USD overseas preference share on 19 September 2017. On 30 June 2019, the carrying amount of the overseas preference share equals to RMB 7,854 million.

The above overseas preference share adopts the non-cumulative dividend payment method, that is, the 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. In the case of meeting relevant distribution conditions, dividends of the preference share will be paid on 19 September of each year after the declaration of the Board of Directors of the Bank, the Bank post-pays the dividends each year.

Therefore, in calculating the earnings per share for six months ended 30 June 2019, the Bank did not consider the effects of dividends that may be distributed to shareholders of the overseas preference share in September 2019 on the net profit attributable to shareholders of the ordinary shares of the Bank (Dividends distributed to shareholders of the overseas preference share by the Bank in September 2018 were RMB 504 million).

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

|  | Six months ended 30 June |           |
|--|--------------------------|-----------|
|  | 2019                     | 2018      |
| Number of ordinary shares as at 1 January              | 4,058,713                | 4,058,713 |
| Increase in weighted average number of ordinary shares | 375,814                  | –         |
| Weighted average number of ordinary shares             | 4,434,527                | 4,058,713 |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 12 CASH AND DEPOSITS WITH CENTRAL BANK

|                              | Note  | 30 June<br>2019 | 31 December<br>2018 |
|------------------------------|-------|-----------------|---------------------|
| Cash on hand                 |       | 504,261         | 451,273             |
| Deposits with central bank   |       |                 |                     |
| – Statutory deposit reserves | 12(1) | 19,942,664      | 20,808,743          |
| – Surplus deposit reserves   | 12(2) | 14,045,254      | 8,256,128           |
| – Fiscal deposits            |       | 97,230          | 26,992              |
| Sub-total                    |       | 34,085,148      | 29,091,863          |
| Accrued interest             |       | 10,690          | 11,294              |
| Total                        |       | 34,600,099      | 29,554,430          |

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

|   | 30 June<br>2019 | 31 December<br>2018 |
|---|-----------------|---------------------|
| Reserve ratio for RMB deposits              | 11.0%           | 12.0%               |
| Reserve ratio for foreign currency deposits | 5.0%            | 5.0%                |

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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 13 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

|                                       | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|---------------------------------------|-------------------------|---------------------|
| In Mainland China                     |                         |                     |
| – Banks                               | <b>1,006,585</b>        | 1,239,298           |
| – Other financial institutions        | <b>4,146</b>            | 7,962               |
| Outside Mainland China                |                         |                     |
| – Banks                               | <b>309,181</b>          | 285,941             |
| Accrued interest                      | <b>1,894</b>            | 9,909               |
| Sub-total                             | <b>1,321,806</b>        | 1,543,110           |
| Less: Provision for impairment losses | <b>(724)</b>            | (673)               |
| Total                                 | <b>1,321,082</b>        | 1,542,437           |

### 14 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

|                                       | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|---------------------------------------|-------------------------|---------------------|
| In Mainland China                     |                         |                     |
| – Banks                               | –                       | 233,486             |
| – Other financial institutions        | <b>4,508,825</b>        | 3,801,365           |
| Accrued interest                      | <b>86,976</b>           | 87,236              |
| Sub-total                             | <b>4,595,801</b>        | 4,122,087           |
| Less: Provision for impairment losses | <b>(7,594)</b>          | (11,623)            |
| Total                                 | <b>4,588,207</b>        | 4,110,464           |

### 15 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments held by the Group mainly include interest rate swaps, credit risk mitigation warrant, currency swaps and foreign exchange swaps, etc.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

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

|                                       | 30 June<br>2019 | 31 December<br>2018 |
|---------------------------------------|-----------------|---------------------|
| In Mainland China                     |                 |                     |
| – Other financial institutions        | –               | 300,000             |
| Accrued interest                      | –               | 384                 |
| Sub-total                             | –               | 300,384             |
| Less: Provision for impairment losses | –               | (122)               |
| Total                                 | –               | 300,262             |

#### (2) *Analysed by type of security held*

|                                       | 30 June<br>2019 | 31 December<br>2018 |
|---------------------------------------|-----------------|---------------------|
| Debt securities                       | –               | 300,000             |
| Accrued interest                      | –               | 384                 |
| Sub-total                             | –               | 300,384             |
| Less: Provision for impairment losses | –               | (122)               |
| Total                                 | –               | 300,262             |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 17 LOANS AND ADVANCES TO CUSTOMERS

#### (1) *Analysed by nature*

|   | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|---|-------------------------|---------------------|
| Measured at amortised cost:   |                         |                     |
| Corporate loans and advances  |                         |                     |
| – Corporate loans   | <b>89,494,765</b>       | 78,264,271          |
| Sub-total   | <b>89,494,765</b>       | 78,264,271          |
| Personal loans and advances   |                         |                     |
| – Residential mortgage  | <b>32,440,634</b>       | 30,229,094          |
| – Personal business loans   | <b>5,258,703</b>        | 5,836,058           |
| – Personal consumption loans  | <b>5,715,103</b>        | 3,827,588           |
| – Others  | <b>1,366,465</b>        | 1,457,234           |
| Sub-total   | <b>44,780,905</b>       | 41,349,974          |
| Accrued interest  | <b>630,061</b>          | 521,250             |
| Less: Provision for impairment losses of loans and advances to customers measured at amortised cost |                         |                     |
| – 12-month expected credit loss (“ECL”)   | <b>(1,299,395)</b>      | (1,276,373)         |
| – lifetime ECL  |                         |                     |
| – not credit-impaired loans   | <b>(1,201,830)</b>      | (1,277,670)         |
| – credit-impaired loans   | <b>(1,177,616)</b>      | (987,186)           |
| Total provision for impairment losses   | <b>(3,678,841)</b>      | (3,541,229)         |
| Measured at FVOCI:  |                         |                     |
| Corporate loans and advances  |                         |                     |
| – Discounted bills  | <b>12,116,688</b>       | 6,772,625           |
| Net loans and advances to customers   | <b>143,343,578</b>      | 123,366,891         |



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

#### (3) *Analysed by type of collateral (excluding accrued interest)*

|  | 30 June<br>2019    | 31 December<br>2018 |
|--|--------------------|---------------------|
| Unsecured loans                              | 19,570,326         | 15,753,945          |
| Guaranteed loans                             | 36,610,210         | 36,502,920          |
| Loans secured by mortgages                   | 63,132,054         | 54,738,421          |
| Pledged loans                                | 27,079,768         | 19,391,584          |
| <b>Gross loans and advances to customers</b> | <b>146,392,358</b> | <b>126,386,870</b>  |

#### (4) *Overdue loans analysed by overdue period (excluding accrued interest)*

|   | 30 June 2019  |   |   |                                     |                  |
|---|---|---|---|-------------------------------------|------------------|
|   | Overdue<br>within<br>three<br>months<br>(inclusive) | Overdue<br>more than<br>three<br>months to<br>one year<br>(inclusive) | Overdue<br>more than<br>one year to<br>three years<br>(inclusive) | Overdue<br>more than<br>three years | Total            |
| Unsecured loans   | 44,993  | 16,695  | 104,001   | 17,246                              | 182,935          |
| Guaranteed loans  | 1,220,179   | 1,014,295   | 414,982   | 23,966                              | 2,673,422        |
| Loans secured by mortgages                                  | 272,510   | 102,498   | 91,949  | 147,001                             | 613,958          |
| <b>Total</b>  | <b>1,537,682</b>                                    | <b>1,133,488</b>  | <b>610,932</b>  | <b>188,213</b>                      | <b>3,470,315</b> |
| As a percentage of gross loans and<br>advances to customers | 1.05%   | 0.77%   | 0.42%   | 0.13%                               | 2.37%            |

|   | 31 December 2018                                    |   |   |                                     |                  |
|---|---|---|---|-------------------------------------|------------------|
|   | Overdue<br>within<br>three<br>months<br>(inclusive) | Overdue<br>more than<br>three<br>months to<br>one year<br>(inclusive) | Overdue<br>more than<br>one year to<br>three years<br>(inclusive) | Overdue<br>more than<br>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            |
| <b>Total</b>  | <b>2,271,784</b>                                    | <b>1,229,240</b>  | <b>638,094</b>  | <b>214,698</b>                      | <b>4,353,816</b> |
| As a percentage of gross loans and<br>advances to customers | 1.80%   | 0.97%   | 0.50%   | 0.17%                               | 3.44%            |

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

As at 30 June 2019 and 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:

|   | 30 June 2019     |                                  |                              | Total       |
|---|------------------|----------------------------------|------------------------------|-------------|
|   | 12-month ECL     | Lifetime ECL-not credit-impaired | Lifetime ECL-credit-impaired |             |
| Gross loans and advances to customers measured at amortised cost (including accrued interest) | 125,622,743      | 6,809,817                        | 2,473,171                    | 134,905,731 |
| Less: Provision for impairment losses   | (1,299,395)      | (1,201,830)                      | (1,177,616)                  | (3,678,841) |
| Net loans and advances to customers measured at amortised cost                                | 124,323,348      | 5,607,987                        | 1,295,555                    | 131,226,890 |
|   | 31 December 2018 |                                  |                              |             |
|   | 12-month ECL     | Lifetime ECL-not credit-impaired | Lifetime ECL-credit-impaired | 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 |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(ii) *Provision for impairment losses on loans and advances to customers measured at FVOCI:*

|  | 30 June 2019     |   |   |            |
|--|------------------|---|---|------------|
|  | 12-month<br>ECL  | Lifetime<br>ECL-<br>not credit-<br>impaired | Lifetime<br>ECL-<br>credit-<br>impaired | Total      |
| Gross/net loans and advances to customers measured at FVOCI (including accrued interest) | 12,116,688       | –   | –                                       | 12,116,688 |
| Provision for impairment losses through other comprehensive income                       | (20,313)         | –   | –                                       | (20,313)   |
|  | 31 December 2018 |   |   |            |
|  | 12-month<br>ECL  | Lifetime<br>not credit-<br>impaired         | Lifetime<br>ECL-<br>credit-<br>impaired | Total      |
| Gross/net loans and advances to customers measured at FVOCI (including accrued interest) | 6,772,625        | –   | –                                       | 6,772,625  |
| Provision for impairment losses through other comprehensive income                       | (16,577)         | –   | –                                       | (16,577)   |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

#### (6) Movements of provision for impairment losses

For the six months ended 30 June 2019 and 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:*

|  | Six months ended 30 June 2019 |                                  |                              | Total       |
|--|-------------------------------|----------------------------------|------------------------------|-------------|
|  | 12-month ECL                  | Lifetime ECL-not credit-impaired | Lifetime ECL-credit-impaired |             |
| As at 1 January 2019                         | 1,276,373                     | 1,277,670                        | 987,186                      | 3,541,229   |
| Transfer to                                  |                               |                                  |                              |             |
| – 12-month ECL                               | 17,660                        | (17,515)                         | (145)                        | –           |
| – Lifetime ECL                               |                               |                                  |                              |             |
| – not credit-impaired loans                  | (25,726)                      | 26,573                           | (847)                        | –           |
| – credit-impaired loans                      | (4,609)                       | (574,892)                        | 579,501                      | –           |
| Charge for the period                        | 35,697                        | 489,994                          | 852,795                      | 1,378,486   |
| Write-offs and transfer out                  | –                             | –                                | (1,250,824)                  | (1,250,824) |
| Recoveries of loans and advances written off | –                             | –                                | 37,651                       | 37,651      |
| Other changes                                | –                             | –                                | (27,701)                     | (27,701)    |
| As at 30 June 2019                           | 1,299,395                     | 1,201,830                        | 1,177,616                    | 3,678,841   |
|  | 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   |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(ii) *Movements of the provision for impairment losses on loans and advances to customers measured at FVOCI are as follows:*

|                           | Six months ended 30 June 2019 |   |   |               |
|---------------------------|-------------------------------|---|---|---------------|
|                           | 12-month<br>ECL               | Lifetime<br>ECL-<br>not credit-<br>impaired | Lifetime<br>ECL-<br>credit-<br>impaired | Total         |
| As at 1 January 2019      | 16,577                        | –   | –                                       | 16,577        |
| Charge for the period     | 3,736                         | –   | –                                       | 3,736         |
| <b>As at 30 June 2019</b> | <b>20,313</b>                 | <b>–</b>                                    | <b>–</b>                                | <b>20,313</b> |

|                               | 2018            |   |   |               |
|-------------------------------|-----------------|---|---|---------------|
|                               | 12-month<br>ECL | Lifetime<br>ECL-<br>not credit-<br>impaired | Lifetime<br>ECL-<br>credit-<br>impaired | Total         |
| As at 1 January 2018          | 14,188          | –   | –                                       | 14,188        |
| Charge for the year           | 2,389           | –   | –                                       | 2,389         |
| <b>As at 31 December 2018</b> | <b>16,577</b>   | <b>–</b>                                    | <b>–</b>                                | <b>16,577</b> |

The Group enters into securitization transactions in the normal course of business. See note 44 for details.

In addition, in six months ended 30 June 2019 and the year ended 31 December 2018, the Group transferred loans and advances to independent third parties with principal amount of RMB 0.046 billion and RMB 0.015 billion respectively, and with the transfer price (including overdue interest, penalty interest, etc.) of RMB 0.047 billion and RMB 0.017 billion respectively.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 18 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

|   | 30 June<br>2019 | 31 December<br>2018 |
|---|-----------------|---------------------|
| Other debt investments measured at FVTPL                    |                 |                     |
| Issued by the following institutions in Mainland China      |                 |                     |
| – Banks and other financial institutions                    | 518,043         | 206,985             |
| – Corporate entities  | 31,703          | 30,295              |
| Sub-total   | 549,746         | 237,280             |
| Investment funds  | 12,829,787      | 7,467,620           |
| Asset management plans                                      | 8,775,971       | 9,354,611           |
| Trust plans   | 3,143,259       | 3,221,359           |
| Wealth management products issued by financial institutions | 2,034,853       | 2,080,946           |
| Total   | 27,333,616      | 22,361,816          |
| Unlisted  | 27,333,616      | 22,361,816          |

### 19 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

|  | Note  | 30 June<br>2019 | 31 December<br>2018 |
|--|-------|-----------------|---------------------|
| Debt securities issued by the following institutions in Mainland China |       |                 |                     |
| – Government   |       | 8,198,717       | 7,116,493           |
| – Policy banks   |       | 8,077,726       | 11,799,812          |
| – Banks and other financial institutions                               |       | 10,935,325      | 10,117,686          |
| – Corporate entities   |       | 17,496,041      | 17,828,393          |
| Sub-total  |       | 44,707,809      | 46,862,384          |
| Asset management plans   |       | 6,172,084       | 5,062,908           |
| Other investments  |       | 703,305         | –                   |
| Equity investments   | 19(1) | 23,250          | 23,250              |
| Accrued interest   |       | 900,741         | 1,054,209           |
| Total  |       | 52,507,189      | 53,002,751          |
| Listed   | 19(2) | 8,849,869       | 306,226             |
| Of which: listed outside Hong Kong                                     |       | 8,849,869       | 306,226             |
| Unlisted   |       | 43,657,320      | 52,696,525          |
| Total  |       | 52,507,189      | 53,002,751          |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

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

- (1) The Group holds a number of unlisted equity investments. The Group designates them as financial investments measured at FVOCI, and the details are as follows:

|   | Six months ended 30 June 2019                      |                                  |                                  |   |   |                                    |
|---|--|----------------------------------|----------------------------------|---|---|------------------------------------|
|   | Balance<br>at the<br>beginning<br>of the<br>period | Increase<br>during<br>the period | Decrease<br>during<br>the period | Balance<br>at the<br>end of<br>the period | Percentage<br>of<br>shareholding<br>in investees<br>(%) | Cash<br>dividend for<br>the period |
| <b>Investees</b>  |  |                                  |                                  |   |   |                                    |
| China UnionPay Co., Ltd.  | 13,000   | -                                | -                                | 13,000                                    | 0.34  | 1,100                              |
| Shandong City Commercial Bank<br>Cooperation Alliance Co., Ltd. | 10,000   | -                                | -                                | 10,000                                    | 2.15  | -                                  |
| Clearing Center for City Commercial<br>Banks                    | 250  | -                                | -                                | 250                                       | 0.81  | -                                  |
| <b>Total</b>  | <b>23,250</b>                                      | <b>-</b>                         | <b>-</b>                         | <b>23,250</b>                             |   | <b>1,100</b>                       |

For the six months ended 30 June 2019 and 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

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

(3) For the six months ended 30 June 2019 and the year ended 31 December 2018, movements of the provision for impairment losses on debt instruments of financial investments measured at FVOCI are as follows:

|                                 | Six months ended 30 June 2019 |                                      |                                  | Total   |
|---------------------------------|-------------------------------|--------------------------------------|----------------------------------|---------|
|                                 | 12-month ECL                  | Lifetime ECL-<br>not credit-impaired | Lifetime ECL-<br>credit-impaired |         |
| As at 1 January 2019            | 32,672                        | 19,122                               | –                                | 51,794  |
| Transfer to                     |                               |                                      |                                  |         |
| – Lifetime ECL                  |                               |                                      |                                  |         |
| – not credit-impaired           | (595)                         | 595                                  | –                                | –       |
| – credit-impaired               | –                             | (1,246)                              | 1,246                            | –       |
| (Release)/Charge for the period | (3,270)                       | 46,407                               | 20,672                           | 63,809  |
| As at 30 June 2019              | 28,807                        | 64,878                               | 21,918                           | 115,603 |

|                        | 2018         |                                      |                                  | Total  |
|------------------------|--------------|--------------------------------------|----------------------------------|--------|
|                        | 12-month ECL | Lifetime ECL-<br>not credit-impaired | Lifetime ECL-<br>credit-impaired |        |
| As at 1 January 2018   | 18,579       | 6,252                                | –                                | 24,831 |
| Transfer to            |              |                                      |                                  |        |
| – 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 measured 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 20 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

|   | <i>Note</i>  | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|---|--------------|-------------------------|---------------------|
| Debt securities issued by the following institutions in |              |                         |                     |
| Mainland China  |              |                         |                     |
| – Government  |              | <b>11,475,992</b>       | 9,431,022           |
| – Policy banks  |              | <b>13,889,189</b>       | 13,887,327          |
| – Banks and other financial institutions                |              | <b>11,096,198</b>       | 11,296,117          |
| – Corporate entities                                    |              | <b>2,179,687</b>        | 1,229,620           |
| Sub-total   |              | <b>38,641,066</b>       | 35,844,086          |
| Asset management plans                                  |              |                         |                     |
| Trust plans   |              | <b>18,940,246</b>       | 23,529,175          |
| Other investments                                       |              | <b>3,643,550</b>        | 4,850,229           |
| Sub total   |              | <b>27,333,796</b>       | 33,549,404          |
| Accrued interest  |              | <b>990,207</b>          | 1,106,068           |
| Less: Provision for impairment losses                   | <i>20(1)</i> | <b>(391,801)</b>        | (467,502)           |
| Total   |              | <b>66,573,268</b>       | 70,032,056          |
| Listed  | <i>20(2)</i> | <b>2,123,930</b>        | 1,114,690           |
| Of which: listed outside Hong Kong                      |              | <b>2,123,930</b>        | 1,114,690           |
| Unlisted  |              | <b>64,449,338</b>       | 68,917,366          |
| Total   |              | <b>66,573,268</b>       | 70,032,056          |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST (continued)

- (1) For the six months ended 30 June 2019 and the year ended 31 December 2018, movements of the allowance for impairment losses on financial investments measured at amortised cost are as follows:

|                                 | Six months ended 30 June 2019 |                                  |                              |          |
|---------------------------------|-------------------------------|----------------------------------|------------------------------|----------|
|                                 | 12-month ECL                  | Lifetime ECL-not credit-impaired | Lifetime ECL-credit-impaired | Total    |
| As at 1 January 2019            | 398,696                       | 68,806                           | –                            | 467,502  |
| (Release)/Charge for the period | (104,375)                     | 28,674                           | –                            | (75,701) |
| As at 30 June 2019              | 294,321                       | 97,480                           | –                            | 391,801  |
|                                 | 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                     |                               |                                  |                              |          |
| – 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.

### 21 INVESTMENT IN SUBSIDIARY

|                                       | 30 June 2019 | 31 December 2018 |
|---------------------------------------|--------------|------------------|
| BQD Financial Leasing Company Limited | 510,000      | 510,000          |

As at 30 June 2019 and 31 December 2018, 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                      | Financial 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 22 LONG-TERM RECEIVABLES

|  | 30 June<br>2019 | 31 December<br>2018 |
|--|-----------------|---------------------|
| Minimum finance lease receivables          | 9,810,374       | 8,636,534           |
| Less: Unearned finance lease income        | (901,944)       | (803,079)           |
| Present value of finance lease receivables | 8,908,430       | 7,833,455           |
| Accrued interest                           | 88,077          | 70,610              |
| Sub-total                                  | 8,996,507       | 7,904,065           |
| Less: Provision for impairment losses      |                 |                     |
| – 12-month ECL                             | (171,799)       | (137,367)           |
| – Lifetime ECL                             |                 |                     |
| – credit-impaired                          | (24,286)        | –                   |
| Net balance                                | 8,800,422       | 7,766,698           |

For the six months ended 30 June 2019 and the year ended 31 December 2018, movements of the provision for impairment losses on long-term receivable are as follows:

|                        | Six months ended 30 June 2019 |  |                                      |         |
|------------------------|-------------------------------|--|--------------------------------------|---------|
|                        | 12-month<br>ECL               | Lifetime ECL-<br>not credit-<br>impaired | Lifetime ECL-<br>credit-<br>impaired | Total   |
| As at 1 January 2019   | 137,367                       | –  | –                                    | 137,367 |
| Transfer to            |                               |  |                                      |         |
| – Lifetime ECL         |                               |  |                                      |         |
| – credit-impaired      | (1,855)                       | –  | 1,855                                | –       |
| Charge for the period  | 36,287                        | –  | 22,431                               | 58,718  |
| As at 30 June 2019     | 171,799                       | –  | 24,286                               | 196,085 |
|                        | 2018                          |  |                                      |         |
|                        | 12-month<br>ECL               | Lifetime ECL-<br>not credit-<br>impaired | Lifetime ECL-<br>credit-<br>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 |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 22 LONG-TERM RECEIVABLES (continued)

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

|                                   | 30 June 2019                               |  |  | 31 December 2018                           |  |  |
|-----------------------------------|--|--|--|--|--|--|
|                                   | Minimum<br>finance<br>lease<br>receivables | Unearned<br>finance<br>lease<br>income | Present<br>value of<br>finance<br>lease<br>receivables | Minimum<br>finance<br>lease<br>receivables | Unearned<br>finance<br>lease<br>income | Present<br>value of<br>finance<br>lease<br>receivables |
| Less than 1 year<br>(inclusive)   | 4,223,291                                  | (444,479)                              | 3,778,812  | 3,787,333                                  | (383,029)                              | 3,404,304  |
| 1 year to 2 years<br>(inclusive)  | 2,435,171                                  | (262,011)                              | 2,173,160  | 2,039,339                                  | (224,104)                              | 1,815,235  |
| 2 years to 3 years<br>(inclusive) | 1,988,352                                  | (138,254)                              | 1,850,098  | 1,577,474                                  | (129,353)                              | 1,448,121  |
| 3 years to 5 years<br>(inclusive) | 1,059,538                                  | (53,178)                               | 1,006,360  | 1,232,388                                  | (66,593)                               | 1,165,795  |
| Indefinite                        | 104,022                                    | (4,022)                                | 100,000  | –  | –                                      | –  |
| <b>Total</b>                      | <b>9,810,374</b>                           | <b>(901,944)</b>                       | <b>8,908,430</b>                                       | <b>8,636,534</b>                           | <b>(803,079)</b>                       | <b>7,833,455</b>                                       |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 23 PROPERTY AND EQUIPMENT

|                                 | Premises         | Electronic<br>equipment | Vehicles        | Machinery<br>equipment<br>and others | Construction<br>in progress | Total            |
|---------------------------------|------------------|-------------------------|-----------------|--------------------------------------|-----------------------------|------------------|
| <b>Cost</b>                     |                  |                         |                 |                                      |                             |                  |
| As at 1 January 2018            | 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          | <b>2,935,512</b> | <b>566,408</b>          | <b>62,955</b>   | <b>86,132</b>                        | <b>210,203</b>              | <b>3,861,210</b> |
| Increase                        | <b>5,065</b>     | <b>26,097</b>           | <b>625</b>      | <b>2,930</b>                         | –                           | <b>34,717</b>    |
| Decrease                        | –                | <b>(7,681)</b>          | –               | <b>(3,172)</b>                       | –                           | <b>(10,853)</b>  |
| As at 30 June 2019              | <b>2,940,577</b> | <b>584,824</b>          | <b>63,580</b>   | <b>85,890</b>                        | <b>210,203</b>              | <b>3,885,074</b> |
| <b>Accumulated depreciation</b> |                  |                         |                 |                                      |                             |                  |
| As at 1 January 2018            | (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          | <b>(297,371)</b> | <b>(336,089)</b>        | <b>(46,032)</b> | <b>(57,363)</b>                      | –                           | <b>(736,855)</b> |
| Increase                        | <b>(30,597)</b>  | <b>(30,807)</b>         | <b>(2,871)</b>  | <b>(4,354)</b>                       | –                           | <b>(68,629)</b>  |
| Decrease                        | –                | <b>7,226</b>            | –               | <b>2,744</b>                         | –                           | <b>9,970</b>     |
| As at 30 June 2019              | <b>(327,968)</b> | <b>(359,670)</b>        | <b>(48,903)</b> | <b>(58,973)</b>                      | –                           | <b>(795,514)</b> |
| <b>Net book value</b>           |                  |                         |                 |                                      |                             |                  |
| As at 30 June 2019              | <b>2,612,609</b> | <b>225,154</b>          | <b>14,677</b>   | <b>26,917</b>                        | <b>210,203</b>              | <b>3,089,560</b> |
| As at 31 December 2018          | 2,638,141        | 230,319                 | 16,923          | 28,769                               | 210,203                     | 3,124,355        |

As at 30 June 2019 and 31 December 2018, the Group did not have significant property and equipment which were temporarily idle.

The carrying amount of premises with incomplete title deeds of the Group as at 30 June 2019 was RMB 12.49 million (31 December 2018: RMB 1,714 million). Management is in the opinion that the incomplete title deeds would not affect the rights to these assets of the Group.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 23 PROPERTY AND EQUIPMENT (continued)

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

|  | 30 June<br>2019  | 31 December<br>2018 |
|--|------------------|---------------------|
| Held in Mainland China                   |                  |                     |
| – Long-term leases (over 50 years)       | 17,281           | 17,476              |
| – Medium-term leases (10 – 50 years)     | 2,592,742        | 2,618,001           |
| – Short-term leases (less than 10 years) | 2,586            | 2,664               |
| <b>Total</b>                             | <b>2,612,609</b> | 2,638,141           |

### 24 DEFERRED INCOME TAX ASSETS

#### (1) Analysed by nature

|   | 30 June 2019   |  | 31 December 2018                                     |  |
|---|--|--|--|--|
|   | Deductible/<br>(taxable)<br>temporary<br>differences | Deferred<br>Income<br>tax assets/<br>(liabilities) | Deductible/<br>(taxable)<br>temporary<br>differences | Deferred<br>Income<br>tax assets/<br>(liabilities) |
| Provision for impairment losses                   | 4,930,240  | 1,232,560  | 4,415,420  | 1,103,855  |
| Deferred interest income from<br>discounted bills | 220,128  | 55,032   | 143,040  | 35,760   |
| Change in fair value                              | (165,788)  | (41,447)   | (235,904)  | (58,976)   |
| Others  | 341,232  | 85,308   | 288,556  | 72,139   |
| <b>Total</b>                                      | <b>5,325,812</b>                                     | <b>1,331,453</b>                                   | 4,611,112  | 1,152,778  |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 24 DEFERRED INCOME TAX ASSETS (continued)

#### (2) *Analysed by movement*

|   | Provision for<br>Impairment<br>losses | Deferred<br>interest<br>income from<br>discounted<br>bills<br><i>(Note (i))</i> | Change in<br>fair value | Others<br><i>(Note (ii))</i> | Total            |
|---|---------------------------------------|---|-------------------------|------------------------------|------------------|
| 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<br>income | (7,338)                               | –   | (332,282)               | 832                          | (338,788)        |
| As at 31 December 2018                      | <b>1,103,855</b>                      | <b>35,760</b>   | <b>(58,976)</b>         | <b>72,139</b>                | <b>1,152,778</b> |
| Recognised in profit or loss                | <b>145,591</b>                        | <b>19,272</b>   | <b>(7,825)</b>          | <b>13,169</b>                | <b>170,207</b>   |
| Recognised in other comprehensive<br>income | <b>(16,886)</b>                       | <b>–</b>  | <b>25,354</b>           | <b>–</b>                     | <b>8,468</b>     |
| As at 30 June 2019                          | <b>1,232,560</b>                      | <b>55,032</b>   | <b>(41,447)</b>         | <b>85,308</b>                | <b>1,331,453</b> |

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 25 OTHER ASSETS

|                                       | Note  | 30 June<br>2019 | 31 December<br>2018 |
|---------------------------------------|-------|-----------------|---------------------|
| Right-of-use assets                   | 25(1) | 847,833         | –                   |
| Long-term deferred expense            |       | 182,211         | 566,276             |
| Prepayments                           |       | 169,506         | 101,521             |
| Intangible assets                     | 25(2) | 157,855         | 165,153             |
| Precious metals                       |       | 113,113         | 113,459             |
| Interest receivable                   | 25(3) | 17,375          | 37,299              |
| Repossessed assets (Note (i))         |       | 14,279          | 10,501              |
| Deferred expense                      |       | 6,827           | 53,718              |
| Others                                |       | 234,153         | 296,429             |
| Sub-total                             |       | 1,743,152       | 1,344,356           |
| Less: Provision for impairment losses |       | (1,003)         | (792)               |
| Total                                 |       | 1,742,149       | 1,343,564           |

Note:

- (i) Repossessed assets mainly included premises, etc. As at 30 June 2019 and 31 December 2018, there is no need to recognise provision for impairments losses of repossessed assets.

#### (1) Right-of-use assets

|                                 | Premises | Others | Total    |
|---------------------------------|----------|--------|----------|
| <b>Cost</b>                     |          |        |          |
| As at 1 January 2019            | 892,651  | 4,114  | 896,765  |
| Increase                        | 12,041   | –      | 12,041   |
| As at 30 June 2019              | 904,692  | 4,114  | 908,806  |
| <b>Accumulated depreciation</b> |          |        |          |
| As at 1 January 2019            | –        | –      | –        |
| Increase                        | (60,647) | (326)  | (60,973) |
| As at 30 June 2019              | (60,647) | (326)  | (60,973) |
| <b>Net book value</b>           |          |        |          |
| As at 30 June 2019              | 844,045  | 3,788  | 847,833  |
| As at 1 January 2019            | 892,651  | 4,114  | 896,765  |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 25 OTHER ASSETS (continued)

#### (2) Intangible assets

|                                 | Six months<br>ended 30 June<br>2019 | 2018      |
|---------------------------------|-------------------------------------|-----------|
| <b>Cost</b>                     |                                     |           |
| As at 1 January                 | 419,222                             | 382,281   |
| Increase                        | 26,261                              | 36,941    |
| As at 30 June/31 December       | 445,483                             | 419,222   |
| <b>Accumulated amortisation</b> |                                     |           |
| As at 1 January                 | (254,069)                           | (184,827) |
| Increase                        | (33,559)                            | (69,242)  |
| As at 30 June/31 December       | (287,628)                           | (254,069) |
| <b>Net value</b>                |                                     |           |
| As at 1 January                 | 165,153                             | 197,454   |
| As at 30 June/31 December       | 157,855                             | 165,153   |

Intangible assets of the Group mainly include software.

#### (3) Interests receivable

|                                   | 30 June<br>2019 | 31 December<br>2018 |
|-----------------------------------|-----------------|---------------------|
| Interest receivable arising from: |                 |                     |
| – Loans and advances to customers | 17,375          | 37,299              |
| Total                             | 17,375          | 37,299              |

### 26 BORROWINGS FROM CENTRAL BANK

|                     | 30 June<br>2019 | 31 December<br>2018 |
|---------------------|-----------------|---------------------|
| Borrowings          | 9,000,000       | 10,000,000          |
| Re-discounted bills | 1,029,301       | 779,010             |
| Accrued interest    | 157,483         | 99,825              |
| Total               | 10,186,784      | 10,878,835          |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 27 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

|                                | 30 June<br>2019   | 31 December<br>2018 |
|--------------------------------|-------------------|---------------------|
| In Mainland China              |                   |                     |
| – Banks                        | 2,078,109         | 3,590,947           |
| – Other financial institutions | 12,744,783        | 7,961,748           |
| Accrued interest               | 77,333            | 80,287              |
| <b>Total</b>                   | <b>14,900,225</b> | <b>11,632,982</b>   |

### 28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

|                                | 30 June<br>2019  | 31 December<br>2018 |
|--------------------------------|------------------|---------------------|
| In Mainland China              |                  |                     |
| – Banks                        | 8,538,287        | 6,761,699           |
| – Other financial institutions | 100,000          | –                   |
| Outside Mainland China         |                  |                     |
| – Banks                        | –                | 343,160             |
| Accrued interest               | 80,124           | 102,207             |
| <b>Total</b>                   | <b>8,718,411</b> | <b>7,207,066</b>    |

### 29 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

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

|                   | 30 June<br>2019   | 31 December<br>2018 |
|-------------------|-------------------|---------------------|
| In Mainland China |                   |                     |
| – Central Bank    | –                 | 5,350,000           |
| – Banks           | 13,651,515        | 9,496,131           |
| Accrued interest  | 2,607             | 4,202               |
| <b>Total</b>      | <b>13,654,122</b> | <b>14,850,333</b>   |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 29 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (continued)

#### (2) Analysed by types of collaterals

|                  | 30 June<br>2019   | 31 December<br>2018 |
|------------------|-------------------|---------------------|
| Debt securities  | 11,693,491        | 13,632,100          |
| Discounted bills | 1,958,024         | 1,214,031           |
| Accrued interest | 2,607             | 4,202               |
| <b>Total</b>     | <b>13,654,122</b> | <b>14,850,333</b>   |

### 30 DEPOSITS FROM CUSTOMERS

|  | 30 June<br>2019    | 31 December<br>2018 |
|--|--------------------|---------------------|
| Demand deposits                            |                    |                     |
| – Corporate deposits                       | 73,178,464         | 72,852,694          |
| – Personal deposits                        | 18,603,287         | 18,313,340          |
| Sub-total                                  | 91,781,751         | 91,166,034          |
| Time deposits                              |                    |                     |
| – Corporate deposits                       | 53,652,030         | 45,792,055          |
| – Personal deposits                        | 40,233,243         | 38,585,318          |
| Sub-total                                  | 93,885,273         | 84,377,373          |
| Outward remittance and remittance payables | 194,129            | 131,519             |
| Fiscal deposits to be transferred          | 8,824              | 923                 |
| Accrued interest                           | 2,490,246          | 2,235,398           |
| <b>Total</b>                               | <b>188,360,223</b> | <b>177,911,247</b>  |
| Including:                                 |                    |                     |
| Pledged deposits                           | 9,901,615          | 8,825,215           |

### 31 DEBT SECURITIES ISSUED

|  | 30 June<br>2019   | 31 December<br>2018 |
|--|-------------------|---------------------|
| Debt securities issued (Note (i))                    | 19,685,532        | 15,188,606          |
| Certificates of interbank deposit issued (Note (ii)) | 55,224,668        | 49,708,055          |
| Accrued interest                                     | 250,860           | 343,846             |
| <b>Total</b>   | <b>75,161,060</b> | <b>65,240,507</b>   |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 31 DEBT SECURITIES ISSUED (continued)

Note:

- (i) Financial debts with fixed interest rates were issued by the Group. The details are as follows:
- (a) 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 30 June 2019, the fair value of the debts was RMB 2.232 billion (31 December 2018: RMB 2.184 billion).
  - (b) 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 matured on 14 March 2019 with annual interest payments. As at 31 December 2018, the fair value of the debts was RMB 3.499 billion.
  - (c) 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 30 June 2019, the fair value of the debts was RMB 0.499 billion (31 December 2018: RMB 0.493 billion).
  - (d) 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 30 June 2019, the fair value of the debts was RMB 3.003 billion (31 December 2018: RMB 2.990 billion).
  - (e) 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 30 June 2019, the fair value of the debts was RMB 0.992 billion (31 December 2018: RMB 0.981 billion).
  - (f) Ten-year Tier-two Capital Bonds 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 30 June 2019, the fair value of the debts was RMB 2.906 billion (31 December 2018: RMB 2.834 billion).
  - (g) Ten-year Tier-two Capital Bonds were issued with an interest rate of 5.00% per annum and with a nominal amount of 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 30 June 2019, the fair value of the debts was RMB 1.936 billion (31 December 2018: RMB 1.889 billion).
  - (h) Three-year Financial Bonds were issued with an interest rate of 3.65% per annum and with a nominal amount of RMB 3.0 billion in May 2019. The debts will mature on 22 May 2022 with annual interest payments. As at 30 June 2019, the fair value of the debts was RMB 2.988 billion.
  - (i) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB 1.0 billion in May 2019. The debts will mature on 22 May 2024 with annual interest payments. As at 30 June 2019, the fair value of the debts was RMB 0.997 billion.
  - (j) Three-year Financial Bonds were issued with an interest rate of 3.70% per annum and with a nominal amount of RMB 3.0 billion in May 2019. The debts will mature on 31 May 2022 with annual interest payments. As at 30 June 2019, the fair value of the debts was RMB 2.992 billion.
  - (k) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB 1.0 billion in May 2019. The debts will mature on 31 May 2024 with annual interest payments. As at 30 June 2019, the fair value of the debts was RMB 0.997 billion.
- (ii) The Group issued a number of certificates of interbank deposit with duration between 1 month and 1 year. As at 30 June 2019 and 31 December 2018, the outstanding fair value of certificates of interbank deposit was RMB 55.265 billion and RMB 49.727 billion, respectively.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 32 OTHER LIABILITIES

|   | <i>Note</i>  | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|---|--------------|-------------------------|---------------------|
| Dividend payable                          |              | <b>917,229</b>          | 15,353              |
| Employee benefits payable                 | <i>32(1)</i> | <b>648,736</b>          | 755,237             |
| Payable raising from fiduciary activities |              | <b>626,161</b>          | 392,684             |
| Settlement payable                        |              | <b>484,506</b>          | 143,327             |
| Lease liability                           | <i>32(2)</i> | <b>440,843</b>          | –                   |
| Risk guarantee for leasing business       |              | <b>400,710</b>          | 267,379             |
| Taxes payable                             | <i>32(3)</i> | <b>126,263</b>          | 106,534             |
| ECL on credit commitments                 | <i>32(4)</i> | <b>101,059</b>          | 104,964             |
| Others                                    |              | <b>488,239</b>          | 642,156             |
| <b>Total</b>                              |              | <b>4,233,746</b>        | 2,427,634           |

#### (1) *Employee benefits payable*

|   | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|---|-------------------------|---------------------|
| Salaries, bonuses and allowances payable            | <b>523,692</b>          | 640,704             |
| Social insurance and housing allowances payable     | <b>174</b>              | 145                 |
| Staff education expenses                            | <b>32,184</b>           | 20,034              |
| Labor union expenses                                | <b>18,926</b>           | 18,504              |
| Post-employment benefits-defined contribution plans | <b>130</b>              | 150                 |
| Supplementary retirement benefits                   | <b>73,630</b>           | 75,700              |
| <b>Total</b>  | <b>648,736</b>          | 755,237             |

#### (2) *Lease liabilities*

Maturity analysis on lease liabilities of the Group – analysis on undiscounted cash flows :

|  | <b>30 June<br/>2019</b> |
|--|-------------------------|
| Less than 1 year (inclusive)   | <b>109,054</b>          |
| 1 year to 2 years (inclusive)  | <b>102,174</b>          |
| 2 years to 3 years (inclusive)   | <b>84,426</b>           |
| 3 years to 5 years (inclusive)   | <b>133,814</b>          |
| Over 5 years   | <b>81,089</b>           |
| <b>Total undiscounted cash flows of lease liabilities as at 30 June 2019</b>   | <b>510,557</b>          |
| <b>Lease liabilities on statement of financial position as at 30 June 2019</b> | <b>440,843</b>          |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 32 OTHER LIABILITIES (continued)

#### (3) Taxes payable

|   | 30 June<br>2019 | 31 December<br>2018 |
|---|-----------------|---------------------|
| Value added tax payable                       | 110,621         | 94,462              |
| Urban construction tax and surcharges payable | 14,963          | 11,397              |
| Others  | 679             | 675                 |
| <b>Total</b>                                  | <b>126,263</b>  | 106,534             |

#### (4) Expected credit loss on credit commitments

For the six months ended 30 June 2019 and the year ended 31 December 2018, movements of expected credit loss on credit commitments are as follows:

|                                 | Six months ended 30 June 2019 |  |                                      | Total          |
|---------------------------------|-------------------------------|--|--------------------------------------|----------------|
|                                 | 12-month<br>ECL               | Lifetime ECL-<br>not credit-<br>impaired | Lifetime ECL-<br>credit-<br>impaired |                |
| As at 1 January 2019            | 103,845                       | 1,101                                    | 18                                   | 104,964        |
| Transfer to                     |                               |  |                                      |                |
| – Lifetime ECL                  |                               |  |                                      |                |
| – not credit-impaired           | (373)                         | 373                                      | –                                    | –              |
| – credit-impaired               | –                             | (2)                                      | 2                                    | –              |
| (Release)/Charge for the period | (9,006)                       | 5,087                                    | 14                                   | (3,905)        |
| <b>As at 30 June 2019</b>       | <b>94,466</b>                 | <b>6,559</b>                             | <b>34</b>                            | <b>101,059</b> |
|                                 | 2018                          |  |                                      |                |
|                                 | 12-month<br>ECL               | Lifetime ECL-<br>not credit-<br>impaired | Lifetime ECL-<br>credit-<br>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)       |
| <b>As at 31 December 2018</b>   | <b>103,845</b>                | <b>1,101</b>                             | <b>18</b>                            | <b>104,964</b> |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 33 SHARE CAPITAL

#### *Authorised and issued share capital*

|  | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|--|-------------------------|---------------------|
| Number of shares authorised, issued and fully paid at nominal value (in thousands) | <b>4,509,690</b>        | 4,058,713           |

In January 2019, the Bank issued 451 million ordinary shares with a nominal value of RMB 1 at RMB 4.52 per share. After deducting the issuance costs, the premium arising from the issuance of new shares amounting to RMB 1.512 billion was recorded in capital reserve. After the above issuance, the book balance of the share capital was RMB 4.510 billion, and the book balance of the capital reserve was RMB 8.338 billion.

### 34 PREFERENCE SHARES

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

| Financial instrument<br>outstanding | Issue date  | Accounting<br>classification | Initial<br>dividend<br>rate | Issue price  | Amount<br><i>(in thousands<br/>of shares)</i> | In original<br>currency<br><i>(in thousands)</i> | In RMB<br><i>(in thousands)</i> | Maturity | Conversion |
|-------------------------------------|-------------|------------------------------|-----------------------------|--------------|---|--|---------------------------------|----------|------------|
| Overseas preference<br>shares       | 19 Sep 2017 | Equity                       | 5.5%                        | 20 USD/Share | 60,150  | 1,203,000  | 7,883,259                       | None     | No         |
| Total                               |             |                              |                             |              |   |  | 7,883,259                       |          |            |
| Less: Issuance costs                |             |                              |                             |              |   |  | (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 for the previous years' losses, contributing to the statutory surplus reserve and general reserve, 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 which will not constitute a default, 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.

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

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### 34 PREFERENCE SHARES (continued)

(d) *Order of distribution and liquidation method*

The USD overseas preference shareholders will rank equally for payment. The preference shareholders will be subordinated to the depositors, ordinary creditors and holders of Tier 2 capital bonds, but will be senior to the ordinary shareholders.

(e) *Mandatory conversion trigger events*

Upon the occurrence of an Additional Tier 1 Capital Trigger Event (Core Tier 1 Capital Adequacy Ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert all or part of the preference shares into H shares, having notified and obtained the consent of CBRC but without the need for the consent of preference shareholders or ordinary shareholders, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Bank to above 5.125%; If preference shares were converted to H shares, it could not be converted to preference shares again.

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 redemption date 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. Preference shareholders are senior to the ordinary shareholders on the right to dividends.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 34 PREFERENCE SHARES (continued)

#### (3) Changes in preference shares outstanding

| 1 January 2019                        |  | Increase during the period            |  | 30 June 2019                          |  |
|---------------------------------------|--|---------------------------------------|--|---------------------------------------|--|
| Amount<br>(in thousands<br>of shares) | Book value<br>(in thousands<br>of RMB) | Amount<br>(in thousands<br>of shares) | Book value<br>(in thousands<br>of RMB) | Amount<br>(in thousands<br>of shares) | Book value<br>(in thousands<br>of RMB) |
| 60,150                                | 7,853,964                              | –                                     | –                                      | 60,150                                | 7,853,964                              |

| 1 January 2018                        |  | Increase during the year              |  | 31 December 2018                      |  |
|---------------------------------------|--|---------------------------------------|--|---------------------------------------|--|
| Amount<br>(in thousands<br>of shares) | Book value<br>(in thousands<br>of RMB) | Amount<br>(in thousands<br>of shares) | Book value<br>(in thousands<br>of RMB) | Amount<br>(in thousands<br>of shares) | Book value<br>(in thousands<br>of RMB) |
| 60,150                                | 7,853,964                              | –                                     | –                                      | 60,150                                | 7,853,964                              |

#### (4) Interests attribute to equity instruments' holders

| Item   | 30 June<br>2019   | 31 December<br>2018 |
|--|-------------------|---------------------|
| Total equity attribute to equity holders of the Bank               | <b>29,458,663</b> | 26,984,973          |
| – Equity attribute to ordinary shareholders of the Bank            | <b>21,604,699</b> | 19,131,009          |
| – Equity attribute to preference shareholders of the Bank          | <b>7,853,964</b>  | 7,853,964           |
| Total equity attribute to non-controlling interests                | <b>539,418</b>    | 511,751             |
| – Equity attribute to non-controlling interests of ordinary shares | <b>539,418</b>    | 511,751             |

### 35 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 making up for the previous years' losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of the Bank's registered capital.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 35 RESERVES (continued)

#### (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 appropriate 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 appropriates 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.

#### (4) Other comprehensive income

| Item   | Six months ended 30 June 2019          |                   |  |                          |                   | Balance at the end of the period |
|--|--|-------------------|--|--------------------------|-------------------|----------------------------------|
|  | Balance at the beginning of the period | Before-tax amount | Less: Previously recognised amount transferred to profit or loss | Less: Income tax expense | Net-of-tax amount |                                  |
| Items that will not be reclassified to profit or loss<br>Including: Remeasurements of defined benefit plan                   | (5,941)                                | –                 | –  | –                        | –                 | (5,941)                          |
| Items that may be reclassified to profit or loss<br>Including: Changes in fair value from debt investments measured at FVOCI | 507,856                                | 171,298           | (272,715)  | 25,354                   | (76,063)          | 431,793                          |
| Credit losses of debt investments measured at FVOCI  | 51,278                                 | 97,613            | (30,068)   | (16,886)                 | 50,659            | 101,937                          |
| Total  | 553,193                                | 268,911           | (302,783)  | 8,468                    | (25,404)          | 527,789                          |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 35 RESERVES (continued)

| Item   | 2018   |                          |  |                                   |                          |   |
|--|--|--------------------------|--|-----------------------------------|--------------------------|---|
|  | Balance<br>at the<br>beginning<br>of the<br>year | Before-<br>tax<br>amount | Less:<br>Previously<br>recognised<br>amount<br>transferred<br>to profit<br>or loss | Less:<br>Income<br>tax<br>expense | Net-of-<br>tax<br>amount | Balance<br>at the<br>end of<br>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 measured at FVOCI | (488,992)  | 1,441,431                | (112,301)  | (332,282)                         | 996,848                  | 507,856                                 |
| Credit losses of debt investments measured at FVOCI                      | 29,264   | 59,104                   | (29,752)   | (7,338)                           | 22,014                   | 51,278                                  |
| <b>Total</b>   | <b>(463,171)</b>                                 | <b>1,497,205</b>         | <b>(142,053)</b>   | <b>(338,788)</b>                  | <b>1,016,364</b>         | <b>553,193</b>                          |

### 36 PROFIT APPROPRIATION

- (1) At the 2018 annual general meeting held on 17 May 2019, the shareholders approved the following profit appropriation for the year ended 31 December 2018:
- Appropriated RMB 200 million to statutory surplus reserve;
  - Declared cash dividends to all ordinary shareholders of approximately RMB 902 million representing RMB 0.20 per share (including tax).
- (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 USD 73.5167 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).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 36 PROFIT APPROPRIATION (continued)

(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 statutory 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 (including tax).

### 37 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents:

|  | <b>30 June<br/>2019</b> | 30 June<br>2018 |
|--|-------------------------|-----------------|
| Cash   | <b>504,261</b>          | 605,639         |
| Surplus deposit reserves with central bank               | <b>14,045,254</b>       | 7,428,492       |
| Original maturity within three months:                   |                         |                 |
| – Deposits with banks and other financial institutions   | <b>1,319,912</b>        | 2,268,141       |
| – Placements with banks and other financial institutions | <b>653,097</b>          | 2,272,043       |
| – Debt securities investments                            | <b>995,719</b>          | 398,062         |
| Total  | <b>17,518,243</b>       | 12,972,377      |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

#### (1) Relationship of related parties

##### (a) Major shareholders

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

Major shareholders' information

| Company name   | Amount of ordinary shares of the Bank held by the Company<br><i>(in thousands)</i> | Proportion of ordinary shares of the Bank held by the Company |                  | Registered location | Business   | Legal form                  | Legal representative   |
|--|--|---|------------------|---------------------|--|-----------------------------|------------------------|
|  |  | 30 June 2019  | 31 December 2018 |                     |  |                             |                        |
| Intesa Sanpaolo S.p.A. ("ISP")   | 624,754  | 13.85%  | 15.39%           | Italy               | Commercial banking   | Joint stock limited company | Gian Maria GROS-PIETRO |
| Qingdao Conson Industrial Co., Ltd. ("Qingdao Conson")                         | 503,556  | 11.17%  | 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  | 9.08%   | 10.09%           | Qingdao             | Outbound investment  | Limited company             | ZHANG Ruimin           |
| AMTD Strategic Investment Limited ("AMTD")                                     | 301,800  | 6.69%   | 7.44%            | Hong Kong           | Outbound investment  | Limited company             | YAU Wai Man, Philip    |
| Qingdao Haier Air-Conditioning Electronic Co., Ltd. ("Haier Air-Conditioning") | 218,692  | 4.85%   | 5.39%            | Qingdao             | Production, sales and service of air conditioners and refrigeration equipment          | Limited company             | WANG Li                |

Note:

- (i) In January 2019, the Bank issued 451 million ordinary shares. The ownership ratio of Haier Air-Conditioning fell below 5%.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Changes in ordinary shares of the Bank held by major shareholders

|                        | ISP            |               | Qingdao Conson |               | Haier Investment |              | AMTD           |              | Haier<br>Air-Conditioning |              |
|------------------------|----------------|---------------|----------------|---------------|------------------|--------------|----------------|--------------|---------------------------|--------------|
|                        | Amount         | Percentage    | Amount         | Percentage    | Amount           | Percentage   | Amount         | Percentage   | Amount                    | Percentage   |
| As at 1 January 2018   | 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%        |
| Decrease               | -              | (1.54%)       | -              | (1.24%)       | -                | (1.01%)      | -              | (0.75%)      | -                         | (0.54%)      |
| As at 30 June 2019     | <b>624,754</b> | <b>13.85%</b> | <b>503,556</b> | <b>11.17%</b> | <b>409,693</b>   | <b>9.08%</b> | <b>301,800</b> | <b>6.69%</b> | <b>218,692</b>            | <b>4.85%</b> |

Changes in registered capital of major shareholders

|                  | Currency | 30 June<br>2019      | 31 December<br>2018 |
|------------------|----------|----------------------|---------------------|
| ISP              | EUR      | <b>9,085 Million</b> | 9,085 Million       |
| Qingdao Conson   | RMB      | <b>2,000 Million</b> | 2,000 Million       |
| Haier Investment | RMB      | <b>252 Million</b>   | 252 Million         |
| AMTD             | HKD      | <b>1 HKD</b>         | 1 HKD               |

(b) *Subsidiary of the Bank*

The detailed information of the Bank's subsidiary is set out in Note 21.

(c) *Other related parties*

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

#### (2) Related party transactions and balances

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

#### (a) Transactions with the related parties except subsidiary (excluding remuneration of key management personnel)

|  | ISP and<br>its group | Qingdao<br>Conson<br>and its<br>group | Haier<br>Investment<br>and its<br>group | AMTD<br>and its<br>group | Companies<br>and other<br>organizations<br>served by key<br>management<br>personnel<br>(Note(i))<br>(Other than<br>shareholders<br>and its<br>group above) | Others | Total     | Proportion<br>to gross<br>amount/<br>balance<br>of similar<br>transactions |
|--|----------------------|---------------------------------------|---|--------------------------|--|--------|-----------|--|
| <b>As at 30 June 2019</b>                                    |                      |                                       |   |                          |  |        |           |  |
| On-balance sheet items:                                      |                      |                                       |   |                          |  |        |           |  |
| Loans and advances to customers (Note(ii))                   | -                    | 1,502,400                             | 300,525                                 | -                        | 757,418  | 13,503 | 2,573,846 | 1.75%  |
| Financial investments measured at amortised cost (Note(iii)) | -                    | -                                     | 951,300                                 | -                        | -  | -      | 951,300   | 1.42%  |
| Financial investments measured at FVOCI                      | -                    | -                                     | -                                       | -                        | 209,734  | -      | 209,734   | 0.40%  |
| Financial investments measured at FVTPL                      | -                    | -                                     | -                                       | 2,435,724                | -  | -      | 2,435,724 | 8.91%  |
| Deposits with banks and other financial institutions         | 855                  | -                                     | -                                       | -                        | -  | -      | 855       | 0.06%  |
| Placements with banks and other financial institutions       | -                    | -                                     | 713,401                                 | -                        | -  | -      | 713,401   | 15.52%   |
| Deposits from customers                                      | 230,015              | 361,194                               | 521,927                                 | -                        | 304,073  | 30,215 | 1,447,424 | 0.77%  |
| Deposits from banks and other financial institutions         | -                    | -                                     | 1,522                                   | -                        | 1,699  | -      | 3,221     | 0.02%  |
| Off-balance sheet items:                                     |                      |                                       |   |                          |  |        |           |  |
| Letters of guarantees (Note(iv))                             | -                    | -                                     | 18                                      | -                        | -  | -      | 18        | 0.00%  |
| <b>Six months ended 30 June 2019</b>                         |                      |                                       |   |                          |  |        |           |  |
| Interest income  | -                    | 57,897                                | 38,563                                  | -                        | 17,610   | 282    | 114,352   | 1.68%  |
| Interest expense   | 1,743                | 7,347                                 | 2,073                                   | -                        | 468  | 666    | 12,297    | 0.33%  |
| Fee and commission income                                    | -                    | -                                     | 10,859                                  | -                        | -  | 16,576 | 27,435    | 4.47%  |
| <b>Net gains arising from investments</b>                    | -                    | -                                     | -                                       | 90,836                   | -  | -      | 90,836    | 12.07%   |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

|   | ISP and<br>its group | Qingdao<br>Conson and<br>its group | Haier<br>Investment/<br>Haier Air-<br>conditioning<br>and its<br>group | AMTD and<br>its group | Companies<br>and other<br>organizations<br>served by key<br>management<br>personnel<br>(Note(i))<br>(Other than<br>shareholders<br>and its<br>group above) | Others | Total     | Proportion to<br>gross amount/<br>balance<br>of similar<br>transactions |
|---|----------------------|------------------------------------|--|-----------------------|--|--------|-----------|---|
| As at 31 December 2018  |                      |                                    |  |                       |  |        |           |   |
| On-balance sheet items:   |                      |                                    |  |                       |  |        |           |   |
| Loans and advances to customers (Note(ii))                      | -                    | 1,502,647                          | 300,578  | -                     | 456,412  | 13,476 | 2,273,113 | 1.79%   |
| Financial investments measured at amortised cost<br>(Note(iii)) | -                    | -                                  | 1,712,538  | -                     | -  | -      | 1,712,538 | 2.43%   |
| Financial investments measured at FVOCI                         | -                    | -                                  | -  | -                     | 310,108  | -      | 310,108   | 0.59%   |
| Financial investments measured 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(iv))                                | -                    | -                                  | 212,933  | -                     | -  | -      | 212,933   | 8.83%   |
| Six months ended 30 June 2018                                   |                      |                                    |  |                       |  |        |           |   |
| Interest income   | 2,475                | 25,748                             | 44,478   | -                     | 17,061   | 234    | 89,996    | 1.65%   |
| Interest expense  | 516                  | 384                                | 991  | -                     | 1,619  | 446    | 3,956     | 0.11%   |
| Fee and commission income                                       | -                    | -                                  | 12,104   | -                     | -  | -      | 12,104    | 3.24%   |
| Other operating losses  | -                    | -                                  | -  | -                     | 345  | -      | 345       | 25.07%  |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Notes:

(i) 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.

(ii) Loans to related parties (excluding accrued interest)

|   | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|---|-------------------------|---------------------|
| Qingdao Conson Financial Holdings Co., Ltd.                     | <b>1,500,000</b>        | 1,500,000           |
| Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. | <b>748,500</b>          | 450,000             |
| Haier Financial Factoring (Chongqing) Co., Ltd.                 | <b>300,000</b>          | 300,000             |
| Qingdao Huatong Military Industry Investment Co., Ltd.          | <b>5,000</b>            | 5,000               |
| Qingdao Baiyang Pharmaceutical Co., Ltd.                        | <b>3,064</b>            | –                   |
| Individuals   | <b>13,451</b>           | 13,447              |
| <b>Total</b>  | <b>2,570,015</b>        | 2,268,447           |

(iii) Financial investments measured at amortised cost (excluding accrued interest)

|   | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|---|-------------------------|---------------------|
| Qingdao Changyuan Land Co., Ltd.          | <b>950,000</b>          | 960,000             |
| Qingdao Haier Real Estate Group Co., Ltd. | –                       | 750,000             |
| <b>Total</b>                              | <b>950,000</b>          | 1,710,000           |

(iv) Letters to guarantees of related parties

|   | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|---|-------------------------|---------------------|
| Qingdao Haier Home Integration Co., Ltd.            | <b>18</b>               | 211,933             |
| Haier Information Technology (Shenzhen) Co. Limited | –                       | 1,000               |
| <b>Total</b>  | <b>18</b>               | 212,933             |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

#### (b) Transactions with subsidiary

|  | 30 June<br>2019                 | 31 December<br>2018 |
|--|---------------------------------|---------------------|
| Balances at the end of the period/year:              |                                 |                     |
| On-balance sheet items:                              |                                 |                     |
| Deposits from banks and other financial institutions | 131,485                         | 39,932              |
|  |                                 |                     |
|  | <b>Six months ended 30 June</b> |                     |
|  | <b>2019</b>                     | <b>2018</b>         |
| Transactions during the period:                      |                                 |                     |
| Interest income                                      | –                               | 3,833               |
| Interest expense                                     | 613                             | 567                 |
| Fee and commission income                            | –                               | 9                   |
| Other operating income                               | 1,456                           | 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.

|  | Six months ended 30 June<br>2019 | 2018  |
|--|----------------------------------|-------|
| Remuneration of key management personnel | 7,147                            | 7,991 |

The total compensation package for certain key management personnel for the six months ended 30 June 2019 have not yet been finalized. The difference in emoluments is not expected to have significant impact on the Group's interim financial report for the six months ended 30 June 2019.

As at 30 June 2019, outstanding loans to the key management personnel amounted to RMB 0.08 million (31 December 2018: RMB 0.09 million), which have been included in loans and advances to related parties stated in Note 38(2).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 39 SEGMENT REPORTING

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, etc.

#### ***Retail banking***

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

#### ***Financial market business***

This segment covers the Group's financial market operations. The financial market business includes 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 39 SEGMENT REPORTING (continued)

|  | Six months ended 30 June 2019 |                |                           |                               |             |
|--|-------------------------------|----------------|---------------------------|-------------------------------|-------------|
|  | Corporate banking             | Retail banking | Financial market business | Un-allocated items and others | Total       |
| External net interest income               | 1,669,701                     | 461,723        | 921,523                   | 91,596                        | 3,144,543   |
| Internal net interest income/<br>(expense) | 538,830                       | 193,955        | (732,785)                 | –                             | –           |
| Net interest income                        | 2,208,531                     | 655,678        | 188,738                   | 91,596                        | 3,144,543   |
| Net fee and commission income              | 121,282                       | 289,111        | 100,073                   | 70,344                        | 580,810     |
| Net trading gains                          | 3,213                         | 4,309          | 7,840                     | –                             | 15,362      |
| Net gains arising from<br>investments      | 2,341                         | –              | 783,200                   | –                             | 785,541     |
| Other operating income, net                | 1,054                         | 1,495          | 86                        | 5,677                         | 8,312       |
| Operating income                           | 2,336,421                     | 950,593        | 1,079,937                 | 167,617                       | 4,534,568   |
| Operating expenses                         | (628,250)                     | (347,334)      | (263,811)                 | (27,094)                      | (1,266,489) |
| Impairment losses                          | (1,316,178)                   | (76,868)       | 23,569                    | (58,718)                      | (1,428,195) |
| Profit before taxation                     | 391,993                       | 526,391        | 839,695                   | 81,805                        | 1,839,884   |
| Other segment information                  |                               |                |                           |                               |             |
| – Depreciation and<br>amortisation         | (84,612)                      | (120,143)      | (6,933)                   | (1,049)                       | (212,737)   |
| – Capital expenditure                      | 63,666                        | 90,403         | 5,217                     | –                             | 159,286     |
|  |                               |                |                           |                               |             |
|  | 30 June 2019                  |                |                           |                               |             |
|  | Corporate banking             | Retail banking | Financial market business | Un-allocated items and others | Total       |
| Segment assets                             | 134,328,158                   | 58,353,250     | 142,392,578               | 8,825,507                     | 343,899,493 |
| Deferred tax assets                        |                               |                |                           |                               | 1,331,453   |
| Total assets                               |                               |                |                           |                               | 345,230,946 |
| Segment liabilities/Total<br>liabilities   | 139,357,738                   | 62,130,626     | 105,837,507               | 7,905,574                     | 315,232,865 |
| Credit commitments                         | 20,147,300                    | 3,617,025      | –                         | –                             | 23,764,325  |



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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

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### 40 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 management information systems.

#### (1) *Credit risk*

Credit risk represents the potential 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/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 Department, 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 40 RISK MANAGEMENT (continued)

- 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.
- Managing concentrations of exposure to counterparties, industries, etc. for loans and advances, financial guarantees and similar exposures, and managing 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.

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 42(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 42(1).

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

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### 40 RISK MANAGEMENT (continued)

#### (b) Credit risk assessment method

##### Stage of financial instruments

The Group classifies financial instruments into three stages and makes provisions for ECL accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

The three risk stages are defined as follows:

Stage 1: A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month ECL is recognised as loss allowance.

Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime ECL is recognised as loss allowance.

Stage 3: A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime ECL is recognised as loss allowance.

##### 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 as at the end of the reporting period 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.

The Group compares the risk of default of a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics as at the end of the reporting period and its risk of default at the date of initial application to determine changes in the risk of default during the lifetime of a financial instrument or a portfolio of financial instruments.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 40 RISK MANAGEMENT (continued)

#### Definition of default

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.

#### Impairment assessment

At each date of statement of financial position, the Group assesses whether financial assets carried at amortised cost and debt investments measured 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 over 90 days;
- 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 reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

#### 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.
- 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 assumptions underlying the ECL calculation, such as how the PDs and LGDs of different maturity profiles change are monitored and reviewed on a quarterly basis by the Group.

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

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### 40 RISK MANAGEMENT (continued)

During the six months ended 30 June 2019, 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.

Forward-looking information included in the expected credit loss model

Both the assessment of significant increase in credit risk and the measurement of ECL involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and ECL 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (continued)

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 ECL were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

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

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

Such rescheduling activities include extended payment term arrangements, payment holidays and payment forgiveness. Rescheduling policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. The restructuring of loans is most common in the management of medium and long-term loans. The risk stage can only be adjusted lower if the rescheduled loans are reviewed for at least 6 consecutive months and the corresponding stage classification criteria is reached.

#### (d) *Collateral and other credit enhancements*

The Group and its subsidiaries have individually established a range of risk management policies and adopted different methods to mitigate credit risk. A critical method for the Group's control of its credit risks is to acquire collateral, security deposits and guarantees from enterprises or individuals. The Group has specified acceptable types of collaterals, mainly including the following:

- Real estate and land use rights
- Machinery and equipment
- Right to receive payments and accounts receivable
- Financial instruments such as time deposits, debt securities and equities.

In order to minimise its credit risk, once an indication of impairment has been identified with an individual loan, the Group will seek additional collateral from counterparties/require additional guarantors or squeeze the credit limit. It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

Collateral held as security for financial assets other than loans and receivable is determined by the instruments' nature. Debt securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (continued)

#### (e) Total maximum credit risk exposure

As at the end of the reporting period, the maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements is set out below:

|  | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|--|-------------------------|---------------------|
| Deposits with central bank                             | <b>34,095,838</b>       | 29,103,157          |
| Deposits with banks and other financial institutions   | <b>1,321,082</b>        | 1,542,437           |
| Placements with banks and other financial institutions | <b>4,588,207</b>        | 4,110,464           |
| Derivative financial assets                            | <b>323</b>              | –                   |
| Financial assets held under resale agreements          | –                       | 300,262             |
| Loans and advances to customers                        | <b>143,343,578</b>      | 123,366,891         |
| Financial investments:                                 |                         |                     |
| – Financial investments measured at FVTPL              | <b>14,503,829</b>       | 14,894,196          |
| – Financial investments measured at FVOCI              | <b>52,483,939</b>       | 52,979,501          |
| – Financial investments measured at amortised cost     | <b>66,573,268</b>       | 70,032,056          |
| Long-term receivables                                  | <b>8,800,422</b>        | 7,766,698           |
| Others   | <b>250,525</b>          | 332,936             |
| Subtotal   | <b>325,961,011</b>      | 304,428,598         |
| Off-balance sheet credit commitments                   | <b>23,764,325</b>       | 18,711,838          |
| Total maximum credit risk exposure                     | <b>349,725,336</b>      | 323,140,436         |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 40 RISK MANAGEMENT (continued)

(f) *Analysis on the credit quality of financial instruments*

As at 30 June 2019, the Group's credit risk stages of financial instruments are as follows:

| Financial assets measured<br>at amortised cost         | 30 June 2019       |                  |                  |                    |                                      |                    |                    |                    |
|--|--------------------|------------------|------------------|--------------------|--------------------------------------|--------------------|--------------------|--------------------|
|  | Book balance       |                  |                  |                    | Provision for expected credit losses |                    |                    |                    |
|  | Stage 1            | Stage 2          | Stage 3          | Total              | Stage 1                              | Stage 2            | Stage 3            | Total              |
| Cash and balances with central banks                   | 34,600,099         | -                | -                | 34,600,099         | -                                    | -                  | -                  | -                  |
| Deposits with banks and other financial institutions   | 1,321,806          | -                | -                | 1,321,806          | (724)                                | -                  | -                  | (724)              |
| Placements with banks and other financial institutions | 4,595,801          | -                | -                | 4,595,801          | (7,594)                              | -                  | -                  | (7,594)            |
| Loans and advances to customers                        |                    |                  |                  |                    |                                      |                    |                    |                    |
| – General corporate loans and advances                 | 81,313,930         | 6,585,216        | 2,119,434        | 90,018,580         | (1,132,569)                          | (1,181,976)        | (997,656)          | (3,312,201)        |
| – Personal loans and advances                          | 44,308,813         | 224,601          | 353,737          | 44,887,151         | (166,826)                            | (19,854)           | (179,960)          | (366,640)          |
| Financial investments                                  | 66,447,042         | 518,027          | -                | 66,965,069         | (294,321)                            | (97,480)           | -                  | (391,801)          |
| Long-term receivables                                  | 8,893,820          | -                | 102,687          | 8,996,507          | (171,799)                            | -                  | (24,286)           | (196,085)          |
| <b>Total</b>   | <b>241,481,311</b> | <b>7,327,844</b> | <b>2,575,858</b> | <b>251,385,013</b> | <b>(1,773,833)</b>                   | <b>(1,299,310)</b> | <b>(1,201,902)</b> | <b>(4,275,045)</b> |

| Financial assets measured<br>at FVOCI | 30 June 2019      |                  |               |                   |                                      |                 |                 |                  |
|---------------------------------------|-------------------|------------------|---------------|-------------------|--------------------------------------|-----------------|-----------------|------------------|
|                                       | Book balance      |                  |               |                   | Provision for expected credit losses |                 |                 |                  |
|                                       | Stage 1           | Stage 2          | Stage 3       | Total             | Stage 1                              | Stage 2         | Stage 3         | Total            |
| Loans and advances to customers       |                   |                  |               |                   |                                      |                 |                 |                  |
| – Discounted bills                    | 12,116,688        | -                | -             | 12,116,688        | (20,313)                             | -               | -               | (20,313)         |
| Financial investments                 | 50,381,238        | 2,061,028        | 41,673        | 52,483,939        | (28,807)                             | (64,878)        | (21,918)        | (115,603)        |
| <b>Total</b>                          | <b>62,497,926</b> | <b>2,061,028</b> | <b>41,673</b> | <b>64,600,627</b> | <b>(49,120)</b>                      | <b>(64,878)</b> | <b>(21,918)</b> | <b>(135,916)</b> |
| Off-balance sheet credit commitments  | 23,625,202        | 138,748          | 375           | 23,764,325        | (94,466)                             | (6,559)         | (34)            | (101,059)        |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (continued)

| Financial assets measured at amortised cost            | 31 December 2018   |                  |                  |                    |                                      |                    |                  |                    |
|--|--------------------|------------------|------------------|--------------------|--------------------------------------|--------------------|------------------|--------------------|
|  | Book balance       |                  |                  |                    | Provision for expected credit losses |                    |                  |                    |
|  | Stage 1            | Stage 2          | Stage 3          | Total              | Stage 1                              | Stage 2            | Stage 3          | Total              |
| Cash and balances with central banks                   | 29,554,430         | -                | -                | 29,554,430         | -                                    | -                  | -                | -                  |
| Deposits with banks and other financial institutions   | 1,543,110          | -                | -                | 1,543,110          | (673)                                | -                  | -                | (673)              |
| Placements with banks and other financial institutions | 4,122,087          | -                | -                | 4,122,087          | (11,623)                             | -                  | -                | (11,623)           |
| Financial assets held under resale agreements          | 300,384            | -                | -                | 300,384            | (122)                                | -                  | -                | (122)              |
| Loans and advances to customers                        |                    |                  |                  |                    |                                      |                    |                  |                    |
| – General corporate loans and advances                 | 69,940,848         | 6,939,668        | 1,804,412        | 78,684,928         | (1,126,657)                          | (1,233,761)        | (811,122)        | (3,171,540)        |
| – Personal loans and advances                          | 40,872,468         | 265,333          | 312,766          | 41,450,567         | (149,716)                            | (43,909)           | (176,064)        | (369,689)          |
| Financial investments                                  | 70,036,794         | 462,764          | -                | 70,499,558         | (398,696)                            | (68,806)           | -                | (467,502)          |
| Long-term receivables                                  | 7,904,065          | -                | -                | 7,904,065          | (137,367)                            | -                  | -                | (137,367)          |
| <b>Total</b>   | <b>224,274,186</b> | <b>7,667,765</b> | <b>2,117,178</b> | <b>234,059,129</b> | <b>(1,824,854)</b>                   | <b>(1,346,476)</b> | <b>(987,186)</b> | <b>(4,158,516)</b> |

| Financial assets measured at FVOCI   | 31 December 2018  |                  |          |                   |                                      |                 |          |                 |
|--------------------------------------|-------------------|------------------|----------|-------------------|--------------------------------------|-----------------|----------|-----------------|
|                                      | Book balance      |                  |          |                   | Provision for expected credit losses |                 |          |                 |
|                                      | Stage 1           | Stage 2          | Stage 3  | Total             | Stage 1                              | Stage 2         | Stage 3  | Total           |
| Loans and advances to customers      |                   |                  |          |                   |                                      |                 |          |                 |
| – Discounted bills                   | 6,772,625         | -                | -        | 6,772,625         | (16,577)                             | -               | -        | (16,577)        |
| Financial investments                | 51,654,675        | 1,324,826        | -        | 52,979,501        | (32,672)                             | (19,122)        | -        | (51,794)        |
| <b>Total</b>                         | <b>58,427,300</b> | <b>1,324,826</b> | <b>-</b> | <b>59,752,126</b> | <b>(49,249)</b>                      | <b>(19,122)</b> | <b>-</b> | <b>(68,371)</b> |
| Off-balance sheet credit commitments | 18,640,353        | 70,591           | 894      | 18,711,838        | (103,845)                            | (1,101)         | (18)     | (104,964)       |

Note:

- (i) As simplified approach of impairment allowance is applied to other financial assets measured at amortised cost, three-stage model is not applicable.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (continued)

#### (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, etc.

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

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

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

#### (a) *Interest rate risk*

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

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

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (continued)

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

|  | 30 June 2019       |                      |                        |                                   |                                 |                      |
|--|--------------------|----------------------|------------------------|-----------------------------------|---------------------------------|----------------------|
|  | Total              | Non-interest bearing | Less than three months | Between three months and one year | Between one year and five years | More than five years |
| <b>Assets</b>  |                    |                      |                        |                                   |                                 |                      |
| Cash and deposits with central bank                    | 34,600,099         | 612,180              | 33,987,919             | -                                 | -                               | -                    |
| Deposits with banks and other financial institutions   | 1,321,082          | 1,894                | 1,319,188              | -                                 | -                               | -                    |
| Placements with banks and other financial institutions | 4,588,207          | 86,976               | 2,005,258              | 2,495,973                         | -                               | -                    |
| Loans and advances to customers (Note (i))             | 143,343,578        | 630,061              | 45,844,396             | 90,164,582                        | 5,361,145                       | 1,343,394            |
| Financial investments (Note (ii))                      | 146,414,073        | 1,914,198            | 7,319,597              | 26,106,192                        | 72,529,346                      | 38,544,740           |
| Long-term receivables                                  | 8,800,422          | 88,077               | 7,469,244              | 1,243,101                         | -                               | -                    |
| Others   | 6,163,485          | 6,163,485            | -                      | -                                 | -                               | -                    |
| <b>Total assets</b>                                    | <b>345,230,946</b> | <b>9,496,871</b>     | <b>97,945,602</b>      | <b>120,009,848</b>                | <b>77,890,491</b>               | <b>39,888,134</b>    |
| <b>Liabilities</b>                                     |                    |                      |                        |                                   |                                 |                      |
| Borrowings from central bank                           | 10,186,784         | 157,483              | 6,353,767              | 3,675,534                         | -                               | -                    |
| Deposits from banks and other financial institutions   | 14,900,225         | 77,333               | 4,312,892              | 10,510,000                        | -                               | -                    |
| Placements from banks and other financial institutions | 8,718,411          | 80,124               | 4,683,209              | 3,823,040                         | 132,038                         | -                    |
| Financial assets sold under repurchase agreements      | 13,654,122         | 2,607                | 13,651,515             | -                                 | -                               | -                    |
| Deposits from customers                                | 188,360,223        | 2,684,375            | 122,997,359            | 34,187,649                        | 28,377,985                      | 112,855              |
| Debt securities issued                                 | 75,161,060         | 250,860              | 16,020,106             | 42,203,978                        | 9,494,207                       | 7,191,909            |
| Others   | 4,252,040          | 3,811,197            | -                      | 1,145                             | 139,428                         | 300,270              |
| <b>Total liabilities</b>                               | <b>315,232,865</b> | <b>7,063,979</b>     | <b>168,018,848</b>     | <b>94,401,346</b>                 | <b>38,143,658</b>               | <b>7,605,034</b>     |
| <b>Asset-liability gap</b>                             | <b>29,998,081</b>  | <b>2,432,892</b>     | <b>(70,073,246)</b>    | <b>25,608,502</b>                 | <b>39,746,833</b>               | <b>32,283,100</b>    |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (continued)

|  | 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 |
| <b>Assets</b>  |                    |                      |                        |                                   |                                 |                      |
| 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 <i>(Note (i))</i>      | 123,366,891        | 521,250              | 46,007,345             | 69,134,140                        | 6,010,630                       | 1,693,526            |
| Financial investments <i>(Note (ii))</i>               | 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            | -                      | -                                 | -                               | -                    |
| <b>Total assets</b>                                    | <b>317,658,502</b> | <b>8,983,172</b>     | <b>93,079,498</b>      | <b>94,047,372</b>                 | <b>76,745,274</b>               | <b>44,803,186</b>    |
| <b>Liabilities</b>                                     |                    |                      |                        |                                   |                                 |                      |
| 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            | -                      | -                                 | -                               | -                    |
| <b>Total liabilities</b>                               | <b>290,161,778</b> | <b>5,438,092</b>     | <b>160,585,437</b>     | <b>88,762,271</b>                 | <b>27,797,987</b>               | <b>7,577,991</b>     |
| <b>Asset-liability gap</b>                             | <b>27,496,724</b>  | <b>3,545,080</b>     | <b>(67,505,939)</b>    | <b>5,285,101</b>                  | <b>48,947,287</b>               | <b>37,225,195</b>    |

*Notes:*

- (i) For the Group's loans and advances to customers, the category "Less than three months" as at 30 June 2019 includes overdue loans and advances (net of provision for impairment losses) of RMB 2,379 million (31 December 2018: RMB 3,077 million).
- (ii) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI, financial investments measured at amortised cost.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (continued)

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

| Changes in annualized net interest income | 30 June<br>2019<br>(Decrease)/<br>Increase | 31 December<br>2018<br>(Decrease)/<br>Increase |
|---|--|--|
| Interest rates increase by 100 bps        | (508,669)                                  | (635,421)                                      |
| Interest rates decrease by 100 bps        | 508,669                                    | 635,421  |

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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 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:

|  | 30 June 2019       |                            |                               |                              |
|--|--------------------|----------------------------|-------------------------------|------------------------------|
|  | RMB                | USD<br>(RMB<br>equivalent) | Others<br>(RMB<br>equivalent) | Total<br>(RMB<br>equivalent) |
| <b>Assets</b>  |                    |                            |                               |                              |
| Cash and deposits with central bank                    | 34,535,194         | 58,724                     | 6,181                         | 34,600,099                   |
| Deposits with banks and other financial institutions   | 950,029            | 337,715                    | 33,338                        | 1,321,082                    |
| Placements with banks and other financial institutions | 3,676,123          | 912,084                    | –                             | 4,588,207                    |
| Loans and advances to customers                        | 142,751,102        | 591,316                    | 1,160                         | 143,343,578                  |
| Financial investments (Note (i))                       | 136,511,848        | 9,902,225                  | –                             | 146,414,073                  |
| Long-term receivables                                  | 8,800,422          | –                          | –                             | 8,800,422                    |
| Others   | 6,160,590          | 1,999                      | 896                           | 6,163,485                    |
| <b>Total assets</b>                                    | <b>333,385,308</b> | <b>11,804,063</b>          | <b>41,575</b>                 | <b>345,230,946</b>           |
| <b>Liabilities</b>                                     |                    |                            |                               |                              |
| Borrowings from central bank                           | 10,186,784         | –                          | –                             | 10,186,784                   |
| Deposits from banks and other financial institutions   | 14,555,305         | 344,920                    | –                             | 14,900,225                   |
| Placements from banks and other financial institutions | 7,337,534          | 1,380,877                  | –                             | 8,718,411                    |
| Financial assets sold under repurchase agreements      | 13,654,122         | –                          | –                             | 13,654,122                   |
| Deposits from customers                                | 187,126,235        | 1,209,398                  | 24,590                        | 188,360,223                  |
| Debt securities issued                                 | 75,161,060         | –                          | –                             | 75,161,060                   |
| Others   | 4,194,149          | 51,963                     | 5,928                         | 4,252,040                    |
| <b>Total liabilities</b>                               | <b>312,215,189</b> | <b>2,987,158</b>           | <b>30,518</b>                 | <b>315,232,865</b>           |
| <b>Net position</b>                                    | <b>21,170,119</b>  | <b>8,816,905</b>           | <b>11,057</b>                 | <b>29,998,081</b>            |
| Off-balance sheet credit commitments                   | 23,233,270         | 362,492                    | 168,563                       | 23,764,325                   |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (continued)

|  | 31 December 2018   |                            |                               |                              |
|--|--------------------|----------------------------|-------------------------------|------------------------------|
|  | RMB                | USD<br>(RMB<br>equivalent) | Others<br>(RMB<br>equivalent) | Total<br>(RMB<br>equivalent) |
| <b>Assets</b>  |                    |                            |                               |                              |
| 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                  |
| Financial 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                    |
| <b>Total assets</b>                                    | <b>307,411,331</b> | <b>10,216,425</b>          | <b>30,746</b>                 | <b>317,658,502</b>           |
| <b>Liabilities</b>                                     |                    |                            |                               |                              |
| 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                    |
| <b>Total liabilities</b>                               | <b>288,478,461</b> | <b>1,624,901</b>           | <b>58,416</b>                 | <b>290,161,778</b>           |
| <b>Net position</b>                                    | <b>18,932,870</b>  | <b>8,591,524</b>           | <b>(27,670)</b>               | <b>27,496,724</b>            |
| <b>Off-balance sheet credit commitments</b>            | <b>18,038,135</b>  | <b>482,852</b>             | <b>190,851</b>                | <b>18,711,838</b>            |

Note:

- (i) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI and financial investments measured at amortised cost.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 40 RISK MANAGEMENT (continued)

| Changes in annualized net profit          | 30 June<br>2019<br>Increase/<br>(Decrease) | 31 December<br>2018<br>Increase/<br>(Decrease) |
|---|--|--|
| Foreign exchange rate increase by 100 bps | 9,631                                      | 9,358  |
| Foreign exchange rate decrease by 100 bps | (9,631)                                    | (9,358)  |

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 points 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (continued)

#### (a) Maturity analysis

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

|  | 30 June 2019              |                                       |                     |   |   |  |                         | Total              |
|--|---------------------------|---------------------------------------|---------------------|---|---|--|-------------------------|--------------------|
|  | Indefinite<br>(Note (ii)) | Repayable<br>on demand<br>(Note (ii)) | Within one<br>month | Between<br>one month<br>and three<br>months | Between<br>three<br>months<br>and one<br>year | Between<br>one year<br>and five<br>years | More than<br>five years |                    |
| <b>Assets</b>  |                           |                                       |                     |   |   |  |                         |                    |
| Cash and deposits with central bank                    | 20,039,895                | 14,560,204                            | -                   | -   | -   | -  | -                       | 34,600,099         |
| Deposits with banks and other financial institutions   | -                         | 1,321,082                             | -                   | -   | -   | -  | -                       | 1,321,082          |
| Placements with banks and other financial institutions | -                         | -                                     | 411,476             | 1,642,447                                   | 2,534,284                                     | -  | -                       | 4,588,207          |
| Loans and advances to customers                        | 1,551,266                 | 949,249                               | 5,769,490           | 11,166,134                                  | 48,690,790                                    | 34,118,494                               | 41,098,155              | 143,343,578        |
| Financial investments (Note (i))                       | 23,250                    | -                                     | 2,109,524           | 4,734,153                                   | 26,587,298                                    | 74,277,483                               | 38,682,365              | 146,414,073        |
| Long-term receivables                                  | 97,799                    | -                                     | 275,678             | 905,948                                     | 2,602,087                                     | 4,918,910                                | -                       | 8,800,422          |
| Others   | 5,304,228                 | 11,101                                | -                   | -   | 4,302   | 158,141                                  | 685,713                 | 6,163,485          |
| <b>Total assets</b>                                    | <b>27,016,438</b>         | <b>16,841,636</b>                     | <b>8,566,168</b>    | <b>18,448,682</b>                           | <b>80,418,761</b>                             | <b>113,473,028</b>                       | <b>80,466,233</b>       | <b>345,230,946</b> |
| <b>Liabilities</b>                                     |                           |                                       |                     |   |   |  |                         |                    |
| Borrowings from central bank                           | -                         | -                                     | 4,846,482           | 1,660,872                                   | 3,679,430                                     | -  | -                       | 10,186,784         |
| Deposits from banks and other financial institutions   | -                         | 3,071,763                             | 103,999             | 1,160,228                                   | 10,564,235                                    | -  | -                       | 14,900,225         |
| Placements from banks and other financial institutions | -                         | -                                     | 2,844,266           | 1,890,918                                   | 3,851,015                                     | 132,212                                  | -                       | 8,718,411          |
| Financial assets sold under repurchase agreements      | -                         | -                                     | 13,654,122          | -   | -   | -  | -                       | 13,654,122         |
| Deposits from customers                                | -                         | 92,743,689                            | 14,387,967          | 16,575,266                                  | 35,280,555                                    | 29,259,891                               | 112,855                 | 188,360,223        |
| Debt securities issued                                 | -                         | -                                     | 2,931,053           | 13,185,491                                  | 42,358,400                                    | 9,494,207                                | 7,191,909               | 75,161,060         |
| Others   | 115,583                   | 337,785                               | 1,918,093           | 66,759                                      | 427,879                                       | 1,012,041                                | 373,900                 | 4,252,040          |
| <b>Total liabilities</b>                               | <b>115,583</b>            | <b>96,153,237</b>                     | <b>40,685,982</b>   | <b>34,539,534</b>                           | <b>96,161,514</b>                             | <b>39,898,351</b>                        | <b>7,678,664</b>        | <b>315,232,865</b> |
| <b>Net position</b>                                    | <b>26,900,855</b>         | <b>(79,311,601)</b>                   | <b>(32,119,814)</b> | <b>(16,090,852)</b>                         | <b>(15,742,753)</b>                           | <b>73,574,677</b>                        | <b>72,787,569</b>       | <b>29,998,081</b>  |

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(Expressed in thousands of Renminbi, unless otherwise stated)

## 40 RISK MANAGEMENT (continued)

|  | 31 December 2018                 |  |                     |   |   |  |                         | Total       |
|--|----------------------------------|--|---------------------|---|---|--|-------------------------|-------------|
|  | Indefinite<br><i>(Note (ii))</i> | Repayable<br>on demand<br><i>(Note (ii))</i> | Within<br>one month | Between<br>one month<br>and three<br>months | Between<br>three<br>months<br>and one<br>year | Between<br>one year<br>and five<br>years | More than<br>five years |             |
| <b>Assets</b>  |                                  |  |                     |   |   |  |                         |             |
| 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 |
| Financial investments <i>(Note (i))</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   |
| <b>Total assets</b>                                    | 28,616,651                       | 11,020,109                                   | 8,450,173           | 20,135,554                                  | 68,677,732                                    | 101,609,132                              | 79,149,151              | 317,658,502 |
| <b>Liabilities</b>                                     |                                  |  |                     |   |   |  |                         |             |
| 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   |
| <b>Total liabilities</b>                               | 119,499                          | 93,709,393                                   | 42,548,833          | 25,976,005                                  | 90,571,806                                    | 29,582,551                               | 7,653,691               | 290,161,778 |
| <b>Net position</b>                                    | 28,497,152                       | (82,689,284)                                 | (34,098,660)        | (5,840,451)                                 | (21,894,074)                                  | 72,026,581                               | 71,495,460              | 27,496,724  |

**Notes:**

- (i) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI and financial investments measured at amortised cost.
- (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 also reported under indefinite period. For loans and advances to customers, the "indefinite" period amount represents the balance being credit-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".

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (continued)

#### (b) Analysis on contractual undiscounted cash flows

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

|  | 30 June 2019   |                     |                   |                                    |                                   |                                 |                      |                                    |                    |
|--|----------------|---------------------|-------------------|------------------------------------|-----------------------------------|---------------------------------|----------------------|------------------------------------|--------------------|
|  | 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                           | -              | -                   | 4,855,690         | 1,682,558                          | 3,737,789                         | -                               | -                    | 10,276,037                         | 10,186,784         |
| Deposits from banks and other financial institutions   | -              | 3,071,763           | 104,055           | 1,165,300                          | 10,759,513                        | -                               | -                    | 15,100,631                         | 14,900,225         |
| Placements from banks and other financial institutions | -              | -                   | 2,847,620         | 1,910,436                          | 3,932,314                         | 132,038                         | -                    | 8,822,408                          | 8,718,411          |
| Financial assets sold under repurchase agreements      | -              | -                   | 13,655,254        | -                                  | -                                 | -                               | -                    | 13,655,254                         | 13,654,122         |
| Deposits from customers                                | -              | 92,743,690          | 14,402,397        | 16,660,218                         | 35,851,496                        | 31,775,080                      | 127,551              | 191,560,432                        | 188,360,223        |
| Debt securities issued                                 | -              | -                   | 2,940,000         | 13,260,000                         | 43,693,080                        | 11,836,320                      | 8,172,980            | 79,902,380                         | 75,161,060         |
| Others   | 115,583        | 337,785             | 1,918,093         | 66,568                             | 427,797                           | 1,012,041                       | 373,900              | 4,251,767                          | 4,251,767          |
| <b>Total</b>   | <b>115,583</b> | <b>96,153,238</b>   | <b>40,723,109</b> | <b>34,745,080</b>                  | <b>98,401,989</b>                 | <b>44,755,479</b>               | <b>8,674,431</b>     | <b>323,568,909</b>                 | <b>315,232,592</b> |

|  | 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          |
| <b>Total</b>   | <b>119,499</b>   | <b>93,709,393</b>   | <b>42,581,866</b> | <b>26,145,364</b>                  | <b>92,625,967</b>                 | <b>33,472,682</b>               | <b>8,983,470</b>     | <b>297,638,241</b>                 | <b>290,161,778</b> |

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

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

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### 40 RISK MANAGEMENT (continued)

#### (4) *Operational risk*

Operational risk refers to the risk arising from inadequate or failed internal control procedures, personnel and information technology systems, or external events. The primary operational risks the 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 capability in sound operations and risk management. 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RISK MANAGEMENT (continued)

As at 30 June 2019 and 31 December 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:

|  | 30 June<br>2019    | 31 December<br>2018 |
|--|--------------------|---------------------|
| Total core tier-one capital                                | <b>21,947,793</b>  | 19,433,753          |
| Share capital  | <b>4,509,690</b>   | 4,058,713           |
| Qualifying portion of capital reserve                      | <b>8,337,869</b>   | 6,826,276           |
| Surplus reserve  | <b>1,403,575</b>   | 1,403,575           |
| General reserve  | <b>3,969,452</b>   | 3,969,452           |
| Retained earnings  | <b>2,856,324</b>   | 2,319,800           |
| Other comprehensive income                                 | <b>527,789</b>     | 553,193             |
| Qualifying portion of non-controlling interests            | <b>343,094</b>     | 302,744             |
| Core tier-one capital deductions                           | <b>(157,855)</b>   | (165,153)           |
| Net core tier-one capital                                  | <b>21,789,938</b>  | 19,268,600          |
| Other tier-one capital                                     | <b>7,899,710</b>   | 7,894,330           |
| Net tier-one capital                                       | <b>29,689,648</b>  | 27,162,930          |
| Tier two capital   | <b>8,610,872</b>   | 8,858,726           |
| Qualifying portions of tier-two capital instruments issued | <b>7,200,000</b>   | 7,200,000           |
| Surplus provision for loan impairment                      | <b>1,319,380</b>   | 1,577,994           |
| Qualifying portion of non-controlling interests            | <b>91,492</b>      | 80,732              |
| Net capital base   | <b>38,300,520</b>  | 36,021,656          |
| Total risk weighted assets                                 | <b>236,429,937</b> | 229,776,495         |
| Core tier-one capital adequacy ratio                       | <b>9.22%</b>       | 8.39%               |
| Tier-one capital adequacy ratio                            | <b>12.56%</b>      | 11.82%              |
| Capital adequacy ratio                                     | <b>16.20%</b>      | 15.68%              |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 41 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 at the end of the reporting period.

#### (b) *Other financial investments and other non-derivative financial assets*

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

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

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

#### (d) *Derivative financial instruments*

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 41 FAIR VALUE (continued)

#### (2) Financial instruments recorded at fair value

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

|   | 30 June 2019        |                     |                            | Total             |
|---|---------------------|---------------------|----------------------------|-------------------|
|   | Level 1<br>Note (i) | Level 2<br>Note (i) | Level 3<br>Note (i) ~ (ii) |                   |
| Financial investments measured at FVTPL                       |                     |                     |                            |                   |
| – Debt securities   | –                   | 549,746             | –                          | 549,746           |
| – Asset management plans                                      | –                   | –                   | 8,775,971                  | 8,775,971         |
| – Wealth management products issued by financial institutions | –                   | –                   | 2,034,853                  | 2,034,853         |
| – Trust plans   | –                   | –                   | 3,143,259                  | 3,143,259         |
| – Investment funds  | –                   | 12,779,746          | 50,041                     | 12,829,787        |
| Derivative financial assets                                   | –                   | 323                 | –                          | 323               |
| Financial investments measured at FVOCI                       |                     |                     |                            |                   |
| – Debt securities   | –                   | 45,471,304          | –                          | 45,471,304        |
| – Asset management plans                                      | –                   | 6,303,089           | –                          | 6,303,089         |
| – Other investments   | –                   | –                   | 709,546                    | 709,546           |
| – Equity investments  | –                   | –                   | 23,250                     | 23,250            |
| Loans and advances to customers measured at FVOCI             | –                   | –                   | 12,116,688                 | 12,116,688        |
| <b>Total</b>  | <b>–</b>            | <b>65,104,208</b>   | <b>26,853,608</b>          | <b>91,957,816</b> |
| Derivative financial liabilities                              | –                   | 273                 | –                          | 273               |
| <b>Total</b>  | <b>–</b>            | <b>273</b>          | <b>–</b>                   | <b>273</b>        |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 41 FAIR VALUE (continued)

|   | 31 December 2018    |                     |                            | Total      |
|---|---------------------|---------------------|----------------------------|------------|
|   | Level 1<br>Note (i) | Level 2<br>Note (i) | Level 3<br>Note (i) ~ (ii) |            |
| Financial investments measured 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 plans   | –                   | –                   | 3,221,359                  | 3,221,359  |
| – Investment funds  | –                   | 7,417,936           | 49,684                     | 7,467,620  |
| Financial investments measured 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 measured at FVOCI             | –                   | –                   | 6,772,625                  | 6,772,625  |
| <b>Total</b>  | –                   | 60,634,717          | 21,502,475                 | 82,137,192 |

*Notes:*

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 41 FAIR VALUE (continued)

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

|   | As at<br>1 January<br>2019 | Transfer<br>into level 3 | Transfer<br>out of<br>level 3 | Total gains or losses<br>for the period |                                     | Purchases, issues,<br>disposals and settlements |          |                                 | As at<br>30 June<br>2019 |
|---|----------------------------|--------------------------|-------------------------------|---|-------------------------------------|---|----------|---------------------------------|--------------------------|
|   |                            |                          |                               | In profit<br>or loss                    | In other<br>comprehensive<br>income | Purchases                                       | Issues   | Disposals<br>and<br>settlements |                          |
| Financial investments<br>measured at FVTPL                          |                            |                          |                               |   |                                     |   |          |                                 |                          |
| – Asset management plans  | 9,354,611                  | –                        | –                             | 22,974                                  | –                                   | 3,715,000                                       | –        | (4,316,614)                     | 8,775,971                |
| – Wealth management<br>products issued by<br>financial institutions | 2,080,946                  | –                        | –                             | 34,853                                  | –                                   | 2,000,000                                       | –        | (2,080,946)                     | 2,034,853                |
| – Trust plans   | 3,221,359                  | –                        | –                             | 56,774                                  | –                                   | 300,000   | –        | (434,874)                       | 3,143,259                |
| – Investment funds  | 49,684                     | –                        | –                             | 357                                     | –                                   | –   | –        | –                               | 50,041                   |
| Financial investments<br>measured at FVOCI                          |                            |                          |                               |   |                                     |   |          |                                 |                          |
| – Other investments   | –                          | –                        | –                             | 6,241                                   | 3,305                               | 700,000   | –        | –                               | 709,546                  |
| – Equity investments  | 23,250                     | –                        | –                             | –                                       | –                                   | –   | –        | –                               | 23,250                   |
| Loans and advances to<br>customers measured<br>at FVOCI             | 6,772,625                  | –                        | –                             | 157,267                                 | 6,585                               | 12,660,422                                      | –        | (7,480,211)                     | 12,116,688               |
| <b>Total</b>  | <b>21,502,475</b>          | <b>–</b>                 | <b>–</b>                      | <b>278,466</b>                          | <b>9,890</b>                        | <b>19,375,422</b>                               | <b>–</b> | <b>(14,312,645)</b>             | <b>26,853,608</b>        |

|   | As at<br>1 January<br>2018 | Transfer<br>into<br>level 3 | Transfer<br>out of<br>level 3 | Total gains or losses<br>for the year |                                     | Purchases, issues,<br>disposals and settlements |          |                                 | As at<br>31 December<br>2018 |
|---|----------------------------|-----------------------------|-------------------------------|---------------------------------------|-------------------------------------|---|----------|---------------------------------|------------------------------|
|   |                            |                             |                               | In profit<br>or loss                  | In other<br>comprehensive<br>income | Purchases                                       | Issues   | Disposals<br>and<br>settlements |                              |
| Financial investments<br>measured at FVTPL                          |                            |                             |                               |                                       |                                     |   |          |                                 |                              |
| – Asset management plans  | 10,863,060                 | –                           | –                             | 146,488                               | –                                   | 2,249,559                                       | –        | (3,904,496)                     | 9,354,611                    |
| – Wealth management<br>products issued by<br>financial institutions | 20,992,466                 | –                           | –                             | 183,456                               | –                                   | 5,000,000                                       | –        | (24,094,976)                    | 2,080,946                    |
| – Trust plans   | 8,456,436                  | –                           | –                             | 77,401                                | –                                   | 395,000   | –        | (5,707,478)                     | 3,221,359                    |
| – Investment funds  | 60,155                     | –                           | –                             | 1,501                                 | –                                   | –   | –        | (11,972)                        | 49,684                       |
| Financial investments<br>measured 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<br>customers measured<br>at FVOCI             | 2,941,746                  | –                           | –                             | 249,566                               | 15,908                              | 28,225,793                                      | –        | (24,660,388)                    | 6,772,625                    |
| <b>Total</b>  | <b>46,540,146</b>          | <b>–</b>                    | <b>–</b>                      | <b>725,913</b>                        | <b>9,970</b>                        | <b>35,870,352</b>                               | <b>–</b> | <b>(61,643,906)</b>             | <b>21,502,475</b>            |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 41 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*

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 long-term receivables*

The estimated fair value of loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and long-term receivables 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*

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

(v) *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 and debt securities issued:

|   | 30 June 2019      |                   |          |                   |               |
|---|-------------------|-------------------|----------|-------------------|---------------|
|   | Carrying amount   | Fair value        | Level 1  | Level 2           | Level 3       |
| Financial assets  |                   |                   |          |                   |               |
| Financial investments measured at amortised cost (including accrued interest) |                   |                   |          |                   |               |
| – Debt securities   | 39,348,523        | 39,342,343        | –        | 39,255,290        | 87,053        |
| <b>Total</b>  | <b>39,348,523</b> | <b>39,342,343</b> | <b>–</b> | <b>39,255,290</b> | <b>87,053</b> |
| Financial liabilities   |                   |                   |          |                   |               |
| Securities issued (including accrued interest)                                |                   |                   |          |                   |               |
| – Debt securities   | 19,936,392        | 19,793,752        | –        | 19,793,752        | –             |
| – Certificates of interbank deposit   | 55,224,668        | 55,265,178        | –        | 55,265,178        | –             |
| <b>Total</b>  | <b>75,161,060</b> | <b>75,058,930</b> | <b>–</b> | <b>75,058,930</b> | <b>–</b>      |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 41 FAIR VALUE (continued)

|   | 31 December 2018  |                   |          |                   |               |
|---|-------------------|-------------------|----------|-------------------|---------------|
|   | Carrying amount   | Fair value        | Level 1  | Level 2           | Level 3       |
| Financial assets  |                   |                   |          |                   |               |
| Financial investments measured at amortised cost (including accrued interest) |                   |                   |          |                   |               |
| – Debt securities   | 36,665,810        | 36,674,559        | –        | 36,583,883        | 90,676        |
| <b>Total</b>  | <b>36,665,810</b> | <b>36,674,559</b> | <b>–</b> | <b>36,583,883</b> | <b>90,676</b> |
| Financial liabilities   |                   |                   |          |                   |               |
| Securities issued (including accrued interest)                                |                   |                   |          |                   |               |
| – Debt securities   | 15,532,452        | 15,212,729        | –        | 15,212,729        | –             |
| – Certificates of interbank deposit   | 49,708,055        | 49,726,684        | –        | 49,726,684        | –             |
| <b>Total</b>  | <b>65,240,507</b> | <b>64,939,413</b> | <b>–</b> | <b>64,939,413</b> | <b>–</b>      |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 42 COMMITMENTS AND CONTINGENT LIABILITIES

#### (1) Credit commitments

The Group's credit commitments mainly 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.

|                                | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|--------------------------------|-------------------------|---------------------|
| Bank acceptances               | <b>17,214,591</b>       | 13,700,722          |
| Unused credit card commitments | <b>3,617,025</b>        | 1,698,681           |
| Letters of guarantees          | <b>1,645,185</b>        | 2,410,966           |
| Letters of credit              | <b>1,013,354</b>        | 657,499             |
| Irrevocable loan commitments   | <b>274,170</b>          | 243,970             |
| Total                          | <b>23,764,325</b>       | 18,711,838          |

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 32(4).

#### (2) Credit risk-weighted amount

|  | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|--|-------------------------|---------------------|
| Credit risk-weighted amount of<br>contingent liabilities and commitments | <b>9,230,179</b>        | 9,694,305           |

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

#### (3) Operating lease commitments

As at the 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

|  | 31 December<br>2018 |
|--|---------------------|
| Within one year (inclusive)                      | 108,802             |
| After one year but within five years (inclusive) | 320,161             |
| After five years                                 | 90,464              |
| <b>Total</b>                                     | <b>519,427</b>      |

#### (4) Capital commitments

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

|                             | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|-----------------------------|-------------------------|---------------------|
| Contracted but not paid for | <b>203,452</b>          | 213,625             |
| <b>Total</b>                | <b>203,452</b>          | 213,625             |

#### (5) Outstanding litigations and disputes

As at 30 June 2019 and 31 December 2018, there were no significant legal proceedings outstanding against the Group. Management is in the opinion that it is not necessary to provide any provisions as at the reporting period.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 42 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

#### (6) Bonds redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any unpaid interest 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:

|                              | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|------------------------------|-------------------------|---------------------|
| Bonds redemption obligations | <b>4,737,957</b>        | 4,153,146           |

#### (7) Pledged assets

|                       | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|-----------------------|-------------------------|---------------------|
| Investment securities | <b>29,063,474</b>       | 28,618,903          |
| Discounted bills      | <b>1,958,024</b>        | 1,214,031           |
| Total                 | <b>31,021,498</b>       | 29,832,934          |

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

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

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 30 June 2019 and 31 December 2018, the Group did not have these discounted bills under resale agreements. As at 30 June 2019 and 31 December 2018, the Group did not sell or repledge any pledged assets which it has an obligation to resale when they are due.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 43 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 plans, asset-backed securities and investment funds. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 30 June 2019 and 31 December 2018 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 recognized:

|   | 30 June 2019                            |   |  |                   |                   |
|---|---|---|--|-------------------|-------------------|
|   | Financial investments measured at FVTPL | Financial investments measured at FVOCI | Financial investments measured at amortised cost | Carrying amount   | Maximum exposure  |
| Asset management plans                                      | 8,775,971                               | 6,183,177                               | 18,748,863                                       | 33,708,011        | 33,708,011        |
| Trust plans   | 3,143,259                               | –                                       | 3,556,475  | 6,699,734         | 6,699,734         |
| Wealth management products issued by financial institutions | 2,034,853                               | –                                       | –  | 2,034,853         | 2,034,853         |
| Asset-backed securities                                     | –                                       | 1,534,791                               | –  | 1,534,791         | 1,534,791         |
| Investment funds  | 12,829,787                              | –                                       | –  | 12,829,787        | 12,829,787        |
| <b>Total</b>  | <b>26,783,870</b>                       | <b>7,717,968</b>                        | <b>22,305,338</b>                                | <b>56,807,176</b> | <b>56,807,176</b> |

|   | 31 December 2018                        |   |  |                   |                   |
|---|---|---|--|-------------------|-------------------|
|   | Financial investments measured at FVTPL | Financial investments measured 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 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         |
| <b>Total</b>  | <b>22,124,536</b>                       | <b>7,136,061</b>                        | <b>28,095,529</b>                                | <b>57,356,126</b> | <b>57,356,126</b> |

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 recognized in the statement of financial position.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

### 43 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (continued)

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

The types of unconsolidated structured entities sponsored by the Group mainly include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services to these structured entities. As at 30 June 2019 and 31 December 2018, the carrying amounts of the management fee receivables being recognized are not material in the statement of financial position.

As at 30 June 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB 82.161 billion (31 December 2018: RMB 71.534 billion).

#### (3) *Structured entities sponsored and issued by the Group after 1 January but matured before the end of the reporting period in which the Group no longer holds an interest*

During the six months ended 30 June 2019, the amount of fee and commission income recognized from the above mentioned structured entities by the Group was RMB 38 million (six months ended 30 June 2018: RMB 29 million).

During the six months ended 30 June 2019, the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January but matured before 30 June was RMB 30.716 billion (six months ended 30 June 2018: RMB 53.670 billion).

### 44 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 2015, the Bank transferred a portfolio of customer loans with a book value of RMB 2.543 billion to an unconsolidated securitization vehicle managed by an independent trust company, which issued asset-backed securities to investors. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognized.

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 service related to asset management and disposal.

### 45 FIDUCIARY ACTIVITIES

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

As at 30 June 2019, the entrusted loans balance of the Group was RMB 3.393 billion (31 December 2018: RMB 4.163 billion).

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in thousands of Renminbi, unless otherwise stated)*

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### **46 SUBSEQUENT EVENTS**

Up to the approval date of the report, the Group has no other significant subsequent events for disclosure.

### **47 COMPARATIVE FIGURES**

For financial statements disclosure purpose, the Group made reclassification adjustments to some comparative figures.

## SECTION XII UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

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

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

### 1 LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity coverage ratio, leverage ratio and net stable funding ratio are 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").

#### (1) Liquidity coverage ratio

|   | As at<br>30 June<br>2019 | As at<br>31 December<br>2018 |
|---|--------------------------|------------------------------|
| Qualified and high-quality current assets           | 65,054,000               | 52,974,850                   |
| Net cash outflows in next 30 days                   | 36,137,989               | 42,058,582                   |
| Liquidity coverage ratio (RMB and foreign currency) | 180.02%                  | 125.95%                      |

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018.

#### (2) Leverage ratio

|                | As at<br>30 June<br>2019 | As at<br>31 December<br>2018 |
|----------------|--------------------------|------------------------------|
| Leverage ratio | 7.98%                    | 7.92%                        |

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.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

### 1 LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (continued)

#### (3) Net stable funding ratio

|                          | As at<br>30 June<br>2019 | As at<br>31 March<br>2019 | As at<br>31 December<br>2018 |
|--------------------------|--------------------------|---------------------------|------------------------------|
| Available stable funding | <b>188,183,992</b>       | 183,312,473               | 178,819,503                  |
| Required stable funding  | <b>184,434,976</b>       | 183,106,383               | 173,945,290                  |
| Net stable funding ratio | <b>102.03%</b>           | 100.11%                   | 102.80%                      |

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio of commercial banks 100% is required.

### 2 CURRENCY CONCENTRATIONS

|                   | 30 June 2019                      |                                   |                               |                    |
|-------------------|-----------------------------------|-----------------------------------|-------------------------------|--------------------|
|                   | US Dollars<br>(RMB<br>equivalent) | HK Dollars<br>(RMB<br>equivalent) | Others<br>(RMB<br>equivalent) | Total              |
| Spot assets       | <b>11,804,063</b>                 | <b>25,452</b>                     | <b>16,123</b>                 | <b>11,845,638</b>  |
| Spot liabilities  | <b>(2,987,158)</b>                | <b>(18,583)</b>                   | <b>(11,935)</b>               | <b>(3,017,676)</b> |
| Net long position | <b>8,816,905</b>                  | <b>6,869</b>                      | <b>4,188</b>                  | <b>8,827,962</b>   |

|                   | 31 December 2018                  |                                   |                               |             |
|-------------------|-----------------------------------|-----------------------------------|-------------------------------|-------------|
|                   | US Dollars<br>(RMB<br>equivalent) | HK Dollars<br>(RMB<br>equivalent) | Others<br>(RMB<br>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   |

The Group has no structural position at the reporting periods.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

*(Expressed in thousands of Renminbi, unless otherwise stated)*

### 3 INTERNATIONAL CLAIMS

The Group regards all claims on third parties outside Mainland China and claims 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 financial 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.

|                                    | 30 June 2019                 |   |                               |                   |
|------------------------------------|------------------------------|---|-------------------------------|-------------------|
|                                    | Public<br>sector<br>entities | Banks<br>and other<br>financial<br>institutions | Non-bank<br>private<br>sector | Total             |
| – Asia Pacific                     | 56,535                       | 5,382,686                                       | 6,088,010                     | 11,527,231        |
| – of which attributed to Hong Kong | –                            | 3,098,874                                       | –                             | 3,098,874         |
| – North and South America          | –                            | 282,176   | –                             | 282,176           |
| – Europe                           | –                            | 14,416  | –                             | 14,416            |
|                                    | <b>56,535</b>                | <b>5,679,278</b>                                | <b>6,088,010</b>              | <b>11,823,823</b> |
|                                    | 31 December 2018             |   |                               |                   |
|                                    | Public<br>sector<br>entities | Banks<br>and other<br>financial<br>institutions | Non-bank<br>private<br>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        |

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

### 4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

|  | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|--|-------------------------|---------------------|
| Gross loans and advances which have been overdue with respect to either principal or interest for periods of |                         |                     |
| – between 3 and 6 months (inclusive)   | <b>411,127</b>          | 422,827             |
| – between 6 months and 1 year (inclusive)  | <b>722,362</b>          | 806,413             |
| – over 1 year  | <b>799,145</b>          | 852,792             |
| <b>Total</b>   | <b>1,932,634</b>        | 2,082,032           |
| As a percentage of total gross loans and advances (excluding accrued interest)                               |                         |                     |
| – between 3 and 6 months (inclusive)   | <b>0.28%</b>            | 0.33%               |
| – between 6 months and 1 year (inclusive)  | <b>0.49%</b>            | 0.64%               |
| – over 1 year  | <b>0.55%</b>            | 0.67%               |
| <b>Total</b>   | <b>1.32%</b>            | 1.64%               |