

BANK OF QINGDAO CO., LTD.

2019 ANNUAL REPORT

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

(H Shares Stock Code: 3866)

(Preference Shares Stock Code: 4611)



BQD  青岛银行

BANK OF QINGDAO CO., LTD.

2019 Annual Report

BQD  **青岛银行**

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Section I Important Notice, Contents and Definitions

1. The Board of Directors, Board of Supervisors, Directors, Supervisors and senior management of the Bank assure that the information in this annual report contains no false records, misleading statements or material omissions, and severally and jointly take full responsibility for the authenticity, accuracy and completeness of the information in this annual report.
2. The proposals on the 2019 Annual Report of Bank of Qingdao Co., Ltd. and its summary were considered and approved at the 33rd meeting of the seventh session of the Board of Directors of the Bank held on 20 March 2020. There were 14 Directors eligible for attending the meeting, of whom 14 Directors attended the meeting.
3. The Bank's chairman Mr. GUO Shaoquan, president Mr. WANG Lin, vice president in charge of financial work Mr. YANG Fengjiang ^{Note} and head of planning and finance department Mr. MENG Dageng assure the authenticity, accuracy and completeness of the financial reports in this annual report.
4. The 2019 financial statements of the Company prepared in accordance with Accounting Standards for Business Enterprises have been audited by KPMG Huazhen LLP, with standard unqualified auditor's report issued; the 2019 financial statements of the Company prepared in accordance with International Financial Reporting Standards have been audited by KPMG, with unqualified auditor's report issued.
5. Unless otherwise specified, the currency of the amounts mentioned in this annual report is RMB.
6. Profit distribution proposal has been considered and approved by the Board of Directors of the Bank to distribute cash dividend of RMB2.00 (tax inclusive) for every 10 shares to all ordinary shareholders of the Bank based on the total number of shares on the record date of the equity distribution, instead of distributing bonus shares and increasing share capital with provident fund. The profit distribution proposal will be submitted to the 2019 annual general meeting for consideration.
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 wordings 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 maintain sufficient risk awareness in this regard and understand the difference between plans, forecasts and commitments, and should not unduly rely on such statements, and should be aware of investment risks. Please note that these forward-looking statements are related to future events or future financial, business or other performance of the Company, and are subject to certain uncertainties which may cause the actual results to differ substantially.
8. The Company invites investors to read the full text of this annual report carefully. The Company has described in detail the major risks and countermeasures in this report. For details, please refer to the content related to risk management set out in "Section VI Discussion and Analysis of Operations".

Note: As of the date the Board of Directors of the Bank considered and approved this annual report (i.e., 20 March 2020), Mr. YANG Fengjiang remained as an executive Director and vice president of the Bank. Subsequently, Mr. YANG Fengjiang resigned from positions of an executive Director and vice president of the Bank. Elected by the employee representative meeting and the Board of Supervisors, Mr. YANG Fengjiang now serves as chairman of the Board of Supervisors and employee Supervisor of the Bank.

Definitions

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
CBIRC	China Banking and Insurance Regulatory Commission
CSRC	China Securities Regulatory Commission
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
SZSE	the Shenzhen Stock Exchange
Qingdao Office of CBIRC	Qingdao office of the China Banking and Insurance Regulatory Commission
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Company Law	Company Law of the People's Republic of China
Articles of Association	Articles of Association of the Bank of Qingdao Co., Ltd.
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Reporting Period	from 1 January 2019 to 31 December 2019 (both days inclusive)
RMB	the lawful currency of the PRC
H Share(s)	shares issued outside the mainland area of China, listed on Hong Kong Stock Exchange and subscribed for and traded in foreign currency
A Share(s)	shares issued in China, listed on the domestic stock exchanges and subscribed for and traded in RMB
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

Definitions

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 platforms of the Bank and the service platforms 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 that comply with Catalog of Projects Backed by Green Bonds (2015 version) issued by the Green Finance Professional Committee of the China Society for Finance and Banking (中國金融學會綠色金融專業委員會). “Energy saving and environmental protection project and service loans” refers to the Notice on Submitting Statistical Table of Situations of Green Credit issued by General Office of the CBIRC (Yin Jian Ban Fa [2013] No. 185).
Small and Micro Enterprises	including small and micro enterprises, individual business owners, and the owners of small and micro enterprises.

Section II Corporate Information and Key Financial Highlights

I. CORPORATE INFORMATION

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

II. CONTACT PERSONS AND CONTACT INFORMATION

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

III. INFORMATION DISCLOSURE AND PLACE OF INSPECTION

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

Domestic

the website of the SZSE (<http://www.szse.com.cn/>), CNINFO website (<http://www.cninfo.com.cn/>), China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily and the website of the Bank (<http://www.qdccb.com/>)

Overseas

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

**Website designated by the CSRC
for publication of annual reports**

CNINFO website (<http://www.cninfo.com.cn/>)

**Place for inspection of annual reports
of the Company**

office of the Board of Directors and the Board of Supervisors of the Bank

IV. CHANGE OF REGISTRATION

Unified social credit code

91370200264609602K

**Change in principal business
of the Bank since its listing**

None

**Successive changes in controlling
shareholder of the Bank**

The Bank has no controlling shareholders

V. OTHER RELEVANT INFORMATION

(I) Accounting firms engaged by the Bank

Domestic accounting firm	KPMG Huazhen LLP
Office address of the domestic accounting firm	8th Floor, KPMG Tower, Oriental Plaza, 1 East Chang An Avenue, Dongcheng District, Beijing
Signing accountants	CHENG Hailiang, TANG Yinghui
Overseas accounting firm	KPMG Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
Office address of overseas accounting firm	8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

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

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

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

(IV) Legal advisors engaged by the Bank

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

(V) Share registrars of the Bank

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

VI. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS

Item	2019	2018	Year-on-year	2017	2016	2015
Business Performance (RMB'000)			Change (%)			
Net interest income	6,846,055	4,464,029	53.36	4,802,408	5,007,955	4,114,054
Net non-interest income	2,776,054	2,900,809	(4.30)	765,185	988,190	891,454
Operating income	9,622,109	7,364,838	30.65	5,567,593	5,996,145	5,005,508
Operating expenses	(3,166,762)	(2,505,650)	26.38	(1,818,922)	(2,213,521)	(2,076,578)
Credit losses/Impairment losses ⁽¹⁾	(3,626,792)	(2,383,172)	52.18	(1,378,904)	(1,108,874)	(579,894)
Profit before taxation	2,828,555	2,476,016	14.24	2,369,767	2,673,750	2,349,036
Net profit	2,335,522	2,043,389	14.30	1,903,607	2,088,605	1,813,776
Net profit attributable to shareholders of the Bank	2,284,815	2,023,352	12.92	1,900,252	2,088,605	1,813,776
Per share (RMB/share)			Change (%)			
Basic earnings per share ⁽²⁾	0.39	0.37	5.41	0.47	0.51	0.58
Diluted earnings per share ⁽²⁾	0.39	0.37	5.41	0.47	0.51	0.58
Dividend per share ⁽³⁾	0.20	0.20	—	0.20	0.20	0.20

Section II Corporate Information and Key Financial Highlights

Item	31 December 2019	31 December 2018	Year-on-year	31 December 2017	31 December 2016	31 December 2015
Scale indicators (RMB'000)			Change (%)			
Total assets ⁽⁴⁾	373,622,150	317,658,502	17.62	306,276,092	277,988,106	187,235,254
Loans and advances to customers:						
Total loans to customers ⁽⁴⁾	172,795,443	126,386,870	36.72	98,061,379	87,168,295	72,695,518
Add: Accrued interest	772,480	521,250	48.20	N/A	N/A	N/A
Less: Provision for impairment on loans and advances to customers measured at amortized cost ⁽¹⁾	(4,409,632)	(3,541,229)	24.52	(2,546,699)	(2,303,446)	(2,040,297)
Loans and advances to customers	169,158,291	123,366,891	37.12	95,514,680	84,864,849	70,655,221
Provision for loan impairment ⁽¹⁾	(4,422,549)	(3,557,806)	24.31	(2,546,699)	(2,303,446)	(2,040,297)
Of which: Impairment provision for loans and advances to customers at fair value through other comprehensive income ⁽¹⁾	(12,917)	(16,577)	(22.08)	N/A	N/A	N/A
Total liabilities ⁽⁴⁾	343,144,232	290,161,778	18.26	280,152,883	260,352,133	170,621,602
Deposits from customers:						
Total deposits from customers ⁽⁴⁾	212,790,909	175,675,849	21.13	160,083,783	141,604,761	115,321,997
Add: Accrued interest	2,634,494	2,235,398	17.85	N/A	N/A	N/A
Deposits from customers	215,425,403	177,911,247	21.09	160,083,783	141,604,761	115,321,997
Share capital	4,509,690	4,058,713	11.11	4,058,713	4,058,713	4,011,533
Equity attributable to equity shareholders of the Bank	29,915,460	26,984,973	10.86	25,629,854	17,635,973	16,613,652
Equity attributable to shareholders	30,477,918	27,496,724	10.84	26,123,209	17,635,973	16,613,652
Net capital base	39,252,505	36,021,656	8.97	33,806,113	20,783,634	19,824,257
Of which: Net core tier-one capital	22,224,697	19,268,600	15.34	17,733,763	17,464,312	16,448,021
Other tier-one capital	7,901,623	7,894,330	0.09	7,874,674	–	–
Tier-two capital	9,126,185	8,858,726	3.02	8,197,676	3,319,322	3,376,236
Total risk-weighted assets	265,908,365	229,776,495	15.72	203,708,884	173,267,933	131,824,697
Per share (RMB/share)			Change (%)			
Net assets per share attributable to shareholders of the Bank ⁽⁵⁾	4.89	4.71	3.82	4.38	4.35	4.14

Section II Corporate Information and Key Financial Highlights

Item	2019	2018	Year-on-year Change	2017	2016	2015
Profitability indicators (%)						
Return on average total assets ⁽⁶⁾	0.68	0.66	0.02	0.65	0.90	1.06
Weighted average return on net assets ⁽²⁾	8.27	8.36	(0.09)	10.80	12.22	14.69
Net interest spread ⁽⁷⁾	2.10	1.67	0.43	1.57	2.05	2.23
Net interest margin ⁽⁸⁾	2.13	1.63	0.50	1.72	2.23	2.36
Net fee and commission income to operating income	12.65	11.76	0.89	14.89	14.81	14.98
Cost-to-income ratio ⁽⁹⁾	31.86	33.01	(1.15)	31.68	34.71	35.80
Asset quality indicators (%)						
Non-performing loan ratio	1.65	1.68	(0.03)	1.69	1.36	1.19
Provision coverage ratio	155.09	168.04	(12.95)	153.52	194.01	236.13
Loan provision ratio	2.56	2.82	(0.26)	2.60	2.64	2.81
Indicators of capital adequacy ratio (%)						
Core tier-one capital adequacy ratio ⁽¹⁰⁾	8.36	8.39	(0.03)	8.71	10.08	12.48
Tier-one capital adequacy ratio ⁽¹⁰⁾	11.33	11.82	(0.49)	12.57	10.08	12.48
Capital adequacy ratio ⁽¹⁰⁾	14.76	15.68	(0.92)	16.60	12.00	15.04
Total equity to total assets ratio	8.16	8.66	(0.50)	8.53	6.34	8.87
Other indicators (%)						
Liquidity coverage ratio	142.27	125.95	16.32	173.05	101.24	132.06
Liquidity ratio	68.84	60.55	8.29	56.36	53.48	60.04

Section II Corporate Information and Key Financial Highlights

Notes:

- (1) After the adoption of International Financial Reporting Standard 9 Financial Instruments ("IFRS 9") in 2018, the expected credit loss model has replaced incurred loss model for the measurement of impairment of financial instruments. "Credit losses" reflect the credit loss recognized by the provision for credit losses of financial instruments as required. "Provision for loan impairment" includes "provision for impairment on loans and advances to customers measured at amortized costs" and "impairment provision for loans and advances to customers measured at fair value through other comprehensive income".
- (2) 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) (《公開發行證券的公司信息披露編報規則第9號 – 淨資產收益率和每股收益的計算及披露》(2010年修訂)). Weighted average return on net assets decreased by 0.09 percentage point compared with the previous year, mainly due to the Bank's initial public offering of 451,000,000 A Shares in the first half of 2019, raising net proceeds of RMB1.963 billion, which resulted in a significant increase in the weighted average net assets for the period. The Bank issued offshore preference shares in 2017. Therefore, in calculating earnings per share and weighted average return on net assets, the dividends for preference shares have been deducted from the "net profit attributable to shareholders of the Bank" and the effect from preference shares has been deducted from the "weighted average net assets".
- (3) Dividend per share represents dividend per share attributable to ordinary shareholders of the Bank, and the dividend per share of 2019 is subject to approval by the general meeting.
- (4) For details of the structure of total assets, total liabilities, total loans to customers and total deposits from customers, please refer to "4. Analysis of Major Items of the Statement of Financial Position" in Section VI Discussion and Analysis of Operations of this annual report.
- (5) Net assets per share attributable to shareholders of the Bank = (equity attributable to equity shareholders of the Bank – other equity instruments)/the number of ordinary shares at the end of the period.
- (6) Return on average total assets = net profit/average balance of total assets at the beginning and at the end of the period, of which 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 International Financial Reporting Standard 16 Leases ("IFRS 16").
- (7) Net interest spread = average yield of interest-earning assets – average cost rate of interest-bearing liabilities.
- (8) Net interest margin = net interest income/average interest-earning assets.
- (9) Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income.
- (10) The relevant indicators of capital adequacy ratio were calculated in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and other relevant regulatory regulations.
- (11) The Company has applied IFRS 16 since 1 January 2019. For details of the changes in accounting policies and impacts, please refer to Note 2(2) "Changes in accounting policies" to the financial statements of this annual report.

VII. ACCOUNTING DATA DIFFERENCE UNDER DOMESTIC AND FOREIGN ACCOUNTING STANDARDS

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

Section III Chairman's Statement

In 2019, the Bank fully adhered to the principle of “staying true to our original aspirations and keeping our mission firmly in mind”. With the strategic guidance of the Board, the steady and high-quality development as the cornerstone and risk prevention and control as the core, various businesses of the Bank achieved continuous growth and new progresses were made in operational management. During the Reporting Period, the Company's total assets amounted to RMB373.6 billion, representing a year-on-year increase of 18% and the net profit totaled RMB2.3 billion, representing a year-on-year increase of 14%. As at the end of the year, the non-performing loan ratio was 1.65%, representing a decrease of 0.03 percentage point as compared with that at the end of the previous year.

Amid the continuing downward pressure of macro-economy, tightening of supervision and intensification of industry division, our impressive performance results could only be achieved with the help and support of investors, customers, the government and regulatory agencies. Hereby, on behalf of the Board, the management and employees, I would like to express my sincere gratitude to all sectors of society that have long cared for and supported the development of Bank of Qingdao.

In 2019, the Bank was successfully listed on the SZSE, becoming the first A-share listed bank in Shandong Province and the second city commercial bank with “A+H” dual listing in the PRC. The Bank opened up domestic and overseas financing channels through the “A+H” dual listing, and thereby diversified its capital structure and solidified its capital base which supports the long-term sustainable development of its business. In 2019, the Bank focused on management and improvement, and continued to extend the scope of the “Enhancement Plan”. As the Bank launched and implemented the “200 billion of Deposit” campaign, deposits broke through and stood firm at the RMB200 billion mark as at the end of the year. Promoting the integrated management of credit risks in an all-round way has gradually yielded results, which enhanced the efficiency of business approval and the standards of risk control on an ongoing basis. Smart operation has facilitated the transformation of bank hall services, continuously enhanced customer service capabilities and improved customer experience.

In 2019, the Bank was conferred with various awards and its brand value continued to increase. The Bank was, for the first time, granted the “China Commercial Bank Wealth Management Product of the Year”, an authoritative award issued by The Asian Banker. The Bank ranked among the top 300 banks in the world for two consecutive years and was granted the “Five-Star Diamond Award”, the highest honor in the service industry for the fourth time. The Bank also received the Golden Dragon Award granted by Financial Times for the ninth time, was selected as the leading enterprise in the “Top Ten” industrial clusters in Shandong Province, and ranked No. 1 in the industry of “Modern Financial Services”.

We shall keep riding on the waves of the times and achieve ever new heights. As we have embarked on a new journey in 2020, we will adhere to the long-term development vision of “Innovative Finance, Brilliant Banking”, build on our confidence, rise to the challenges, forge ahead and open up new vistas through the “A+H” dual listing of Bank of Qingdao.



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

Section IV President's Statement

2019 marks the first year of both the A-share listing and the new three-year strategic plan of the Bank. Under the sagacious leadership of the Board, the Bank focused on the guiding philosophy of “strategic guidance, characteristic growth driver, compliance with rules and regulations, and continuous improvement”. The Bank paid attention to both structural adjustment and management transformation, enriched the essence of the “Enhancement Plan”, and maintained a steady and high-quality development pace, while improving its comprehensive operation capability.

As at the end of 2019, the Company's total deposits from customers amounted to RMB212.791 billion, representing a year-on-year increase of 21.13%; total loans to customers amounted to RMB172.795 billion, representing a year-on-year increase of 36.72%. The profitability of the Company continued to improve, and the operating income amounted to RMB9.622 billion, representing a year-on-year increase of RMB2.244 billion or 30.44%.

In 2019, each business of the Bank grew steadily and healthily, and the operational management continued to improve. In terms of retail banking, new channels for online customers achieved remarkable results, with the total number of customers increased by over 10%. The annual number of credit cards issued exceeded 1 million, with the cumulative number of cards issued reaching 1.3 million. In terms of corporate banking, by developing synergy among products including assets, liabilities and settlements, the Bank improved its comprehensive operating capabilities for customers. The Bank promoted business innovation and implemented the “Belt and Road” project of financial support, launched its first supply chain financial business for Eurasian Railway in Shandong Province as well as the first Singapore dollar financing business under China-Singapore bilateral currency swap agreement in China. In terms of financial market business, the Bank continued to optimize its investment structure and the product matching of interbank liabilities to increase investment gain while reducing the cost of liabilities. Despite the unfavorable market condition, the Bank successfully issued ordinary financial bonds and small and micro financial bonds totaled RMB16 billion. The balance of wealth management products amounted to over RMB100 billion, ranking first in Shandong Province in terms of professional ability and market share.

To be a good bank that is recognized by the market and praised by the public, on top of having good operating abilities and professional qualities, a bank must also assume responsibilities and dare to take on challenges. As the Bank became an A+H dual listed bank, we stayed true to our original aspirations, refocused on our original business, while serving local economies and supporting the major national strategic policies as our own duty. We have increased credit support for new growth driver industries as well as private Small and Micro Enterprises. The Bank actively served to the “rural revitalization” strategy by setting up an agricultural support service station. Showing concern and care for employees and society, the Bank donated over RMB10 million through the “BQD Charity Fund (青銀愛心基金)”.

In a highly competitive boat race, those who row the hardest will lead ahead. Looking back 2019, we have once again achieved impressive results with our wisdom and diligence. On behalf of the senior management of the Company, I would like to express my sincere appreciation to people from all walks of life for their caring and support for the development of Bank of Qingdao.

Looking ahead to 2020, we are full of confidence. We will persevere in our strategic positioning and concentrate our efforts on writing a new chapter with our ever-growing confidence.



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

Section V Business Overview

I. PRINCIPAL BUSINESS

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

The Bank mainly offers several services and products such as corporate and personal deposits, loans, payment and settlement to its customers, and its development is driven by three major business segments including retail banking, corporate banking and financial markets, which have formed a stronger customer base and shaped new financial business model of distinctive and high-quality development. The Bank’s business is based in Qingdao with a footprint extending to other regions of 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 141. In February 2017, the Bank initiated the establishment of BQD Financial Leasing Company Limited. In February 2020, the Bank was approved to establish Qingyin Wealth Management Company Limited, which is proposed to be established solely by the Bank. As at the end of the Reporting Period, the Bank had more than 4,000 employees.

As at the end of the Reporting Period, various operating indicators of the Company were ranked in the forefront of the banking industry in Shandong Province, and total assets amounted to RMB373.622 billion, total liabilities amounted to RMB343.144 billion, capital adequacy ratio was 14.76%, and non-performing loan ratio was 1.65%, down by 0.03 percentage point as compared with that at the end of the previous year. During the Reporting Period, the accumulated net profit was RMB2.336 billion, representing an increase of 14.30% over the same period of last year.

II. SIGNIFICANT CHANGES IN MAJOR ASSETS

2.1 Significant changes in major assets

During the Reporting Period, there was no significant change in major assets of the Company. For details in relation to changes in assets, please refer to “Section VI Discussion and Analysis of Operations – 4. Analysis of Major Items of the Statement of Financial Position” in this annual report.

2.2 Major offshore assets

N/A.

III. ANALYSIS OF THE CORE COMPETITIVENESS

Development vision: Innovative Finance, Brilliant Banking

Strategic goal: being a bank that offers new quality financial products with “advanced technology, lean management and outstanding features”

Development strategy:

1. Customer base expansion: with respect to corporate banking and retail banking segments, we will constantly seek for new growth of customer base and consolidate the customer base of the Bank. We will enhance stable liabilities with low cost and quality asset base by deeply developing the customer value.
2. Financial technology empowerment: adhering to the operation guidance of “focusing on the needs of customer and business and advancing moderately”, we will foster our digital capabilities in four major areas including front-end customer service, product marketing, business operation and organizational management.

3. Featured advantages cultivation: taking the featured business as a breakthrough point, we will establish the differentiated mechanism in terms of department structure, staffing and authority setting-up, and provide strong support for our branch offices, gradually forming the development path of the “head office with distinctive features and branches with unique features”.
4. Management mechanism transformation: we will establish a scientific, fair and transparent performance appraisal system to improve a robust incentive compatibility constraint mechanism and promote the transformation from the management mechanism to a refined mechanism.

Core Competitiveness:

1. With the “A+H” dual listing, the Bank comprehensively promoted its social reputation and brand image. In 2019, the Bank was successfully listed on the SZSE, becoming the first A-share listed bank in Shandong Province as well as the second “A+H” listed city commercial bank in the PRC. With the successful dual listing, the Bank opens up its domestic and overseas financing channels, which diversifies its capital structure and promotes its social reputation and brand image comprehensively.
2. The high-quality and diversified shareholder structure and market-oriented management team have laid a solid foundation for corporate governance and business development. 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 laws 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.
3. The Bank significantly optimizes its specialized ability of corporate finance, and the retail banking transformation has achieved remarkable results. The Bank regards “refining its corporate banking and focusing on retail” as its core of strategic transformation, and takes customer needs as guidance to expand its customer base. In the field of corporate banking, by comprehensively promoting the “dual-base” strategy with basic customers and basic business as the core, and the “network construction” with obtaining customers in batches as the goal, the Bank has established a new customer segmentation system, and has formed two major systems of traditional corporate business marketing and corporate business retail marketing, to forge a characteristic boutique corporate bank. In the field of retail banking, the Bank continuously enriches product lines, continues to improve customer loyalty, vigorously promotes wealth management, rural finance and inclusive finance, and opens up new channels for acquiring online customers with the Alibaba Cloud Platform to gradually build a retail banking ecosystem covering all life scenarios.
4. The Bank takes various measures to prevent and control risks and has established a sound risk management and control system. With the “prudent and steady” risk appetite, the Bank has built a “three-in-one” risk management system of “prevention, management and control” as well as a comprehensive, professional, vertical and independent risk management organizational structure. The Bank innovates the risk management mechanism, improves the management mechanism of risk appetite, and enhances the efficiency of risk management as well as quality and efficiency of serving the real economy through mechanism innovation. Leveraging on the utilization of financial technology, the Bank continues to exert efforts to extend the application of risk technology and promotes the building of risk management techniques and tools. With proactive risk management thinking and professional risk management model, the Bank has ensured a stable and sound asset quality. The non-performing loan ratio continues to be lower than the average levels of the PRC and Shandong Province, and the risk resilience is in good condition.
5. Efficiency of smart operation has emerged and technology-empowered capability has been continuously enhanced. 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 in accordance with the new financial concept of “Finance + Technology + Scenarios”, actively explores the practical application of new technologies, orderly promotes the digital transformation of operation, and strengthens the support capacity of the middle-end and back-end. The smart outlet project has achieved initial results, with the construction in key projects including mobile internet, big data, cloud computing and other fields steadily advanced, and the strategic support capability of technology for business development as well as risk prevention and control has been significantly enhanced.

IV. HONORS AND AWARDS

In February 2019, the Bank ranked No. 8 in terms of steady development capability of commercial banks evaluated by the “GYROSCOPE (陀螺)” evaluation system of commercial banks organized by the China Banking Association.

In July 2019, the Bank ranked No. 298 in the Top 1000 World Banks List released by The Banker magazine of the UK, ranking in the top 300 for the second consecutive year.

In August 2019, the Bank was awarded honorary title as “Outstanding Enterprise of Shandong Province” at the work conference on the implementation of Shandong Province’s reform initiatives. The Bank was the only city commercial bank from Shandong Province selected in the list and the only financial enterprise from Qingdao selected in the list.

In September 2019, among the “Top 500 Enterprises in the Service Industry in China” jointly released by the China Enterprise Confederation and China Enterprise Directors Association, the Bank ranked 293rd, moving forward by 9 places as compared with that of last year.

In November 2019, the Bank was awarded the “2018 Top Ten Competitive Banks in China’s Local Finance” at the annual meeting of the 23rd National Regional Finance Forum (2019) held by the Financial News, the Office of China Local Financial Forums and the Academy of Regional Finance.

In November 2019, the Bank was awarded the “2018 Gold Bull Wealth Management Bank Award” and the “Gold Bull Bank Wealth Management Product of the Year Award” in the selection campaign for the 2018 “Gold Bull Wealth Management Product” held by China Securities Journal and jnlc.com.

In December 2019, the Bank was awarded “China Commercial Bank Wealth Management Product of the Year” at the 2019 Global Wealth and Social China Awards Ceremony held by the Asian Banker magazine.

In December 2019, the Bank was awarded the “Award for Outstanding Contribution” at the performance evaluation of the second session work committee of city commercial banks of the China Banking Association.

In December 2019, the Bank won two awards of “2019 Top Ten City Commercial Banks” and “Best Brand Building of Small and Medium Banks” at the “China Financial Institutions Gold Medal – Golden Dragon Award Contest” jointly organized by the Financial Times and Institute of Finance at the Chinese Academy of Social Sciences.

In December 2019, in the list of “Top Ten” leading enterprises in industrial clusters released by the Construction Office of the Comprehensive Pilot Zone for New and Old Kinetic Energy Conversion in Shandong Province, the Bank ranked No. 1 in the industry of “Modern Financial Services” and was the only financial institution from Qingdao selected in the list.

In December 2019, the Bank was granted the “Five-Star Diamond Award” by the World Brand Laboratory, and became the only city commercial bank in the PRC which was granted this award for four consecutive years.



Section VI Discussion and Analysis of Operations

1. SUMMARY

In 2019, the growth of the global economy slowed down as affected by cyclical factors and negative impacts such as the escalation of global trade frictions. In response to the downward pressure on the economy, the central banks of major developed economies cut interest rates one after another and the world entered a period of accommodative monetary policies. Faced with the complicated and severe internal and external environment, China continued to further the supply-side structural reform and made great efforts to ensure the “Stabilization of Six Aspects”. In terms of fiscal policies, tax cuts and fee reduction have been implemented to reduce the operating costs of enterprises; in terms of monetary policies, counter-cyclical adjustment measures have been enhanced, thereby strengthened the financial support for the real economy, and effectively ensured the smooth operation of the economy and financial markets.

In 2019, the economy of Shandong Province remained generally stable, while accelerating the replacement of old drivers of growth with new ones, scaling down overcapacity, shutting down outdated production facilities, promoting the development of advanced manufacturing industry, and continuously increasing the investment in the “Top Ten” industries. Qingdao has steadily pushed forward and implemented the “Fifteen Offenses”, while continuously gathering high-quality development momentum and promoting economic growth potential.

2. SUMMARY OF OVERALL OPERATIONS

2.1 Status of Key Operational Indicators Achievements

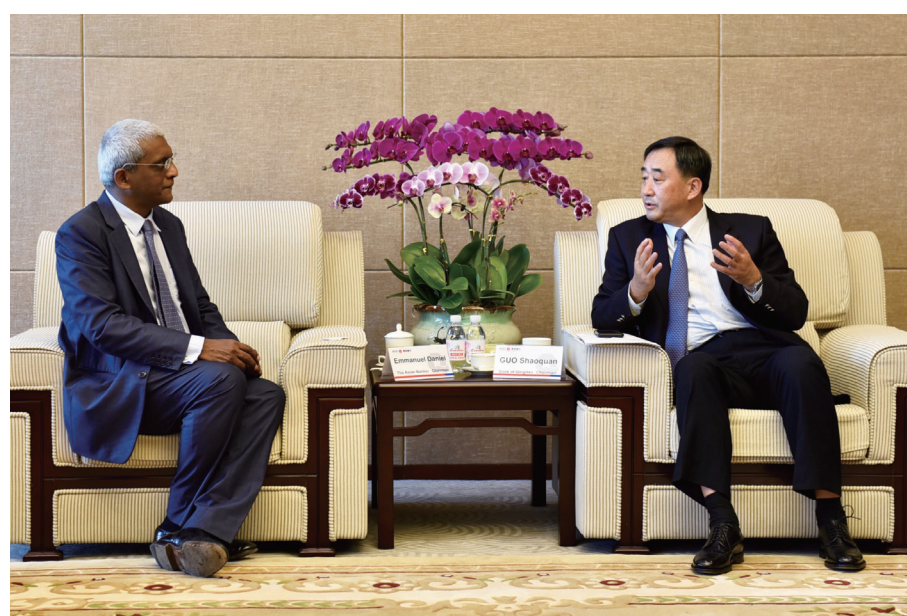
- (1) Total assets amounted to RMB373.622 billion, representing an increase of RMB55.964 billion or 17.62% as compared with that at the end of the previous year, achieving steady growth;
- (2) Total loans to customers amounted to RMB172.795 billion, representing an increase of RMB46.409 billion or 36.72% as compared with that at the end of the previous year, maintaining rapid growth;
- (3) Total deposits from customers amounted to RMB212.791 billion, representing an increase of RMB37.115 billion or 21.13% as compared with that at the end of the previous year, achieving the goal of “RMB200 billion”;
- (4) Operating income amounted to RMB9.622 billion, representing a year-on-year increase of RMB2.257 billion or 30.65%, maintaining rapid growth; net profit amounted to RMB2.336 billion, representing a year-on-year increase of RMB292 million or 14.30%;
- (5) Non-performing loan ratio was 1.65%, representing a decrease of 0.03 percentage point as compared with that at the end of the previous year; provision coverage ratio was 155.09%; capital adequacy ratio was 14.76%, representing a decrease of 0.92 percentage point as compared with that at the end of the previous year. Net proceeds of RMB1.963 billion was raised from the Bank’s initial public offering of A Shares. Profit grew steadily and replenish the capital. Meanwhile, a considerable increase in risk-weighted assets and a slight decrease in the indicators of capital adequacy ratio were recorded given the faster business development;
- (6) Return on average total assets was 0.68%, representing an increase of 0.02 percentage point as compared with that in the previous year;
- (7) Basic earnings per share was RMB0.39, representing a year-on-year increase of RMB0.02; weighted average return on net assets was 8.27%, representing a year-on-year decrease of 0.09 percentage point, mainly due to the Bank’s initial public offering of A Shares and the significant increase in weighted average net assets for the current period.

2.2 Major Tasks of Operational Management

- (1) With the listing of A Shares, the Bank has embarked on a new journey of development. On 16 January 2019, the Bank was successfully listed on the Shenzhen Stock Exchange, becoming the first bank in Shandong Province with its A Shares listed as well as the second city commercial bank in the PRC with its A Shares and H Shares listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, respectively. With the “A+H” dual listing, the Bank enriched its capital replenishment channels, diversified its capital structure, and promoted its social reputation and brand image comprehensively.

Section VI Discussion and Analysis of Operations

- (2) The Bank achieved comprehensive development and new breakthroughs in its businesses amid challenges. Furthering the "Enhancement Plan" continuously, local branches in Qingdao and other branches in Shandong Province made great efforts and increased their share of local deposits. Accordingly, the Bank's general deposits broke through and stood firm at the goal of RMB200 billion, credit card issuance in the year exceeded 1 million, the balance of wealth management products exceeded RMB100 billion, and its market share remained No. 1 in Shandong Province.
- (3) The Bank developed a new comprehensive service system to optimize the specialization of financial business. While maintaining its advantages in public finance, the Bank spared no effort in building up its characteristic professional expertise in investment banking, technology, port financing, and cultural and creative segments. The Bank continuously enriched the two major product systems of transaction banking and supply chain financing, and improved its customers' comprehensive operating capabilities significantly.
- (4) The Bank opened up new channels for online customers and achieved remarkable results in the transformation of retail business. Furthermore, the Bank enriched the product lines and improved customer's operating abilities, the retail financial assets thus grew rapidly. On the basis of the traditional off-line customer acquisition model, the Bank established online customer acquisition channel leveraging credit card and cloud payment services, as a result of which the customer base grew rapidly.
- (5) The Bank took various measures for disposal of non-performing loans and opened up a new horizon for risk management. The Bank comprehensively promoted the integrated management of credit risks, adopted a vertical approval structure, and improved the approval efficiency. Furthermore, the Bank increased the write-off and clearance of non-performing loans and took more prudent measures in risk asset classification, with loans overdue for more than 60 days all included in non-performing loan management. Asset quality remained stable with upward tendency, while non-performing loan ratio continued to decline.
- (6) The Bank strengthened support capacity of the mid-end and back-end, and opened up a new vista for smart operation. With the centralized operation center's ability of the systematic workflow of the headquarters and under the guidance of centralized account opening, authorizing and dealing with settlement business, the Bank integrated and reshaped its business procedures, hence effectively reduced the burden on the front-line and released the workload of outlets and enhanced the efficiency of its single business. Meanwhile, the Bank successfully promoted the smart outlet project and provided its customers with a brand new financial service experience through light tablet devices and innovative consulting services, setting the Bank apart from other traditional banking business procedure modes.



In November 2019, the Chairman Mr. GUO Shaoquan was interviewed by the Asian Banker magazine about the "Leader in Financial Industry".

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

3.1 Financial Performance Summary

During the year 2019, the Company's profit before taxation amounted to RMB2.829 billion, representing a year-on-year increase of RMB353 million or 14.24%; net profit amounted to RMB2.336 billion, representing a year-on-year increase of RMB292 million or 14.30%; and effective income tax rate was 17.43%, representing a slight year-on-year decrease of 0.04 percentage point. The following table sets forth the changes in the Company's major profit items during the periods indicated.

Unit: RMB'000

Item	2019	2018	Change in amount	Change (%)
Net interest income	6,846,055	4,464,029	2,382,026	53.36
Net fee and commission income	1,216,880	865,757	351,123	40.56
Net trading gains, net gains arising from investments and other operating income, net	1,559,174	2,035,052	(475,878)	(23.38)
Operating expenses	(3,166,762)	(2,505,650)	(661,112)	26.38
Credit impairment losses	(3,626,792)	(2,383,172)	(1,243,620)	52.18
Profit before taxation	2,828,555	2,476,016	352,539	14.24
Income tax expense	(493,033)	(432,627)	(60,406)	13.96
Net profit	2,335,522	2,043,389	292,133	14.30
Of which: Net profit attributable to shareholders of the Bank	2,284,815	2,023,352	261,463	12.92
Net profit attributable to non-controlling interests	50,707	20,037	30,670	153.07

3.2 Operating Income

During the year 2019, the Company's operating income amounted to RMB9.622 billion, representing a year-on-year increase of RMB2.257 billion or 30.65%, mainly due to the increase in the scale of the Company, the optimization of structure and the decrease in cost of funds, resulting in the rapid increase in net interest income; and a good development in wealth management business, resulting in the rapid growth in net fee and commission income. Among the operating income, net interest income accounted for 71.15%, representing a year-on-year increase of 10.54 percentage points, and net fee and commission income accounted for 12.65%, representing a year-on-year increase of 0.89 percentage point. The following table sets forth the principal components of the Company's operating income and the changes during the periods indicated.

Unit: RMB'000

Item	2019		2018		Percentage changes (percentage point)
	Amount	Percentage (%)	Amount	Percentage (%)	
Net interest income	6,846,055	71.15	4,464,029	60.61	10.54
Interest income	14,515,004	150.85	11,886,901	161.40	(10.55)
Among which: Loans and advances to customers	7,686,778	79.89	5,384,339	73.11	6.78
Financial investments	5,400,084	56.12	5,336,522	72.46	(16.34)
Deposits with banks and other financial institutions	13,005	0.14	16,443	0.22	(0.08)
Placements with banks and other financial institutions	257,712	2.68	192,311	2.61	0.07
Deposits with central bank	352,657	3.67	372,106	5.05	(1.38)
Financial assets held under resale agreements	306,078	3.18	250,380	3.40	(0.22)
Long-term receivables	498,690	5.18	334,800	4.55	0.63
Interest expense	(7,668,949)	(79.70)	(7,422,872)	(100.79)	(21.09)
Net non-interest income	2,776,054	28.85	2,900,809	39.39	(10.54)
Among which: Net fee and commission income	1,216,880	12.65	865,757	11.76	0.89
Net trading gains, net gains arising from investments and other operating income, net	1,559,174	16.20	2,035,052	27.63	(11.43)
Operating income	9,622,109	100.00	7,364,838	100.00	—

3.3 Net Interest Income

During the year 2019, the Company's net interest income amounted to RMB6.846 billion, representing a year-on-year increase of RMB2.382 billion or 53.36%, mainly due to increase in the scale of the Company, the optimization of structure and the decrease in cost of funds, resulting in the increase in net interest margin. 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	2019			2018		
	Average balance	Interest income/expense	Average yield/cost rate	Average balance	Interest income/expense	Average yield/cost rate
Interest-earning assets						
Loans and advances to customers	149,808,054	7,686,778	5.13%	110,426,678	5,384,339	4.88%
Financial investment	118,470,086	5,400,084	4.56%	116,649,833	5,336,522	4.57%
Deposits and placements with banks and other financial institutions ⁽¹⁾	21,038,678	576,795	2.74%	16,958,926	459,134	2.71%
Deposits with central bank	22,895,654	352,657	1.54%	24,295,572	372,106	1.53%
Long-term receivables	8,720,607	498,690	5.72%	6,176,869	334,800	5.42%
Total	320,933,079	14,515,004	4.52%	274,507,878	11,886,901	4.33%
Interest-bearing liabilities						
Deposits from customers	187,244,159	3,434,379	1.83%	165,231,398	2,985,319	1.81%
Deposits and placements from banks and other financial institutions ⁽²⁾	48,344,197	1,386,247	2.87%	50,988,694	1,703,250	3.34%
Debt securities issued	72,417,074	2,588,388	3.57%	55,646,320	2,446,785	4.40%
Others	8,436,605	259,935	3.08%	7,274,229	287,518	3.95%
Total	316,442,035	7,668,949	2.42%	279,140,641	7,422,872	2.66%
Net interest income	/	6,846,055	/	/	4,464,029	/
Net interest spread	/	/	2.10%	/	/	1.67%
Net interest margin	/	/	2.13%	/	/	1.63%

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.

In 2019, the average balance of interest-earning assets was RMB320.933 billion, representing a year-on-year increase of RMB46.425 billion or 16.91%, mainly due to the rapid growth in loans. Net interest margin was 2.13%, representing a year-on-year increase of 0.50 percentage point, and net interest spread was 2.10%, representing a year-on-year increase of 0.43 percentage point, which was mainly due to the Company's successful structural adjustment, resulting in a rapid growth in loans and increase in the yield of interest-earning assets; and the decrease in cost rate of the interbank bonds and debt securities issued while the scale of liabilities increased.

Section VI Discussion and Analysis of Operations

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

Unit: RMB'000

Item	2019 vs. 2018		
	Due to volume	Due to rate	Net increase (decrease)
Assets			
Loans and advances to customers	2,026,372	276,067	2,302,439
Financial investment	75,227	(11,665)	63,562
Deposits and placements with banks and other financial institutions	112,573	5,088	117,661
Deposits with central bank	(21,879)	2,430	(19,449)
Long-term receivables	145,359	18,531	163,890
Interest income changes	2,337,652	290,451	2,628,103
Liabilities			
Deposits from customers	416,014	33,046	449,060
Deposits and placements from banks and other financial institutions	(77,356)	(239,647)	(317,003)
Debt securities issued	603,467	(461,864)	141,603
Others	35,703	(63,286)	(27,583)
Interest expense changes	977,828	(731,751)	246,077
Net interest income changes	1,359,824	1,022,202	2,382,026



In May 2019, the President Mr. WANG Lin attended the roadshow competition of "Shares and Bonds" (股債雙融), Qingdao New and Old Kinetic Energy Conversion Fund in "Qingdao Bank Cup" and delivered a speech.

3.4 Interest Income

In 2019, the Company's interest income was RMB14.515 billion, representing a year-on-year increase of RMB2.628 billion or 22.11%, mainly due to the rapid growth in loans and an increase in the yield on interest-earning assets. The interest income from loans and advances to customers and from financial investments constituted major components of the interest income of the Company.

Interest income of loans and advances to customers

In 2019, the Company's interest income from loans and advances to customers amounted to RMB7.687 billion, representing a year-on-year increase of RMB2.302 billion or 42.76%, mainly due to the Company's successful structural adjustment, resulting in a rapid growth in loans and increase in overall 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	2019			2018		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	93,398,927	4,917,025	5.26%	70,943,467	3,478,800	4.90%
Discounted bills	9,968,639	386,911	3.88%	6,001,728	289,740	4.83%
Personal loans	46,440,488	2,382,842	5.13%	33,481,483	1,615,799	4.83%
Total loans	149,808,054	7,686,778	5.13%	110,426,678	5,384,339	4.88%

Interest income from financial investments

In 2019, the Company's interest income from financial investments was RMB5.400 billion, representing a year-on-year increase of RMB64 million or 1.19%, mainly due to the steady financial investment strategies of the Company, moderate control on the scale of investment and adjustment to the investment structure, resulting in steady operation of the investment business.

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

In 2019, the Company's interest income from deposits and placements with banks and other financial institutions amounted to RMB577 million, representing a year-on-year increase of RMB118 million or 25.63%, mainly attributable to the flexible capital allocation strategy of the Company, which moderately increased the capital scale of high-yield placements with banks and other financial institutions based on the situation of the capital market.

3.5 Interest Expense

In 2019, the Company's interest expenses amounted to RMB7.669 billion, representing a year-on-year increase of RMB246 million or 3.32%, mainly due to the fact that the Company optimized its debt structure and lowered the cost rate of interbank bonds and debt securities issued while its debt scale expanded, resulting in a lower increase in interest expenses. Interest expenses on deposits from customers and debt securities issued were major components of the interest expense of the Company.

Interest expense on deposits from customers

In 2019, the Company's interest expense on deposits from customers was RMB3.434 billion, representing a year-on-year increase of RMB449 million or 15.04%, mainly due to the fact that the Company enhanced pricing management while deposits grew at a faster speed, with cost rate remaining generally stable.

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	2019			2018		
	Average balance	Interest expense	Average cost rate	Average balance	Interest expense	Average cost rate
Corporate deposits						
Demand	74,841,714	583,655	0.78%	64,148,692	462,778	0.72%
Time	52,643,822	1,426,135	2.71%	46,602,161	1,293,864	2.78%
Sub-total	127,485,536	2,009,790	1.58%	110,750,853	1,756,642	1.59%
Personal deposits						
Demand	18,674,429	56,418	0.30%	17,782,346	55,330	0.31%
Time	41,084,194	1,368,171	3.33%	36,698,199	1,173,347	3.20%
Sub-total	59,758,623	1,424,589	2.38%	54,480,545	1,228,677	2.26%
Total deposits from customers	187,244,159	3,434,379	1.83%	165,231,398	2,985,319	1.81%

Section VI Discussion and Analysis of Operations

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

In 2019, the Company's interest expense on deposits and placements from banks and other financial institutions amounted to RMB1.386 billion, representing a year-on-year decrease of RMB317 million or 18.61%, mainly due to the fact that the Company enhanced daily management of interbank liabilities and moderately controlled daily average scale and structure, with decrease in both cost rate and scale.

Interest expense on debt securities issued

In 2019, the Company's interest expense on debt securities issued amounted to RMB2.588 billion, representing a year-on-year increase of RMB142 million or 5.79%, mainly due to the fact that the Company actively grasped the interest rate downward trend in financial markets, optimized the structure of active liabilities and increased the issuance of low-cost certificates of interbank deposit while increasing the issuance of financial bonds, resulting in a lower increase in interest expenses.

3.6 Net Non-interest Income

In 2019, the Company's net non-interest income was RMB2.776 billion, representing a year-on-year decrease of RMB125 million or 4.30%. The following table sets forth the components of the Company's net non-interest income for the periods indicated.

Unit: RMB'000

Item	2019	2018
Fee and commission income	1,346,116	943,582
Less: Fee and commission expense	(129,236)	(77,825)
Net fee and commission income	1,216,880	865,757
Net trading gains, net gains arising from investments and other operating income, net	1,559,174	2,035,052
Total net non-interest income	2,776,054	2,900,809



The 6th Youth Forum was held by the Bank in April 2019, and employees of the Bank participated in the salon discussion at the themed forum.

3.7 Net Fee and Commission Income

In 2019, the Company's net fee and commission income amounted to RMB1.217 billion, representing a year-on-year increase of RMB351 million or 40.56%, mainly due to an increase in income of service fees as a result of the rapid development of wealth management, agency service, bank card and other businesses. The following table sets forth the components of the Company's net fee and commission income for the periods indicated.

Unit: RMB'000

Item	2019	2018
Fee and commission income	1,346,116	943,582
Of which: Wealth management service fees	695,313	486,879
Agency service fees	339,855	239,702
Custody and bank card service fees	131,056	34,716
Financial leasing fees	118,743	114,702
Settlement fees	41,057	30,921
Others	20,092	36,662
Less: Fee and commission expense	(129,236)	(77,825)
Net fee and commission income	1,216,880	865,757

In 2019, the Company's wealth management service fees amounted to RMB695 million, representing a year-on-year increase of RMB208 million or 42.81%, mainly due to profitability improvement resulting from increase in the Company's wealth management scale; agency service fees amounted to RMB340 million, representing a year-on-year increase of RMB100 million or 41.78%, mainly due to an increase in commission fee from the sales agency business for trust products and underwriting fees for bond financing instruments; custody and bank card service fees amounted to RMB131 million, representing a year-on-year increase of RMB96 million or 277.51%, mainly due to an increase in credit card service fees income; settlement fees amounted to RMB41 million, representing a year-on-year increase of RMB10 million or 32.78%, mainly due to the increase of income from bank acceptances service fees and trade settlement fees; income from other service fees amounted to RMB20 million, representing a year-on-year decrease of RMB17 million or 45.20%, mainly due to the decrease of income from the service fees of the factoring financing business.

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

In 2019, the Company's net trading gains, net gains arising from investments and other operating income, net amounted to RMB1.559 billion, representing a year-on-year decrease of RMB476 million or 23.38%, mainly due to 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 national policy guidance and steady financial investment strategy, as well as the effects brought by market exchange rate fluctuations. The following table sets forth the 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	2019	2018
Net trading gains	152,464	410,807
Net gains arising from investments	1,380,437	1,617,354
Other operating income, net	26,273	6,891
Total	1,559,174	2,035,052

3.9 Operating Expenses

In 2019, the Company's operating expenses amounted to RMB3.167 billion, representing a year-on-year increase of RMB661 million or 26.38%. In particular, staff costs increased by RMB368 million or 27.83% on a year-on-year basis, mainly due to the increase in staff number and personnel expenses resulting from business development. Tax and surcharges increased by RMB26 million or 35.19% on a year-on-year basis, mainly due to an increase in tax bases resulting from business growth. Other general and administrative expenses increased by RMB224 million or 44.59% on a year-on-year basis, mainly due to an increase in advertising expenses and other business development fees resulting from business development. The following table sets forth the components of the Company's operating expenses for the periods indicated.

Unit: RMB'000

Item	2019	2018
Staff costs	1,691,541	1,323,271
Property and equipment expenses	646,952	604,676
Tax and surcharges	101,186	74,848
Other general and administrative expenses	727,083	502,855
Total operating expenses	3,166,762	2,505,650

3.10 Credit Impairment Losses

In 2019, the Company's credit impairment losses amounted to RMB3.627 billion, representing a year-on-year increase of RMB1.244 billion or 52.18%. Credit impairment losses from loans and advances to customers constituted the largest component of the credit impairment losses. The following table sets forth the components of the Company's credit impairment losses for the periods indicated.

Unit: RMB'000

Item	2019	2018
Deposits with banks and other financial institutions	(98)	178
Placements with banks and other financial institutions	4,945	9,927
Financial assets held under resale agreements	820	(1,689)
Loans and advances to customers	3,026,604	2,213,707
Financial investments measured at amortized cost	401,784	87,746
Financial investments at fair value through other comprehensive income	61,177	26,963
Long-term receivables	130,299	64,512
Credit commitments	(5,249)	(36,086)
Others	6,510	17,914
Total credit impairment losses	3,626,792	2,383,172

In 2019, credit impairment losses from loans and advances to customers amounted to RMB3.027 billion, representing a year-on-year increase of RMB813 million or 36.72%, mainly due to the fact that the Company stepped up efforts in disposing of risk assets and increased provision for impairment to adapt to the loan risk conditions in response to an overall faster growth in loans and an increase in risk of borrowers in certain regions.

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

4.1 Assets

As at the end of the year 2019, the Company's total assets amounted to RMB373.622 billion, representing an increase of RMB55.964 billion or 17.62% 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	31 December 2019		31 December 2018		Change from the end of last year		31 December 2017	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Loans and advances to customers ⁽¹⁾	169,158,291	45.28	123,366,891	38.84	37.12	6.44	95,514,680	31.19
Financial investments measured at amortized cost	64,491,058	17.26	70,032,056	22.05	(7.91)	(4.79)	N/A	N/A
Financial investments measured at fair value through other comprehensive income	54,973,781	14.71	53,002,751	16.69	3.72	(1.98)	N/A	N/A
Financial investments measured at fair value through profit or loss	22,912,561	6.13	22,361,816	7.04	2.46	(0.91)	179,078	0.06
Cash and deposits with central bank	39,704,840	10.63	29,554,430	9.30	34.34	1.33	27,097,814	8.85
Deposits with banks and other financial institutions	1,312,468	0.35	1,542,437	0.49	(14.91)	(0.14)	1,107,946	0.36
Placements with banks and other financial institutions	3,313,603	0.89	4,110,464	1.29	(19.39)	(0.40)	2,882,727	0.94
Derivative financial assets	12,436	-	-	-	12,436	-	-	-
Financial assets held under resale agreements	2,325,771	0.62	300,262	0.09	674.58	0.53	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	9,037,819	2.42	7,766,698	2.44	16.37	(0.02)	4,076,396	1.33
Property and equipment	3,048,813	0.82	3,124,355	0.98	(2.42)	(0.16)	3,089,017	1.01
Right-of-use assets	818,928	0.22	N/A	N/A	N/A	N/A	N/A	N/A
Deferred tax assets	1,581,905	0.42	1,152,778	0.36	37.23	0.06	1,084,286	0.35
Other assets	929,876	0.25	1,343,564	0.43	(30.79)	(0.18)	3,249,597	1.06
Total assets	373,622,150	100	317,658,502	100.00	17.62	-	306,276,092	100.00

Note:

- (1) In accordance with the Notice on the Revision and Issuance of the Format of the Financial Statements of Financial Enterprises for 2018 (Cai Kuai [2018] No. 36) released by the Ministry of Finance, the book balances of financial instruments including loans and advances to customers as of the end of the years 2019 and 2018 include interest not yet matured measured using the effective interest rate method.

4.1.1 Loans and advances to customers

As at the end of the year 2019, the Company's loans and advances to customers amounted to RMB169.158 billion, representing an increase of RMB45.791 billion or 37.12% as compared with that at the end of last year; accounting for 45.28% of the Company's total assets, representing an increase of 6.44 percentage points as compared with that at the end of last year. During the Reporting Period, following the Central Bank's monetary policy, the Company actively expanded the scale of credit supply to support economic development, loans maintained rapid growth, which accounted for a continuously increased percentage in the total assets and further optimized 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	31 December 2019		31 December 2018		Change from the end of last year		31 December 2017	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Corporate loans	112,036,804	64.83	78,264,271	61.92	43.15	2.91	64,363,848	65.64
Discounted bills	6,249,822	3.62	6,772,625	5.36	(7.72)	(1.74)	2,951,203	3.01
Personal loans	54,508,817	31.55	41,349,974	32.72	31.82	(1.17)	30,746,328	31.35
Total customer loans	172,795,443	100.00	126,386,870	100.00	36.72	-	98,061,379	100.00
Add: Accrued interest	772,480	/	521,250	/	48.20	/	N/A	N/A
Less: Provision for impairment on loans and advances to customers measured at amortized cost	(4,409,632)	/	(3,541,229)	/	24.52	/	(2,546,699)	/
Loans and advances to customers	169,158,291	/	123,366,891	/	37.12	/	95,514,680	/

Corporate loans

As of the end of the year 2019, the Company's corporate loans amounted to RMB112.037 billion, representing an increase of RMB33.773 billion or 43.15% as compared with that at the end of last year, and accounted for 64.83% of the total customer loans (excluding accrued interest, the same hereinafter), representing an increase of 2.91 percentage points as compared with that at the end of last year. In 2019, in accordance with the requirements of the Central Bank's counter-cyclical adjustments, the Company seized the opportunity of replacing old drivers with new ones, implemented differentiated credit policies and lent greater support for the real economy in aspects such as supporting private economy and Small and Micro Enterprises. Meanwhile, the Company continued to support significant strategic projects such as infrastructure construction, supporting financing areas such as inclusive finance, green finance and technology finance on a priority basis.

Discounted bills

As at the end of the year 2019, the Company's discounted bills amounted to RMB6.250 billion, representing a decrease of RMB523 million or 7.72% as compared with that at the end of last year, and accounted for 3.62% of the total customer loans, representing a decrease of 1.74 percentage points as compared with that at the end of last year. This was mainly due to the Company's optimization of asset and liability structure with taking into account the needs of profitability and liquidity management and moderate adjustments on the scale of discounted bills.

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Personal loans

As at the end of the year 2019, the Company's personal loans amounted to RMB54.509 billion, representing an increase of RMB13.159 billion or 31.82% as compared with that at the end of last year, and accounted for 31.55% of the total customer loans, representing a decrease of 1.17 percentage points as compared with that at the end of last year. In 2019, under the premise of effective risk management and control, the Bank steadily developed housing loans, actively promoted inclusive finance, and explored the development of consumer loans. The Bank has implemented a series of measures such as adjustment of credit structure, adjustment and control of supply pace, and prevention and control of substantial risks to enhance the "quality, scale and efficiency" of retail loans simultaneously.

4.1.2 Financial investments

As at the end of the year 2019, the Company's carrying value of financial investments amounted to RMB142.377 billion, representing a decrease of RMB3.019 billion or 2.08% as compared with that at the end of last year. The following table sets forth the components of the Company's financial investment portfolio as at the dates indicated.

Unit: RMB'000

Item	31 December 2019		31 December 2018	
	Amount	% of total	Amount	% of total
Financial investments measured at fair value through profit or loss	22,912,561	16.09	22,361,816	15.38
Financial investments measured at fair value through other comprehensive income	54,973,781	38.61	53,002,751	36.45
Financial investments measured at amortized cost	64,491,058	45.30	70,032,056	48.17
Financial investments	142,377,400	100.00	145,396,623	100.00

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Financial investments measured at fair value through profit or loss

As at the end of the year 2019, the Company's carrying value of financial investments measured at fair value through profit or loss amounted to RMB22.913 billion, representing an increase of RMB551 million or 2.46% as compared with that at the end of last year. The increase was mainly due to increased investment in bond mutual funds with tax-exempt advantages and relatively higher returns, and the compression of non-standard assets under entrusted management. The following table sets forth the components of the Company's financial investments measured at fair value through profit or loss as at the dates indicated.

Unit: RMB'000

Item	31 December 2019	31 December 2018
Debt securities issued by banks and other financial institutions	676,304	206,985
Debt securities issued by corporate entities	124,557	30,295
Asset management plans	9,240,047	9,354,611
Investment funds	9,008,256	7,467,620
Trust fund plans	2,829,424	3,221,359
Wealth management products	1,033,973	2,080,946
Financial investments measured at fair value through profit or loss	22,912,561	22,361,816



The customer manager of the Bank visited agricultural enterprise customers to understand their credit needs on-site.

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Financial investments measured at fair value through other comprehensive income

As at the end of the year 2019, the Company's carrying value of financial investments measured at fair value through other comprehensive income amounted to RMB54.974 billion, representing an increase of RMB1.971 billion or 3.72% as compared with that at the end of last year. The increase was mainly due to the appropriate reduction in exposure to policy financial bonds and the increase in the scale of investment in government bonds and non-financial corporate bonds according to overall market conditions and taking into account trading strategies. The following table sets forth the components of the Company's financial investment measured at fair value through other comprehensive income as at the dates indicated.

Unit: RMB'000

Item	31 December 2019	31 December 2018
Government bonds	12,412,488	7,116,493
Debt securities issued by policy banks	4,776,962	11,799,812
Debt securities issued by banks and other financial institutions	8,027,292	10,117,686
Debt securities issued by corporate entities	20,848,475	17,828,393
Asset management plans	7,128,140	5,062,908
Other investments	705,543	–
Equity investments	23,250	23,250
Add: Accrued interest	1,051,631	1,054,209
Financial investments measured at fair value through other comprehensive income	54,973,781	53,002,751

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Financial investments measured at amortized cost

As at the end of the year 2019, the Company's carrying value of financial investments measured at amortized cost amounted to RMB64.491 billion, representing a decrease of RMB5.541 billion or 7.91% as compared with that at the end of last year. The decrease was mainly due to the fact that the Company implemented macro-policy guidance, strengthened market research and judgment, and ceased to expand the scale after the expiry of a large number of asset management plans of securities brokers under entrusted management, and only moderately increased local bonds and non-financial corporate bond investments. The following table sets forth the components of the Company's financial investments measured at amortized cost as at the dates indicated.

Unit: RMB'000

Item	31 December 2019	31 December 2018
Government bonds	11,196,072	9,431,022
Debt securities issued by policy banks	13,143,054	13,887,327
Debt securities issued by banks and other financial institutions	11,288,474	11,296,117
Debt securities issued by corporate entities	2,475,729	1,229,620
Asset management plans	16,285,720	23,529,175
Trust fund plans	5,052,516	4,850,229
Other investments	4,800,000	5,170,000
Total financial investments measured at amortized cost	64,241,565	69,393,490
Add: Accrued interest	1,118,779	1,106,068
Less: Provision for impairment losses	(869,286)	(467,502)
Carrying value of financial investments measured at amortized cost	64,491,058	70,032,056



In June 2019, the Bank attended the Qingdao Wealth Management Financial Service Expo.

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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

Name of bond	Maturity date	Interest rates (%)	Nominal value	Impairment data
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 Nong Fa 06	2028-05-11	4.65	1,920,000	197
15 Jin Chu 19	2036-01-12	3.88	1,500,000	157
17 Guo Kai 10	2027-04-10	4.04	1,492,000	149
17 Nong Fa 05	2027-01-06	3.85	1,440,000	140
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	116
15 Jin Chu 14	2025-09-14	3.87	1,000,000	101

4.2 Liabilities

As at the end of the year 2019, the Company's total liabilities amounted to RMB343.144 billion, representing an increase of RMB52.982 billion or 18.26% as compared with that at the end of last year. The increase was mainly due to a faster increase in deposits from customers. The following table sets forth the components of the Company's total liabilities as at the dates indicated.

Unit: RMB'000

Item	31 December 2019		31 December 2018		Change from the end of last year		31 December 2017	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Deposits from customers ⁽¹⁾	215,425,403	62.78	177,911,247	61.31	21.09	1.47	160,083,783	57.14
Deposits from banks and other financial institutions	16,462,527	4.80	11,632,982	4.01	41.52	0.79	24,901,934	8.89
Borrowings from central bank	5,536,650	1.61	10,878,835	3.75	(49.11)	(2.14)	584,215	0.21
Placements from banks and other financial institutions	9,916,257	2.89	7,207,066	2.48	37.59	0.41	5,774,299	2.06
Derivative financial liabilities	8,805	-	-	-	8,805	-	353,220	0.13
Financial assets sold under repurchase agreements	16,027,082	4.67	14,850,333	5.12	7.92	(0.45)	11,899,583	4.25
Income tax payable	187,027	0.05	13,174	0.01	1,319.67	0.04	57,167	0.02
Debt securities issued	76,858,899	22.40	65,240,507	22.48	17.81	(0.08)	68,632,691	24.50
Lease liabilities	427,429	0.12	N/A	N/A	N/A	N/A	N/A	N/A
Other liabilities	2,294,153	0.68	2,427,634	0.84	(5.50)	(0.17)	7,865,991	2.8
Total liabilities	343,144,232	100.00	290,161,778	100.00	18.26	-	280,152,883	100.00

Note: (1) In accordance with the Notice on the Revision and Issuance of the Format of the Financial Statements of Financial Enterprises for 2018 (Cai Kuai [2018] No. 36) released by the Ministry of Finance, the book balances of financial instruments such as deposits from customers as of the end of the years 2019 and 2018 include interest not yet matured measured using the effective interest rate method.

4.2.1 Deposits from customers

As at the end of the year 2019, the Company's deposits from customers amounted to RMB215.425 billion, representing an increase of RMB37.514 billion or 21.09% as compared with that at the end of last year; accounting for 62.78% of the Company's total liabilities, representing an increase of 1.47 percentage points as compared with that at the end of last year, further consolidating its fundamental position as a major source of operating funds. The following table sets forth the components of Company's deposits from customers by product type and customer type as at the dates indicated.

Unit: RMB'000

Item	31 December 2019		31 December 2018		Change from the end of last year		31 December 2017	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Corporate deposits	147,880,817	69.50	118,644,749	67.54	24.64	1.96	107,274,155	67.01
Demand deposits	92,593,934	43.51	72,852,694	41.47	27.10	2.04	65,421,504	40.87
Time deposits	55,286,883	25.98	45,792,055	26.07	20.73	(0.09)	41,852,651	26.14
Personal deposits	64,796,343	30.45	56,898,658	32.39	13.88	(1.94)	52,225,500	32.62
Demand deposits	20,622,060	9.69	18,313,340	10.43	12.61	(0.74)	17,935,483	11.20
Time deposits	44,174,283	20.76	38,585,318	21.96	14.48	(1.20)	34,290,017	21.42
Outward remittance and remittance payables	100,697	0.05	131,519	0.07	(23.44)	(0.02)	566,193	0.36
Fiscal deposits to be transferred	13,052	0.01	923	0.00	1,314.08	0.01	17,935	0.01
Total customer deposits	212,790,909	100.00	175,675,849	100.00	21.13	0.00	160,083,783	100.00
Add: Accrued interests	2,634,494	/	2,235,398	/	17.85	/	N/A	N/A
Deposits from customers	215,425,403	/	177,911,247	/	21.09	/	160,083,783	/

As at the end of the year 2019, the Company's demand deposits accounted for 53.20% of the total deposits from customers (excluding accrued interest, the same hereinafter), representing an increase of 1.30 percentage points as compared with that at the end of last year. Among those deposits, corporate demand deposits accounted for 62.61% of corporate deposits, representing an increase of 1.21 percentage points as compared with that at the end of last year; and personal demand deposits accounted for 31.83% of personal deposits, representing a decrease of 0.36 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 year 2019, the Company's deposits from banks and other financial institutions amounted to RMB16.463 billion, representing an increase of RMB4.830 billion or 41.52% as compared with that at the end of last year, mainly due to the Company's strengthened management on active interbank liability, appropriate increase in scale of deposits from banks in light of the capital market situation and the demands for liquidity management.

4.2.3 Borrowings from Central Bank

As at the end of the year 2019, the Company's borrowing from central bank amounted to RMB5.537 billion, representing a decrease of RMB5.342 billion or 49.11% as compared with that at the end of last year, mainly due to a decrease in the scale of mid-term lending facilities.

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4.2.4 Financial assets sold under repurchase agreements

As at the end of the year 2019, the Company's financial assets sold under repurchase agreements amounted to RMB16.027 billion, representing an increase of RMB1.177 billion or 7.92% as compared with that at the end of last year, mainly due to Company's strengthened management on liquidity of funds and appropriate increase in the business scale of bonds sold under repurchase agreements.

4.2.5 Debt securities issued

As at the end of the year 2019, the Company's debt securities issued amounted to RMB76.859 billion, representing an increase of RMB11.618 billion or 17.81% as compared with that at the end of last year, mainly due to the fact that market recognition has increased and finance costs of bond issuance have decreased after the Company's "A+H" dual listing, therefore, the issuance of financial bonds was appropriately increased. For details of the bonds, please refer to Note 34 "Debt Securities Issued" to the financial statements of this annual report.

4.3 Equity Attributable to Shareholders

As at the end of the year 2019, the shareholders' equity of the Company amounted to RMB30.478 billion, representing an increase of RMB2.981 billion or 10.84% as compared with that at the end of last year. Equity attributable to equity shareholders of the Bank amounted to RMB29.915 billion, representing an increase of RMB2.930 billion or 10.86% as compared with that at the end of last year, mainly due to the fact that the Bank completed the initial public offering of 451,000,000 A Shares in the first half of the year 2019, raised proceeds of RMB1.963 billion, and increased accrued and retained earnings. The following table sets forth the components of the Company's shareholders' equity as at the dates indicated.

Unit: RMB'000

Item	31 December 2019	31 December 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	658,230	553,193
Surplus reserve	1,626,662	1,403,575
General risk reserve	4,400,258	3,969,452
Retained earnings	2,528,787	2,319,800
Total equity attributable to equity shareholders of the Bank	29,915,460	26,984,973
Non-controlling interests	562,458	511,751
Total equity	30,477,918	27,496,724

4.4 Assets and Liabilities Measured at Fair Value

Unit: RMB'000

Main item	31 December 2018	Changes in fair value included in profit or loss for the current period	Cumulative changes in fair value recognized in equity	Impairment provided during the current period	31 December 2019
Financial investments measured at fair value through profit or loss	22,361,816	230,340	N/A	N/A	22,912,561
Loans and advances to customers measured at fair value through other comprehensive income	6,772,625	N/A	(1,300)	(3,660)	6,249,822
Financial investments measured at fair value through other comprehensive income	53,002,751	N/A	763,173	61,177	54,973,781
Derivative financial assets	–	12,436	N/A	N/A	12,436
Derivative financial liabilities	–	(8,805)	N/A	N/A	(8,805)

4.5 Derivative Financial Instruments

Unit: RMB'000

Item	31 December 2019		
	Nominal amount	Fair value of assets	Fair value of liabilities
Interest rate swaps and others	33,896,438	12,436	(8,805)

4.6 Restricted Asset Rights as at the End of the Reporting Period

Please refer to Note 46(7) "Pledged Assets" to the financial statements of this annual report.

5. ANALYSIS OF QUALITY OF LOANS

During the Reporting Period, the Company strengthened the quality management and control of credit assets. While the credit assets grew steadily, the quality of credit assets continued to optimize and the non-performing loan ratio decreased. As at the end of the Reporting Period, total loans of the Company (excluding accrued interest) amounted to RMB172.795 billion, representing an increase of 36.72% as compared with that at the end of last year; total non-performing loans amounted to RMB2.852 billion, representing an increase of RMB734 million as compared with that at the end of last year; non-performing loan ratio was 1.65%, representing a decrease of 0.03 percentage point 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	31 December 2019		31 December 2018	
	Amount	% of total	Amount	% of total
Normal loan	163,910,475	94.86	117,153,054	92.69
Special mention loan	6,033,401	3.49	7,116,638	5.63
Substandard loan	965,897	0.56	1,158,565	0.92
Doubtful loan	1,743,364	1.01	806,110	0.64
Loss loan	142,306	0.08	152,503	0.12
Total loans to customers	172,795,443	100.00	126,386,870	100.00
Total non-performing loans	2,851,567	1.65	2,117,178	1.68

Under the five-category classification system for loan supervision, the non-performing loans of the Company included substandard, doubtful and loss loans. As at the end of the Reporting Period, the non-performing loan ratio of the Company decreased by 0.03 percentage point as compared with that at the end of the previous year to 1.65%. Among which, the proportion of substandard loans decreased by 0.36 percentage point as compared with that at the end the previous year to 0.56%, the proportion of doubtful loans increased by 0.37 percentage point as compared with that at the end of the previous year to 1.01%, and the proportion of loss loans decreased by 0.04 percentage point as compared with that at the end of the previous year to 0.08%.

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

Unit: RMB'000

Item	31 December 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 (%)
Corporate loans	118,286,626	68.45	2,600,568	2.20	85,036,896	67.28	1,804,412	2.12
Working capital loans	61,383,532	35.52	2,408,158	3.92	51,737,819	40.94	1,582,176	3.06
Fixed asset loans	49,681,134	28.75	100,000	0.20	25,903,427	20.50	139,275	0.54
Import and export bills transactions	879,728	0.51	-	-	517,563	0.41	-	-
Discounted bills	6,249,822	3.62	-	-	6,772,625	5.36	-	-
Others	92,410	0.05	92,410	100.00	105,462	0.08	82,961	78.66
Retail loans	54,508,817	31.55	250,999	0.46	41,349,974	32.72	312,766	0.76
Personal housing loans	36,762,232	21.28	38,882	0.11	30,229,094	23.92	22,906	0.08
Personal consumption loans	9,470,211	5.48	19,387	0.20	3,827,588	3.03	12,503	0.33
Personal business loans	6,869,644	3.98	185,561	2.70	5,836,058	4.62	265,325	4.55
Others	1,406,730	0.81	7,169	0.51	1,457,234	1.15	12,032	0.83
Total loans to customers	172,795,443	100.00	2,851,567	1.65	126,386,870	100.00	2,117,178	1.68

5.3 Distribution of Loans and Non-performing Loans by Industry

Unit: RMB'000

Item	31 December 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 (%)
Corporate loans	118,286,626	68.45	2,600,568	2.20	85,036,896	67.28	1,804,412	2.12
Manufacturing	23,033,775	13.32	2,029,615	8.81	18,805,454	14.88	1,243,740	6.61
Construction	19,902,351	11.52	65,677	0.33	10,788,346	8.54	93,000	0.86
Real estate	19,673,198	11.39	102,600	0.52	8,849,735	7.00	102,600	1.16
Water conservancy, environment and public utility management	12,287,741	7.11	39,000	0.32	10,802,398	8.55	-	-
Wholesale and retail trade	11,628,689	6.73	288,677	2.48	9,654,849	7.64	198,476	2.06
Renting and business services	11,228,367	6.50	9,850	0.09	8,169,559	6.46	33,309	0.41
Financial services	6,677,300	3.86	-	-	5,456,155	4.32	-	-
Production and supply of electricity, heating power, gas and water	4,443,352	2.57	-	-	4,711,898	3.73	5,000	0.11
Transportation, storage and postal services	3,247,547	1.88	-	-	2,911,253	2.30	28,000	0.96
Others	6,164,306	3.57	65,149	1.06	4,887,249	3.86	100,287	2.05
Retail loans	54,508,817	31.55	250,999	0.46	41,349,974	32.72	312,766	0.76
Total loans to customers	172,795,443	100.00	2,851,567	1.65	126,386,870	100.00	2,117,178	1.68

5.4 Distribution of Loans and Non-performing Loans by Region

Unit: RMB'000

Region	31 December 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	172,795,443	100.00	2,851,567	1.65	126,386,870	100.00	2,117,178	1.68
Of which: Qingdao City	92,363,443	53.46	739,064	0.80	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	31 December 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	27,881,658	16.14	34,345	0.12	15,753,945	12.46	140,184	0.89
Guaranteed loans	46,794,567	27.08	2,415,504	5.16	36,502,920	28.88	1,596,311	4.37
Mortgage loans	75,145,703	43.48	401,718	0.53	54,738,421	43.32	375,969	0.69
Pledged loans	22,973,515	13.30	-	-	19,391,584	15.34	4,714	0.02
Total loans to customers	172,795,443	100.00	2,851,567	1.65	126,386,870	100.00	2,117,178	1.68

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	2,300,000	5.86	1.33
B	Renting and business services	2,000,000	5.10	1.16
C	Financial services	2,000,000	5.10	1.16
D	Real estate	1,600,000	4.08	0.93
E	Renting and business services	1,500,000	3.82	0.87
F	Water conservancy, environment and public utility management	1,280,000	3.26	0.74
G	Water conservancy, environment and public utility management	1,215,000	3.10	0.70
H	Construction	1,109,900	2.83	0.64
I	Real estate	1,014,400	2.58	0.59
J	Construction	1,000,000	2.53	0.57
Total		15,019,300	38.26	8.69

5.7 Distribution of Loans by Overdue Period

Unit: RMB'000

Overdue period	31 December 2019		31 December 2018	
	Amount of loans	% of total	Amount of loans	% of total
Overdue for 3 months (inclusive) or less	711,091	0.41	2,271,784	1.80
Overdue for over 3 months to 1 year (inclusive)	1,061,050	0.61	1,229,240	0.97
Overdue for over 1 year to 3 years (inclusive)	563,866	0.33	638,094	0.50
Overdue for over 3 years	159,443	0.09	214,698	0.17
Total overdue loans	2,495,450	1.44	4,353,816	3.44
Total loans to customers	172,795,443	100.00	126,386,870	100.00

As at the end of the Reporting Period, the overdue loans of the Company amounted to RMB2.495 billion, representing a decrease of RMB1,858 million as compared with that at the end of last year; the overdue loans accounted for 1.44% of the total loans of the Company, representing a decrease of 2.00 percentage points as compared with that at the beginning of the year. In particular, the loans overdue for 90 days or less amounted to RMB711 million, accounting for 0.41% of the total loans, representing a decrease of 1.39 percentage points as compared with that at the beginning of the year. The ratio of loans overdue for more than 90 days to non-performing loans was 0.63, representing a decrease of 0.35 as compared with that at the end of last year.

5.8 Repossessed Assets and Provision for Impairment

As at the end of 2019, the total amount of the repossessed assets of the Company was RMB111.3449 million with no provision for impairment, and the net amount of repossessed assets was RMB111.3449 million.

5.9 Changes in Provision for Impairment of Loans

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

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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 parameter estimation such as division of loss stages, probability of default, loss given default, exposure at default and discount rate, forward-looking adjustment and other adjustment factors. The following table sets forth the changes in the Company's provision for impairment of loans.

Unit: RMB'000

Item	2019	2018
Balance at the beginning of the year	3,557,806	3,127,265
Charge for the year	3,026,604	2,213,707
Write-offs for the year	(2,251,771)	(1,764,332)
Recovery of write-offs for the year	146,481	36,725
Other changes	(56,571)	(55,559)
Balance at the end of the year	4,422,549	3,557,806

The Company adhered to a stable and prudent policy in respect of making provisions. As at the end of 2019, the balance of provision for impairment of loans (including discounted bills) amounted to RMB4.423 billion, representing an increase of RMB865 million or 24.31% as compared with that at the end of last year. The provision coverage ratio reached 155.09%, representing a decrease of 12.95 percentage points as compared with that at the end of last year; the provision rate of loans reached 2.56%, representing a decrease of 0.26 percentage point as compared with that at the end of last year. Both provision indicators satisfied regulatory requirements.



The Bank launched the "Cultivating Young Bankers" campaign to promote financial knowledge.

5.10 Countermeasures Taken against Non-performing Assets

In 2019, under the backdrop of a complicated and ever-evolving macroeconomic situation and a severe situation of credit risks prevention and control, the Bank viewed the disposal of non-performing assets as one of the key tasks in the credit risk management throughout the Bank; the Bank enhanced the quality and efficiency of disposal and achieved effective management and control of non-performing assets by way of strict discipline and regulations as well as gradually devolving implementation plan and progress downwards along the corporate hierarchy.

Firstly, the Bank strengthened quality monitoring and risk screening of assets and further improved a pre-warning and emergency defusion mechanism on risks to improve response speed and efficiency in adopting preservation measures against risk loans through litigation, and took the initiative on the disposal of non-performing assets.

Secondly, the Bank implemented multiple measures for the disposal of non-performing loans and on the basis of relying on the traditional means of collection through litigation, increased disposal efficiency and effectiveness by comprehensively using various means, such as asset write-off, asset transfer, reorganization and conversion and others.

Thirdly, the Bank continuously advanced and enhanced the establishment of an asset preservation system, implemented the working philosophy of “marketization” and the collaboration between the internal departments of the Bank and between the external institutions to significantly increase the efficiency of collection of non-performing assets.

Fourthly, the Bank laid emphasis on strengthening communication and collaboration with government departments at all levels, legal institutions and fellow banks in the industry, fully capitalized on the advantage of the working mechanism of creditor committees in the banking industry and proactively participated in joint resolution and disposal of credit extension risk to holistically safeguard and protect its own legitimate rights.

Fifthly, the Bank strengthened subsequent management as well as the collection of written-off non-performing assets to tap the potential arising from the disposal of non-performing assets.

5.11 Credit Extension to Group Customers and Risk Management

The Bank adhered to the principles of “implementing unified credit extension, providing an appropriate amount, employing classified management, conducting real-time monitoring and adopting a leading bank system” in extending credit to group customers. With continuous improvement on the management of corporate family trees of group customers, the Bank reviewed the solvency, business characteristics, financing habits, capital usage and actual demand of each member with taking into account, among 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 credit extension business that meets the standards of large-sum credit extension bank-wide. The Bank constantly improved the pre-warning mechanism of group customer risk, setting risk warning thresholds for group customers in pre-loan and approval process based on the industry where the group customers operate and their operating capability, which was a key reference for post-loan inspection, 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 Accounting for 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 Bank had no soft loans accounting for 20% (inclusive) or more of the total loans.

5.13 Rescheduled Loans

Unit: RMB'000

Item	31 December 2019		31 December 2018	
	Amount of loans	% of total	Amount of loans	% of total
Rescheduled loans	426,588	0.25	317,536	0.25
Total loans and advances to customers	172,795,443	100.00	126,386,870	100.00

The Company implemented strict management and control on rescheduled loans. As at the end of the Reporting Period, the proportion of rescheduled loans of the Company was 0.25%, remaining flat as compared with that at the end of the previous year.

6. ANALYSIS OF CAPITAL ADEQUACY RATIO AND LEVERAGE RATIO

The capital management of the Company, while satisfying regulatory requirements, is targeted to constantly enhance the ability to resist risk of capital and boost return on capital, and on this basis, it reasonably 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)" (《商業銀行資本管理辦法(試行)》) 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 14.76%, representing a decrease of 0.92 percentage point as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 8.36%, representing a decrease of 0.03 percentage point as compared with that at the end of last year. Net proceeds of RMB1.963 billion was raised from the Bank's initial public offering of A Shares. Profit grew steadily and replenish the capital. Meanwhile, a considerable increase in risk-weighted assets and a slight decrease in the indicators of capital adequacy ratio were recorded given the faster business development.

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

Unit: RMB'000

The Company	31 December 2019	31 December 2018
Total core tier-one capital	22,418,940	19,433,753
Of which: Share capital	4,509,690	4,058,713
Qualifying portion of capital reserve	8,337,869	6,826,276
Other comprehensive income	658,230	553,193
Surplus reserve	1,626,662	1,403,575
General reserve	4,400,258	3,969,452
Retained earnings	2,528,787	2,319,800
Qualifying portion of non-controlling interests	357,444	302,744
Deductions from core tier-one capital	(194,243)	(165,153)
Net core tier-one capital	22,224,697	19,268,600
Other tier-one capital	7,901,623	7,894,330
Net tier-one capital	30,126,320	27,162,930
Tier-two capital	9,126,185	8,858,726
Net capital base	39,252,505	36,021,656
Total risk-weighted assets	265,908,365	229,776,495
Of which: Total credit risk-weighted assets	218,075,573	187,513,305
Total market risk-weighted assets	33,723,233	30,410,807
Total operational risk-weighted assets	14,109,559	11,852,383
Core tier-one capital adequacy ratio	8.36%	8.39%
Tier-one capital adequacy ratio	11.33%	11.82%
Capital adequacy ratio	14.76%	15.68%

As at the end of the Reporting Period, at the level of the Bank, the capital adequacy ratio was 14.77%, representing a decrease of 0.99 percentage point as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 8.29%, representing a decrease of 0.03 percentage point as compared with that at the end of last year.

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

Unit: RMB'000

The Bank	31 December 2019	31 December 2018
Total core tier-one capital	21,984,910	19,108,373
Of which: Share capital	4,509,690	4,058,713
Qualifying portion of capital reserve	8,337,869	6,826,276
Other comprehensive income	658,230	553,193
Surplus reserve	1,626,662	1,403,575
General reserve	4,400,258	3,969,452
Retained earnings	2,452,201	2,297,164
Deductions from core tier-one capital	(701,986)	(672,533)
Net core tier-one capital	21,282,924	18,435,840
Other tier-one capital	7,853,964	7,853,964
Net tier-one capital	29,136,888	26,289,804
Tier-two capital	8,770,981	8,640,628
Net capital base	37,907,869	34,930,432
Total risk-weighted assets	256,725,689	221,581,329
Of which: Total credit risk-weighted assets	209,289,525	179,519,234
Total market risk-weighted assets	33,723,233	30,410,807
Total operational risk-weighted assets	13,712,931	11,651,288
Core tier-one capital adequacy ratio	8.29%	8.32%
Tier-one capital adequacy ratio	11.35%	11.86%
Capital adequacy ratio	14.77%	15.76%

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 7.46% as calculated according to the “Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)”, which was above the regulatory requirements of CBIRC, representing a decrease of 0.46 percentage point as compared with that at the end of last year, mainly due to the increase in the size of the Bank’s assets and the total consolidated assets increased at the end of this year.

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	31 December 2019	31 December 2018
1	Total consolidated assets	373,622,150	317,658,502
2	Consolidated adjustments	–	–
3	Customer assets adjustments	–	–
4	Derivative adjustments	117,777	–
5	Securities financing transactions adjustments	–	–
6	Off-balance sheet items adjustments	30,479,440	25,314,087
7	Other adjustments	(194,243)	(165,153)
8	Balance of assets on and off balance sheet after adjustments	404,025,124	342,807,436



On 29 September 2019, employees of the Bank and the Qingyin Choir (青銀合唱團) jointly sang for the motherland before the National Day.

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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 31 December 2019	Balance as at 31 December 2018
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	371,283,943	317,358,240
2	Less: tier-one capital deductions	(194,243)	(165,153)
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	371,089,700	317,193,087
4	Replacement cost of various types of derivatives (net of qualified margins)	12,436	-
5	Potential risk exposure in various types of derivatives	115,239	-
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	2,538	-
10	Less: The balance of sold credit derivatives assets which can be deducted	-	-
11	The balance of derivatives assets	130,213	-
12	The balance of accounting assets for securities financing transactions	2,325,771	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	2,325,771	300,262
17	The balance of items off balance sheet	30,479,440	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	30,479,440	25,314,087
20	Net tier-one capital	30,126,319	27,162,930
21	The balance of assets on and off balance sheet after adjustments	404,025,124	342,807,436
22	Leverage ratio	7.46%	7.92%

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Relevant information on the Company's leverage ratio as at the dates indicated is listed in the following table.

Unit: RMB'000

Item	31 December 2019	30 September 2019	30 June 2019	31 March 2019
Leverage ratio (%)	7.46	7.71	7.98	8.45
Net tier-one capital	30,126,319	29,818,915	29,689,648	29,819,904
The balance of assets on and off balance sheet after adjustments	404,025,124	386,887,353	372,198,506	352,899,833

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

7. SEGMENT REPORTING

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

Unit: RMB'000

Item	2019		2018	
	Segment operating income	Ratio (%)	Segment operating income	Ratio (%)
Corporate banking	5,266,469	54.73	3,862,580	52.45
Retail banking	2,085,547	21.67	1,581,825	21.48
Financial market business	1,927,237	20.03	1,731,932	23.52
Un-allocated items and others	342,856	3.57	188,501	2.55
Total	9,622,109	100.00	7,364,838	100.00

Unit: RMB'000

Item	2019		2018	
	Segment profit before taxation	Ratio (%)	Segment profit before taxation	Ratio (%)
Corporate banking	858,721	30.36	816,737	32.99
Retail banking	639,456	22.61	492,904	19.91
Financial market business	1,182,302	41.80	1,104,597	44.61
Un-allocated items and others	148,076	5.23	61,778	2.49
Total	2,828,555	100.00	2,476,016	100.00

8. OTHER FINANCIAL INFORMATION

8.1 Analysis of Off-balance Sheet Items

The Company's off-balance sheet items include credit commitments, operating lease commitments and capital commitments, etc. Credit commitments are the most important parts, and as at the end of the Reporting Period, the balance of credit commitments reached RMB29.658 billion. For details, please refer to Note 46 to the financial statement "Commitments and Contingency" of this annual report.

8.2 Overdue and Outstanding Debts

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

8.3 Pledge of Assets

As at the end of the Reporting Period, the Company pledged part of its assets as collaterals under repurchase agreements, deposits from banks and other financial institutions, borrowings from the central bank and deposits from customers. For details, please refer to Note 46(7) to the financial statement "Pledged Assets" of this annual report.

8.4 Analysis of Cash Flows Statement

In 2019, net cash flows used in operating activities of the Company was RMB7.006 billion, representing a decrease of RMB13.849 billion as compared with the previous year, which was mainly due to an increase in net increase in deposits from customers of RMB21.523 billion and an increase in net increase in interbank lending and borrowing of RMB19.530 billion, while the above impact was partially offset by an increase in net increase in loans and advances to customers of RMB18.334 billion and an increase in net cash outflow of borrowings from the central bank of RMB15.466 billion. Among which, net cash outflows generated from operating assets was RMB49.523 billion and net cash inflows generated from operating liabilities was RMB40.041 billion.

Net cash flows generated from investing activities was RMB9.816 billion, representing a decrease of RMB19.174 billion as compared with the previous year, which was mainly due to a decrease in proceeds from disposal and redemption of investments of RMB38.202 billion, while the above impact was partially offset by a decrease in cash payments on investments of RMB19.236 billion.

Net cash flows generated from financing activities was RMB9.475 billion, representing an increase of RMB17.092 billion as compared with the previous year, which was mainly due to a decrease in cash paid by the Company for repayment of debt of RMB28.310 billion, while the above impact was partially offset by a decrease in cash received by the Company for issuance of debt securities of RMB13.120 billion.

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

Unit: RMB'000

Item	For the year 2019	For the year 2018	Changes (%)	Main reasons
Net interest income	6,846,055	4,464,029	53.36	Increased scale of interest-earning assets of the Company, structure optimization, decreased cost of capital and increase in net interest margin
Fee and commission income	1,346,116	943,582	42.66	Significant increase in fee income due to rapid development of wealth management, agency service and bank card businesses
Fee and commission expense	(129,236)	(77,825)	66.06	Increased expense in credit card business fees
Net fee and commission income	1,216,880	865,757	40.56	Increase in fee and commission income
Net trading gains	152,464	410,807	(62.89)	The impact of exchange rate fluctuations
Other operating income, net	26,273	6,891	281.27	Increase in government grants
Operating income	9,622,109	7,364,838	30.65	Significant increase in net interest income due to increased scale of interest-earning assets of the Company, structure optimization, decreased cost of capital; significant increase in net fee and commission income through positive development in wealth management business
Credit impairment losses	(3,626,792)	(2,383,172)	52.18	Increase in provision for impairment by the Company to adapt to the loan risk conditions and strengthen disposals of risk assets, in response to the significant increase in total loan and increased risk of individual regional borrowers
Net profit attributable to non-controlling interests	50,707	20,037	153.07	Increase in profit of subsidiaries

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Unit: RMB'000

Item	For the year 2019	For the year 2018	Changes (%)	Main reasons
Other comprehensive income, net of tax	105,037	1,016,364	(89.67)	Decrease in changes in fair value of debt investments measured at fair value through other comprehensive income
Net interest margin	2.13%	1.63%	30.67	Rapid increase in loans and increase in yield on interest-earning assets through advanced structure adjustment of the Company, the cost rate of interbank liabilities and debt securities issued decreased with the expansion of scale of liabilities
Cash and deposits with the central bank	39,704,840	29,554,430	34.34	Increase in surplus deposit reserves
Derivative financial assets	12,436	–	N/A	Fair value of interest rate swaps and other derivative financial instruments
Financial assets held under resale agreements	2,325,771	300,262	674.58	Increased debt securities held under resale agreements
Loans and advances to customers	169,158,291	123,366,891	37.12	Increase the scale of credit supply within policy permission to support economic development and maintain rapid growth in loans, in order to increase percentage in total assets and further optimize asset structures
Right-of-use assets	818,928	N/A	N/A	Newly added item after adopting IFRS 16
Deferred tax assets	1,581,905	1,152,778	37.23	Increase in deferred tax assets arising from provision for impairment assets
Other assets	929,876	1,343,564	(30.79)	Adjustment to right-of-use assets from prepaid rent originally measured in other assets after adopting IFRS 16
Borrowings from central bank	5,536,650	10,878,835	(49.11)	Decrease in volume of mid-term lending facility
Deposits from banks and other financial institutions	16,462,527	11,632,982	41.52	Strengthened active liability management, appropriate increase in scale of deposits from banks on the basis of the need of capital market situation and liquidity management
Placements from banks and other financial institutions	9,916,257	7,207,066	37.59	Increase in interbank lending and borrowing and borrowings
Derivative financial liabilities	8,805	–	N/A	Fair value of interest rate swaps and other derivative financial instruments
Income tax payable	187,027	13,174	1,319.67	Increase in income tax for the period
Lease liabilities	427,429	N/A	N/A	Newly added item after adopting IFRS 16

8.6 Changes in Interest Receivables

Unit: RMB'000

Item	31 December 2018	Increase during the period	Recovery during the period	31 December 2019
Loans and advances to customers	37,299	321,706	342,180	16,825
Total	37,299	321,706	342,180	16,825

Notes: Interest receivables are interests overdue but not yet received on the balance sheet date.

8.7 Provision for Bad Debts

Unit: RMB'000

Item	31 December 2019	31 December 2018	Changes
Other receivables	148,142	333,728	(185,586)
Less: Bad debt provision	(1,005)	(792)	(213)

9. INVESTMENT ANALYSIS

9.1 General Situation

Unit: RMB'000

Investees	At the beginning of the period	At the end of the period	Percentage of shareholding in investees (%)	Cash dividend for the current period
China UnionPay Co., Ltd.	13,000	13,000	0.34	1,500
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	10,000	10,000	2.15	—
Clearing Center for City Commercial Banks	250	250	0.81	—
Total	23,250	23,250	N/A	1,500

Note: The investments above were included in the statement of financial position as the financial investments measured at fair value through other comprehensive income.

As at the end of the Reporting Period, for details of other information concerning the Company's investments, please refer to "4.1.2 Financial Investments" and "11. Analysis of Main Shares Holding Companies and Joint Stock Companies" in Section VI Discussion and Analysis of Operations of this annual report.

9.2 Use of Proceeds Raised

The proceeds raised from issuance of H Shares of the Bank had been used in accordance with the intended usage as disclosed in the prospectus. The net proceeds raised from the global offering (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 continuous growth of its business.

The proceeds raised from issuance of offshore preference shares of the Bank, after deduction of the issuance expenses, were used as supplement for the Bank's other tier-one capital according to the applicable laws and regulations and relevant regulatory approval.

The proceeds raised from issuance of A shares of the Bank had been used in accordance with the intended usage as disclosed in the A Share prospectus. All 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.

10. MATERIAL DISPOSAL OF ASSETS AND EQUITY INTEREST

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

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

11.1 Major Subsidiaries and Investees Accounting for Over 10% of the Net Profit of the Company

Unit: RMB in 100 million

Name of company	Type of company	Main business	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
BQD Financial Leasing Company Limited	Subsidiary	Finance leasing business; transferring in and out assets under a finance lease; fixed income securities investment business; accepting guaranteed deposit of the lessee; absorbing fixed deposits over 3 months (inclusive) from non-bank shareholders; interbank lending and borrowing; obtaining loans from financial institutions; lending loans to offshore borrowers; disposal of and dealing with leased articles; economic consulting, etc.	10.00	94.51	11.48	3.14	1.17	1.03

11.2 Acquisition and Disposal of Subsidiaries During the Reporting Period

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

11.3 Particulars of Major Companies Controlled or Invested in by the Company

BQD Financial Leasing Company Limited (“**BQD Financial Leasing**”) was established on 15 February 2017, with a registered capital of RMB1.00 billion, and was registered in Qingdao, and was initiated and established by the Bank. The Bank holds 51% of the share capital of BQD Financial Leasing. Under the guidance of the national industrial policy, BQD Financial Leasing was committed to realize the original intent of leasing and serve the real economy. BQD Financial Leasing focused on the financing leasing of large and medium-sized equipment in medical and health care, cultural tourism, public utilities industries as its main lines of business development, and adhered to the business philosophy of “specialization, differentiation and marketization” to satisfy the specific needs of tenants in equipment purchase, sales boosting, assets revitalization, tax burden balancing, and the improvement of financial structure, etc., and to provide new financial lease services such as financing, asset management and economic consulting.

12. OVERVIEW OF BUSINESS DEVELOPMENT

12.1 Business Development Strategy

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, cultivation of featured advantages and transformation of management mechanisms.

Expanding customer base and solidifying the foundation of retail business. The Bank viewed building customer base as its core and supported the core of “customer base” with improved customer experience and concrete actions in customer base management to solidify the foundation of retail business. For offline operations, the Bank insisted on operating retail business using a wholesale approach and obtained customers in batches through “three agencies and one linkage” (i.e. agencies for payroll, tax payment, relocation compensation and public-private linkage), which focused on finance of urban communities and rural villages across counties, to create new ways of achieving business growth. For online operations, the Bank continued improving the Meituan credit card, internet loans and other digital channels to steadily expand the scale of retail customer base and attracted young customers via new media such as WeChat to increase customer loyalty.

Focusing on key areas and enhancing consolidation capabilities in corporate banking. The Bank fully leveraged on advantages as a local bank corporation to strengthen its foothold in public finance by constantly improving its capabilities and reputation in serving governmental and civil customers. The Bank established an ecosystem in which it built a model to attain customers through platforms and specialized in finance of listed enterprises. The Bank also utilized supply chain finance to explore the advantages of customers in batches and steadily developed inclusive finance. Moreover, the Bank formulated professional solutions for industries and customers by giving full play to its industry research and service capabilities for selected featured industries such as port, technology, cultural and creative and hygiene and health to accomplish growth in featured businesses.

Improving service ability and strengthening synergy with the financial market. The Bank continuously enhanced product lines in the financial market, increased synergy between product centers and customer centers, improved customer base management and asset organization capabilities and strengthened the ability to integrate resources. On one hand, the Bank capitalized on the value of underwriting license, expanded coverage of the bond underwriting business, increased the type of bond products and improved its influence on the bond market. On the other hand, the Bank used investment and liability, direct-investment and agency, self-investment and underwriting linkages as well as various means such as credit, investment, underwriting and agency to form a united marketing force. The Bank strictly implemented new regulations and requirements on asset management, steadily promoted transformation of net-worth products, established market risk management systems and cultivated talent teams at different levels.

12.2 Overview of Business Development

12.2.1 Retail banking

During the Reporting Period, with “customer base construction” as the core, the Bank strengthened the product system construction of retail banking, enhanced its service efficiency, solidified and expanded its customer base, improved its retail financial assets, and increased the comprehensive contribution of its retail banking. On this basis, the Bank actively promoted the construction of smart outlet projects, enriched and improved its online channels, promoted the intelligent transformation of outlets, so as to fully satisfy the diversified financial needs of our customers. During the Reporting Period, the Company recorded operating income of RMB2.086 billion in respect of retail banking, representing a year-on-year increase of 31.84%, and accounting for 21.67% of the Company’s operating income.

Section VI Discussion and Analysis of Operations

1. Retail customers and customer asset management

The number of retail customers of the Bank reached 4,582.0 thousand, representing an increase of 503.7 thousand or 12.35% as compared with that at the end of the previous year. The assets retained by retail customers in the Bank reached a total of RMB162.306 billion, representing an increase of 23.63% as compared with that at the end of the previous year. The number of customers with financial assets of over RMB200,000 amounted to 200.2 thousand, representing an increase of 39.5 thousand as compared with that at the end of the previous year, with a total assets scale of RMB136.312 billion retained in the Bank. They accounted for 83.98% in its total retail banking customers, representing an increase of 3.03 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 RMB64.796 billion, representing an increase of RMB7.897 billion or 13.88% as compared with that at the end of the previous year and accounting for 30.45% of the total deposits from customers. In particular, demand deposits reached RMB20.622 billion, representing an increase of RMB2.309 billion or 12.61% as compared with that at the end of the previous year.

The Bank continued to carry forward the construction of smart outlet projects. With the development direction of "focusing on services with lightweight equipment, promoting the transformation of outlets", the Bank constructed customer-centered and lightweight smart outlets, with "mobilized services, transaction scenarios, intelligent processes, intuitive marketing" as the development goals. Large machines are no longer the Bank's core intelligent equipment. Instead, the use of tablets as the main platform to communicate with customers has truly achieved a "one-stop service" for customers. Bank hall services have also transformed from window services to accompany-and-consulting services, with 75% of business in the category of personal counter service undertaken with tablets. The transformation of the service model allows the Bank a closer touch with customers, effectively increasing the efficiency of handling businesses and the success rate of cross-marketing. As at the end of the Reporting Period, a total of 90 outlets of our sub-branches has adopted the smart outlet service model.



In 2019, the Bank promoted the "smart outlet" project with the adoption of smart tablet devices to innovate accompany-and-consulting services.

The Bank focused on exploring the payroll agency business. By leveraging the customer resources of payroll companies, the Bank 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 64 tranches of exclusive wealth management products for employees of enterprises which enjoyed our payroll agency service and raised RMB5.282 billion of wealth management funds. As at the end of the Reporting Period, the payroll agency business led to an increase of 68.5 thousand retail customers and the retail deposits related to the payroll agency business reached RMB12.790 billion, representing an increase of RMB995 million or 8.43% as compared with that at the end of the previous year.

The cloud payment business was further expanded. The cloud payment platform switched the offline payment life scene to an online one and provided a convenient living service for customers with the “rigid-demand and high-frequency” payment scene. The payment access to tuition fees, property fees, Party membership dues, meals, and other scenarios has been successively available, becoming an effective channel for connecting various groups of customers such as parents, community residents, and entity employees. During the Reporting Period, the Bank opened 72 new contracted units for cloud payment and cloud recharge businesses, with the number of payments made of 924.4 thousand and a total payment amount of RMB445 million during the year.

2. Retail loans

As at the end of the Reporting Period, the balance of retail loans (including credit cards) of the Bank amounted to RMB54.509 billion, representing an increase of RMB13.159 billion or 31.82% as compared with that at the end of the previous year, with the increase exceeding RMB10 billion for two consecutive years. The balance of retail loans accounted for 31.55% of the total balance of loans (excluding accrued interest), representing a decrease of 1.17 percentage points as compared with that at the end of the previous year. During the Reporting Period, the Bank seized market opportunities, steadily developed housing loans, actively promoted inclusive finance, and strived to explore consumption loans under the premise of efficient risk control. Through measures such as adjusting its credit structure, arranging the extension progress and preventing material risks, the Bank achieved the coordinative development of retail loans in terms of “quality, scale, and efficiency”.

The Bank realized the “double decrease” of both non-performing retail loans as well as the non-performing loan ratio. As at the end of the Reporting Period, the Bank adopted the standard of “including all loans overdue for more than 60 days in non-performing loans”. Hence, the non-performing balance of retail loans (including credit cards) was RMB251 million, representing a decrease of RMB62 million or 19.75% as compared with that at the beginning of the year; the non-performing ratio of retail loans (including credit cards) was 0.46%, representing a decrease of 0.30 percentage point as compared with that at the beginning of the year.

The interest income derived from retail loans has gradually increased. During the Reporting Period, the Bank realized interest income from retail loans of RMB2.383 billion, representing a year-on-year increase of RMB767 million or 47.47%, accounting for 32.79% of the Bank’s total interest income from loans. The average yield of retail loans was 5.13%, representing a year-on-year increase of 31 basis points.

The bank steadily developed personal housing loans. During the Reporting Period, the Bank strictly adhered to the position of “Housing is for people to live in, not for speculation”. Under the guidance of supporting residents’ reasonable self-occupancy needs to purchase housing, the Bank placed great emphasis on marketing quality developers, quality projects and quality customers, facilitating steady growth of personal housing loans business. As at the end of the Reporting Period, the balance of personal housing loans of the Bank reached RMB36.762 billion, representing an increase of RMB6.533 billion as compared with that at the beginning of the year, accounting for 67.44% of the total personal credit balance (including credit cards) of the Bank.

The Bank vigorously developed its inclusive finance business. During the Reporting Period, the Bank solidly promoted the implementation of national policies and regulatory requirements to support the real economy through measures including carrying out stricter assessment, holding competitions, innovating projects and products as well as establishing a green approval channel. As at the end of the Reporting Period, the balance of the Bank's personal business loans reached RMB6.870 billion, representing an increase of RMB1.034 billion or 17.71% as compared with that at the beginning of the year.

The Bank continued its development for micro-loan financing business. During the Reporting Period, it continued to push forward its "Chain e-loan" (鏈E貸) business and cooperated with giants from the domestic fast-moving consumer goods sector with an aim to facilitate the implementation of new projects, hence successfully securing a sizable number of customers nationwide. The Bank also proactively promoted the establishment of online lending platform, and vigorously developed consumer finance by taking full advantage on advanced technologies such as big data and cloud computing. During the Reporting Period, advanced loans from the Bank's micro-loan financing business amounted to RMB19.048 billion in aggregate, with the balance of RMB10.831 billion at the end of the Reporting Period, representing an increase of RMB3.850 billion as compared with that at the beginning of the year. In particular, the number of advanced loans from the Bank to co-branding corporate distributors reached 6,758, amounting to RMB1.476 billion in aggregate. The number of personal online micro-loans reached 1,736.2 thousand, amounting to RMB11.683 billion in aggregate.

3. Credit card business

The Bank continuously improved the channels of credit card issuance, and combined offline promotion and online customer acquisition. As at the end of the Reporting Period, the cumulative number of credit cards issued reached 1,304.5 thousand, representing an increase of 1,124.0 thousand as compared with that at the end of the previous year. The maximum monthly number of credit cards issued exceeded 150 thousand, with a transaction amount of RMB18.869 billion. As at the end of the Reporting Period, overdraft balance reached RMB3.550 billion, representing an increase of RMB2.971 billion as compared with that at the end of the previous year.

The Bank built up in-depth cooperation with internet technology enterprises to enhance the efficiency in customer acquisition and operation. The marketing platform has been established to integrate the resource from offline merchants, so as to realize the closed-loop ecosystem of online application for credit cards on the Internet and offline instant discounts. By focusing on the scenes of "eating, drinking and pleasure seeking", which align closely with the users' daily needs, a differentiated brand image has been developed. In addition, intelligent audit, anti-fraud and credit policies have been strengthened to build an intelligent risk management system.

The Bank implemented full life cycle management and enhanced credit card operation. The Bank continued to upgrade the service capability on mobile channels and refined the service progress, so as to improve activation experience in all aspects and solved problems faced by customers during activation. Additionally, interest-earning product systems such as cash installments and balance installments have been launched to optimize the establishment of sales channels and enhance interest-earning operation, thus further increasing the profitability of credit cards.

4. 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", and constantly enriched investment instruments. Currently, a multi-level product system covering cash, fixed income, equity, guarantee, and alternative investments has been established. At the same time, the Bank continued to enhance its professional capabilities in wealth management business and customer service, implemented efficiency improvement projects across the Bank, established the training system of wealth efficiency academy (財富效能學院), and strengthened the performance efficiency and cooperation capability of staff in retail business lines, thus laying a solid professional foundation for business development.

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During the Reporting Period, the Bank actively seized market opportunities and grasped the window period of sales agency business for trust products, optimized the product strategy and structure, strengthened the marketing efforts to high net-worth customers, and refined marketing progress management as well as compliant operation, thus achieving a significant increase in fee and commission income from wealth management.

As at the end of the Reporting Period, customers with assets under management of over RMB2.00 million reached 8,885, representing an increase of 1,823 as compared with that at the end of the previous year, and the assets retained in the Bank amounted to RMB38.122 billion, representing an increase of RMB6.864 billion as compared with that at the end of the previous year. The growth rate reached 30.55% and 25.88%, respectively.

During the Reporting Period, the Bank newly commenced the sales agency business for trust products, and recorded sales of RMB5.813 billion in agency for trust products, RMB420 million in agency for insurance premiums, and sales of RMB3.145 billion in agency for open-ended funds.

During the Reporting Period, the Bank realized wealth management fee and commission income of RMB104 million, representing a year-on-year increase of 203.73%, of which income from agency for collective trust program amounted to RMB69 million, representing a year-on-year increase of over 100%. Income from agency for insurance amounted to RMB27 million, representing a year-on-year increase of 74.32%. Income from agency for funds amounted to RMB8 million, representing a year-on-year decrease of 50.00%.

5. Customer service management

During the Reporting Period, the Bank firmly focused on “target customer groups” to conduct a series of upgrades on service value, so as to manage customer groups by improving customer experience. On the basis of standardized service and attentive service management, we achieved advantages of retail operations in attracting customers and expanding our customers through implementation of service standards, improvement of service experience and creation of service value, thus enhancing the experience and efficiency of service marketing.

With regard to the implementation of service standards, we are in strict compliance with national standardized systems to ensure high level of basic service quality. All outlets of the Bank have passed the certification inspection of “Basic Service Requirements for Bank Outlets” and “Service Evaluation Criteria for Bank Outlets”, the two national standards for financial service.

With regard to the improvement of service experience, we insisted on the responsibility of consumer rights protection and raised the awareness on consumer rights protection. As the pilot bank for the financial consumer complaint monitoring data reporting system of the People’s Bank of China and the pilot bank for applying the complaints classification standards and the “Guidelines on Complaint Handling” (《投訴處理指引》), the Bank has become a bank that utilized digital data transmission under the national complaints classification standards.

With regard to the creation of service value, we transferred excellent service into customer-acquisition capability from the perspective of customer acquisition awareness and customer acquisition skills of our employees, so as to develop new service capabilities and transform service experience into new advantages of retail operations in attracting customers and expanding our customers. In 2019, the Bank was once again listed in the “China’s 500 Most Valuable Brands”, ranking 386th with RMB10.589 billion of brand value, and moving forward 21 places as compared with that of the previous year, which made it the only financial enterprise from Shandong Province ranking in the list for three consecutive years. In an effort to promote brand influence, we continued to gain direct feedback and recognition from customers for the brand of the Bank, enhanced brand loyalty, and constantly expanded customer base as well as market share.

12.2.2 Corporate banking

During the Reporting Period, the corporate banking business of the Bank focused on the strategy of expanding its customer base, persisted in exploring innovation, strengthened marketing efforts and product support, accelerated credit supply, improved integrated service capabilities, continued to build corporate financial professional bank, and realized steady growth in both scale and efficiency of corporate banking business. During the Reporting Period, the operating income from the corporate banking business was RMB5.266 billion, representing a year-on-year increase of 36.35%, accounting for 54.73% of the Company's operating income.

1. Corporate deposits

During the Reporting Period, led by the strategy of Interface Banking and transaction banking, the Bank strengthened the market competitiveness of the corporate banking business. In terms of cash management, we launched the custom's summary tax guarantee online system. As the first city commercial bank in Shandong Province to launch the first electronic summary tax guarantee, we have obtained the qualification of Qingdao Provident Fund business to become the only bank in Qingdao to support units' provident funds deposit with online banking service; in terms of supply chain finance, 5 major projects including the "Belt and Road" supply chain finance in Europe and Asia were accomplished, and the business model was replicated in batches and experienced a continuous optimization; in terms of international business, the first bank-customs cooperation product promotion meeting was held to vigorously promote the development of international settlement business, and the international settlement volume has exceeded USD6 billion; in terms of bill business, we leveraged the bill business's advantage of attracting deposits, and improved the bill pool business process. The number of new contracted accounts for the year was 95, which contributed to the growth of the Company's demand deposit.

As at the end of the Reporting Period, the balance of corporate deposits (excluding accrued interest) reached RMB147.881 billion, accounting for 68.65% of the balance of various deposits (excluding accrued interest), representing an increase of RMB29.236 billion or 24.64% as compared with that at the end of the previous year. Among them, demand corporate deposit amounted to RMB92.594 billion, accounting for 62.61% of corporate deposits. The average cost rate of corporate deposits was 1.58%, representing a decrease of 0.01 percentage point as compared to that at the end of the previous year.

2. Corporate loans

During the Reporting Period, the Bank implemented the spirit of the Central Economic Work Conference, actively supported supply-side reforms, adapted to new requirements for the continuous replacement of old growth drivers with new ones, implemented differentiated credit policies, strengthened the support for the real economy in aspects such as supporting private economy, Small and Micro Enterprises, and the manufacturing industry, etc. and giving priority to financing of projects in the areas of inclusive finance, green finance, technology finance and the blue economy. Also, the Bank continued to support key engineering and construction projects, strengthened its support for the port economy through multiple channels, satisfied the demand for loans 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 corporate loans of the Bank (including discounted bills and excluding accrued interest) reached RMB118.287 billion, representing an increase of RMB33.250 billion or 39.10% as compared with that at the end of the previous year, accounting for 68.45% of the total loans. Among them, the balance of green credit was RMB11.587 billion, representing an increase of RMB2.102 billion or 22.16% as compared with that at the beginning of the year, accounting for 9.80% of the total corporate loans. The balance of technology credit was RMB6.345 billion, representing an increase of RMB997 million or 18.64% as compared with that at the beginning of the year, accounting for 5.36% of the total corporate loans.

As at the end of the Reporting Period, the balance of loans to Small and Micro Enterprises was RMB14.011 billion, average interest rate of loans to Small and Micro Enterprises was 6.12%, customers which are Small and Micro Enterprises of the Bank amounted to 13,933 and featured branches serving Small and Micro Enterprises totalled 13.

3. Corporate customers

As at the end of the Reporting Period, the Bank had 172.4 thousand corporate customers, representing an increase of 23.8 thousand or 16.02% as compared with that at the end of the previous year. The number of corporate customers with an average daily deposit of RMB5 million or more reached 2,270, representing an increase of 275 from the beginning of the year.

The Bank is led by Interface Banking, and has acquired customers in batches through supply chain core enterprises, government departments, and third-party strategic cooperation units. During the Reporting Period, there were 601 new transaction banking customers, including 48 cash management customers, 511 international business settlement customers, and 42 supply chain finance customers. In addition, the Bank issued marketing guidelines for key customer groups such as inclusive finance and listed finance. During the Reporting Period, the number of customers of the listed enterprises finance increased by 58 throughout the year, representing an increase of 120%, and the number of loans to inclusive Small and Micro Enterprises was 13,933, representing an increase of 3,916 as compared with the corresponding period of the previous year.

4. Corporate products

During the Reporting Period, the Bank continued to promote the optimization and upgrading of transaction banking and continuously improved the research and development system of product innovation. The Bank strengthened its employees' capacity of utilizing product portfolio to achieve comprehensive marketing results and further enhanced the competitiveness of the Company's business products. The Bank continuously improved product systems, comprehensively upgrading service efficiency and customer experience. The Bank launched business functions of cash management system such as account keeping, corporate online Interface Banking and corporate account overdraft business, and it also launched entrepreneurship guarantee loan business for Small and Micro Enterprises and "Loan Business Guaranteed by Government (政銀保)". The Bank researched and developed technology-featured products such as subsidy loans for high-tech enterprises and subsidy loans for blue-ocean listed enterprises. The Bank launched "Investment-Loan-Link (投貸通)" and "Science and Technology Road Show Loan (科創路演貸)" which are based on specific event scenarios, realizing the first Singapore dollars financing business under the China-Singapore currency swap project across the country.

12.2.3 Financial market business

During the Reporting Period, in the face of the complicated macroeconomic situation and the tough financial market environment, the Bank's financial market business took advantage of its own strength, tapped into its potentials to improve efficiency, made comprehensive breakthroughs, continued to optimize the structure of assets and liabilities, and strived to improve asset returns and capital efficiency. During the Reporting Period, the operating income of financial market business was RMB1.927 billion, representing a year-on-year increase of 11.28%, accounting for 20.03% of the Company's operating income.

1. Proprietary investment

During the Reporting Period, the Bank continued to optimize its investment structure, reducing the proportion of investments and special purpose vehicle investment, improving asset liquidity and supporting the development of the real economy. As at the end of the Reporting Period, the Bank's proprietary investment (including accrued interests) reached RMB143.247 billion, representing a year-on-year decrease of RMB2.617 billion or 1.79%. Among them, the scope of bond investment (excluding accrued interests) reached RMB84.969 billion, representing a year-on-year increase of RMB2.026 billion or 2.44%, which was mainly attributable to the increase in investment in central government bonds as well as local government bonds and corporate entity bonds. The scope of non-standard debt investment (excluding accrued interests) reached RMB56.084 billion, representing a year-on-year decrease of RMB4.653 billion or 7.66%, which was mainly attributable to the reduction of asset management plans and wealth management investments of commercial banks.

2. Interbank business

During the Reporting Period, the Bank actively utilized different types of interbank liabilities with reasonable match of term structure to not only reduce the cost of interbank liabilities effectively but also meet the bank's needs for liquidity management. As at the end of the Reporting Period, the balance of interbank deposits (excluding accrued interests) was RMB16.667 billion, representing an increase of 43.77% as compared with that at the end of the previous year. Interbank deposits accounted for 4.97% of total liabilities. Among them, the interbank demand deposit accounted for 31.60%, up by 15.49 percentage points as compared with that at the end of the previous year. The balance of interbank deposit certificates issued amounted to RMB51.740 billion, representing an increase of 4.09% as compared with that at the end of the previous year. Interbank deposit certificates issued accounted for 15.43% of total liabilities.

During the Reporting Period, the delivery amount of bonds of the Bank in the interbank market nationwide was RMB11,570 billion. In the ranking of delivery amount of bonds issued by China Central Depository & Clearing Co., Ltd. in 2019, the Bank ranked No. 31 among national financial institutions and No. 10 among city commercial banks. The Bank was awarded the title of "Core Dealer" and "Outstanding Currency Market Dealer" issued by the National Interbank Funding Center, and the titles of "Outstanding Dealer", "Best Progressive Agency for Local Bond Banking Underwriters" issued by China Central Depository & Clearing Co., Ltd.

Given the general pressure on the urban commercial banks' liquidity and unfavorable market conditions, the Bank successfully issued a total of RMB16 billion of ordinary financial bonds and Small and Micro Enterprise financial bonds with interest rates lower than market valuations, reflecting the market's confidence in the Bank and recognition of the BQD brand. On 20 May and 29 May 2019, the Bank issued two tranches of ordinary financial bonds with a total amount of RMB8 billion (RMB4 billion for each tranche) in the national interbank bond market, including three-year bonds and five-year bonds, with an amount of RMB3 billion and RMB1 billion respectively. On 3 December and 12 December 2019, the Bank issued two tranches of Small and Micro Enterprise financial bonds with a total amount of RMB8 billion (RMB4 billion for each tranche) in the national interbank bond market, including three-year bonds and five-year bonds, with an amount of RMB3 billion and RMB1 billion respectively.

3. Asset management

The Bank's asset management business adhered to the principle of "compliant operation and robust transformation" and continued to promote the transformation of asset management business according to regulatory requirements, and made achievements in facilitating the expansion of scale, improving profitability, strengthening product innovation, expanding sales channels, and consolidating market position, etc.

The scale of asset management grew rapidly and steadily, exceeding RMB100 billion for the first time, and income from the wealth management business continued to grow. As at the end of the Reporting Period, wealth management products of the Bank reached 852, with a balance of RMB100.969 billion, and the scale of off-balance sheet wealth management increased by 41.15% over the previous year, becoming the first local corporate bank in Shandong Province with wealth management balance of over RMB100 billion. Among them, principal-guaranteed wealth management products have all been settled, while interbank wealth management products have not been issued. Non-principal-guaranteed wealth management products have all met the performance benchmark. During the Reporting Period, the Bank realized service fee revenue from wealth management products of RMB695 million, representing an increase of RMB208 million or 42.81% over the previous year.

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During the Reporting Period, wealth management products issued by the Bank reached 2,034, raising a total amount of RMB413.777 billion. Among them, non-principal-guaranteed wealth management products issued was 1,958, with an amount of RMB411.125 billion raised, representing a year-on-year increase of 15.72% and accounting for 99.36% 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 year-on-year decrease of 90.64% and accounting for 0.64% 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 RMB117.886 billion, and asset types directly and indirectly invested mainly include fixed return type, non-standard debt assets type and capital market assets type, etc. Among them, fixed return assets amounted to RMB100.716 billion, accounting for 85.44%. Non-standard debt assets amounted to RMB10.427 billion, accounting for 8.84%. Capital market assets amounted to RMB3.468 billion, accounting for 2.94%. Public funds amounted to RMB3.275 billion, accounting for 2.78%.

We continued to promote the net-worth transformation of products and channel expansion, and our market position continued to improve. The newly issued open-end "Tiantiankaixin" net-worth type and open-end "Caiyungungun" series of wealth management products had won favorable comments from the market. As at the end of the Reporting Period, the scale of net-worth wealth management products of the Bank was RMB74.512 billion, accounting for 73.80% of the total product scale. During the Reporting Period, the Bank's wealth management products realized commission sale business on the national deposits financial institutions, achieving the first commission sales of the Bank's wealth management products through online platforms and institutions outside the province. The Bank also promoted the coordinated development of business across regions. The Bank was awarded the "Wealth Management Product of Commercial Bank of the Year of China" in the China award ceremony at the Global Wealth and Society Awards 2019 held by The Asian Banker magazine. The Bank was awarded the "2018 Gold Bull Wealth Management Bank Award" and the "Gold Bull Bank Wealth Management Product of the Year Award" in the selection campaign for the 2018 "Gold Bull Wealth Management Product" held by China Securities Journal and jnlc.com. According to the Bank Wealth Management Capabilities Ranking Report (the Year of 2018) published by PY Standard, the Bank ranked 7th in comprehensive capabilities of wealth management business among city commercial banks.



In June 2019, the Bank held the 2019 Employee Sports Games, where the memorable moment of participating employees was captured.

4. Investment banking

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

During the Reporting Period, credit risk events occurred frequently in the bond market, and credit spread and spread between ratings continued to expand. The Bank deeply explored the local market in Shandong, developed corporate customers, flexibly utilized products such as debt financing instruments, direct financing instruments for wealth management, and debt financing plans. The Bank helped create credit risk mitigation warrants for financing the bond issuance by enterprises through multiple channels to serve the real economy. During the Reporting Period, the Bank underwrote and issued 41 bonds of various types, with RMB19.060 billion raised in total, representing a year-on-year increase of 30.37%. Among them, the Bank underwrote and issued the country's first ex-situ poverty alleviation bill, and the funds raised were mainly used for infrastructure construction in impoverished areas, providing strong financial support for poverty alleviation.

12.2.4 Distribution channels

1. Physical distribution channels

The business outlets of the Bank are based in Qingdao with its footprint covering all corners of Shandong Province. As at the end of the Reporting Period, the Bank has 141 business outlets including 14 branches in 14 cities in Shandong Province, including Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Laiwu, Linyi, Jining and Taian. The Bank had its head office, a branch and 79 sub-branches located in the vicinity of Qingdao. BQD Financial Leasing, the Company's holding subsidiary, is based in Qingdao and has set up an office in Shanghai.

2. Self-service banking channels

As at the end of the Reporting Period, the Bank had 107 in-bank self-service banks and 450 self-service devices including 75 self-service ATMs, 257 self-service Cash Deposit and Teller machines (CTM), and 118 self-service terminals. These units provide services such as withdrawal, deposit, transfer, account enquiry, and payment. As at the end of the Reporting Period, the Bank had recorded 4.9395 million transactions through self-service banks with a total transaction amount of RMB20.941 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 its products and services.

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(1) Mobile finance

The Bank continued to accelerate the intelligent and personalized construction of mobile banking. During the Reporting Period, the Bank cooperated with a well-known Internet giant to jointly develop and introduce its mobile application development platform, and successfully released the version 4.0 of mobile banking, and made revolutionary upgrade and replacement of the mobile banking infrastructure, which improved the efficiency of the mobile banking product updates, functional development, fault repairing and other works, laying a solid foundation for the online digital operation based on big data analysis.

The Bank established a specialized online digital operation team and designed an operational workflow for online customer base focusing on “data analysis-marketing planning-customer base screening-users reach-marketing implementation-strategy review” to enhance the level of targeted operational services. During the Reporting Period, the Bank reached out to approximately 4.92 million users effectively by carrying out online marketing activities and deploying precise marketing strategies.

During the Reporting Period, number of users of the Bank’s mobile banking service and the volume of mobile banking transactions were in constant and rapid growth. The number of existing mobile banking users reached 2,356.2 thousand, representing a year-on-year growth of 50.63%, with an accumulated transaction volume of 69,383.0 thousand, representing a year-on-year growth of 14.09%, while total transaction amounted to RMB396.044 billion, representing a year-on-year growth of 20.72%.

During the Reporting Period, the sales volume of wealth management products on the mobile banking channel continued to rise to RMB181.998 billion, representing a year-on-year growth of 144.16%. The proportion of mobile banking sales to that in the whole channel reached 77.49%, representing a year-on-year growth of 24.17 percentage points.

(2) Internet banking

As at the end of the Reporting Period, the Bank had a total of 117.3 thousand online corporate banking customers, representing a year-on-year increase of 31.97%. The Bank’s accumulated number of transactions totaled 20,811.0 thousand, representing a year-on-year decrease of 10.80%, while the value of total transaction amounted to RMB1,269.741 billion, representing a year-on-year decrease of 8.26%. The decrease in the number of online corporate banking transactions was mainly due to the enhanced control over online banking transfer business in order to improve the anti-money laundering risk prevention and control capability in accordance with regulatory requirements.

Number of online retail banking customers totaled 732.9 thousand, representing a year-on-year increase of 1.30%, and accumulated a total of 79,128.1 thousand transactions, representing a year-on-year decrease of 38.96%. Total transaction amounted to RMB355.452 billion, representing a year-on-year decrease of 40.11%. The decrease in the number of online retail banking transactions was mainly due to the development of mobile finance and the change in consumer habits shifting towards the use of mobile banking.

4. Information technology

During the Reporting Period, the Bank comprehensively implemented the strategy of scientific and technological innovations, combined with the new financial concept of “Finance + Technology + Scenarios”, accelerated the application and innovation of digital technology, focused on strengthening the construction of key projects in areas such as mobile internet, smart operation and wealth management and asset management, and continued to enhance the overall ability of prevention and control of information technology risks, hence 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 mobile finance, data application and other aspects

During the Reporting Period, the Bank stepped up its efforts in the construction of technology projects, launched 17 new IT projects, and successfully completed the launch of 27 major projects, including mobile banking 4.0, the smart outlets, corporate mobile banking, foreign currency projects of Comstar, the modification of ancillary measures for new regulations on asset management, the upgrade of operation decision analysis platforms of BDP and asset management agency sales, and fully promoted the construction of 53 projects under construction.

During the Reporting Period, the smart outlet project was launched successfully. The project integrated marketing services into “close” business services to customers, deepened the exploration and enhanced the value of customer services from our counters, and comprehensively performed various functions such as business guidance, operation and product marketing in outlet services to achieve one-stop financial services for customers.

The successful commencement of production of major projects, including corporate mobile banking, foreign currency projects of Comstar, the modification of ancillary measures for new regulations on asset management, the upgrade of operation decision analysis platforms of BDP, asset management agency sales, the corporate intelligent CRM project and real-time monitoring of transactions further diversified the financial products of the Bank and effectively enhanced its internal management capability.

- (2) Strengthened information technology risk management and fully safeguarded the security of information system

The Bank attached great importance to information security management and control and kept on improving its ability to prevent and control IT risks, enhance 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 the Internet channel system, continuously enhanced the operation and maintenance management capability and level, passed recertification audit for the information security management system (ISO27001) to ensure the reliable, stable, continuous and efficient operation of the information system, and successfully completed the essential safety and security works during major national events.

- (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 Bank's self-developed elastic load balancing method in the cloud environment was awarded the invention patent by the State Patent Office, which realized the flexible expansion of application system resources, enhanced business continuity and formed a centralized data center for banks and a standardized IT structure. During the Reporting Period, technological investment of the Bank on innovative research and application amounted to a total of RMB29.4884 million.

The Bank constantly optimized 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 trend of digitalization. As at the end of the Reporting Period, the Bank had a total of 152 technological personnel, accounting for 3.75% of the Bank's employees.

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 "12.2.3 Financial market business – 3. Asset Management" in Section VI Discussion and Analysis of Operations of this annual 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 are mainly derived from loan portfolios, investment portfolios, guarantees and commitments.

The Company is committed to the establishment of a credit risk management system with comprehensive functions, controlled and balanced risks, streamlined structure and high efficiency as well as well-delegated authorities and duties. The risk management procedures and methods are constantly being improved and the policy system is being optimized. The Company continued to build an accurate and efficient risk-monitoring system and a quick-response mechanism through enhanced risk warning and anti-fraud measures with technical methods. During the Reporting Period, the Company focused on the following areas to strengthen its credit risk management:

1. Continuing to enhance risk exposure management. Based upon its persistent implementation of unified credit extension, the Company has been actively promoting the inclusion of large sum risk exposure management into the works of the comprehensive risk management system. By adopting a top-level design and focusing on improving relevant rules and regulations, the Company moved forward with the construction of a multi-level unified credit extension system covering full range of customers, assets and the entire institution and the construction of a large sum risk exposure management system. Through targeting systems and assisted by manual checks, the Bank has included those businesses bearing substantial credit risks into the unified risk management system, and carried out tasks comprising risk identification, measurement, monitoring and control in accordance with the see-through principle, realizing concentrated risk management.

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2. Adhering to the vertical approval structure and continuing to optimize the business process. The Bank adhered to the centralized approval mechanism of its corporate credit business, continued to optimize the approval process and business aspects, and constantly enhanced the validity and pertinence of the risk identification before credit extension.
3. Innovating and establishing the post-inspection models and enhancing post-loan management levels. Building on the regular models of post-loan inspection work, the Company established post-loan inspection for key institutions, key links, key customers and key industries, which further enhanced the quality and efficiency of post-loan management and promoted the sustainable and steady development of the credit business.
4. Continuing to strengthen the research and assessment of macro-economic conditions and examining various potential risk hazards in a timely manner. During the Reporting Period, the Company focused on Sino-US trade friction, the refinery industry, the real estate industry and government financing platform to pre-assess the potential credit risk; the Bank carried out risk examination for chemical, food and industries which were easily affected by economic situation and regional environment, and established risk mitigation protocols in advance, aiming to achieve early warning and early preparation, and continuously improve risk identification capabilities.
5. Continuously improving the pre-warning management of group customer risk. Additional risk warning thresholds were set up for credit extension to group customers. The Bank put up risk warning thresholds for group customers in pre-loan and approval processes based on the industry where the group customers operate and their operating capability, which was a key reference for post-loan inspection, followed by close supervision of customers' post-credit extension risks.
6. Enhancing risk management of non-local organizations and raising overall risk management and control levels. The Bank improved the assessment and evaluation system of credit risk management of branches and enhanced regulation against and accountability for misconduct occurred in running credit business. At the same time, the Bank stepped up business counselling for branches and enhanced their risk management capabilities through a number of ways including case sharing and on-site communication.
7. Advancing the build-up of the asset preservation system and strengthening the collection of non-performing assets. The Bank continued to advance and improve the building of the asset preservation system, specifying all the duties and responsibilities as well as objectives of the asset preservation department to enable more effective collection of non-performing assets.

During the Reporting Period, the Company further improved its asset quality and put its credit risks under effective management and control through the above measures.

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 pay debts due even if the bank's solvency remains strong.

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

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The Company has established a liquidity risk management governance structure in accordance with 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 the Company's own management needs.

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

The Company's internal control system for liquidity risk management is sound and compliant. The Company conducts special internal audits on liquidity risks annually and prepares 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 increased the allocation proportion of loans. As for liabilities, the Company drove sustainable growth of its proprietary deposits through various measures;
2. Strengthening active liability management, coordinating the active liability instruments such as central bank financing instruments and the issuance of financial bonds, and flexibly arranging active liability strategies according to its own liquidity needs and market changes;
3. Constantly strengthening liquidity risk management on a daily basis, realizing a centralized management and control of RMB and foreign-currency positions and further improving its efficiency in position management;
4. Strictly implementing liquidity risk limit management, fulfilling obligations from all business lines and dynamically monitoring the operation of liquidity risk limit indicators;
5. As for stress tests, the Company has been in strict compliance with the relevant provisions in "Measures for the Liquidity Risk Management of Commercial Banks" (《商業銀行流動性風險管理辦法》) issued by the CBIRC, the Company designed various stress test scenarios including mild, moderate and severe scenarios, single bank level and market level according to its own business scale, nature, complexity and risk status, so as to conduct a quarterly stress test on liquidity risks. The Company formulated corresponding emergency plans based on the results of such stress tests. As at the end of the Reporting Period, the stress tests conducted by the Company for RMB and foreign currency at mild, moderate and severe levels all reached their minimum sustainable requirements of no less than 30 days, leading to a favorable contingency buffer capacity for both RMB and foreign currency.

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

14.3 Market risk management

Market risk refers to the potential risk of causing losses to the Company's future income or future cash flows due to adverse changes in market factors such as 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 formulated by 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, optimized its market risk management policy system, and deepened the construction of the market risk management information system. The Company 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 duties and responsibilities defined for the Board, senior management and various departments. Meanwhile, the Company regularly inspects the policies and systems in relation to market risk management, so as to regulate the identification, monitoring and control process 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 prepares an independent report.

The Company comprehensively utilizes information systems including the Banking Financial Institutions Supervision Information System and the China Bond Integrated Operation Platform to monitor the appropriation of market risk capital in strict accordance with the requirements of the New Basel Capital Accord.

14.3.1 Analysis of interest rate risk

The Company distinguishes its banking book and trading book according to the regulations of the regulatory authorities and the banking management traditions, and adopts the corresponding approaches for the identification, measurement, monitoring and control of market risks according to 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, other banking businesses are included in the banking book.

For the interest rate risk exposure in its banking book, the Company adopts measurement approaches suitable for the scale and structure of its assets and liabilities in accordance with the regulatory requirements, which employ various techniques such as repricing gap analysis, duration analysis, and net interest income simulation analysis to quantify and assess the impact of changes in interest rate on the Company's net interest income and economic value respectively according to different 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 Company 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. During the Reporting Period, the Company realized a rapid growth in net interest income by proactively adjusting business pricing and structure strategies of its asset and liability, while ensuring that the interest rate risk as a whole was within the control.

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14.3.2 Analysis of interest rate sensitivity

The Company uses sensitivity analysis to measure the potential impact of changes in interest rates on the Company's net interest income. The following table sets forth the results of the interest rate sensitivity analysis based on the current assets and liabilities on 31 December 2019 and 31 December 2018.

Unit: RMB'000

Item	31 December 2019 Increase/ (Decrease)	31 December 2018 Increase/ (Decrease)
Change in annualized net interest income		
Interest rate increase by 100 bps	(438,707)	(635,421)
Interest rate decrease by 100 bps	438,707	635,421

Above sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The relevant analysis only measures the changes in the interest rates within one year, reflecting 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 matured within three months and after three months but within one year are repriced or matured at the beginning of the respective periods (i.e. all the assets and liabilities that are repriced or matured within three months are repriced or matured immediately, and all the assets and liabilities that are repriced or matured after three months but within one year are repriced or matured immediately after three months);
2. There is a parallel shift in the yield curve and in interest rates;
3. There are no other changes to the portfolio of assets and liabilities, 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. The 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 based on the above assumptions.

14.3.3 Analysis of exchange rate risk

The Company's exchange rate risk mainly arises from the risk exposures of non-RMB assets held in the banking book of the Company. The Company manages to control the exchange rate risk in its banking book at a reasonable level by means of strict management and control of its foreign currency exposures. 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.

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14.3.4 Analysis of exchange rate sensitivity

The following table sets forth the results of the analysis of exchange rate sensitivity based on the current assets and liabilities on 31 December 2019 and 31 December 2018.

Unit: RMB'000

Item	31 December 2019 Increase/ (Decrease)	31 December 2018 Increase/ (Decrease)
Increase/(decrease) in annualized net profit		
Foreign exchange rate increase by 100 bps	9,511	9,358
Foreign exchange rate decrease by 100 bps	(9,511)	(9,358)

Above 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 the management. The 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 based on the above assumptions.

14.4 Operational risk management

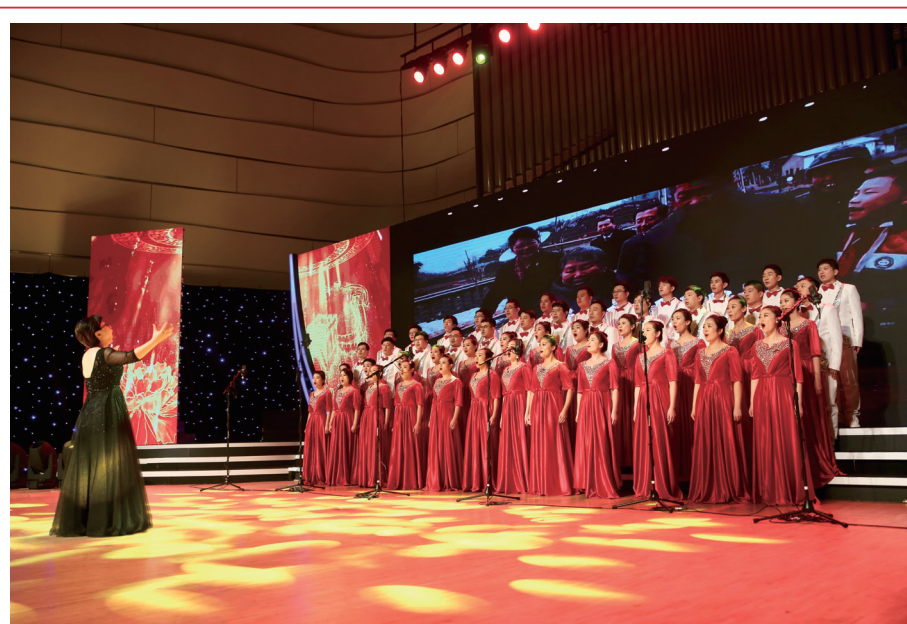
Operational risk refers to the risk of loss arising from inadequate or problematic internal procedures, employees, information technology systems, and external events. The Company's operational risk mainly arises from four types of risk factors, including personnel risk, process risk, information system risk and external event risk.

The Company focuses on the work of preventing systematic operational risks and major 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.

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During the Reporting Period, the Company actively improved operational risk management system, effectively identified, evaluated, monitored, controlled and minimized operational risks, vigorously promoted the improvement of operational risk management capacity, and its operational risks had been well contained. During the Reporting Period, the Company focused on enhancing its operational risk management in the following areas:

1. Improving inspection and supervision to strictly control the occurring of operational risks. Focusing on key businesses and key areas of the Bank, combined with the rectification of irregularities in 2019 and risk screening in certain key areas, the Bank carried out various forms of self-examination and inspections, rectified problems through self-knowledge and self-autonomy process, addressed operation and management loopholes, and eliminated risks in the early stage.
2. Upgrading the operational risk management tools in order to systematically prevent the operational risk. The Bank comprehensively monitored operational risks through integrating various means such as system monitoring, risk screening, internal inspection, and business line supervision, and properly collected and analyzed key indicators of operational risk, and losses of data and issued early warning, improved the construction of internal procedures, and prevented operational risks in an all-round manner.
3. Improving the information technology security measures in order to effectively control the operational risks. The Bank strengthened the security protection of information technology system and outsourcing risk management, analyzed the operation of key systems, the launch of IT projects and 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 outsourcing projects implementation.
4. Enhancing business continuity management and improving risk control and management ability. 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 collaboratively.



In November 2019, an employee's chorus performance was held by the Bank to celebrate the 23rd anniversary of its establishment.

15. OUTLOOK ON FUTURE DEVELOPMENT OF THE COMPANY

15.1 Operating situation analysis for the new year

In 2020, the downward pressure on China's economy will remain strong, but the basic trends of stable positive momentum and positive long-term prospects will remain unchanged. Economic opportunities outweigh challenges in Shandong Province and Qingdao. In 2020, the counter-cyclical adjustment of macro policies will be intensified, active fiscal policies and prudent monetary policies will continue to be implemented, and regulatory authorities will continue to strengthen and adopt strict measures. The industrial division of the banking industry will continue to intensify, the integration of technology and finance will continue to expand, and fintech's integration into the financial service scenarios will be further accelerated.

15.2 Development guiding principle for the new year

In 2020, the Bank will uphold "adopting to changing times, strengthening characteristics, overcoming challenges and developing steadily" as its basic operating guiding principle, continue to focus on management and promote enhancement, and open up new vistas through the "A+H" dual listing of Bank of Qingdao.

To adapt to changing times, we will seize the favorable opportunity of credit easing during the period of counter-cyclical adjustment, grab high-quality assets, and increase the scale of credit delivery while maintaining risks under control;

To strengthen our characteristics, we will complete the community finance, strengthen the agricultural finance starting from the community sub-branches and the agricultural support service station. We will develop sub-branches with special characteristics to cultivate special advantages in the industry. Furthermore, we will spare no effort in key business areas such as public finance, inclusive finance, new economy and high-quality traditional economy;

To overcome challenges, we will build on our confidence, rise above the difficulties and make development as our top priority. In addition, we will improve management, resolve risks and optimize the structure in development;

To develop steadily, we will develop a relationship between development and risk with an accurate understanding, stick to the bottom-line of risk in development, and ensure coordinated development in terms of scale, efficiency and quality.

15.3 Main measures to be adopted for the new year

In 2020, the Bank will focus on the following eight aspects to promote and carry out our work:

1. Focus on key areas and improve the wholesale business ability;
2. Expand the customer base and strengthen the retail business base;
3. Improve service capability and enhance financial market coordination;
4. Improve the efficiency of outlet optimization and strengthen virtual channels functions;
5. Build a governance system and enhance data governance capabilities;
6. Improve asset quality and overall risk management;
7. Centralize application of smart technologies and improve operation support capabilities;
8. Continue to strengthen Party building and push forward with relevant agenda.

Section VII Significant Events

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

1.1 Profit distribution policy for ordinary shares and implementation thereof

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

Particulars of Cash Dividend Policy

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

1.2 Dividend distribution for ordinary shares for the last three years

The 2019 proposal for dividend distribution of ordinary shares: the Board of the Bank has proposed a final cash dividend of RMB2.00 per 10 shares (tax inclusive) for the year ended 31 December 2019 to all ordinary shareholders of the Bank. The total cash dividend is calculated based on the total number of shares on the record date of equity distribution. The dividend distribution plan will be submitted to the 2019 annual general meeting for consideration and approval. The Bank will not issue bonus shares, or perform capital conversion from capital reserve for the year 2019.

If the proposal is approved by the 2019 annual general meeting, the dividend will be distributed to holders of A Shares and holders of H Shares whose names appear on the share register of the Bank at close of business on their respective record dates. The proposed dividends mentioned above will be denominated in RMB. Dividends to holders of A Shares shall be paid in RMB, and dividends to holders of H Shares shall be paid in Hong Kong dollars. The applicable exchange rate for dividends payable in Hong Kong dollars shall be the average of the central parity rates of RMB to Hong Kong dollars in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends at the 2019 annual general meeting (including the day the annual general meeting to be held) as announced by the People's Bank of China. The register of members of the Bank will be closed from Wednesday, 13 May 2020 to Monday, 18 May 2020 (both days inclusive), during such period no transfer of H Shares will be registered. In order to be entitled to the 2019 final dividend payment, holders of H Shares of the Bank who have not registered the related transfer documents are required to lodge the transfer documents together with the relevant share certificates with the Bank's H-share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Tuesday, 12 May 2020.

The Board of the Bank proposed to distribute the final dividends of 2019 on Thursday, 2 July 2020. If there are any changes to the expected dividend payment date, an announcement regarding such changes will be published by the Bank.

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The 2018 dividend distribution plan for ordinary shares: pursuant to the relevant resolutions considered and approved at the 2018 annual general meeting held on 17 May 2019, the Bank distributed to holders of A Shares, whose names appeared on the A-share register of the Bank on 15 July 2019, and to holders of H Shares, whose names appeared on the H-share register of the Bank on 28 May 2019, dividends in cash for 2018 in an aggregate amount of RMB902 million (tax inclusive), according to the dividend distribution plan to distribute cash dividend of RMB2.00 per 10 shares (tax inclusive) on 16 July 2019.

The 2017 dividend distribution plan for ordinary shares: pursuant to the relevant resolutions considered and approved at the 2017 annual general meeting held on 15 May 2018, the Bank distributed to holders of domestic shares and holders of H Shares, whose names appeared on the share register of the Bank on 24 May 2018, dividends in cash for 2017 in an aggregate amount of RMB812 million (tax inclusive), according to the dividend distribution plan to distribute cash dividend of RMB2.00 per 10 shares (tax inclusive) on 25 May 2018.

Unit: RMB'000

Year of distribution	Amount of cash dividends (tax inclusive)	Net profit attributable to ordinary shareholders of the listed company in the consolidated financial statements during the year of distribution	Amount of cash dividends as a percentage of net profit attributable to ordinary shareholders of the listed company in the consolidated financial statements	Amount of cash dividends distribution through other means (such as repurchase of shares)	Amount of cash dividends distribution through other means as a percentage of net profit attributable to ordinary shareholders of the listed company in the consolidated financial statements
2019	901,938	1,764,816	51.11%	—	—
2018	901,938	1,519,256	59.37%	—	—
2017	811,743	1,900,252	42.72%	—	—

Notes: 1. The amount of cash dividend for 2019 (tax inclusive) in the above table is calculated based on the total number of 4,509,690,000 shares at the time when the proposal for the distribution of ordinary shares of the Bank was considered and approved by the Board of Directors of the Bank. The actual amount shall be calculated based on the total number of shares as at the record date for the distribution of interest.

2. During the past three years (including the Reporting Period), the Bank had no proposal (plan) for issuing bonus shares and performing conversion of capital reserves into share capital.

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

Number of bonus share per 10 shares (share(s))	–
Dividend distribution per 10 shares (RMB) (tax inclusive)	2.00
Scrip shares per 10 shares (share(s))	–
Share base of the distribution proposal (shares)	4,509,690,000
Amount of cash dividend (RMB) (tax inclusive)	901,938,000
Amount of cash dividends distribution through other means (such as repurchase of shares) (RMB)	–
Total cash dividend (including cash dividends distribution through other means) (RMB)	901,938,000
Distributable profits (RMB)	3,106,094,136
Percentage of total cash dividend (including cash dividends distribution through other means) to total profit distribution	100%

Cash dividend

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

Particulars of profit distribution and capital conversion from capital reserve plans

Taking into account the profit of the Bank, and in compliance with the Articles of Association of the Bank and relevant regulatory requirements, the proposal for profit distribution of the Bank for 2019 is as follows:

- 10% of net profit, equivalent to RMB223 million, will be appropriated to statutory reserve fund;
- RMB431 million will be appropriated to general reserve;
- RMB520 million of dividend has been distributed to the offshore preference shareholders on 19 September 2019;
- RMB2.00 (tax inclusive) per 10 shares of cash dividend will be distributed to all ordinary shareholders on a basis of the total number of shares on the record date of equity distribution. Dividends of H Shares shall be paid in Hong Kong dollars. The applicable exchange rate of RMB to Hong Kong dollars shall be the average of the central parity rates in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends at the annual general meeting (including the day the annual general meeting to be held) as announced by the People's Bank of China;
- The retained profit will be carried forward to the next year.

Note: The share base of distribution proposal, amount of cash dividend (tax inclusive) and total cash dividend in the above table are stated and calculated based on a total number of 4,509,690,000 shares outstanding at the time when the proposal for dividend distribution of ordinary shares was considered and approved by the Board of the Bank. The actual data shall depend on the total number of shares on the record date of equity distribution and be calculated accordingly.

III. FULFILLMENT OF UNDERTAKINGS

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

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
Undertaking made on initial public offering or refinancing	Qingdao Conson Industrial Co., Ltd.	Undertaking on voluntary lock-up of shares held	Qingdao Conson Industrial Co., Ltd., a shareholder holding more than 5% of the total share capital of the Bank, undertook not to transfer nor entrust others to manage the shares of the Bank held directly or indirectly by it prior to the issuance of the A Shares within 36 months from the date of the listing of A Shares of the Bank on the stock exchange and not to sell back the above shares to the Bank.	16 January 2019	36 months	In progress
	Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd., Haier Smart Home Co., Ltd., Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Haier Robot Co., Ltd., Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd.	Undertaking on voluntary lock-up of shares held	Eight enterprises including Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd., Haier Smart Home Co., Ltd., Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Haier Robot Co., Ltd., Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd. respectively undertook not to transfer nor entrust others to manage the shares of the Bank held directly or indirectly by them prior to the issuance of the A Shares within 36 months from the date of the listing of A Shares of the Bank on the stock exchange and not to sell back the above shares to the Bank (except for the transfers between a company and its related party if the transfer is in compliance with the relevant laws and regulations and the transferee agrees to fulfill the undertaking on lock-up of shares by the transferor).	16 January 2019	36 months	In progress
	Shandong Sanliyuan Economics and Trade Co., Ltd., Qingdao Hairan Investment Co., Ltd., Qingdao Jifa Group Co., Ltd., Shanghai Jiacheng Investment Management Co., Ltd., Beijing International Trust Co., Ltd. (北京國際信託有限公司), Guosen Securities Company Limited (國信證券股份有限公司), Qingdao Bright Mountain Industries Co., Ltd. (青島貝蒙特實業有限公司), Qingdao New Hongfang Group Co., Ltd. (青島新紅紡集團有限公司), United Ventures Group Co., Ltd. (聯合創業集團有限公司), Hundsun Technologies Inc. (恆生電子股份有限公司), Qingdao Kingking Applied Chemistry Co., Ltd., Qingjian Group Co., Ltd. (青建集團股份公司) and Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	Undertaking on voluntary lock-up of shares held	Shandong Sanliyuan Economics and Trade Co., Ltd., Qingdao Hairan Investment Co., Ltd., Qingdao Jifa Group Co., Ltd., Shanghai Jiacheng Investment Management Co., Ltd., Beijing International Trust Co., Ltd. (北京國際信託有限公司), Guosen Securities Company Limited (國信證券股份有限公司), Qingdao Bright Mountain Industries Co., Ltd. (青島貝蒙特實業有限公司), Qingdao New Hongfang Group Co., Ltd. (青島新紅紡集團有限公司), United Ventures Group Co., Ltd. (聯合創業集團有限公司), Hundsun Technologies Inc. (恆生電子股份有限公司), Qingdao Kingking Applied Chemistry Co., Ltd., Qingjian Group Co., Ltd. (青建集團股份公司) and Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. respectively undertook not to transfer nor entrust others to manage the shares of the Bank held directly or indirectly by them prior to the issuance of the A Shares within 36 months from the date of the listing of A Shares of the Bank on the stock exchange and not to sell back the above shares to the Bank.	16 January 2019	36 months	In progress

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Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Qingdao Collective Enterprise Cooperative Society	Undertaking on voluntary lock-up of shares held	Qingdao Collective Enterprise Cooperative Society undertook not to transfer nor entrust others to manage the 2,829,795 shares held by it within 36 months from the date of the listing of A Shares of the Bank on the stock exchange and not to sell back the above shares to the Bank.	16 January 2019	36 months	In progress
	Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	Undertaking on voluntary lock-up of shares held	Pursuant to the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》), Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. undertook not to transfer the share equity held by it within five years from the date of obtaining the share equity of the Bank (29 June 2018).	29 June 2018	60 months	In progress
	The Directors, Supervisors and senior management holding shares of the Bank	Undertaking on voluntary lock-up of shares held	The Directors, Supervisors and senior management holding shares of the Bank undertook not to transfer nor entrust others to manage the shares of the Bank held by them within 36 months from the listing date of the Bank and the above shares are not to be repurchased by the Bank; upon the expiration of such lock-up period, they shall also report their shareholdings in the Bank and changes thereof to the Bank according to the laws in a timely manner, the number of shares transferred by each of them through concentrated bidding, block trade and share transfer by agreement during their terms of office every year will not exceed 15% of the total number of shares of the Bank held by each of them, the total number of shares transferred by each of them within 5 years shall not exceed 50% of the total number of shares of the Bank held by each of them, and they shall not purchase the shares of the Bank within 6 months after they have sold their shares and shall not sell the shares of the Bank within 6 months after they have bought the shares. Within 6 months after their dimission, they shall not transfer the shares of the Bank held by them. The above undertakings on lock-up of shares shall not be terminated due to changes in their posts and dimission.	16 January 2019	Please see the details of undertakings	In progress
	The individuals holding more than 50,000 shares of internal staff shares	Undertaking on voluntary lock-up of shares held	Pursuant to the Notice on the Regulation of Internal Staff Shares in Financial Enterprises (Caijin [2010] No. 97) (《關於規範金融企業內部職工持股的通知》(財金[2010]97號)), the individuals holding more than 50,000 shares of internal staff shares undertook that the lock-up period of the share transfer shall not be less than 3 years from the date of listing and trading of the A Shares of the Bank on the stock exchange. Upon the expiration of lock-up period of shareholding, the number of shares available for sale every year shall not exceed 15% of the total number of the shares held, and the number of shares available for sale within 5 years shall not exceed 50% of the total number of shares held.	16 January 2019	Please see the details of undertakings	In progress

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Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Qingdao Conson Industrial Co., Ltd.	Undertakings on the intention of shareholding and intention of reduction of shareholding	<p>Prior to the issuance of the A Shares, Qingdao Conson Industrial Co., Ltd., a shareholder holding more than 5% of the total share capital of the Bank, undertook that upon the listing of A Shares of the Bank, if it is necessary to transfer the shares of the Bank held by it, upon the satisfaction of the four conditions, namely expiration of the lock-up period as stipulated by laws, regulations and regulatory documents, expiration of lock-up period undertaken, there being no circumstance where the share transfer is prohibited as stipulated in laws and regulations and regulatory documents and the announcement on the intention of reduction in shareholding being published 3 trading days before the reduction in shareholding, Qingdao Conson Industrial Co., Ltd. can reduce its shareholding through concentrated bidding system, block trade system of the stock exchange, share transfer by agreement or other methods as permitted by the laws and regulations within six months from the publication of the announcement on the intention of reduction in shareholding. If Qingdao Conson Industrial Co., Ltd. intends to reduce its shareholding within two years after the expiration of the lock-up period, the number of shares reduced each year shall not exceed 25% of the number of the shares held, and the price shall not be lower than the issue price (In case of any ex-rights or ex-dividend activities such as dividend distribution, bonus shares, capital conversion from capital reserve, allotment and share subdivision, the above price shall be adjusted for such ex-rights and ex-dividends activities); after two years from the expiration of the lock-up period, if it intends to reduce its shareholding, the number of shares to be reduced shall be announced 3 trading days before the reduction. If Qingdao Conson Industrial Co., Ltd. fails to fulfill the above undertakings regarding the reduction of shareholding, its gains from the reduction of shares of the Bank shall be forfeited by the Bank. If the gains of the illegal reduction or the illegal transfer are not delivered to the Bank, the Bank shall be entitled to withhold cash dividends payable to it at an amount that is equivalent to the gains of the illegal reduction or the illegal transfer.</p>	16 January 2019	Please see the details of undertakings	In progress

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Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	The Directors and senior management holding shares of the Bank	Undertakings on the intention of shareholding and intention of reduction of shareholding	The Directors and senior management holding shares of the Bank undertook that if they reduce the shares of the Bank held by them within 2 years from the expiration of the lock-up period, the price shall not be lower than the issue price; if the closing prices of the shares of the Bank are lower than the issue price for 20 consecutive trading days during the 6 months after the listing of the Bank, or the closing price of the shares of the Bank at the end of the 6 months after listing is lower than the issue price, the lock-up period of shares of the Bank held by them shall be extended for 6 months automatically. The above undertakings on the price of shareholding reduction shall not be terminated due to changes in their posts or dismissal. The above issue price refers to the issue price of the initial public offering of the A Shares of the Bank. If the Bank has any ex-rights and ex-dividend issues due to cash dividend, bonus issue, capital conversion and issue of new shares after its listing, such issues shall be handled in accordance with the relevant provisions of the stock exchange.	16 January 2019	Please see the details of undertakings	In progress
Other undertakings	Haier Group, Intesa Sanpaolo S.p.A. and Qingdao Conson Industrial Co., Ltd.	Undertaking by major shareholders	In June 2011, in accordance with the relevant requirements of the Notice of the General Office of China Banking and Insurance Regulatory Commission on Strengthening the Review of Qualifications of Major Shareholders of Small and Medium-sized Commercial Banks, Haier Group, Intesa Sanpaolo S.p.A. and Qingdao Conson Industrial Co., Ltd., shareholders of the Bank with shareholding of more than 5%, respectively undertook: not to seek related party transactions with terms more favorable than those of other shareholders; not to intervene in the daily business affairs of the Bank; not to transfer the new shares subscribed for within five years from the date of completion of the change of business registration, and any transfer of shares upon the expiry of the said period and the qualification of the transferee as shareholder shall be subject to the consent of regulatory authorities; to continue to provide the Bank with additional capital as the main capital sources of the shareholding bank; not to impose undue pressure on the Bank by setting indicators.	7 June 2011	Please see the details of undertakings	In progress

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Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
	Qingdao Hairan Investment Co., Ltd.	Undertaking by major shareholder	In accordance with the Interim Measures for the Equity Management of Commercial Banks (Order of The CBRC [2018] No. 1), the Notice of the General Office of the CBRC on Strengthening the Review of Qualifications of Major Shareholders of Small and Medium-sized Commercial Banks (Yin Jian Ban Fa [2010] No. 115), the Notice of the CBRC on Issuing the Guidelines for the Corporate Governance of Commercial Banks (Yin Jian Fa [2013] No. 34), Qingdao Hairan Investment Co., Ltd., as a major shareholder of the Bank, hereby undertakes that it will: comply with the laws and regulations, regulatory requirements and the Articles of Association of the Bank; not transfer their equity interests in the Bank within five years from the date of acquiring the equity interests in the Bank; not seek related party transactions with terms more favorable than those of other shareholders, and provide explanations on the bank loans and loan quality as confirmed by the lending bank; not to intervene in the daily business affairs of the Bank; continue to replenish the Bank's capital when necessary and report its capital replenishment capability to the regulatory authorities through the Bank on an annual basis; avoid imposing undue pressure arising from reference on the Bank; disclose the information of related parties to the Board of Directors of the Bank truthfully, accurately and completely, and report to the Board of Directors of the Bank in a timely manner on any change in the related party relationship. It also undertakes that in case shares of the Bank held by it is pledged, the pledge will be in compliance with the regulatory policy orientation and the requirements of the Articles of Association and relevant equity interest management system of the Bank.	20 November 2019	Please see the details of undertakings	In progress
	Qingdao Conson Industrial Co., Ltd., six companies under the Haier Group (including Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Haier Robot Co., Ltd., Haier Smart Home Co., Ltd. (海爾智家股份有限公司), Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd.) and Intesa Sanpaolo S.p.A.	Undertaking on the private placement	In June 2014, Qingdao Conson Industrial Co., Ltd., six companies under Haier Group (including Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Haier Robot Co., Ltd., Haier Smart Home Co., Ltd. (海爾智家股份有限公司), Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd.) and Intesa Sanpaolo S.p.A., which participated in the subscription for the shares of the Bank under the private placement, respectively undertook not to transfer 95,179,773 shares, 145,018,723.97 shares and 111,111,187 shares subscribed for in the above subscription within five years from 28 February 2015 (being the date of completion of business registration of the relevant subscription). In addition, Intesa Sanpaolo S.p.A. further undertook not to transfer the other equity interest held by it within a period of three years from the date of listing of H Shares of the Bank.	9 June 2014	Please see the details of undertakings	In progress
Whether undertaking was fulfilled on time			Yes			

Notes: 1. During the Reporting Period, there was no situation where the profit forecast for the Bank's assets or projects existed or the Reporting Period still fell within the period of profit forecast.

2. On 20 June 2019, "Qingdao Haier Co., Ltd." was renamed as "Haier Smart Home Co., Ltd.".

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

During the Reporting Period, there was no appropriation of funds of the Bank by the controlling shareholder and its related parties for non-operating purposes. KPMG Huazhen LLP, the auditor of the Bank, has issued the Special Report of Bank of Qingdao Co., Ltd. on Appropriation of Funds for Non-operating Purposes and the Flow Funds involving Related Parties for 2019 (《關於青島銀行股份有限公司2019年度非經營性資金佔用及其他關聯資金往來情況的專項說明》).

V. EXPLANATION FROM THE BOARD OF DIRECTORS, THE BOARD OF SUPERVISORS AND THE INDEPENDENT DIRECTORS (IF ANY) ON "NON-STANDARD AUDIT REPORT" OF THE ACCOUNTING FIRM DURING THE REPORTING PERIOD

N/A.

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

The Company has initially adopted IFRS 16 from 1 January 2019.

For details and impact of the changes in accounting policies, please refer to the announcement on changes in accounting policies of the Bank and Note 2(2) "Changes in accounting policies" to the financial statements of this annual report.

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

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

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

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

IX. ENGAGEMENT OR DISMISSAL OF ACCOUNTING FIRMS

9.1 Current accounting firm engaged

Name of the domestic accounting firm	KPMG Huazhen LLP
Continued term of audit service of the domestic accounting firm	10 years
Name of certified public accountants of the domestic accounting firm	CHENG Hailiang, TANG Yinghui
Continued term of audit service of certified public accountants of the domestic accounting firm	1 year, 4 years
Name of the international accounting firm (if any)	KPMG
Continued term of audit service of the overseas accounting firm (if any)	5 years
Name of certified public accountants of the overseas accounting firm (if any)	LEE Lok Man
Continued term of audit service of certified public accountants of the overseas accounting firm (if any)	3 years

Note: During the Reporting Period, the Bank did not change the accounting firm. Certified public accountants of the domestic accounting firm changed from WANG Lipeng, TANG Yinghui to CHENG Hailiang, TANG Yinghui.

For the year ended 31 December 2019, RMB6.1800 million of the total audit fee was agreed to be paid by the Company (including subsidiaries) to KPMG Huazhen LLP and KPMG for the annual audit of financial statement, the interim review, the quarterly implementation of agreed-upon procedures and internal control audit, etc. (of which: RMB600,000 of the audit fees for internal control audit) and it was agreed to pay RMB883,600 of the non-audit fee to them. The above fees include related taxes, travel, office expenses and other sundry expenses.

9.2 Particulars on the recruitment of accounting firms for internal control audit, financial advisors or sponsors

The Bank engaged KPMG Huazhen LLP as the internal control audit institution for 2019 and the internal control audit fee payable is RMB600,000.

The Bank engaged CITIC Securities Co., Ltd. as the sponsor of the offering of A Shares and the sponsor of continuous supervision. During the offering of A Shares of the Bank, the underwriting and sponsor fees paid amounted to RMB56,729,500 (excluding tax); no fee was paid for continuous supervision service.

During the Reporting Period, the Bank did not engage any financial advisor.

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

N/A.

XI. MATTERS RELATED TO BANKRUPTCY AND REORGANIZATION

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

XII. MATERIAL LITIGATION, ARBITRATION AND MATERIAL CASES

There was no significant litigation, arbitration and material cases 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. As at the end of the Reporting Period, the Bank was the defendant in eight pending litigations with total amount of claims at RMB212,405,800, which would not have material adverse impact on the financial or operating results of the Bank, and no provision has been made.

XIII. PUNISHMENT AND RECTIFICATION

As far as the Bank is aware, during the Reporting Period, none of the following circumstances happened to the Bank and Directors, Supervisors or senior management of the Bank, 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, imposed coercive measure and 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.

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

There was no controlling shareholder or de facto controllers of the Bank. As far as the Bank is aware, during the Reporting Period, the Bank, 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.

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

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

XVI. SIGNIFICANT RELATED PARTY TRANSACTIONS

16.1 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.

According to the requirements of the CBIRC, the Bank reviews and approves related party transactions based on commercial principles and on terms no more favorable than similar transactions with non-related parties. The terms of such transactions are fair and reasonable and in the interests of all shareholders and the Bank as a whole, and there is no negative impact on the operating results and financial position of the Bank. Among which, 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 normally with no non-performing loans.

Section VII Significant Events

According to the requirements of the CBIRC, during the Reporting Period, there were 11 proposals on material related party transactions approved by the Board, which were related party transactions with 8 related enterprises of Haier Group, 2 related enterprises of Qingdao Conson Group and BQD Financial Leasing Company Limited. As at the end of the Reporting Period, the Bank's balance of credit-related significant related party transactions was RMB3,974 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	8.75	8.75	2.23%
Haier Consumer Finance Co., Ltd.	Interbank borrowing	Guarantee	8.00	8.00	2.04%
Qingdao Changyuan Land Co., Ltd.	Non-standard debt	Guarantee	7.00	7.00	1.78%
Qingdao Haier Home Integration Co., Ltd.	Commercial bill financing, letter of guarantee	Guarantee	3.96	3.96	1.01%
Qingdao Haichen Real Estate Development Co., Ltd.	Loan	Mortgage	3.16	3.16	0.81%
Haier Financial Factoring (Chongqing) Co., Ltd.	Commercial bill financing	Guarantee	2.10	2.10	0.53%
BQD Financial Leasing Company Limited	Interbank borrowing	Credit	2.00	2.00	0.51%
Qingdao Haier Industry and City Innovation Group Co., Ltd.	Factoring and guarantee	Pledge	1.35	1.35	0.34%
Haier Group Finance Co., Ltd.	Interbank bill credit	–	1.25	1.25	0.32%
Qingdao Haizhi Weichuang Estate Co., Ltd.	Commercial bill financing	Guarantee	1.00	1.00	0.25%
Qingdao Haitang Real Estate Co., Ltd.	Commercial bill financing	Guarantee	0.55	0.55	0.14%
Qingdao Haiqi Real Estate Development Co., Ltd.	Commercial bill financing	Guarantee	0.50	0.50	0.13%
Qingdao Conson Financing Guarantee Co., Ltd. (青島國信融資擔保有限公司)	Financing guarantee	–	0.12	0.12	0.03%

According to the provisions of the CSRC, the Bank has made a forecast of the daily related party transactions in 2019 and published the Announcement on Estimated Ordinary Related Party Transactions in 2019 (Announcement No.: 2019-014) on CNINFO website dated 29 March 2019. The related party transactions in the Reporting Period have not exceeded the forecast. The details are as follows:

- (1) The estimated cap 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 RMB2,887 million;
- (2) The estimated cap 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 cap of non-credit transactions was RMB7.2 million, and the actual amount was RMB4.2245 million during the Reporting Period;
- (3) The estimated cap 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 RMB1,172 million; the estimated cap of non-credit transactions was RMB56.43 million, and the actual amount was RMB54.6734 million during the Reporting Period;

Section VII Significant Events

- (4) The estimated cap 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 RMB23.8457 million during the Reporting Period;
- (5) The estimated cap 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 RMB1,070 million; the estimated cap of non-credit transactions was RMB1.55 million, and the actual amount was RMB0.6987 million during the Reporting Period;
- (6) The estimated cap 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 RMB90 million;
- (7) The estimated cap of credit-related transactions in respect of BQD Financial Leasing Company Limited was RMB700 million, and the balance at the end of the Reporting Period was RMB200 million;
- (8) The estimated cap of credit-related transactions in respect of related natural persons was RMB353 million, the balance at the end of the Reporting Period was RMB214 million and the risk exposure was RMB214 million.

During the Reporting Period, the total amount of the related party transactions between the Bank and a related party exceeded 5% of the latest audited net assets of the Bank, which was the loan to Qingdao Conson Financial Holdings Co., Ltd. (the “**Conson Financial Holdings**”) by the Bank. Such business was within the expected scope of the ordinary related party transactions in 2019. Conson Financial Holdings is a subsidiary of Qingdao Conson Group, a substantial legal person shareholder of the Bank holding more than 5% of the shares. The loan granted by the Bank to Conson Financial Holdings was conducted on business principles and terms no favorable than those offered to non-related parties for similar transactions. During the Reporting Period, the balance of the Bank’s loans to Conson Financial Holdings reached a maximum of RMB1.500 billion, and the balance of loans did not exceed the amount of its credit facilities. As at the end of the Reporting Period, the balance of loans was RMB875 million, accounting for 0.52% of the Bank’s loans and advances to customers. The loans required monthly repayment of interest and repayment of principal when due, with a weighted average interest rate of 5.25%.

16.2 Related party transactions in connection with acquisition or sale of assets or equity interest

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

16.3 Related party transactions in connection with joint external investment

There was no related party transactions of the Bank in connection with joint external investment during the Reporting Period.

16.4 Related creditors’ rights and debts transactions

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

16.5 Other significant related party transactions

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

XVII. MATERIAL CONTRACTS AND IMPLEMENTATION THEREOF

17.1 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.

17.2 Significant guarantees

The guarantee business is the normal business of the Bank. There was no significant guarantee matter that needed to be disclosed beyond the scope of its normal business during the Reporting Period.

17.3 Entrusted cash and asset management

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

17.4 Other material contracts

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

XVIII. ACQUISITION, MERGER AND DISPOSAL OF ASSETS DURING THE REPORTING PERIOD

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

XIX. OTHER MATTERS OF SIGNIFICANCE

During the Reporting Period, save for the disclosed, there was no other matters of significance that needed to be disclosed.

XX. SOCIAL RESPONSIBILITY

20.1 Performance of social responsibility

For details, please refer to the 2019 Social Responsibility Report published on the CNINFO website, HKEXnews website of the Hong Kong Stock Exchange and the website of the Bank.

20.2 Fulfillment of social responsibility for targeted poverty alleviation

(1) Targeted Poverty Alleviation Plan

The Bank actively carried out targeted poverty alleviation in accordance with the national guidance on poverty alleviation loans and the division of labor arrangement within the Bank. According to the financial poverty alleviation target plan formulated by the Bank, all branches of the Bank have actively carried out corresponding works. The Bank strengthened the marketing of products such as "Planting Treasure (種植寶)", "Breeding Treasure (養殖寶)", "Mortgage Loans for Rural Contracted Land Management Right", "Mortgage Loan of Property Rights of Farmers' Housing", "Small-amount Guarantee Loan with Government Interest Subsidies" and "Personal Education Loan" within the regions designated by the government.

(2) Summary of targeted poverty alleviation during the year

The Group will focus on the “rural revitalization strategy” and focus on requirements of the goal of “realizing rural industrial revitalization, talent fostering, cultural revitalization, ecology enhancement and organization enhancement”, reorganize and gather resources, support the outposted working teams in carrying out relevant work, and facilitate the implementation of targeted poverty alleviation projects. Fundings were arranged to renovate the rural infrastructure including roads improvement within and stretching out of villages, and to remodel sports and leisure squares, install photovoltaic power generation facilities and carry out other livelihood projects, which has improved the appearance and living environment of the village. The Bank arranged public welfare surveys in areas suffering from severe water shortages, which facilitate preparatory work for regional drilling and overall water source layout.

(3) Effectiveness of targeted poverty alleviation

Indicator	Unit of measurement	Number/ Status
I. Overall situation	–	–
Of which: 1. Capital	RMB'0,000	200
2. Cash converted from materials	RMB'0,000	–
3. Number of registered poor people being lifted out of poverty	Person	–
II. Project investment	–	–
9. Other projects	–	–
Of which: 9.1. Number of projects	Piece	2
9.2. Investment amount	RMB'0,000	200
9.3. Number of registered poor people being lifted out of poverty	Person	–

(4) Targeted poverty alleviation follow-up programs

The Bank will continue to enhance the awareness and publicity of financial targeted poverty alleviation services, further strengthen the innovation of financial products and services, and improve the targeted poverty alleviation of financial 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 activities targeting at the customers of specific industries and specific groups of Small and Micro Enterprises. Furthermore, the Bank will vigorously develop innovative financial products, such as online banking, mobile banking, and “Jufuma (聚付碼)”, to provide convenient payment and settlement services through various channels for poor households so that they can pay and transfer funds without leaving their homes.

20.3 Environmental protection

The Bank and its subsidiaries are not key pollutant discharging enterprises as announced by the environmental protection authorities. During the Reporting Period, the Bank and its subsidiaries were not subject to any punishment due to violation of environmental protection laws and regulations. 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. The Bank and its subsidiaries will conscientiously implement the Environmental Protection Law of the PRC and other environmental protection laws and regulations in its production and operation activities going forward.

XXI. PROTECTION OF CONSUMER RIGHTS

During the Reporting Period, under the guidance of our core management approach of “strategic guidance, characteristic driving, integrity and compliance, and continuous improvement”, the consumer rights protection work of the Bank vigorously fulfilled regulatory requirements, effectively protected the rights and interests of consumers, practiced the three-level management method for consumer rights protection performed by the consumer rights protection committee of the head office, professional departments, branches and sub-branches, and integrated consumer rights protection into the Bank’s daily operation, business management, operation process, employee standardization, etc., and accordingly all tasks achieved steady progress in general.

1. Carrying out practical and effective rectification measures to improve systems and management disciplines

Firstly, the Bank was organized to carry out large scale on-site inspections and rectification of sales behavior in business sites, self-inspection and corrective actions against abuses of consumer rights and interests, and enhanced the consumer rights protection awareness and risk prevention awareness of the Bank through strict rectification in the course of strict inspection. Secondly, the Bank revised and improved the evaluation methods for consumer rights protection and adopted various regulatory requirements for consumer rights protection. Thirdly, the Bank supplemented the Guidebook of the Consumer Protection System of Bank of Qingdao, and improved the system based on the guideline of “following the general guidance of consumer rights protection, focusing on the specialized operating systems for various businesses with the support of internal assessment and internal audit management”.

2. Improving service value experience and optimizing complaint management mechanism

Firstly, the Bank adhered to the national standard system to ensure the high standard operation of basic service, and successfully completed the task of achieving “two national standard certifications on bank branches service”. Secondly, the Bank’s data reporting system for the monitoring of financial customer complaints has successfully connected with the financial consumer complaint monitoring and analysis system of the People’s Bank of China. The system has become the first data-based management platform for complaints connecting the central bank and commercial banks in China. The Bank is the first one to apply digital data transmission under the national standard for classification of complaints.

3. Delivering on social responsibility by promotion and education in “Six Areas”

The Bank created a new pattern of promoting financial knowledge and education in “Six Areas”. In particular, the Bank comprehensively promoted the construction of micro-classroom of financial knowledge, advanced the promotion of agricultural service, promoted financial knowledge to campus, promoted financial knowledge to communities, worked hard to build an education team to promote consumer rights protection, and strengthened the evaluation of consumer rights protection. Therefore, the Bank has created a good atmosphere that benefits dissemination of financial knowledge and effectively safeguards the legitimate rights and interests of customers of banks. In 2019, the Bank participated in promotional activities through more than 130 outlets, distributed more than 120,000 leaflets and organized more than 700 publicity activities, benefiting 130,000 consumers.

4. Innovating inclusive financial products to steadily promote three major models

Firstly, the Bank actively innovated inclusive financial products, created three major product lines of technology finance, inclusive finance and agricultural finance, and strived to solve the problem of “difficult and expensive financing” for Small and Micro Enterprises. Secondly, the Bank will continue to promote the construction of special sub-branches for science and technology finance and special sub-branches for agricultural finance, provide key support and guidance to special sub-branches, and build up its businesses offering special features. Thirdly, the Bank steadily promoted the construction of inclusive financial data platform, and promoted the coordinated and balanced development of the Bank’s Small and Micro Enterprise business along with efforts in risk prevention and control.

XXII. SIGNIFICANT EVENTS OF THE COMPANY' S SUBSIDIARIES

During the Reporting Period, save for the disclosed, there was no other matters of significance for subsidiaries of the Bank.

XXIII. PUBLICATION OF ANNUAL REPORT

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

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

Section VIII 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		New issue	Increase/decrease (+/-)				As at 31 December 2019	
	Number of shares	Percentage		Bonus issue	Conversion from reserves	Others	Sub-total	Number of shares	Percentage
I. Shares with selling restrictions	2,295,677,769	56.56%	500	-	-	-	500	2,295,678,269	50.91%
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. Shares held by state-owned legal entities	667,111,940	16.44%	-	-	-	30,898,023	30,898,023	698,009,963	15.48%
3. Shares held by other domestic investors	1,628,565,829	40.12%	500	-	-	-30,898,023	-30,897,523	1,597,668,306	35.43%
Of which: Shares held by domestic non-state-owned legal entities	1,576,753,870	38.85%	-	-	-	-29,445,726	-29,445,726	1,547,308,144	34.31%
Shares held by domestic natural individuals	51,811,959	1.27%	500	-	-	-1,452,297	-1,451,797	50,360,162	1.12%
4. Shares held by foreign investors	-	-	-	-	-	-	-	-	-
Of which: Shares held by foreign legal entities	-	-	-	-	-	-	-	-	-
Shares held by foreign natural individuals	-	-	-	-	-	-	-	-	-
II. Shares without selling restrictions	1,763,034,980	43.44%	450,976,751	-	-	-	450,976,751	2,214,011,731	49.09%
1. RMB ordinary shares	-	-	450,976,751	-	-	-	450,976,751	450,976,751	10.00%
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	1,763,034,980	43.44%	-	-	-	-	-	1,763,034,980	39.09%
4. Others	-	-	-	-	-	-	-	-	-
III. Total number of shares	4,058,712,749	100.00%	450,977,251	-	-	-	450,977,251	4,509,690,000	100.00%

Notes: 1. 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 sub-section. The above changes in shares do not involve share transfer.

2. The Bank did not conduct share repurchase during the Reporting Period.

3. In 2019, the basic earnings per share of the Company amounted to RMB0.39, representing a year-on-year increase of RMB0.02; as at the end of the year, the net assets per share attributable to ordinary shareholders of the Bank were RMB4.89, representing an increase of RMB0.18 as compared with that at the end of the previous year. Despite the increase in share capital, the Bank's initial public offering of A Shares has achieved a relatively sound business development and relatively rapid increase in profits, and earnings per share and net assets achieved an overall steady growth.

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 senior management	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 specialized securities account for the custody of shares without affirmed ownership to domestic non-state-owned legal entities, etc.

II. SECURITIES ISSUANCE AND THE LISTING

2.1 Issuance of Securities (excluding Preference Shares) during the Reporting Period

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, while the number of share issued is 450,977,251 shares and the net proceeds raised amounting to RMB1.963 billion. 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.

2.2 Changes in the Total Number of Shares and the Shareholder Structure of the Bank and the Asset and Liability Structure of the Bank

During the Reporting Period, the Bank has no changes in the total number of shares and the shareholder structure of the Bank and the asset and liability structure of the Bank resulting from bonus issue, capital conversion, allotment, issue of new shares, non-public issuance of shares, exercise of warrants, implementation of the equity incentive plan, business combination, conversion of the convertible corporate bonds, capital reduction, listing of internal staff shares, debt securities issuance or other reasons.

2.3 Existing Internal Staff Shares

The existing internal staff shares of the Bank were derived from the conversion of the shareholdings of the former credit cooperatives’ employees into the Bank’s shares at the time of its establishment and from other reasons, and now it is unable to accurately verify the issue date and the price of the internal staff shares. At the end of the Reporting Period, the Bank totally has 1,008 shareholders of internal staff shares, who hold 38,161,150 domestic shares of the Bank, accounting for 0.85% of the total number of shares at the end of the Reporting Period, which complies with the provisions of the “Notice on the Regulation of Internal Staff Shares in Financial Enterprises” (Cai Jin [2010] No. 97).

III. SHAREHOLDERS AND DE FACTO CONTROLLERS

3.1 Number of shareholders and their shareholdings in the Company

Unit: share

Total number of ordinary shareholders at the end of the Reporting Period	99,556	Total number of ordinary shareholders as at the end of the last month before the date of the disclosure of the annual report	89,838	Total number of preferred shareholders whose voting rights were resumed at the end of the Reporting Period	–	Total number of preferred shareholders whose voting rights were resumed as at the end of the last month before the date of the disclosure of the annual report	–
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Shareholdings of ordinary shareholders who hold more than 5% of the shares or shareholdings of the top ten ordinary shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholding	Number of shares held as at the end of the Reporting Period	Increase or decrease during the Reporting Period	Number of shares with selling restrictions held	Number of shares without selling restrictions held	Share pledged or locked-up Status of shares	Number of shares
Hong Kong Securities Clearing Company Nominees Limited	Overseas legal entity	25.23%	1,137,875,380	15,500	–	1,137,875,380	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	–	Pledged	151,600,000
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 Hairan 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 Huatong State-owned Capital Operation (Group) Co., Ltd.	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 shareholders of the Bank as a result of placing of new shares

Description of the related relationships or acting in concert among the above shareholders

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

Among the abovementioned 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 relationships among other shareholders or whether they are parties acting in concert.

Section VIII 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	1,137,875,380	Overseas listed foreign shares	1,137,875,380
Intesa Sanpaolo S.p.A.	624,753,980	Overseas listed foreign shares	624,753,980
XU Zhidi (許芝弟)	7,837,017	RMB ordinary shares	7,837,017
ZHANG Xubin (張旭彬)	6,534,300	RMB ordinary shares	6,534,300
Agricultural Bank of China Limited – CSI 500 Index Exchange-Traded Fund	5,753,100	RMB ordinary shares	5,753,100
Hong Kong Securities Clearing Company Limited	3,979,759	RMB ordinary shares	3,979,759
PENG Tao (彭濤)	1,842,730	RMB ordinary shares	1,842,730
Vanguard Investments Australia Ltd. – Vanguard Emerging Market Stock Index Fund (Exchange)	1,551,800	RMB ordinary shares	1,551,800
XIE Sheng Jing (謝升敬)	1,504,300	RMB ordinary shares	1,504,300
ZHANG He Bin (張河彬)	1,425,900	RMB ordinary shares	1,425,900

Explanation on the related relationships or acting in concert among the top ten circulating shareholders without selling restrictions and that between the top ten circulating shareholders without selling restrictions and the top ten 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 relationships among the remaining top ten ordinary shareholders without selling restrictions and that between 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 securities lending by top ten ordinary shareholders

The Bank is not aware of margin trading and securities lending by holder of shares in which Hong Kong Securities Clearing Company Nominees Limited acts as an agent. As at the end of the Reporting Period, top ten ordinary shareholders did not participate in margin trading and securities lending business and refinancing business.

- Notes:*
1. Among the total number of ordinary shareholders as at the end of the Reporting Period, there are 99,389 A Share shareholders and 167 H Share shareholders; among the total number of ordinary shareholders as at the end of the month prior to the disclosure date of the annual report, there are 89,675 A Share shareholders and 163 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. As at the end of the Reporting Period, Intesa Sanpaolo S.p.A., as a H Share registered shareholder of the Bank, held 622,306,980 H Shares, and the remaining 2,447,000 H Shares were agented to and 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. In such presentation method, the number of ordinary shares held by Hong Kong Securities Clearing Company Nominees Limited as at the end of 2018 was 1,137,859,880; thus, during the Reporting Period, the number of such shares increased by 15,500 shares;
 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.

3.2 Controlling Shareholders of the Bank

As at the end of the Reporting Period, there was no controlling shareholders of the Bank. The Bank has no shareholder who may exercise more than 30% of the shares with voting rights of the Bank when acting along or in concert with others, while any shareholder of the Bank cannot control the resolutions of the general meeting or the resolutions of the Board meeting by shares with voting rights he/she holds, and there is no shareholder who controls the conduct of the Bank through the general meeting or de facto controls the conduct of the Bank through the Board of Directors and senior management. At the same time, there is no shareholder de facto controls the Bank in any other manner when acting along or in concert with others. Therefore, the Bank has no controlling shareholders.

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

During the Reporting Period, there was no de facto controllers of the Bank. There was no situation in which the Bank was under de facto control of investors due to their direct or indirect equity investment relationship, scheme of arrangement or other arrangements with the Bank. Therefore, there was no de facto controllers of the Bank.

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

As at 31 December 2019, 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 shareholders	Notes	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of shares ⁽⁹⁾	Approximate percentage of the total number of A Shares ⁽⁹⁾	Approximate percentage of the total number of H Shares ⁽⁹⁾	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
			Other interest	402,521,233	8.93	14.65	–	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
			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)有限責任公司)	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 (冷啟媛)	5	A Shares	Interest of controlled corporation	152,170,000	3.37	5.54	–	Long
Shandong Sanliyuan Economics and Trade 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
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

Section VIII Changes in Share Capital and Information on Shareholders

Name of shareholders	Notes	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of shares ⁽⁶⁾	Approximate percentage of the total number of A Shares ⁽⁹⁾	Approximate percentage of the total number of H Shares ⁽⁹⁾	Long/short position
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 (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
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
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	203,326,741	4.51	–	11.53	Long
			Interest of controlled corporation	196,612,353	4.36	–	11.15	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

Section VIII Changes in Share Capital and Information on Shareholders

Notes:

1. 812,214,572 shares of the Bank are held by Haier Group Corporation via its directly or indirectly controlled companies.
2. These 812,214,572 shares are held as to 409,693,339 shares directly by Qingdao Haier Investment and Development Co., Ltd., as to 402,521,233 shares by its controlled company and its person acting in concert.
3. 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.
4. Qingdao Conson Industrial Co., Ltd. is 100% owned by Qingdao Conson Development (Group) Co., Ltd. Therefore, Qingdao Conson Development (Group) Co., Ltd. is deemed to be interested in all our shares held by Qingdao Conson Industrial Co., Ltd.
5. GE Shoujiao and LENG Qiyuan hold 55% and 45% equity interest in Shandong Sanliyuan Economics and Trade Co., Ltd. respectively. Therefore, GE Shoujiao and LENG Qiyuan are deemed to be interested in all our shares held by Shandong Sanliyuan Economics and Trade Co., Ltd.
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 (中民國際資本有限公司), which is in turn 100% owned by China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司). Therefore, AMTD Investment Solutions Limited, AMTD Investments Limited, AMTD Strategic Capital Group, AMTD Asia Limited, AMTD Asia (Holdings) Limited, AMTD Group Company Limited, L.R. Capital Financial Holdings Limited, L.R. Capital Holdings Limited, L.R. Capital MNP Limited, L.R. Capital Management Company (Cayman) Limited, CM International Capital Limited, CM International Capital Limited (中民國際資本有限公司) and China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) are deemed to be interested in the shares held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited.
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 31 December 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.

As at 31 December 2019, save as disclosed above, in so far as the Directors, Supervisors and chief executives of the Bank are aware, there is no person who had an interest or short position in the shares, underlying shares or equity derivatives of the Bank which are required to be recorded in the register to be kept under section 336 of the SFO or held an equity interest or short position of 5% or more in the issued capital of the Bank which are required to be notified to the Bank.

3.5 Substantial shareholders of the Bank

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

1. Haier Group Corporation

Haier Group Corporation was established on 24 March 1980 with its legal representative of ZHANG Ruimin and a registered capital of RMB311.18 million. It is mainly engaged in technology development, technology consultation, technology transfer, and technology service; data processing; and is engaged in digital technology, intelligent technology, and software technology; research and development, sales and after-sale services of robot and automation equipment products; logistics information services; research, development and sales of smart home products and software technology of solution system; household appliances, electronic products, communications equipment, electronic computers and accessories, general machinery, kitchen utensils, industrial robot manufacturing; economic and technical consultation; research and development and transfer of technological achievements.

As at the end of the Reporting Period, Haier Group Corporation held a total of 812,214,572 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, and the listed companies controlled by which include Haier Smart Home Co., Ltd., Haier Electronics Group Co., Ltd., INKON Life Technology Co., Ltd. and Qingdao Haier Biomedical Co., Ltd. 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 with Haier Group Corporation was RMB2,887 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

2. Intesa Sanpaolo S.p.A.

Intesa Sanpaolo S.p.A. was established on 5 January 2007 (through merger of Banca Intesa S.p.A. (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 EUR9,086 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 banking, corporate banking 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 and itself is a listed company, and the listed companies controlled by which include RISANAMENTO SPA, PRIVREDNA BANKA ZAGREB DD, VSEOBECNA UVEROVA BANKA A.S., INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA. Intesa Sanpaolo S.p.A. has declared to the Bank related parties in accordance with regulatory requirements. During the Reporting Period, there was no significant related party transaction between the Bank and Intesa Sanpaolo S.p.A.

Note: The data of related party transactions in this section was accounted under the calibre as required by the CBIRC.

Section VIII Changes in Share Capital and Information on Shareholders

3. Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)

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 603,556,841 shares of the Bank via three subsidiaries, including 503,556,841 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. It does not control domestic and foreign listed companies. Qingdao Conson Development (Group) Co., Ltd. has declared to the Bank related parties in accordance with regulatory requirements. At the end of the Reporting Period, the balance of the Bank's credit-related significant related party transactions with Qingdao Conson Development (Group) Co., Ltd. was RMB887 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

4. AMTD Group Company Limited (尚乘集團有限公司)

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 business, asset management business, 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, and the listed company controlled by which is AMTD International Inc. 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.

3.5.2 Other substantial shareholders under the regulatory calibre

Qingdao East Steel Tower Stock Co., Ltd. was established on 1 August 1996 with its legal representative of HAN Fangru and a registered capital of RMB1.244 billion. It is mainly engaged in research and development, design, manufacture, sales and construction of steel structure and steel tower products, and general contraction for structural steel works.

As at the end of the Reporting Period, Qingdao East Steel Tower Stock Co., Ltd. held 133,910,000 A Shares of the Bank via its subsidiary, Qingdao Hairen Investment Co., Ltd., accounting for 2.97% of the total ordinary share capital. Pursuant to the requirements of the the CBIRC, Qingdao East Steel Tower Co., Ltd. has assigned Supervisors to the Bank. Therefore, it is a substantial shareholder of the Bank. The controlling shareholder and de facto controller of Qingdao East Steel Tower Stock Co., Ltd. is HAN Huiru. It has no persons acting in concert, and its ultimate beneficiary is itself. Qingdao East Steel Tower Stock Co., Ltd. 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 Qingdao East Steel Tower Stock Co., Ltd.

Section IX Preference Shares

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

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

The offshore preference shares of the Bank were issued on 19 September 2017 and listed on the Hong Kong Stock Exchange on 20 September 2017 with 60.15 million shares issued and permitted for listing and trading at an issue price of USD20 per share and the dividend yield of 5.50% and raised proceeds of USD1,203 million (equivalent to approximately RMB7.88 billion). The Bank's offshore preference shares were issued to qualified investors that met relevant regulatory requirements and other laws and regulations. The proceed raised from the issuance of offshore preference shares after deducting the expenses in connection with the issue shall be used to supplement other tier-one capital of the Bank in accordance with applicable laws and regulations and the approval of relevant regulatory authorities. Please refer to the announcements published by the Bank on the website of the Hong Kong Stock Exchange for the progress of the use of proceeds.

II. NUMBER OF SHAREHOLDER OF PREFERENCE SHARES AND ITS SHAREHOLDINGS

Unit: 0'000 shares

Total number of shareholder of preference shares as at the end of the Reporting Period	1	Total number of shareholder of preference shares as at the end of the month before the date of the disclosure of the annual report	1
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Shareholding of shareholder holdings 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		Increase or decrease during the Reporting Period	Number of shares with selling restrictions held	Number of shares without selling restrictions held	Share pledged or locked-up Status of shares	Number of shares
			as at the end of the Reporting Period	as at the end of the Reporting Period					
The Bank of New York Depository (Nominees) Limited	Overseas legal entity	100%	6,015	-	-	-	-	Unknown	Unknown

Explanation on the different settings of other provisions other than dividend distribution and residual properties distribution in respect of preference shares held

N/A

Explanation on the related relationships or persons acting in concert among the top 10 shareholders of preference shares and that between the top 10 shareholders of preference shares and the top 10 shareholders of ordinary shares

The Bank is not aware of any related relationships between the above shareholder of preference shares and the top 10 shareholders of ordinary shares, or whether they are parties acting in concert.

III. PROFIT DISTRIBUTION FOR PREFERENCE SHARES

3.1 Profit Distribution for Preference Shares during the Reporting Period

Date of distribution	Dividend rate	Amount of distribution (USD in ten thousand) (including tax)	Whether it was in compliance with the conditions and relevant procedures of distribution	Dividend payment method	Whether it was a cumulative dividend	Whether it participated in the distribution of residual profits
19 September 2019	5.50%	7,351.67	Yes	Cash	No	No

Note: During the Reporting Period, there was no adjustment or change in the Bank's profit distribution policy of preference shares.

3.2 Distribution of Preference Shares for the Past Three Years

Dividend Period	Amount of distribution (USD in ten thousand) (including tax)	Net profit (RMB) attributable to shareholders of the listed company in the consolidated financial statements during the year of distribution	Percentage of net profit attributable to shareholders of the listed company in the consolidated financial statements	Explanation on the difference accumulating to the next accounting year due to insufficient distributable profits or portion that can be allocated to the distribution of residual profits
From 19 September 2018 (inclusive) to 19 September 2019 (exclusive)	7,351.67	2,284,814,877	22.76%	N/A
From 19 September 2017 (inclusive) to 19 September 2018 (exclusive)	7,351.67	2,023,354,365	24.91%	N/A

Note: The issuance of offshore preference shares of the Bank was completed on 19 September 2017, and the period from 19 September 2017 (inclusive) to 19 September 2018 (exclusive) was the first dividend period of the offshore preference shares of the Bank.

IV. REPURCHASE OR CONVERSION OF PREFERENCE SHARES

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

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

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

VI. ACCOUNTING POLICIES ADOPTED FOR PREFERENCE SHARES AND REASONS

The Company made accounting judgments over the preference shares then issued and outstanding in accordance with the requirements of the relevant accounting principles, including the IFRS 9. As the 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 X Directors, Supervisors, Senior Management and Employees

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

Name	Gender	Age	Status of office	Position	Term of office commencing on	Term of office ending on	Shareholding	Increase in	Decrease in	Other increase or decrease (shares)	Shareholding
							at the beginning of the Reporting Period (shares)	the number of shares held during the Reporting Period (shares)	the number of shares held during the Reporting Period (shares)		at the end of the Reporting Period (shares)
GUO Shaoquan	Male	57	Incumbent	Chairman	12 May 2010	14 May 2021	500,000	-	-	-	500,000
				Executive Director	12 May 2010	14 May 2021					
WANG Lin	Male	56	Incumbent	Executive Director	31 March 2012	14 May 2021	500,000	-	-	-	500,000
				President	31 March 2012	14 May 2021					
YANG Fengjiang	Male	55	Incumbent	Executive Director	25 May 2012	14 May 2021	500,000	-	-	-	500,000
				Vice President	5 September 2007	14 May 2021					
LU Lan	Female	55	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	53	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	49	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	48	Incumbent	Non-executive Director	27 June 2018	14 May 2021	-	-	-	-	-
CHOI Chi Kin, Calvin	Male	41	Incumbent	Non-executive Director	13 December 2016	14 May 2021	-	-	-	-	-
CHEN Hua	Male	52	Incumbent	Independent non-executive Director	9 June 2015	14 May 2021	-	-	-	-	-
DAI Shuping	Female	59	Incumbent	Independent non-executive Director	13 December 2016	14 May 2021	-	-	-	-	-
Simon CHEUNG	Male	49	Incumbent	Independent non-executive Director	24 July 2017	14 May 2021	-	-	-	-	-
FANG Qiaoling	Female	44	Incumbent	Independent non-executive Director	27 June 2018	14 May 2021	-	-	-	-	-
Tingjie ZHANG	Male	48	Incumbent	Independent non-executive Director	13 February 2020	14 May 2021	-	-	-	-	-
CHEN Qing	Female	60	Retired	Chairlady of the Board of Supervisors	15 December 2016	14 May 2021	500,000	-	-	-	500,000
				Employee Supervisor	14 December 2016	14 May 2021					
HE Liangjun	Male	47	Incumbent	Shareholder Supervisor	15 October 2019	14 May 2021	-	-	-	-	-
WANG Dawei	Male	46	Incumbent	Employee Supervisor	15 May 2018	14 May 2021	-	-	-	-	-
MENG Xianzheng	Male	52	Incumbent	Employee Supervisor	15 May 2018	14 May 2021	370,301	-	-	-	370,301
FU Changxiang	Male	48	Incumbent	External Supervisor	10 April 2015	14 May 2021	-	-	-	-	-
HU Yanjing	Male	60	Incumbent	External Supervisor	10 April 2015	14 May 2021	-	-	-	-	-
WANG Yu	Female	52	Incumbent	Vice President	5 September 2007	14 May 2021	500,000	-	-	-	500,000
CHEN Shuang	Female	52	Incumbent	Vice President	22 January 2017	14 May 2021	350,000	-	-	-	350,000
LIU Peng	Male	39	Incumbent	Vice President	30 October 2019	14 May 2021	-	-	-	-	-
Total	-	-	-	-	-	-	3,600,301	500	-	-	3,600,801

- Notes: 1. None of the Directors, Supervisors or senior management of the Bank who holds office currently or resigned during the Reporting Period has been punished by the securities regulator(s) over the past three years.
2. The table above shows the situation as of the date the Board of Directors considered and approved this annual report (i.e., 20 March 2020).

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Pursuant to the resolutions passed at the 2019 first extraordinary general meeting of the Bank, Mr. Tingjie ZHANG was newly elected as an independent non-executive Director, and the qualification of Mr. Tingjie ZHANG as an independent non-executive Director was approved by the Qingdao Office of CBIRC in February 2020, and he began to perform his duties at the same time. Mr. WONG Tin Yau, Kelvin, a former independent non-executive Director, ceased to be the independent non-executive Director since February 2020.

Pursuant to the resolutions passed at the 2019 first extraordinary general meeting of the Bank, Mr. HE Liangjun was newly elected as a shareholder Supervisor in October 2019. Ms. CHEN Qing retired since July 2019. Mr. ZHANG Lanchang, a former shareholder Supervisor, ceased to be the shareholder Supervisor since May 2019. Mr. WANG Jianhua, a former external Supervisor, ceased to be the external Supervisor since March 2019.

During the Reporting Period, pursuant to the resolutions passed at the 26th meeting of the seventh session of the Board of the Bank, Mr. LIU Peng was newly appointed as the vice president, and the qualification of Mr. LIU Peng as the vice president was approved by the Qingdao Office of CBIRC in October 2019, and he began to perform his duties at the same time. Mr. YANG Changde, the former vice president, ceased to be the vice president since November 2019.

Save for the aforementioned matters, from the beginning of the Reporting Period to the date the Board of Directors considered and approved this annual report^{Note}, there were no other changes in the Directors, Supervisors and senior management of the Bank. The aforesaid changes are shown in the following table:

Name	Position held	Type of change	Date of change	Reason for change
Tingjie ZHANG	Independent non-executive Director	Newly elected	13 February 2020	–
WONG Tin Yau, Kelvin	Former independent non-executive Director	Resigned	13 February 2020	Work reason
HE Liangjun	Shareholder Supervisor	Newly elected	15 October 2019	–
CHEN Qing	Chairlady of the Board of Supervisors	Retired	23 July 2019	Reaching the age of retirement
ZHANG Lanchang	Former shareholder Supervisor	Resigned	16 May 2019	Work reason
WANG Jianhua	Former external Supervisor	Resigned	30 March 2019	Requirement from the company he worked for
LIU Peng	Vice president	Newly appointed	30 October 2019	–
YANG Changde	Former vice president	Retired	27 November 2019	Reaching the age of retirement

Note: As of the date of the Board of Directors considered and approved this annual report (i.e., 20 March 2020), Mr. YANG Fengjiang remained as an executive Director and vice president of the Bank. Subsequently, Mr. YANG Fengjiang ceased to serve as an executive Director and vice president of the Bank since 25 March 2020. Elected by the employee representative meeting and the Board of Supervisors, Mr. YANG Fengjiang has served as employee Supervisor of the Bank since 26 March 2020 and chairman of the Board of Supervisors of the Bank since 30 March 2020. Ms. CHEN Qing ceased to serve as chairlady of the Board of Supervisors and employee Supervisor of the Bank since 26 March 2020. For details, please refer to relevant announcements dated 26 March 2020 and 30 March 2020 issued by the Bank.

III. CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS

1. Ms. TAN Lixia, non-executive Director, has ceased to be the chief financial officer of Haier Group since March 2019, and has served as the chairlady of INKON Life Technology Co., Ltd. from May 2019.
2. Mr. Marco MUSSITA, non-executive Director, has served as the director of Chongqing Italian Gasket Rubber & Plastic Co., Ltd. (重慶凱恩斯橡膠有限公司) since October 2019.
3. Mr. DENG Youcheng, non-executive Director, has served as the general manager of Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司) and ceased to be the deputy general manager of the company since July 2019.
4. Mr. CHOI Chi Kin, Calvin, non-executive Director, has served as the chairman of the board and chief executive officer of AMTD International, a company listed on the New York Stock Exchange (stock code: HKIB), since February 2019; he has been a member of advisory committee of Hong Kong Cyberport Management Company Limited since November 2019, and has been a member of investment advisory committee of Prisoners' Education Trust Fund of the government in the Hong Kong Special Administrative Region since December 2019.
5. 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 June 2019, and has ceased to be the temporary deputy director of Binhai New Area Management Committee of Weifang since January 2020.
6. Mr. Simon CHEUNG, independent non-executive Director, has served as the chief technology officer at Ping An Puhui Enterprise Management Co., Ltd. and has ceased to be the chief technology officer of Fusion Bank Limited since December 2019.

Save for the aforementioned matters, from the beginning of the Reporting Period to the date the Board of Directors considered and approved this annual report, there were no other changes in the information of Directors and Supervisors of the Bank.

IV. EMPLOYMENT AS OF THE DATE THE BOARD OF DIRECTORS CONSIDERED AND APPROVED THIS ANNUAL REPORT

4.1 BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. GUO Shaoquan, aged 57, a senior economist with an EMBA degree from Nankai University and an EMBA degree from Peking University.

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

Mr. WANG Lin, aged 56, a senior economist with an EMBA degree from Peking University.

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

Mr. YANG Fengjiang, aged 55, a bachelor of economics majoring in finance of Shaanxi Financial College and a senior economist.

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

Ms. LU Lan, aged 55, a master of law majoring in sociology of Nankai University.

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

Section X Directors, Supervisors, Senior Management and Employees

Mr. ZHOU Yunjie, aged 53, a doctor of business administration of Xi'an Jiaotong University and a chief senior engineer.

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

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

Mr. Rosario STRANO, aged 56, a bachelor of law of University of Bari in Italy.

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

Ms. TAN Lixia, aged 49, a doctor of finance of PBC School of Finance, Tsinghua University (in-service study), a master of business administration of China Europe International Business School, a senior engineer, a Chartered Global Management Accountant (CGMA), a Certified Practising Accountant Australia (CPA Australia) and a certified senior international internal control officer.

Ms. TAN was appointed as non-executive Director of the Bank in April 2012. She has been the executive vice president of Haier Group since December 2016. Ms. TAN successively served as the director of department of overseas market development of Haier Group, chief financial officer of Haier Group and head of Wanchain Platform.

Ms. TAN has been the deputy chairlady of Haier Smart Home Co., Ltd., a company listed on Shanghai Stock Exchange (stock code: 600690), chairlady of Haier Group (Qingdao) Finance Holding Co., Ltd., director of Haier Electric International Co., Ltd. (海爾電器國際股份有限公司), chairlady of Qingdao Haier Biomedical Co., Ltd., a company listed on Shanghai Stock Exchange (stock code: 688139), and chairlady of INKON Life Technology Co., Ltd., a company listed on SZSE (stock code: 300143), since June 2010, July 2014, September 2014, June 2018 and May 2019, respectively.

Mr. Marco MUSSITA, aged 60, a bachelor of oriental literature and language of Università Ca' Foscari Venezia (Ca' Foscari University of Venice) in Italy.

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

Mr. MUSSITA has been the supervisor of Meccanotecnica Umbra S.p.A. (Qingdao) Mechanical Seal Co., Ltd. from May 2012 to now; supervisor of Qingdao Yicai Fund Distribution Co., Ltd. from September 2016 to now; and director of Chongqing Italian Gasket Rubber & Plastic, Co., Ltd. (重慶凱恩斯橡膠有限公司) from October 2019 to now.

Section X Directors, Supervisors, Senior Management and Employees

Mr. DENG Youcheng, aged 48, a master of business administration of Tongji University, a certified public accountant, a certified public valuer, a senior auditor, a senior consultant and an accountant.

Mr. DENG was appointed as non-executive Director of the Bank in May 2018. He has been general manager, deputy secretary to the party committee and the director of Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司) from July 2019 to now. Mr. DENG served as the vice general manager of Qingdao Conson Jiaozhouwan Transportation Co., Ltd., general manager and chairman of the board of Qingdao Conson Financial Holdings Co., Ltd., director and deputy general manager of Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司).

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

Mr. CHOI Chi Kin, Calvin, aged 41, an honorary bachelor of arts majoring in chartered accountants of University of Waterloo in Canada.

Mr. CHOI was appointed as non-executive Director of the Bank in October 2016, has been chairman and chief executive officer of AMTD Group Company Limited since January 2016 and has been the chairman of the board and chief executive officer of AMTD International, a company listed on New York Stock Exchange (stock code: HKIB), since February 2019. Meanwhile, with approval by the government of Hong Kong Special Administrative Region, Mr. CHOI has been member of advisory committee of Hong Kong Cyberport Management Company Limited, a technology innovation platform wholly-owned by the government of Hong Kong Special Administrative Region from November 2019 to now, and member of investment advisory committee of Prisoners' Education Trust Fund of the government of the Hong Kong Special Administrative Region from December 2019 to now. Mr. CHOI served as director of Hong Kong corporate finance department of PricewaterhouseCoopers, managing director of investment banking division of Union Bank of Switzerland and member of the Asian-Pacific Committee of Global family office.

Mr. CHEN Hua, aged 52, a doctor of economics majoring in finance of Soochow University and a professor.

Mr. CHEN was appointed as independent non-executive Director of the Bank in April 2015. He has been the head of the Contemporary Finance Research Institute of Shandong University of Finance and Economics since August 2014. Mr. CHEN served as the head of the Finance and Taxation Institute of Shandong Economic University, and the head of the Center of Economics Research of Shandong University of Finance and Economics.

Mr. CHEN served as the independent non-executive director of Shanda Wit Science and Technology Co., Ltd., the independent non-executive director of Jining Rural Commercial Bank, the external director of Shandong State-owned Assets Investment Holdings Co., Ltd., the independent non-executive director of Shandong Baogang International Port Co., Ltd. and the independent non-executive director of Mengke Holdings Limited since March 2013, September 2016, August 2017, December 2017 and November 2018, respectively.

Ms. DAI Shuping, aged 59, a master of business administration of Inter American University.

Ms. DAI was appointed as independent non-executive Director of the Bank in October 2016. She has been serving as the dean of Shenzhen Qianhai Institute of Financial Management Limited from July 2015 to December 2017, and the adviser to chairman and the dean since December 2017. Ms. DAI served as the general manager of headquarter's credit management department, the general manager of headquarter's credit approval department, the general manager of headquarter's legal and compliance department, the general manager of headquarter's audit department and the headquarter inspector of China Merchants Bank. Ms. DAI was an executive council member of China Banking Law Society and a council member of China Institute of Internal Audit.

Section X Directors, Supervisors, Senior Management and Employees

Mr. Simon CHEUNG, aged 49, a bachelor of arts majoring in computer science of the University of Wisconsin-Madison.

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

Ms. FANG Qiaoling, aged 44, a doctor of management in accounting of Renmin University of China and a professor.

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

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

Mr. Tingjie ZHANG, aged 48, a master of business administration of the Richard Ivey School of Business at the University of Western Ontario, Canada.

Mr. ZHANG was appointed as independent non-executive Director of the Bank in February 2020 and has been the China co-director and managing director of the Shanghai branch of Rothschild Financial Consulting (Beijing) Co., Ltd. (洛希爾財務諮詢(北京)有限公司) since March 2019. From June 1995 to January 2004, Mr. ZHANG served successively as financial analyst of Repap Enterprises Inc., senior financial analyst of Enbridge Inc., manager of NM Rothschild Canada Inc., and special project manager of Coca-Cola China Ltd. (可口可樂中國有限公司). From February 2004 to February 2017, he served as the chief representative of the Shanghai Representative Office of Rothschild China Holdings Co., Ltd. (洛希爾中國控股有限公司). From February 2017 to March 2019, he served successively as the director and managing director of the Shanghai branch of Rothschild Financial Consulting (Beijing) Co., Ltd.

Supervisors

Ms. CHEN Qing, aged 60, a bachelor of accounting of Southwest University of Science and Technology.

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

Mr. HE Liangjun, aged 47, holds a master degree of business administration from China Europe International Business School and is a senior engineer.

Mr. HE was appointed as a shareholder Supervisor of the Bank in October 2019, and has served as a director and secretary to the board of Qingdao East Steel Tower Stock Co., Ltd. (青島東方鐵塔股份有限公司) since April 2007 and has served as a supervisor of Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司) since February 2014. Mr. HE has been a director of Jingneng (Qianxi) Power Generation Co., Ltd. (京能(遷西)發電有限公司) since August 2014. He has been an executive director of Nanjing Shineng New Energy Technology Co., Ltd. (南京世能新能源科技有限公司) since June 2016. He has served as a director of Sichuan Huiyuanda Potash Fertilizer Co., Ltd. (四川省匯元達鉀肥有限責任公司) since October 2016. Since January 2017, he has served as an executive director of Suzhou World Technology New Energy Technology Co., Ltd. (蘇州世利特新能源科技有限公司).

Section X Directors, Supervisors, Senior Management and Employees

Mr. WANG Dawei, aged 46, a bachelor of international economics of Nankai University.

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

Mr. MENG Xianzheng, aged 52, a master of business administration of Northwestern University and a senior political worker.

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

Mr. FU Changxiang, aged 48, a bachelor of economics majoring in national economy management of Lanzhou University, a senior accountant, a Chinese certified public accountant as well as a Chinese certified tax agent.

Mr. FU was appointed as external Supervisor of the Bank in April 2015. He has been working as a deputy general manager in Qingdao Ruize Certified Tax Agents Firm Co., Ltd. since November 1997. He has been serving as the chief accountant in Qingdao Xinyongda Accounting Firm Co., Ltd. since July 2003. Mr. FU has been a supervisor of Shandong International Coastal Culture Industry Co., Ltd.* (山東國際海岸文化產業股份有限公司) since August 2018.

Mr. HU Yanjing, aged 60, a doctor of agronomy majoring in fishery resources of Ocean University of China as well as a professor.

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

Senior Management

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

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

Section X Directors, Supervisors, Senior Management and Employees

Ms. WANG Yu, aged 52, a bachelor of economics majoring in enterprise management of Finance and Economics Institute of Tianjin, a master of business administration majoring in business administration of Tongji University in Shanghai as well as a senior economist.

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

Ms. CHEN Shuang, aged 52, a master of arts majoring in English language and literature of Shanghai International Studies University as well as a master of science majoring in financial investment of the University of Edinburgh in the UK.

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

Mr. LIU Peng, aged 39, holds a master degree from Oxford University.

Mr. LIU was appointed as Vice President of the Bank in August 2019. Mr. LIU Peng has been the financial market business director and president of the financial market business unit of the head office of the Bank from July 2015 to October 2019. Mr. LIU worked in the Qingdao branch of Agricultural Bank of China, and served as an assistant to the general manager of international business department of the head office of Hengfeng Bank, and the general manager and president of the financial market business department and the general manager of asset management department of the head office of the Bank.

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

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

Name of employee	Name of corporate shareholder	Position held in corporate shareholder	Commencement date	Whether receiving remuneration in corporate shareholder's position
ZHOU Yunjie	Haier Group (海爾集團)	President and deputy president of the board	From December 2016 to date	Yes
Rosario STRANO	Intesa Sanpaolo S.p.A.	Chief operating officer	From January 2018 to date	Yes
TAN Lixia	Haier Group (海爾集團)	Executive vice president	From December 2016 to date	Yes
TAN Lixia	Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	Deputy chairman	From June 2010 to date	No
DENG Youcheng	Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)	General manager, deputy secretary to the party committee and director	From July 2019 to date	Yes
DENG Youcheng	Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	Director	From June 2016 to date	No
CHOI Chi Kin, Calvin	AMTD Group Company Limited (尚乘集團有限公司)	Chairman and chief executive officer	From January 2016 to date	Yes
HE Liangjun	Qingdao East Steel Tower Stock Co., Ltd. (青島東方鐵塔股份有限公司)	Director, secretary to the Board	From April 2007 to date	Yes
HE Liangjun	Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司)	Supervisor	From February 2014 to date	No

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

Name of employee	Name of other entities	Position held in other entities	Commencement date	Whether receiving remuneration in other entities
ZHOU Yunjie	Haier Electronics Group Co., Ltd.	Chairman of the board	From June 2013 to date	No
ZHOU Yunjie	Qingdao Gooday Logistics Co., Ltd. (青島日日順物流有限公司)	Chairman	From August 2010 to date	No
ZHOU Yunjie	Qingdao Haier Home Integration Co., Ltd.	Chairman	From September 2012 to date	No
ZHOU Yunjie	Haier Electric International Co., Ltd. (海爾電器國際股份有限公司)	Director and general manager	From September 2014 to date	No
TAN Lixia	Haier Group (Qingdao) Finance Holding Co., Ltd. (海爾集團(青島)金融控股有限公司)	Chairlady	From July 2014 to date	No
TAN Lixia	Haier Electric International Co., Ltd. (海爾電器國際股份有限公司)	Director	From September 2014 to date	No
TAN Lixia	Qingdao Haier Biomedical Co., Ltd. (青島海爾生物醫療股份有限公司)	Chairlady	From June 2018 to date	No
TAN Lixia	INKON Life Technology Co., Ltd. (盈康生命科技股份有限公司)	Chairlady	From May 2019 to date	No
Marco MUSSITA	OMR (China) Automotive Components Co., Ltd. (歐瑪(中國)汽車部件有限公司)	Director	From June 2007 to date	Yes
Marco MUSSITA	Meccanotecnica Umbra S.p.A. (Qingdao) Mechanical Seal Co., Ltd. (密凱加(青島)機械密封件有限公司)	Supervisor	From May 2012 to date	Yes
Marco MUSSITA	Qingdao Yicai Fund Distribution Co., Ltd.	Supervisor	From September 2016 to date	Yes
Marco MUSSITA	Chongqing Italian Gasket Rubber & Plastic Co., Ltd. (重慶凱恩斯橡膠有限公司)	Director	From October 2019 to date	Yes
DENG Youcheng	Lujiazui International Trust Co., Ltd. (陸家嘴國際信託有限公司)	Director	From October 2014 to date	No
DENG Youcheng	Zhonglu Property and Casualty Insurance Co., Ltd.	Director	From June 2015 to date	No
DENG Youcheng	Qingdao Conson Development Investment Co., Ltd. (青島國信發展投資有限公司)	Director	From June 2016 to date	No
DENG Youcheng	Guotou Juli Investment Management Company Limited (國投聚力投資管理有限公司)	Director	From December 2017 to date	No
DENG Youcheng	Qingdao Conson Investment Holdings Co., Ltd. (青島國信投資控股股份有限公司)	Director and general manager	From August 2018 to date	No
CHOI Chi Kin, Calvin	AMTD International (尚乘國際)	Chairman of the board and chief executive officer	From February 2019 to date	Yes
CHOI Chi Kin, Calvin	Hong Kong Cyberport Management Company Limited	Member of advisory committee	From November 2019 to date	No

Section X Directors, Supervisors, Senior Management and Employees

Name of employee	Name of other entities	Position held in other entities	Commencement date	Whether receiving remuneration in other entities
CHOI Chi Kin, Calvin	Prisoners' Education Trust Fund of the government of the Hong Kong Special Administrative Region (香港特別行政區政府在囚人士教育信託基金)	Member of investment advisory committee	From December 2019 to date	No
CHEN Hua	Contemporary Finance Research Institute of Shandong University of Finance and Economics	Head of the institute	From August 2014 to date	Yes
CHEN Hua	Shanda Wit Science and Technology Co., Ltd.	Independent non-executive director	From March 2013 to date	Yes
CHEN Hua	Jining Rural Commercial Bank	Independent non-executive director	From September 2016 to date	Yes
CHEN Hua	Shandong State-owned Assets Investment Holdings Co., Ltd.	External director	From August 2017 to date	Yes
CHEN Hua	Shandong Baogang International Port Co., Ltd. (山東寶港國際港務股份有限公司)	Independent non-executive director	From December 2017 to date	Yes
CHEN Hua	Mengke Holdings Limited (盟科控股有限公司)	Independent non-executive director	From November 2018 to date	Yes
DAI Shuping	Shenzhen Qianhai Institute of Financial Management Limited	Adviser to chairman and dean	From December 2017 to date	Yes
Simon CHEUNG	Ping An Puhui Enterprise Management Co., Ltd.	Chief technology officer	From December 2019 to date	Yes
FANG Qiaoling	Management College of Ocean University of China	Professor and supervisor for Ph.D. candidates	From July 1999 to date	Yes
FANG Qiaoling	Triangle Tyre Co., Ltd.	Independent non-executive director	From July 2017 to date	Yes
FANG Qiaoling	Shandong Provincial Accounting Society	Executive council member	From May 2018 to date	No
Tingjie ZHANG	Shanghai branch of Rothschild Financial Consulting (Beijing) Co., Ltd. (洛希爾財務諮詢(北京)有限公司上海分公司)	China co-director and managing director	From March 2019 to date	Yes
HE Liangjun	Jingneng (Qianxi) Power Generation Co., Ltd. (京能(遷西)發電有限公司)	Director	From August 2014 to date	No
HE Liangjun	Nanjing Shineng New Energy Technology Co., Ltd. (南京世能新能源科技有限公司)	Executive director	From June 2016 to date	No
HE Liangjun	Sichuan Huiyuanda Potash Fertilizer Co., Ltd. (四川省匯元達鉀肥有限責任公司)	Director	From October 2016 to date	No
HE Liangjun	Suzhou World Technology New Energy Technology Co., Ltd. (蘇州世利特新能源科技有限公司)	Executive director	From January 2017 to date	No

Name of employee	Name of other entities	Position held in other entities	Commencement date	Whether receiving remuneration in other entities
FU Changxiang	Qingdao Ruize Certified Tax Agents Firm Co., Ltd.	Deputy general manager	From November 1997 to date	Yes
FU Changxiang	Qingdao Xinyongda Accounting Firm Co., Ltd.	Chief accountant	From July 2003 to date	Yes
FU Changxiang	Shandong International Coastal Culture Industry Co., Ltd. (山東國際海岸文化產業股份有限公司)	Supervisor	From August 2018 to date	No
HU Yanjing	Qingdao University	Professor	From November 2001 to date	Yes

V. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

5.2 Remuneration of Directors, Supervisors and senior management of the Bank

Unit: RMB0'000

Name	Position	Gender	Age	Status of office	Aggregate pre-tax remunerations received from the Company	Whether having received remunerations from the related parties of the Company
GUO Shaoquan	Chairman, executive Director	Male	57	Incumbent	281.91	No
WANG Lin	Executive Director, president	Male	56	Incumbent	253.78	No
YANG Fengjiang	Executive Director, vice president	Male	55	Incumbent	184.45	No
LU Lan	Executive Director, secretary to the Board	Female	55	Incumbent	183.75	No
ZHOU Yunjie	Non-executive Director	Male	53	Incumbent	11.93	Yes
Rosario STRANO	Non-executive Director	Male	56	Incumbent	–	Yes
TAN Lixia	Non-executive Director	Female	49	Incumbent	11.93	Yes
Marco MUSSITA	Non-executive Director	Male	60	Incumbent	–	Yes
DENG Youcheng	Non-executive Director	Male	48	Incumbent	11.85	Yes
CHOI Chi Kin, Calvin	Non-executive Director	Male	41	Incumbent	11.91	Yes
CHEN Hua	Independent non-executive Director	Male	52	Incumbent	18.84	No
DAI Shuping	Independent non-executive Director	Female	59	Incumbent	18.25	Yes
Simon CHEUNG	Independent non-executive Director	Male	49	Incumbent	18.11	No
FANG Qiaoling	Independent non-executive Director	Female	44	Incumbent	20.63	No
Tingjie ZHANG	Independent non-executive Director	Male	48	Incumbent	–	No
HE Liangjun	Shareholder Supervisor	Male	47	Incumbent	2.08	Yes
WANG Dawei	Employee Supervisor	Male	46	Incumbent	184.40	No
MENG Xianzheng	Employee Supervisor	Male	52	Incumbent	146.91	No
FU Changxiang	External Supervisor	Male	48	Incumbent	12.65	Yes
HU Yanjing	External Supervisor	Male	60	Incumbent	12.65	No
WANG Yu	Vice president	Female	52	Incumbent	184.29	No
CHEN Shuang	Vice president	Female	52	Incumbent	184.41	No
LIU Peng	Vice president	Male	39	Incumbent	170.28	No
Total	–	–	–	–	1,925.01	–

Section X Directors, Supervisors, Senior Management and Employees

- Notes:*
1. The total remuneration package for certain Directors and Supervisors of the Bank for 2019 have not been finalized, but it is expected that the differences in the final remuneration will not have significant impact on the financial statements for 2019.
 2. With their authorization, the emoluments of Mr. Rosario STRANO and Mr. Marco MUSSITA during the Reporting Period were waived. Mr. Tingjie ZHANG performed his duty since February 2020. His emoluments were waived during the Reporting Period. Mr. LIU Peng has served as the vice president of the Bank since October 2019. The total amount of the remuneration set out in the above table includes the remuneration of his term of office as the financial market business director and president of the financial market business unit of the head office of the Bank during the Reporting Period before acting as the vice president.
 3. During the Reporting Period, no Directors, Supervisors and senior management of the Bank were granted equity incentives.

VI. DETAILS OF EMPLOYEES OF THE COMPANY

6.1 Number of employees, composition by profession and education background

Number of employees on the payroll of the parent company (persons)	4,058
Number of employees on the payroll of the major subsidiaries (persons)	59
Total number of employees on the payroll (persons)	4,117
Total number of employees receiving remuneration in the current period (persons)	4,117
Number of retired employees for whom the parent company and major subsidiaries need to bear expenses (persons)	–
Composition by profession	
Composition by profession category	Number of persons of composition by profession (persons)
Management personnel	311
Business personnel	3,100
General administrative personnel	706
Total	4,117
Education background	
Education background category	Number (persons)
Master's degree or above	732
Bachelor's degree	2,906
College graduates or below	479
Total	4,117

6.2 Remuneration Policy

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

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

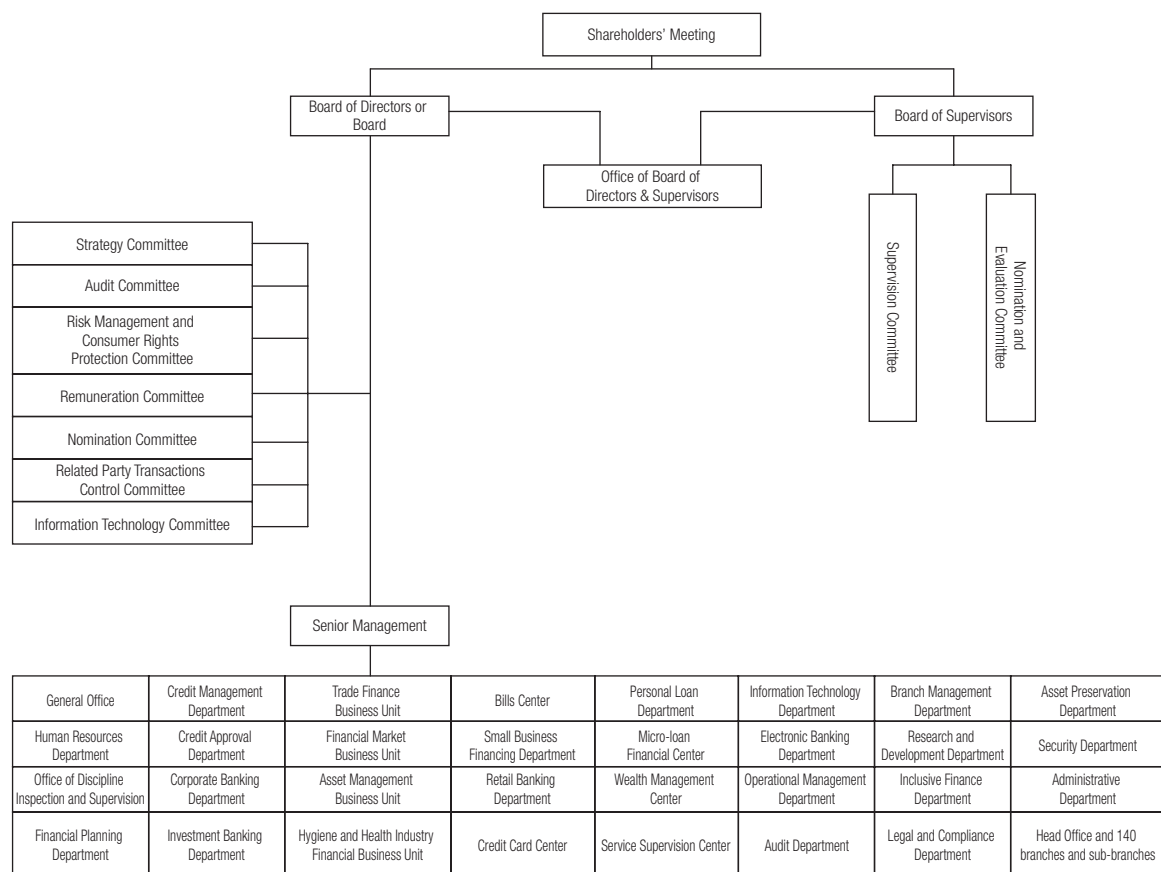
6.3 Training Program

The Bank formulated an annual training program based on the strategic planning and the actual business development needs, continuously improved the training management system and enriched the training forms and content. During the Reporting Period, the Bank carried out various training work for middle and senior management, business personnel and new employees. Meanwhile, the Bank was equipped with an online training system that integrated functions of training management, online learning and examination as a whole. The combination of offline deepening and online enhancing training mode effectively enhanced the quality and efficiency of the training work, and facilitated a comprehensive improvement in staff's professional skills in each position.

6.4 Labor Outsourcing

N/A.

VII. ORGANIZATION CHART



VIII. BRANCHES AND SUB-BRANCHES

No.	Name of branch/ sub-branch	Business address	Institutions under its administration	No. of staff (persons)	Total assets (100 million)
1	In Qingdao	–	1 head office, 1 branch and 79 sub-branches	2,476	2,748.12
2	Jinan Branch	Building 6, Yinfeng Fortune Plaza, No. 1 Longaoxi Road, Lixia District, Jinan	10 sub-branches under it	324	131.12
3	Dongying Branch	No. 72 Fuqian Avenue, Dongying District, Dongying	6 sub-branches under it	166	84.43
4	Weihai Branch	No. 112, No. 3-4 Shichang Avenue, Weihai	8 sub-branches under it	206	150.48
5	Zibo Branch	No. 266 Liantong Road, Zhangdian District, Zibo	3 sub-branches under it	125	76.36
6	Dezhou Branch	No. 717 Dexing Middle Avenue, Decheng District, Dezhou	2 sub-branches under it	101	38.50
7	Zaozhuang Branch	No. 215 Qingtan North Road, Shizhong District, Zaozhuang	5 sub-branches under it	113	39.38
8	Yantai Branch	Hongyuan Business Building, No. 29 Jinshajiang Road, Development Zone, Yantai	4 sub-branches under it	129	132.39
9	Binzhou Branch	No. 471 Huanghe 8th Road, Bincheng District, Binzhou	2 sub-branches under it	65	44.47
10	Weifang Branch	No. 124, Building 7, No. 6636 Fushou East Street, Kuiwen District, Weifang	3 sub-branches under it	120	90.79
11	Laiwu Branch	No. 57, Wanfu North Road, Laicheng District, Laiwu	1 sub-branch under it	55	17.48
12	Linyi Branch	Building 9, Hongxing International Plaza, Intersection of Jinan Road and Xiaohe Road, Beicheng New District, Linyi	1 sub-branch under it	69	41.94
13	Jining Branch	Welfare Lottery Building, No. 24 Hongxing Middle Road, Jining	2 sub-branches under it	67	27.52
14	Taian Branch	No. 237 Dongyue Street, Taian	–	42	29.15



Section XI Corporate Governance

I. BASIC CORPORATE GOVERNANCE

The Bank will continue to enhance corporate governance with a guarantee of achieving sustainable and high-quality business development. In accordance with industry regulatory requirements and capital market regulatory requirements, the Bank continued to optimize its corporate governance mechanism, improve the operational efficiency of shareholders' meetings, the meeting of the Board of Directors, the meeting of the Board of Supervisors as well as the work efficiency of the senior management, and strengthen the capacity of its Directors and Supervisors, striving to create a standardized, market-oriented and characteristic corporate governance system.

During the Reporting Period, the Bank adhered to the leadership of the Party, integrated the leadership of the Party into all aspects of corporate governance, and discussed among the Party committee considering decisions on major issues, giving full play to the Party's core role of leadership and the Board's important role in strategic guidance and scientific decision-making, which paved the way for the Bank's successful A-share listing. The Bank also stuck to the concept of proactive compliance by continuously improving its overall risk management level, and strived to achieve high-quality development. In accordance with the requirements of the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》), the Bank continued to regulate its equity management through evaluating the behavior of substantial shareholders on a regular basis as well as facilitating proper performance of substantial shareholders. The Bank also made continuous effort to optimize the meeting arrangements, deliberative procedures and subject selection of the special committees, practically exerted the professional deliberative functions of the special committees, and promoted the scientific decision-making and operational efficiency of the Board of Directors. The Bank tightened its supervision on the performance of the Board of Directors and senior management and its members, and conducted in-depth financial, risk and internal control monitoring activities to practically exert the supervisory role of the Board of its Supervisors and safeguard the legitimate rights and interests of shareholders, employees, creditors and other stakeholders.

During the Reporting Period, the Bank, through careful self-examination, did not find any significant difference between the actual situation of its corporate governance and the requirements under the regulatory documents issued by the CSRC regarding listed company governance.

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

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

2.1 Shareholders' general meeting during the Reporting Period

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

1. On 17 May 2019, the Bank adopted a combination of on-site and online voting to hold the 2018 annual general meeting. The on-site meeting place was the Bank's head office. A total of 32 shareholders attended the meeting and participated in online voting in person or by proxy, representing a total of 2,912,743,233 shares with voting rights of the Bank, which accounted for 64.59% of the total number of shares of the Bank.

A total of 8 resolutions were considered and passed at the 2018 annual general meeting, namely the work report of the Board of Directors of Bank of Qingdao Co., Ltd. for 2018, the work report of the Board of Supervisors of Bank of Qingdao Co., Ltd. for 2018, the final financial accounts of Bank of Qingdao Co., Ltd. for 2018, the profit distribution plan of Bank of Qingdao Co., Ltd. for 2018, the resolution on the engagement of external auditors and their remuneration of Bank of Qingdao Co., Ltd. for 2019, the special report on related party transactions of Bank of Qingdao Co., Ltd. for 2018, the resolution on the estimated amount of the recurring related party transactions of Bank of Qingdao Co., Ltd. for 2019, and the resolution on the general mandate for the issuance of shares by Bank of Qingdao Co., Ltd. In addition, 3 reports were heard at the meeting, including the performance of duties by the Board and Directors of Bank of Qingdao Co., Ltd. for 2018, the evaluation report on the performance of duties by the Supervisors of Bank of Qingdao Co., Ltd. for 2018 and the performance report of the independent non-executive Directors of Bank of Qingdao Co., Ltd. for 2018.

2. On 15 October 2019, the Bank adopted a combination of on-site and online voting to hold the 2019 first extraordinary general meeting. The on-site meeting place was the Bank's head office. A total of 23 shareholders attended the meeting and participated in online voting in person or by proxy, representing a total of 2,295,469,993 shares with voting rights of the Bank, which accounted for 50.90% of the total number of shares of the Bank.

A total of 2 resolutions were considered and passed at the 2019 first extraordinary general meeting, namely the resolution on the change of the independent Director of the seventh session of the Board of Directors of Bank of Qingdao Co., Ltd. and the resolution on the election of Mr. HE Liangjun as the shareholder Supervisor of the seventh session of the Board of Supervisors of Bank of Qingdao Co., Ltd.

The announcements on the aforesaid relevant resolutions of general meeting were published on the date of convening the meeting. Please refer to the following table for details:

Session of meeting	Type of meeting	Participation percentage of investors	Date of convening	Date of disclosure	Index of disclosure
2018 annual general meeting	Annual general meeting	64.59%	17 May 2019	17 May 2019	Announcement on Resolutions of the 2018 Annual General Meeting (Announcement No.: 2019-019) disclosed on the website of the SZSE, CNINFO website and the Bank's official website, and Poll Results of the 2018 Annual General Meeting Held on 17 May 2019 disclosed on the HKEXnews website of the Hong Kong Stock Exchange and the Bank's official website
2019 first extraordinary general meeting	Extraordinary general meeting	50.90%	15 October 2019	15 October 2019	Announcement on Resolutions of the 2019 First Extraordinary General Meeting (Announcement No.: 2019-036) disclosed on the website of the SZSE, CNINFO website and the Bank's official website, and Poll Results of 2019 First Extraordinary General Meeting Held on 15 October 2019 disclosed on the HKEXnews website of the Hong Kong Stock Exchange and the Bank's official website

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

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

III. BOARD OF DIRECTORS AND SPECIAL COMMITTEES

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

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

During the Reporting Period, the Board strictly implemented the resolutions passed at the general meetings, and conscientiously implemented the profit distribution plan for 2018 considered and passed at the general meetings and the estimated amount of the recurring related party transactions.

3.2 Members of the Board

Directors of the Bank are nominated by the Board and elected in accordance with the qualifications of Directors and election procedures as specified in the Articles of Association. As of the date the Board of Directors considered and approved this annual report, the Board consisted of 15 Directors, including 4 executive Directors, namely GUO Shaoquan, WANG Lin, YANG Fengjiang and LU Lan; 6 non-executive Directors, namely ZHOU Yunjie, Rosario STRANO, TAN Lixia, Marco MUSSITA, DENG Youcheng and CHOI Chi Kin, Calvin; and 5 independent non-executive Directors, namely CHEN Hua, DAI Shuping, Simon CHEUNG, FANG Qiaoling and Tingjie ZHANG. The number of members and the composition of the Board complied with the requirements of the laws and regulations. Among them, Mr. Tingjie ZHANG's qualifications as an independent non-executive Director have been approved by the Qingdao Office of CBIRC in February 2020 and he has begun performing his duties, while the original independent non-executive Director Mr. WONG Tin Yau, Kelvin ceased to be an independent non-executive Director of the Bank since February 2020.

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

3.3 Changes in the Directors

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

3.4 Operation of the Board

During the Reporting Period, the Board convened a total of 18 meetings, of which 3 meetings were held in the form of on-site meetings and 15 meetings were held in the form of circulation of written resolutions. At these meetings, the Board passed resolutions on 58 significant events including the work report of the president, the report on final financial accounts, business plans, the proposal for profit distribution, the change of session of Board of Directors, the change of accounting policies and material related party transactions and also listened to or reviewed 61 special reports including risk management reports, internal and external audit reports, the proposal on external audit management and its rectification report, and opinions arising from CBIRC's on-site inspection and related rectification report.

The Directors of the Bank have acknowledged their responsibility for preparing the financial statements of the Bank for the year ended 31 December 2019. The Directors are responsible for overseeing the preparation of financial statements for each accounting period to make sure such financial statements give a true and fair view of the financial conditions, operating results and cash flows of the Bank. In preparing the financial statements for the year ended 31 December 2019, the Directors have adopted and consistently applied applicable accounting policies, and exercised prudent and reasonable judgement.

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

3.5 Attendance of individual Directors at general meetings, Board meetings and meetings of the special committees

		Actual attendance/Number of meetings requiring attendance									
Categories	Directors	General meetings	Board meetings	Strategy Committee	Remuneration Committee	Nomination Committee	Related Party Transactions Control Committee	Audit Committee	Risk Management and Consumer Rights Protection Committee	Information Technology Committee	
Executive Directors	GUO Shaoquan	2/2	18/18	3/3	2/2	2/2	-	-	-	4/4	
	WANG Lin	2/2	17/18	3/3	-	2/2	-	-	7/7	4/4	
	YANG Fengjiang	2/2	18/18	-	-	-	15/15	-	7/7	-	
	LU Lan	2/2	18/18	-	-	-	15/15	-	7/7	-	
Non-executive Directors	ZHOU Yunjie	2/2	17/18	2/3	1/2	2/2	-	-	-	-	
	Rosario STRANO	2/2	17/18	2/3	1/2	-	-	-	-	-	
	TAN Lixia	2/2	17/18	-	-	-	-	8/10	6/7	4/4	
	Marco MUSSITA	2/2	18/18	-	-	-	-	-	7/7	4/4	
	DENG Youcheng	2/2	18/18	3/3	-	-	-	8/10	-	-	
	CHOI Chi Kin, Calvin	2/2	17/18	2/3	-	-	-	7/10	-	-	
Independent non-executive Directors	WONG Tin Yau, Kelvin	2/2	17/18	2/3	2/2	1/2	13/15	9/10	-	-	
	CHEN Hua	2/2	17/18	2/3	2/2	-	14/15	8/10	6/7	-	
	DAI Shuping	2/2	18/18	3/3	2/2	2/2	15/15	10/10	-	-	
	Simon CHEUNG	2/2	18/18	-	2/2	2/2	15/15	-	-	4/4	
	FANG Qiaoling	2/2	18/18	-	-	2/2	15/15	10/10	7/7	-	

Notes: 1. Under the circumstance that the Directors' actual attendance of Board meetings and special committee meetings is less than required, other Directors were delegated to attend.

2. The above table sets out the meetings during the Reporting Period. Mr. WONG Tin Yau, Kelvin ceased to be an independent non-executive Director of the Bank since February 2020.

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

Our Board of Directors consists of five independent non-executive Directors and the qualification, number and proportion are in accordance with the regulations of CBIRC, CSRC and the Hong Kong Listing Rules. Independent non-executive Directors represent the majority of the Bank's Remuneration Committee, Nomination Committee, Related Party Transaction Control Committee and Audit Committee under the Board and serve as chairman of these committees.

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

Attendance of Independent Director at Board meetings and general meetings							
Name of Independent Director	Number of attendance required at Board meetings during the Reporting Period	Number of Board meetings attended in person	Number of Board Meetings attended by telecommunications	Number of Board Meetings attended by proxy	Number of absence	Whether attended Board meetings in person for two consecutive times	Number of attendance at general meetings
WONG Tin Yau, Kelvin	18	2	15	1	0	no	2
CHEN Hua	18	2	15	1	0	no	2
DAI Shuping	18	3	15	0	0	no	2
Simon CHEUNG	18	3	15	0	0	no	2
FANG Qiaoling	18	3	15	0	0	no	2

Note: The original independent non-executive Director Mr. WONG Tin Yau, Kelvin ceased to be an independent non-executive Director of the Bank since February 2020.

4.2 Objections raised by independent non-executive Directors on matters of the Company

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

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

During the Reporting Period, the Bank's 5 independent non-executive Directors conscientiously participated in the meetings of the Board and the special committees, independently and objectively gave their opinions, and emphasized the interests of minority shareholders. They kept in touch with the Bank through various means such as reviewing the newsletters of Directors and Supervisors and special investigations to provide suggestions for the development of the Bank, fully discharging the independent and professional responsibilities of independent non-executive Directors. The Bank carefully studied the recommendations raised by the independent non-executive Directors, and adopted and implemented such recommendations according to the actual situation of the Bank.

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

The Bank currently has 7 special committees under the Board, including a Strategy Committee, a Remuneration Committee, a Nomination Committee, a Related Party Transactions Control Committee, an Audit Committee, a Risk Management and Consumer Rights Protection Committee, and an Information Technology Committee.

During the Reporting Period, the special committees under the Board of the Bank exercised their respective authorities and powers in an independent manner according to laws and regulations. They convened a total of 43 meetings during the year, at which 47 resolutions were considered, 49 reports of all kinds were reviewed, 32 physical special reports were heard, which allowed the special committees under the Board to play their professional roles in deliberation, provide robust support for the scientific decision-making of the Board, and improve the efficiency and quality of scientific decision-making ability of the Board.

5.1 Strategy Committee

As of the date the Board of Directors considered and approved this annual report, the Strategy Committee of the Board consists of 2 executive Directors, 4 non-executive Directors and 3 independent non-executive Directors. The 2 executive Directors are Mr. GUO Shaoquan and Mr. WANG Lin. The 4 non-executive Directors are Mr. ZHOU Yunjie, Mr. Rosario STRANO, Mr. DENG Youcheng and Mr. CHOI Chi Kin, Calvin. The 3 independent non-executive Directors are Mr. CHEN Hua, Ms. DAI Shuping and Mr. Tingjie ZHANG. Mr. GUO Shaoquan is the chairman of the committee. Mr. WONG Tin Yau, Kelvin ceased to serve as a member of the Strategy Committee of the Board since February 2020. Mr. Tingjie ZHANG, an independent non-executive Director, served as a member of the Strategy Committee of the Board as approved at the 31st meeting of the seventh session of the Board of Directors of the Bank.

The primary duties of the Strategy Committee include the following:

1. studying and making recommendations on the Bank's mid-to-long term development strategy;
2. formulating the operation management goals of the Bank and supervising and inspecting the implementation of annual business and investment plan of the Bank;
3. studying and formulating the Bank's capital restoration plan and its sources of capital restoration funds according to the development goal;
4. studying and making recommendations on the significant investment plan which required approval by the Board under the Articles of Association;
5. considering the proposed amendments to the Bank's Articles of Association and submitting them to the Board for consideration;
6. studying and making recommendations on other significant matters which may affect the development of the Bank;
7. inspecting the implementation of the above matters.

During the Reporting Period, the Strategy Committee convened 3 meetings in total, at which resolutions on the 2019 work plan of the Strategy Committee, the work report of the president and the general mandate of share issuance, were considered and approved, which raised constructive opinions in respect of the planning and execution of strategic plans.

5.2 Remuneration Committee

As of the date the Board of Directors considered and approved this annual report, the Remuneration Committee of the Board consists of an executive Director, 2 non-executive Directors and 4 independent non-executive Directors. The executive Director is Mr. GUO Shaoquan. The 2 non-executive Directors are Mr. ZHOU Yunjie and Mr. Rosario STRANO. The 4 independent non-executive Directors are Mr. CHEN Hua, Ms. DAI Shuping, Mr. Simon CHEUNG and Mr. Tingjie ZHANG. Ms. DAI Shuping is the chairlady of the committee. Mr. WONG Tin Yau, Kelvin ceased to serve as a member of the Remuneration Committee of the Board since February 2020. Mr. Tingjie ZHANG, an independent non-executive Director, served as a member of the Remuneration Committee of the Board as approved at the 31st meeting of the seventh session of the Board of Directors of the Bank.

The primary duties of the Remuneration Committee include the following:

1. formulating the system and policy on the remuneration management of the Bank and submitting the same to the Board for consideration;
2. formulating the remuneration package for Directors and senior management, submitting the same to the Board for consideration, and overseeing the implementation of the package plan;
3. studying the appraisal criteria for Directors and senior management, organizing regular performance appraisal for Directors and senior management, and submitting the appraisal results to the Board;
4. reviewing and approving the compensation payable to executive Directors and senior management arising from any loss or termination of office or appointment, and making recommendations to the Board;
5. reviewing and approving the compensation arrangement in connection with the dismissal or removal of Directors for their misconduct, and making recommendations to the Board;
6. ensuring that none of the Directors or any of their associates is involved in the process of finalizing their own performance appraisal and remuneration package, except for the self-assessment section in their performance appraisal.

During the Reporting Period, the Remuneration Committee convened 2 meetings in total, at which resolutions on the 2019 work plan of the Remuneration Committee and the 2018 appropriation of the staff bonus and distribution of the performance bonus of senior management at bank level, were considered and approved for the purpose of continuously optimizing the remuneration system of the Bank.

5.3 Nomination Committee

As of the date the Board of Directors considered and approved this annual report, the Nomination Committee of the Board consists of 2 executive Directors, a non-executive Director and 4 independent non-executive Directors. The 2 executive Directors are Mr. GUO Shaoquan and Mr. WANG Lin. The non-executive Director is Mr. ZHOU Yunjie. The 4 independent non-executive Directors are Ms. DAI Shuping, Mr. Simon CHEUNG, Ms. FANG Qiaoling and Mr. Tingjie ZHANG. Mr. Tingjie ZHANG is the chairman of the committee. Mr. WONG Tin Yau, Kelvin ceased to serve as a member of the Nomination Committee of the Board since February 2020. Mr. Tingjie ZHANG, an independent non-executive Director, served as a member of the Nomination Committee of the Board as approved at the 31st meeting of the seventh session of the Board of Directors of the Bank.

The primary duties of the Nomination Committee include the following:

1. formulating the procedures and standards for the election of the Directors and senior management, and making recommendations to the Board in respect thereof;
2. conducting extensive searches for qualified candidates as Directors and senior management and establishing a talent pool for key positions;
3. conducting preliminary review of the qualifications and credentials of candidates as Directors and senior management, and making recommendations to the Board in respect thereof;
4. reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations to the Board according to the Bank's business activities, the scale of assets and the shareholding structure.

During the Reporting Period, the Nomination Committee convened 2 meetings in total, at which resolutions on the 2019 work plan of the Nomination Committee, the change of the independent Directors of the Seventh Session of the Board of Bank of Qingdao Co., Ltd. and the engagement of the vice president of Bank of Qingdao Co., Ltd. were considered and approved, further adding members to the Board and the senior management.

5.4 Related Party Transactions Control Committee

As of the date the Board of Directors considered and approved this annual report, the Related Party Transactions Control Committee of the Board consists of 2 executive Directors and 5 independent non-executive Directors. The 2 executive Directors are Mr. YANG Fengjiang and Ms. LU Lan. The 5 independent non-executive Directors are Mr. CHEN Hua, Ms. DAI Shuping, Mr. Simon CHEUNG, Ms. FANG Qiaoling and Mr. Tingjie ZHANG. Mr. CHEN Hua is the chairman of the committee. Mr. WONG Tin Yau, Kelvin ceased to be a member of the Related Party Transactions Control Committee of the Board since February 2020. Mr. Tingjie ZHANG, an independent non-executive Director, served as a member of the Related Party Transactions Control Committee of the Board as approved at the 31st meeting of the seventh session of the Board of Directors of the Bank.

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

1. identifying the related parties of the Bank in accordance with relevant laws and regulations, and collecting and organizing the list and information of related parties;
2. reviewing and approving the related party transactions within the scope of the authority granted by the Board of Directors, reviewing the related party transactions that required the submission to the Board of Directors and shareholders' general meeting for consideration and approval, and reporting the same to the Board of Directors;
3. inspecting and supervising the control over the Bank's related party transactions and the implementation of the Bank's related party transaction control system by the Directors, senior management and related parties of the Bank, and reporting the same to the Board.

During the Reporting Period, the Related Party Transactions Control Committee convened a total of 15 meetings, during which the members considered and passed resolutions such as the 2019 work plan of the Related Party Transaction Control Committee, confirmation of the list of related parties and review of significant related party transactions, listened to or reviewed the management reports on related party transactions, focused on the compliance and fairness of related party transactions, aiming to maintain strict control over the risks in related party transactions.

5.5 Audit Committee

As of the date the Board of Directors considered and approved this annual report, the Audit Committee of the Board consists of 3 non-executive Directors and 4 independent non-executive Directors. The 3 non-executive Directors are Ms. TAN Lixia, Mr. DENG Youcheng and Mr. CHOI Chi Kin, Calvin. The 4 independent non-executive Directors are Mr. CHEN Hua, Ms. DAI Shuping, Ms. FANG Qiaoling and Mr. Tingjie ZHANG. Ms. FANG Qiaoling is the chairlady of the committee, with appropriate expertise of accounting or related financial management as required under Rule 3.10(2) of the Hong Kong Listing Rules. Mr. WONG Tin Yau, Kelvin ceased to be a member of the Audit Committee of the Board since February 2020 and was replaced by Mr. Tingjie ZHANG, an independent non-executive Director, as approved by the Directors at the 31st meeting of the seventh session of the Board of Directors of the Bank.

The primary duties of the Audit Committee include the following:

1. proposing the engagement or change of an accounting firm which undertakes auditing work for the Bank;
2. supervising the Bank's internal audit system and the implementation thereof;
3. responsible for the communication between its internal auditors and the accounting firm;
4. reviewing the accounting policies, financial position and financial reporting procedures of the Bank, and monitoring its risk and compliance status;
5. responsible for the annual audit of the Bank, and preparing a judgment report on the authenticity, accuracy, completeness and timeliness of the audited financial information, and submitting the report to the Board for consideration;
6. reviewing the internal control system of the Bank, evaluating the working procedures and effectiveness of the internal audit department of the Bank, and ensuring that the function of internal audit is adequately resourced and has proper standing within the Bank;
7. reviewing the annual budget, final accounts, and any significant changes and adjustments in the course of implementation, and submitting its findings to the Board of Directors for consideration;
8. reviewing the profit distribution policy and annual profit distribution plans, and submitting its findings to the Board for review;
9. reviewing and ensuring that the Board of Directors will provide a timely response to the issues raised in the external auditor's management letter (or any equivalent documents) to the senior management, and reviewing any major queries raised by the external auditors to senior management about accounting records, financial accounts or control systems and senior management's response;
10. reviewing arrangements employees of the Bank can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and carrying out independent and fair investigation of these matters and appropriate follow-up actions.

During the Reporting Period, the Audit Committee convened 10 meetings in total, during which the members considered and passed resolutions on change of accounting policies, regular reports, engagement of auditors, the self-evaluation report on internal control, the financial report, the proposal for profit distribution, as well as reviewed special audit reports and rectification reports. It listened to the audit work summary, audit plan and management recommendations of external auditors. The Audit Committee made recommendations on areas of raising the awareness of compliance, highlighting the implementation and rectification of the internal and external inspections on related issues, and increasing the use of information technology in the internal audit work, and urged the Bank to continuously enhance its internal control.

5.6 Risk Management and Consumer Rights Protection Committee

As of the date the Board of Directors considered and approved this annual report, the Risk Management and Consumer Rights Protection Committee of the Board consists of 3 executive Directors, 2 non-executive Directors and 2 independent non-executive Directors. The 3 executive Directors are Mr. WANG Lin, Mr. YANG Fengjiang and Ms. LU Lan. The 2 non-executive Directors are Ms. TAN Lixia and Mr. Marco MUSSITA. The 2 independent non-executive Directors are Mr. CHEN Hua and Ms. FANG Qiaoling. Mr. WANG Lin is the chairman of the committee.

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

1. supervising the risk control condition conducted by the senior management of the Bank in credit, marketing, liquidity, operation, compliance, information technology and reputation, and conducting regular reviews of the risk reports;
2. regularly assessing our risk policies, management, tolerance and capacity;
3. making suggestions on the improvement of our risk management and internal control;
4. deciding on the strategy of overall risk management, confirming the overall risk limits and formulating suitable risk management procedure and measures;
5. formulating the Bank's strategy, policy and target in protecting consumers' rights, listening to the senior management's special reports on protection of consumers' rights regularly, and submitting the reports to the Board for review.

During the Reporting Period, the Risk Management and Consumer Rights Protection Committee convened 7 meetings in total, during which the members considered and passed resolutions on the 2019 work plan of the Risk Management and Consumer Rights Protection Committee and the 2019 plan of risk appetite of business operation, listened to the reports on risk management of credit risk, market risk, liquidity risk and off-balance sheet risk, reviewed the reports on the management of risks in our reputation, information technologies, legal compliance and outsourcing, and offered guidance on the continuous improvement of the Bank's comprehensive risk management capability.

5.7 Information Technology Committee

As of the date the Board of Directors considered and approved this annual report, the Information Technology Committee of the Board consists of 2 executive Directors, 2 non-executive Directors and 1 independent non-executive Director. The 2 executive Directors are Mr. GUO Shaoquan and Mr. WANG Lin. The 2 non-executive Directors are Ms. TAN Lixia and Mr. Marco MUSSITA. The independent non-executive Director is Mr. Simon CHEUNG. Mr. Simon CHEUNG is the chairman of the committee.

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

1. studying and formulating the strategy of information technology of the Bank, and submitting the strategy to the Board for review;
2. regularly appraising the overall results of the work of information technology, and the progress of strategic planning and execution of material projects of the Bank;
3. instructing and supervising the development and governance of the work of information technology in senior management and relevant management departments, and conducting information technology risk identification, measurement and control;
4. listening to or reviewing the information technology management report, business continuity management report, and special auditor's report on information technology of the Bank, and making suggestions.

During the Reporting Period, the Information Technology Committee convened 4 meetings in total, during which the members considered and passed resolutions on the 2019 work plan of the Information Technology Committee, and listened to the report on the management of risks in information technology and report on the management of business continuity, and made suggestions on the investment in information technology, information security and the building up of an IT talent pool.

VI. PERFORMANCE OF BOARD OF SUPERVISORS

6.1 Board of Supervisors

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

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

6.2 Composition of the Board of Supervisors

The Board of Supervisors of the Bank is composed of shareholder Supervisors, external Supervisors and employee Supervisors. The shareholder supervisors and external supervisors are nominated by the Board of Supervisors and elected by a shareholders' general meeting. The employee supervisors are nominated by the trade union's committee and elected through democratic procedures. As at the end of the Reporting Period, the Board of Supervisors of the Bank consisted of 6 Supervisors, including 3 employee Supervisors, namely CHEN Qing, WANG Dawei, and MENG Xianzheng; 1 shareholder Supervisor, namely HE Liangjun; and 2 external Supervisors, namely FU Changxiang and HU Yanjing. The structure of the Board of Supervisors of the Bank satisfies the requirements of the applicable laws and regulations, and the Supervisors possess the professionalism and independence required to perform their duties, and can effectively exert the supervisory functions of the Board of Supervisors.

6.3 Changes in the Supervisors

For details of the changes in the Bank's supervisors during the Reporting Period, please refer to "Section X Directors, Supervisors, Senior Management and Employees".

6.4 Operation of the Board of Supervisors

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

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

During the Reporting Period, the Board of Supervisors of the Bank convened 9 meetings, of which 3 meetings were held in the form of on-site meetings and 6 meetings were held in the form of circulation of written resolutions. At these meetings, the Board of Supervisors considered and approved 20 resolutions, listened to or reviewed 58 reports, covering operation management, final financial accounts, risk management and internal control of the Bank, as well as the performance evaluation of Directors, Supervisors and senior management personnel. During the Reporting Period, there was no objection raised by the Board of Supervisors to the matters supervised.

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

Supervisor	Number of attendance required	Number of attendance in person	Number of attendance by proxy
CHEN Qing	9	8	1
HE Liangjun	2	2	0
ZHANG Lanchang	3	2	1
WANG Dawei	9	9	0
MENG Xianzheng	9	9	0
WANG Jianhua	2	2	0
FU Changxiang	9	9	0
HU Yanjing	9	9	0

Note: Mr. ZHANG Lanchang and Mr. WANG Jianhua resigned on 16 May 2019 and 30 March 2019, respectively, and Mr. HE Liangjun assumed office on 15 October 2019; as such the number of meetings of the Board of Supervisors required to be attended by those persons is less than the number of meetings actually convened during the year.

6.6 Attendance at shareholders' general meetings during the Reporting Period

During the Reporting Period, the Bank convened 2 general meetings in total. The Board of Supervisors has designated representatives to attend such meetings to carry out on-site supervision over the legal compliance of the matters transacted at the meeting, procedures of the meeting and the voting process.

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

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

6.8 Operation of the Special Committees under the Board of Supervisors

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

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

Supervision Committee

The primary duties of the Supervision Committee include the following:

1. responsible for the formulation of the plans for supervising the Bank's financial affairs, and implementing related examinations;
2. supervising the Board of Directors for the establishment of stable operational principle, value criterion, and formulating the development strategy based on the Bank's actual needs;
3. supervising and examining the Bank's operational decisions, risk management and internal control.

During the Reporting Period, the Supervision Committee held 8 meetings in total, at which the resolutions on the report of final financial accounts, proposals for profit distribution, regular report, the engagement of auditor and self-evaluation report on internal control for 2018 were considered and approved, and listened to the work report of internal audit and the major risk management report.

Nomination and Evaluation Committee

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

1. studying the selection standards and procedures of Supervisors, and making recommendations to the Board of Supervisors;
2. preliminarily reviewing the qualifications and criteria of candidates for Supervisors and making recommendations;
3. supervising the process of election and appointment of Directors and independent Directors;
4. conducting comprehensive evaluation on the performance of duties of Directors, Supervisors and senior management and reporting to the Board of Supervisors.

During the Reporting Period, the Nomination and Evaluation Committee convened 2 meetings in total, at which the resolutions on the president's work report, evaluation report on the performance of duties of the Board of Directors and its members, the evaluation report on the performance of duties of Supervisors, the evaluation report on performance of duties of the senior management and senior executives, and the nomination of Mr. HE Liangjun as the candidate for the shareholder Supervisor of the seventh session of the Board of Supervisors of Bank of Qingdao Co., Ltd. were considered and approved.

6.9 Work of external Supervisors

During the Reporting Period, external Supervisors attended the meetings of the Board of Supervisors and its Special Committees in compliance with laws and regulations, gave their independent and objective opinions and suggestions, protected the interests of the Bank and depositors; kept themselves abreast of the status of the Bank's operation and management by conscientiously carrying out reviews on the newsletters of Directors and Supervisors and other documents provided by the Bank; and performed their duties as external supervisors according to laws.

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

During the Reporting Period, all our Directors and Supervisors participated in the special trainings on domestic and overseas laws and regulations, including the 2019 amendments to the Hong Kong Listing Rules and the Corporate Governance Code, as well as the relevant regulations and rules newly promulgated by the CBIRC in 2019, with which our Directors and Supervisors have obtained an in-depth understanding of the regulatory policies, the responsibilities and obligations of the directors, supervisors and the senior management.

During the Reporting Period, Mr. Tingjie ZHANG, a proposed independent Director of the Bank, participated in the independent director qualification training of listed companies organized by the SZSE and obtained the qualification certificates for independent directors of listed companies. CHEN Hua, an independent Director of the Bank, participated in the follow-up training for independent directors organized by the SZSE.

During the Reporting Period, Ms. FANG Qiaoling, an independent Director of the Bank, conducted a special investigation and research on internal audit in order to acquire an in-depth understanding of the internal audit work, the support of information technology for the internal audit work, and the operation of the internal control evaluation meeting of the Bank, and made targeted suggestions. Mr. CHEN Hua and Ms. FANG Qiaoling, independent Directors of the Bank, conducted a special investigation and research on inclusive finance, and had exchanges and discussions with the heads of the relevant departments of the Bank on how to implement the regulatory policy requirements, improve the quality of inclusive financial services and innovate inclusive financial business models.

VII. WORK OF SENIOR MANAGEMENT

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

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

- (I) take charge of the operation and management of the Bank, make arrangements for the implementation of the resolutions of the Board of Directors and report the work to the Board of Directors;
- (II) submit business plans and investment proposals to the Board of Directors on behalf of the members of the senior management, and make arrangements for the implementation upon approval by the Board of Directors;
- (III) make arrangements for the formulation and implementation of the Bank's various rules and regulations, development plans and annual operation plans;
- (IV) authorize members of the senior management and persons in charge of internal departments and branches to conduct operating activities;
- (V) formulate proposals on the establishment of the Bank's internal management entities;
- (VI) propose to the Board of Directors to engage or dismiss the vice presidents, chief financial officers and other members of the senior management of the Bank;
- (VII) engage or dismiss persons in charge of the internal departments and branches of the Bank other than those to be engaged or dismissed by the Board of Directors;
- (VIII) determine wages, benefits, rewards and punishment of the employees of the Bank, and decide on their engagement and dismissal;
- (IX) propose the convening of an extraordinary meeting of the Board of Directors;
- (X) adopt emergency measures when any major emergency, such as a bank run, arises in the Bank and promptly report them to the banking regulatory authorities of the State Council as well as the Board of Directors and the Board of Supervisors;
- (XI) other duties and powers conferred by the laws, administrative regulations, departmental rules, regulatory documents, the regulations of the relevant regulatory authorities, the Articles of Association and by the Board of Directors.

7.1 Delegation of authority by the Board of Directors

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

7.2 Chairman and President

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

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

7.3 Securities transactions by Directors and Supervisors

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

7.4 External auditors and remuneration

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

7.5 Risk management and internal control

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

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

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

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

Based on rules and regulations including the “Basic Standards for Enterprise Internal Control” and its complimentary guidelines and the “Guidelines on Internal Control of Commercial Banks”, along with relevant requirements of the Hong Kong Stock Exchange, the Bank has formulated the objectives and principles of internal control and established its internal control system. The Bank takes control over the entire process of various operation and management activities, and continuously enhances the completeness, reasonableness and effectiveness of internal control system through practice.

The Board of Directors of the Bank reviewed the risk management and internal control systems for the year ended 31 December 2019. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board of Directors of the Bank considered and approved the “Evaluation Report on Internal Control of Bank of Qingdao Co., Ltd. for the First Half of 2019” and the “2019 Evaluation Report on Internal Control of Bank of Qingdao Co., Ltd.”, and assessed the interim and annual risk management and internal controls of the Bank. The Board of Directors is in the opinion that such risk management and internal controls of the Bank are effective.

The Bank established a think tank of “Good Policies” by launching “Year of Establishment”, “Year of Implementation”, “Year of Assessment”, “Year of Optimization” and “Year of Improvement”. Through the “three regulars” mechanism and the “three breakthroughs” measure, the Bank has ensured its long-term and sustainable operation with these “institutions” from the implementation level. It also ensured that the implementation was organized and effective, so as to create a system that provides excellent customer experience, is highly accessible to employees and comprehensively covers risks. The Bank has established the “Weekly Inspection Practice” of senior management inspection system and regular compliance inspection system. In 2019, the Bank conducted a total of 47 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 regular audits, responsibility audits and special audits, refined the innovative audit model named “virtual branch” by temporarily substituting regular staff by ad hoc staff, and established a risk assessment and rectification mechanism with sustained effectiveness. Through convening regular “internal control assessment meetings”, the Bank has enhanced the awareness of risk prevention and control at all levels and edged up the standards of its risk management and control.

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

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

7.6 Appraisal and incentives for senior management

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

7.7 Company Secretaries

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

VIII. INFORMATION DISCLOSURE AND TRANSPARENCY

In strict compliance with the provisions of laws and regulations, the Bank released various periodic reports and temporary announcements in compliance with laws and regulations to ensure that the information disclosed is true, accurate, complete, timely and standardized to protect the lawful rights and interests of shareholders. During the Reporting Period, 204 various announcements were released on the website of SZSE, the HKEXnews website of the Hong Kong Stock Exchange and the website of the Bank, among which, 99 announcements were released on SZSE and 105 on the Hong Kong Stock Exchange.

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

IX. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Reporting Period, no amendment was made to the Articles of Association.

X. SHAREHOLDERS' RIGHTS

10.1 Convening of extraordinary general meetings on requisition by shareholders

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

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

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

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

10.2 Making enquiries with the Board

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

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

10.3 Proposals of the general meeting

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

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

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

XI. INVESTOR RELATIONS

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

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

XII. INTERNAL CONTROL AND INTERNAL AUDIT

12.1 Evaluation report of internal control

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

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

12.1.2 Evaluation report of internal control

Disclosure date of the full text of evaluation report of internal control	21 March 2020
Disclosure index of the full text of evaluation report of internal control	Website of CNINFO (http://www.cninfo.com.cn/)
The percentage of total assets of units included in the assessment scope to the total assets in the Company's consolidated financial statements	100%
The percentage of operating income of units included in the assessment scope to the operating income in the Company's consolidated financial statements	100%

Criteria for deficiency recognition

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

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

12.2 Audit report of internal control

Audit opinion of the audit report of internal control

As at 31 December 2019, the Bank has maintained effective internal control over financial reporting in all material aspects in accordance with the Basic Standards for Enterprise Internal Control and other relevant requirements.

Disclosure of the audit report of internal control	Disclosed
Disclosure date of the full text of audit report of internal control	21 March 2020
Disclosure index of the full text of audit report of internal control	Website of CNINFO (http://www.cninfo.com.cn/)
Opinion of the audit report of internal control	Unqualified opinion
Whether there is any material deficiency in the non-financial report	No

Note: The audit report on internal control issued by the accounting firm is consistent with the self-evaluation report of the Board.

12.3 Internal control

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

The Bank issued Opinions on Strengthening Compliance Management to Improve Development (《關於深化合規管理促進提升發展的意見》) as “No. 1 document” (一號文) and carried out “Nine Actions with One Core Value” (一個中心九大行動) at all levels to construct nine systems for compliance and internal control and form a new ecosystem of “In-depth Compliance”. By gaining insights from various propaganda carriers including the negative list, Compilation of Top 10 Internal Control and Compliance Cases (十大內控合規案例匯編) and exams on Common Laws, the Bank has successfully raised awareness of compliance across the board and created a sound internal control environment. The Bank carried out internal inspections that focus on the rectification of irregularities, and substantially enhanced the effectiveness of internal control implementation through the combined efforts of head office’s supervision and branches’ individual implementation, the rectification of specific issues and the improvement of the internal control system, as well as accountability for incompliance and warning education. External institutions were engaged to conduct special evaluation of internal control, in order to comprehensively improve the level of internal control management by constantly identifying and solving problems. The Bank strictly followed legal review protocols, and stayed informed of the latest enactment of laws, regulations and regulatory systems closely related to the banking business, and issued articles on risk cautions through the Bank’s magazine and intranet, to ensure early warning on risk prevention was properly made.

12.4 Internal audit

The Bank has established an audit department as its internal auditor, which is responsible for comprehensive audit evaluation of all businesses and operational management activities and operational conditions of the Bank. The audit results were regularly reported by the audit department to the Board of Directors and the Board of Supervisors and were submitted in compliance with regulatory requirements so as to achieve the independence of internal audit.

The Bank continued to improve the audit system, regulate audit procedures, enhance audit management models and actively realize a transition from operative audit to management audit. The Bank continued to improve the audit system to enhance the supportiveness of off-site audit on data filtering and pre-audit analysis. The Bank improved the results of audit by adjusting its project implementation methods and effectively expanded the coverage of the audit. The Bank enhanced the effectiveness of the application of the audit results by improving the rectification mechanism and refining the internal control assessment model.

The Bank strictly adhered to regulatory requirements and reasonably planned audit projects, so as to deepen its transition from operative audit to management audit by analyzing deep-rooted problems and issuing warnings. The Bank incorporated anti-money laundering audit, wealth management and sales agency audit, audit for protection of consumer rights and interests, audit of personal credit business and audit of corporate credit business while focusing on regular audit. The Bank further conducted audit for the management of group consolidated financial accounts and special audit on BQD Financial Leasing, performance appraisal and sound remuneration special audit, special audit for write-off of non-performing assets as well as economy responsibility audit. The Bank has endeavored to enhance audit results from the holistic perspective in connection with the development and improvement on internal control mechanism and risk prevention and control of the Bank.

XIII. OTHER INFORMATION

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

Section XII Report of the Board of Directors

I. PRINCIPAL ACTIVITIES

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

II. OPERATIONS IN COMPLIANCE WITH LAWS AND REGULATIONS

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

III. BUSINESS REVIEW AND OUTLOOK

The business review and financial indicator of the Company for the year ended 31 December 2019 and its development outlook for 2020 are set out in “Section II Corporate Information and Key Financial Highlights” and “Section VI Discussion and Analysis of Operations” of this annual report.

IV. EXPOSURE TO MAJOR RISKS

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

V. EARNINGS AND DIVIDENDS

The revenue of the Company for the year ended 31 December 2019 and the financial position of the Company on the same date are set out in the financial statements of this annual report. For details of the dividend, please refer to “Section VII Significant Events”.

Taxation applying to dividends on ordinary Shares

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

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Individual Income Tax After the Annulment of Document Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) promulgated on 28 June 2011, dividend received by overseas resident individual shareholders from the shares issued by domestic non-foreign invested enterprises in Hong Kong are subject to individual income tax, which shall be withheld and paid by withholding agents according to relevant laws; however, the overseas resident individual shareholders of the shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements between the countries where they reside and China and the tax arrangements between Mainland China and Hong Kong/Macau.

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

Section XII Report of the Board of Directors

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

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

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

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

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

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

The Bank will make a separate announcement regarding the payment of the 2019 final dividend to A shareholders and any related matters.

VI. ANNUAL GENERAL MEETING OF 2019 AND CLOSURE OF REGISTER OF MEMBERS

The Bank intends to hold the 2019 annual general meeting on Thursday, 7 May 2020. In order to determine the list of holders of H Shares who are entitled to attend and vote at the 2019 annual general meeting, the H-share register of members of the Bank will be closed from Tuesday, 7 April 2020 to Thursday, 7 May 2020 (both days inclusive), during such period no transfer of H Shares will be registered. Holders of H Shares of the Bank who intend to attend and vote at the annual general meeting must lodge all the transfer documents together with the relevant share certificates with the Bank's H-share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 6 April 2020.

VII. DISTRIBUTABLE RESERVES

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

VIII. FINANCIAL HIGHLIGHTS

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

IX. DONATIONS

The Company made charity and other donations of approximately RMB8.9680 million in total during the Reporting Period.

X. ENVIRONMENTAL POLICIES AND PERFORMANCE

The Bank has complied with the applicable environmental laws and regulations of which its business operations are located all the time, and has reviewed and improved the promoted environmental protection measures from time to time to enhance sustainability. For relevant information of the environmental policies and performance of the Bank during the Reporting Period, please refer to the 2019 Social Responsibility Report published by the Bank on the CNINFO website and HKEXnews website of the Hong Kong Stock Exchange.

XI. PROPERTY AND EQUIPMENT

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

XII. FIXED ASSETS

The details of the changes in the fixed assets of the Company as of 31 December 2019 are set out in notes to the financial statements of this annual report.

XIII. ACQUISITIONS, DISPOSAL OF ASSETS DURING THE REPORTING PERIOD

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

XIV. RETIREMENT BENEFITS

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

XV. SUBSTANTIAL SHAREHOLDERS

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

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

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

XVII. PRE-EMPTIVE RIGHTS

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

XVIII. EMPLOYEES AND MAJOR CUSTOMER

Please refer to "Section X Directors, Supervisors, Senior Management and Employees" and the 2019 Social Responsibility Report published by the Bank on the website of the SZSE, HKEXnews website of the Hong Kong Stock Exchange, and the website of the Bank for details of employees and employment policies of the Bank.

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

XIX. ISSUANCE OF DEBENTURE

On 20 May and 29 May 2019, the Bank issued two tranches of ordinary financial bonds with a total amount of RMB8 billion (RMB4 billion for each tranche) in the national interbank bond market, including three-year bonds and five-year bonds, with an amount of RMB3 billion and RMB1 billion respectively. On 3 December and 12 December 2019, the Bank issued two tranches of Small and Micro Enterprise financial bonds with a total amount of RMB8 billion (RMB4 billion for each tranche) in the national interbank bond market, including three-year bonds and five-year bonds, with an amount of RMB3 billion and RMB1 billion respectively.

Details of the debenture issued during the non-reporting period are set out in the notes to the financial statements of this annual report.

XX. EQUITY-LINKED AGREEMENT

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

XXI. USE OF RAISED FUNDS

Please refer to "Section VI Discussion and Analysis of Operations" for details of the use of raised funds of the Bank.

XXII. UNDERTAKINGS REGARDING THE LISTING OF H SHARES

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

XXIII. SHARE CAPITAL

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

XXIV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

XXV. CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

In so far as the Directors, Supervisors and chief executives of the Bank are aware, as at the end of 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/ Supervisor/ chief executive	Type of shares	Capacity	Number of shares held	Percentage of the total number of ordinary shares ^{Note}	Percentage of the total number of A Shares ^{Note}	Long position/ 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 shares at the end of the Bank's Reporting Period.

Apart from the 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 one had any interests or short positions in the shares, debentures or equity derivatives of the Bank which are required to be recorded in the register referred to in section 352 of the SFO, or interests or short positions which are required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

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

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

XXVIII. ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

Save for the continuing connected transactions which are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules, as at 31 December 2019 and at any time during the year, none of the Directors or Supervisors of the Bank or any entity connected with the Directors or Supervisors had any interest, whether directly or indirectly, in any transaction, arrangement or contract of significance (excluding service contracts) in relation to the Bank's business to which the Bank is a party. None of the Directors or Supervisors have entered into any service contracts with the Bank, under which the Bank should pay compensation (other than statutory compensation) if the Bank terminates the contracts within one year.

XXX. PERMITTED INDEMNITY PROVISIONS AND INSURANCE FOR DIRECTORS

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

XXXI. MANAGEMENT CONTRACTS

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

XXXII. DIRECTORS AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

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

XXXIII. CORPORATE GOVERNANCE

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

XXXIV. CONNECTED TRANSACTIONS

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

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

XXXV. REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

XXXVI. PUBLIC FLOAT

Based on the public information available to the Bank and to the knowledge of the Directors, as at the end of the Reporting Period, the Bank has maintained sufficient public float as required by the Hong Kong Stock Exchange.

On 16 January 2019, the Bank completed the initial public offering of A Shares and was listed on the SZSE. 450,977,251 new A Shares were issued. Therefore, as at the date of this annual report, the public float of H Shares of the Bank decreased to 23.02%.

XXXVII. AUDITORS

The domestic and overseas auditors of the Bank for 2019 were KPMG Huazhen LLP and KPMG respectively. KPMG Huazhen LLP and KPMG audited the 2019 annual financial statements prepared by the Company in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards respectively, and issued unqualified audit reports.

XXXVIII. SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

The Bank received the “Approval on the Establishment of Qingyin Wealth Management Company Limited by China Banking and Insurance Regulatory Commission” (Yin Bao Jian Fu [2020] No. 77) in February 2020, pursuant to which the Bank was approved to establish Qingyin Wealth Management Company Limited (“**Qingyin Wealth Management**”). Qingyin Wealth Management is established solely by the Bank with the proposed registered capital of RMB1 billion. After completion of the establishment, the Bank will apply to the Qingdao Office of CBIRC for commencement of business in accordance with relevant requirements and procedures.

By Order of the Board of Directors



GUO Shaoquan
Chairman

Section XIII Report of the Board of Supervisors

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

In 2019, the Board of Supervisors held a total of 9 meetings, of which 3 were on-site meetings and 6 were written resolution meetings; and considered proposals including the 2018 report on the work of the Board of Supervisors, 2018 annual final financial accounts, 2019 interim financial report, 2018 annual report and 2019 interim report, 2018 annual and 2019 interim reports on the work of the President, 2018 evaluation report on the performance of duties by the Board of Directors, senior management and their members; and listened to reports including report on financial regulation notification and rectification, and risk management reports on major risks including credit risk, operational risk and market risk.

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

I. COMPLIANT OPERATIONS OF THE COMPANY

During the Reporting Period, the business operations of the Bank complied with the requirements of the Company Law, the Commercial Bank Law and the Articles of Association, and the decision-making procedures were legitimate and valid. The Directors and senior management of the Bank carried out their duties diligently in the course of business operation and management. None of them was found to have contravened any laws or regulations or the Articles of Association of the Bank or to have committed any acts detrimental to the interests of the Bank and its shareholders.

II. AUTHENTICITY OF FINANCIAL REPORT

KPMG Huazhen LLP and KPMG audited the 2019 annual financial statements prepared by the Company in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards respectively, and issued unqualified audit reports. The financial report has truly and completely reflected the financial position and operating results of the Bank as at 31 December 2019.

III. ACQUISITION AND DISPOSAL OF ASSETS

During the Reporting Period, the Board of Supervisors did not find any insider trading or any acts detrimental to the interests of shareholders or leading to a drain on the assets in acquisition or disposal of assets.

IV. RELATED PARTY TRANSACTIONS

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

V. IMPLEMENTATION OF RESOLUTIONS OF THE SHAREHOLDERS' GENERAL MEETING

The Board of Supervisors had no objection to the reports and proposals submitted by the Board of Directors to the shareholders' general meeting of the Bank in 2019; supervised the implementation of the resolutions of the shareholders' general meeting, and considered that the Board of Directors had conscientiously implemented the relevant resolutions of the shareholders' general meeting.

VI. INTERNAL CONTROL

The Board of Supervisors reviewed the 2019 Annual Internal Control Evaluation Report of Bank of Qingdao Co., Ltd. and had no objection to the contents of the report. During the Reporting Period, there was no material deficiency in the integrity, rationality, effectiveness and implementation of the Bank's internal control mechanisms and systems were found.

By Order of the Board of Supervisors



CHEN Qing
Chief Supervisor

Section XIV Independent Auditor's Report

To the shareholders of Bank of Qingdao Co., Ltd.

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

OPINION

We have audited the consolidated financial statements of Bank of Qingdao Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 165 to 281, which comprise the consolidated statement of financial position as at 31 December 2019, the 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 year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Section XIV Independent Auditor's Report (continued)

To the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

1. Loss allowances of loans and financial investments measured at amortized cost

Refer to the accounting policies in note 2(5), and note 19 and note 22 to the financial statements.

The Key Audit Matter

How the matter was addressed in our audit

The Group uses the expected credit loss model to determinate loss allowances of financial assets in accordance with the International Financial Reporting Standards 9, *Financial Instruments*.

The determination of loss allowances of loans and financial investments using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.

In particular, the determination of the loss allowances is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses for corporate loans and financial investments measured at amortised cost are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The expected credit losses for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors.

Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. Management refers to valuation reports issued by qualified third party valuers and considers the influence of various factors including the market price, location and use when assessing the value of property held a collateral. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of loss allowances as at the end of the reporting period.

Our audit procedures to assess loss allowances of loans and financial investments measured at amortized cost included the following:

- understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and financial investments measured at amortized cost, the credit grading process and the measurement of provisions for impairment.
- with the assistance of our internal specialists in financial risk management, assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments.
- assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of the loan and financial investment list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan and investment information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and investment list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources.
- for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development.

Section XIV Independent Auditor's Report (continued)

To the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

1. Loss allowances of loans and financial investments measured at amortized cost

Refer to the accounting policies in note 2(5), and note 19 and note 22 to the financial statements.

The Key Audit Matter

How the matter was addressed in our audit

We identified the impairment of loans and advances to customers and financial investments measured at amortized cost as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Group.

- for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the logics and compilation of the overdue information and the operational process of the credit grading of corporate customers for selected samples.
- evaluating the validity of management's assessment on whether the credit risk of the loan has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting risk-based samples. We analysed the portfolio by industry sector to select samples in industries more vulnerable to the current economic situation with reference to other borrowers with potential credit risk. We checked loan overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses.
- for selected samples of loans and advances to customers that are credit-impaired, evaluating management's assessment of the value of any property collateral held by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, challenged the viability of the Group's recovery plans and evaluated other credit enhancements that are integral to the contract terms.
- recalculating the amount of credit loss allowance for 12 month and life time credit losses using the expected credit loss model based on the above parameters and assumptions for a sample of loans and investments where the credit risk of the loan has not, or has, increased significantly since initial recognition, respectively.
- assessing whether the disclosures in the consolidated financial statement in relation to impairment of loans and financial investments measured at amortized cost meet the requirements in the prevailing accounting standards.

Section XIV Independent Auditor's Report (continued)

To the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

2. Assessment of fair value of financial instruments

Refer to the accounting policies in note 2(5), and note 45 to the financial statements.

The Key Audit Matter

How the matter was addressed in our audit

Financial instruments carried at fair value account for a significant part of the Group's assets and liabilities. The changes in fair value may affect profit or loss or other comprehensive income. The Group mainly holds level 2 and level 3 financial instruments measured at fair value.

The valuation of financial instruments measured at fair value of the Group is based on a combination of market data and valuation models which often require a considerable number of inputs. As in the case of level 2 financial instruments measured at fair value, the inputs of valuation models are mainly observable data. As in the case of level 3 financial instruments measured at fair value, where such observable data is not readily available, estimates need to be developed which can involve significant management judgment.

The Group has developed its own models to value certain level 2 and level 3 financial instruments measured at fair value, which also involves significant management judgment.

We have identified assessment of the fair value of financial instruments as a key audit matter because of the complexity involved in valuing certain financial instruments and the significant judgment exercised by management in determining the inputs used in the valuation models.

Our audit procedures to assess the fair value of financial instruments included the following:

- Understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the valuation, independent price verification, front office/back office reconciliations and valuation model approval for financial instruments.
- performing, on a sample basis, independent valuations of level 2 and level 3 financial instruments measured at fair value and comparing these valuations with the valuations of the Group. Our procedures included comparing the valuation models of the Group with our knowledge of practice, testing inputs to the fair value calculations or, with the assistance of our internal specialists in financial risk management, establishing our own valuation models to perform revaluations.
- assessing whether the disclosures in the consolidated financial statement appropriately reflect the exposure to financial instrument valuation risk and meet the requirements of the prevailing accounting standards.

Section XIV Independent Auditor's Report (continued)

To the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

3. Consolidation of structured entities

Refer to the accounting policies in note 2(27), and note 47 to the financial statements.

The Key Audit Matter

Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity through issuing a wealth management product, an asset management plan, a trust plan, an asset-backed security or an investment fund.

In determining whether the Group should retain any partial interests in a structured entity or should consolidate a structured entity, management is required to consider the risks and rewards retained, the power the Group is able to exercise over the activities of the entity and its ability to influence the Group's own returns from the entity. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions.

We identified the consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and because of the judgement exercised by management in the qualitative assessment of the terms and nature of each entity.

How the matter was addressed in our audit

Our audit procedures to assess the consolidation of structured entities included the following:

- understanding and assessing the design and implementation of key internal controls of financial reporting over consolidation of structured entities.
- selecting significant structured entities of each key product type and performing the following procedures for each entity selected:
 - inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity.
 - reviewing the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity.
 - reviewing management's analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity.
 - assessing management's judgement over whether the structured entity should be consolidated or not.
- assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

Section XIV Independent Auditor's Report (continued)

To the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Section XIV Independent Auditor's Report (continued)

To the shareholders of Bank of Qingdao Co., Ltd. (continued)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

Certified Public Accountants

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

20 March 2020

Section XV Financial Statements and Notes

Consolidated statement of profit or loss

For the year ended 31 December 2019 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2019	2018
Interest income		14,515,004	11,886,901
Interest expense		(7,668,949)	(7,422,872)
Net interest income	3	6,846,055	4,464,029
Fee and commission income		1,346,116	943,582
Fee and commission expense		(129,236)	(77,825)
Net fee and commission income	4	1,216,880	865,757
Net trading gains	5	152,464	410,807
Net gains arising from investments	6	1,380,437	1,617,354
Other operating income	7	26,273	6,891
Operating income		9,622,109	7,364,838
Operating expenses	8	(3,166,762)	(2,505,650)
Credit losses	11	(3,626,792)	(2,383,172)
Profit before taxation		2,828,555	2,476,016
Income tax expense	12	(493,033)	(432,627)
Net profit for the year		2,335,522	2,043,389
Profit attributable to:			
Equity shareholders of the Bank		2,284,815	2,023,352
Non-controlling interests		50,707	20,037
Basic and diluted earnings per share (in RMB)	13	0.39	0.37

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2019 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2019	2018
Net profit for the year		2,335,522	2,043,389
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Remeasurement of defined benefit liability		(1,650)	(2,498)
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	39(4)	63,549	996,848
– Credit losses of debt investments measured at fair value through other comprehensive income	39(4)	43,138	22,014
Other comprehensive income, net of tax		105,037	1,016,364
Total comprehensive income		2,440,559	3,059,753
Total comprehensive income attributable to:			
Equity shareholders of the Bank		2,389,852	3,039,716
Non-controlling interests		50,707	20,037

Consolidated statement of financial position

As at 31 December 2019 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2019	31 December 2018
Assets			
Cash and deposits with central bank	14	39,704,840	29,554,430
Deposits with banks and other financial institutions	15	1,312,468	1,542,437
Placements with banks and other financial institutions	16	3,313,603	4,110,464
Derivative financial assets	17	12,436	-
Financial assets held under resale agreements	18	2,325,771	300,262
Loans and advances to customers	19	169,158,291	123,366,891
Financial investments:			
– Financial investments measured at fair value through profit or loss	20	22,912,561	22,361,816
– Financial investments measured at fair value through other comprehensive income	21	54,973,781	53,002,751
– Financial investments measured at amortised cost	22	64,491,058	70,032,056
Long-term receivables	24	9,037,819	7,766,698
Property and equipment	25	3,048,813	3,124,355
Right-of-use assets	26	818,928	Not applicable
Deferred tax assets	27	1,581,905	1,152,778
Other assets	28	929,876	1,343,564
Total assets		373,622,150	317,658,502
Liabilities			
Borrowings from central bank	29	5,536,650	10,878,835
Deposits from banks and other financial institutions	30	16,462,527	11,632,982
Placements from banks and other financial institutions	31	9,916,257	7,207,066
Derivative financial liabilities	17	8,805	-
Financial assets sold under repurchase agreements	32	16,027,082	14,850,333
Deposits from customers	33	215,425,403	177,911,247
Income tax payable		187,027	13,174
Debt securities issued	34	76,858,899	65,240,507
Lease liabilities	35	427,429	Not applicable
Other liabilities	36	2,294,153	2,427,634
Total liabilities		343,144,232	290,161,778

Consolidated statement of financial position (continued)

As at 31 December 2019 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2019	31 December 2018
Equity			
Share capital	37	4,509,690	4,058,713
Other equity instrument			
Including: preference shares	38	7,853,964	7,853,964
Capital reserve		8,337,869	6,826,276
Surplus reserve	39(2)	1,626,662	1,403,575
General reserve	39(3)	4,400,258	3,969,452
Other comprehensive income	39(4)	658,230	553,193
Retained earnings	40	2,528,787	2,319,800
Total equity attributable to equity shareholders of the Bank		29,915,460	26,984,973
Non-controlling interests		562,458	511,751
Total equity		30,477,918	27,496,724
Total liabilities and equity		373,622,150	317,658,502

Approved and authorised for issue by the board of directors on 20 March 2020.

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)

Consolidated statement of changes in equity

For the year ended 31 December 2019 (Expressed in thousands of Renminbi, unless otherwise stated)

Note	Attributable to equity shareholders of the Bank								Non-controlling interests	Total equity
	Share capital	Other equity instrument	Capital reserve Note 39(1)	Surplus reserve Note 39(2)	General reserve Note 39(3)	Other comprehensive income Note 39(4)	Retained earnings	Total		
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 year	-	-	-	-	-	-	2,284,815	2,284,815	50,707	2,335,522
Other comprehensive income	-	-	-	-	-	105,037	-	105,037	-	105,037
Total comprehensive income	-	-	-	-	-	105,037	2,284,815	2,389,852	50,707	2,440,559
Ordinary shares insurance	450,977	-	1,511,593	-	-	-	-	1,962,570	-	1,962,570
Appropriation of profit:										
– Appropriation to surplus reserve	40	-	-	223,087	-	-	(223,087)	-	-	-
– Appropriation to general reserve	40	-	-	-	430,806	-	(430,806)	-	-	-
– Cash dividends	40	-	-	-	-	-	(1,421,935)	(1,421,935)	-	(1,421,935)
Balance at 31 December 2019	4,509,690	7,853,964	8,337,869	1,626,662	4,400,258	658,230	2,528,787	29,915,460	562,458	30,477,918
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	40	-	-	200,250	-	-	(200,250)	-	-	-
– Cash dividends	40	-	-	-	-	-	(1,315,844)	(1,315,844)	-	(1,315,844)
Balance at 31 December 2018	4,058,713	7,853,964	6,826,276	1,403,575	3,969,452	553,193	2,319,800	26,984,973	511,751	27,496,724

Consolidated cash flow statement

For the year ended 31 December 2019 (Expressed in thousands of Renminbi, unless otherwise stated)

	2019	2018
Cash flows from operating activities		
Profit before taxation	2,828,555	2,476,016
<i>Adjustments for:</i>		
Credit losses	3,626,792	2,383,172
Depreciation and amortisation	409,659	408,470
Unrealised foreign exchange gains	(143,159)	(409,824)
Net losses on disposal of property and equipment, intangible assets and other assets	777	502
(Gains)/losses from changes in fair value	(228,383)	303,689
Dividend income	(1,500)	(1,100)
Net gains arising from investment	(1,148,597)	(1,919,943)
Interest expense on debt securities issued	2,588,388	2,446,785
Interest income from financial investment	(5,400,084)	(5,336,522)
Others	(56,571)	(55,559)
	2,475,877	295,686
<i>Changes in operating assets</i>		
Net decrease in deposits with central bank	1,385,277	206,409
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	1,061,906	(3,495,258)
Net increase in loans and advances to customers	(48,460,968)	(30,127,157)
Net (increase)/decrease in financial assets held under resale agreements	(2,026,600)	3,284,200
Net increase in long-term receivables	(1,386,300)	(3,688,670)
Net increase in other operating assets	(296,162)	(384,261)
	(49,522,847)	(34,404,737)
<i>Changes in operating liabilities</i>		
Net (decrease)/increase in borrowings from central bank	(5,271,556)	10,194,795
Net increase/(decrease) in deposits from banks and other financial institutions	4,784,097	(13,349,239)
Net increase in placements from banks and other financial institutions	2,726,981	1,330,560
Net increase in financial assets sold under repurchase agreements	1,179,371	2,946,548
Net increase in deposits from customers	37,115,060	15,592,066
Income tax paid	(659,446)	(884,309)
Net increase/(decrease) in other operating liabilities	166,728	(2,575,850)
	40,041,235	13,254,571
Net cash flows used in operating activities	(7,005,735)	(20,854,480)

Consolidated cash flow statement (continued)

For the year ended 31 December 2019 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2019	2018
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		52,477,166	90,679,422
Net cash received from investment gains and interest		6,484,979	6,690,448
Proceeds from disposal of property and equipment, intangible assets and other assets		26,955	4,878
Payments on acquisition of investments		(48,872,103)	(68,108,476)
Payments on acquisition of property and equipment, intangible assets and other assets		(301,351)	(276,737)
Net cash flows generated from investing activities		9,815,646	28,989,535
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		1,962,570	–
Net proceeds from debt securities issued	41(2)	83,798,288	96,917,942
Repayment of debt securities issued	41(2)	(74,130,000)	(102,440,000)
Interest paid on debt securities issued	41(2)	(638,284)	(775,930)
Dividends paid		(1,420,742)	(1,319,008)
Payment of lease liabilities		(96,505)	–
Net cash flows generated/(used in) from financing activities		9,475,327	(7,616,996)
Effect of foreign exchange rate changes on cash and cash equivalents		3,329	15,793
Net increase in cash and cash equivalents		12,288,567	533,852
Cash and cash equivalents as at 1 January		10,212,182	9,678,330
Cash and cash equivalents as at 31 December	41(1)	22,500,749	10,212,182
Net cash flows generated from operating activities include:			
Interest received		9,309,374	6,693,776
Interest paid		(4,724,436)	(4,793,050)

Notes to the financial statements

(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 formerly China Banking Regulatory Commission (the “CBRC”).

The Bank obtained its financial institution licence No. B0170H237020001 from the Qingdao branch of the former 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 RMB4.510 billion as at 31 December 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 31 December 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 23. The Bank mainly operates in Shandong Province.

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

2 SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance and basis of preparation

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

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

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements that have a significant effect on the Financial Statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(27).

The measurement basis used in the preparation of financial statements is historical cost, with the exception of certain financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(5).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(2) Changes in accounting policies

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.

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

The main effects of adopting IFRS 16 in this report are as follows:

IFRS 16 refines the definition of a lease, and the Group assesses whether the contract is or contains a lease in accordance with the lease definition in IFRS 16. For contracts existed before the date of initial application, the Group has elected not to reassess whether a contract is or contains a lease at the date of initial application and surplus.

(a) The Group as the lessee

Under International Accounting Standards No.17 – Lease ("IAS 17"), the Group classifies leases as operating or finance leases based on its assessment of whether the lease transfers significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group.

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases. The Group recognises right-of-use assets and lease liabilities for all leases (except for short-term leases and leases of low-value assets which are accounted for using practical expedient).

For a contract that contains lease and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group has elected to recognise the cumulative effect of adopting IFRS 16 as an adjustment to the opening balances of retained earnings (if any) and other related items in the financial statement in the initial year of application. Comparative information has not been restated.

For leases classified as operating leases before the date of initial application, lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. Right-of-use assets are measured at:

- An amount equal to the lease liability, adjusted by the amount of any prepaid lease payments. The Group applied this approach to all leases.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group uses the following practical expedients to account for leases classified as operating leases before the date of initial application:

- Accounted for the leases for which the lease term ends within 12 months of the date of initial application as short-term leases;
- Applied a single discount rate to leases with similar characteristics when measuring lease liabilities;
- Excluded initial direct costs from measuring the right-of-use assets;
- Determined the lease term according to the actual implementation or other updates of options before the date of initial application if the contract contains options to extend or terminate the lease;
- Adjusted the right-of-use assets by the amount of onerous contract before the date of initial application, as an alternative to an impairment review;
- Accounted for lease modifications before the initial year of application according to the final arrangement of the change under IFRS 16 without retrospective adjustments.

(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.

The Group has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT 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 RMB459 million and the right-of-use asset of RMB897 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.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 3.91%.

	The Group
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
Difference between the above discounted present value and the lease liabilities	(14,213)

Note: The difference between the above discounted present value and the lease liabilities contains the present value of lease payment using practical expedient and the present value of lease payment with extension options reasonably certain to be exercised.

On 1 January 2019, the impact of IFRS 16 on the classification and carrying amount of assets and liabilities of the Group is as follows:

	31 December 2018	1 January 2019	Adjustment
Right-of-use assets	–	896,765	896,765
Other assets	1,343,564	905,763	(437,801)
Lease liabilities	–	(458,964)	(458,964)

(3) Translation of foreign currencies

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

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

Monetary assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to RMB using the exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated using the exchange rates ruling at the dates the fair value is determined. The resulting exchange differences are recognised in profit or loss, except for the differences arising from the re-translation of equity instrument at fair value through other comprehensive income, which are recognised in other comprehensive income.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) Cash and cash equivalents

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

(5) Financial instruments

(i) Recognition and initial measurement of financial assets and financial liabilities

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

A financial assets (unless it is a trade receivable without a significant financing component) and financial liabilities is measured initially at fair value. For financial assets and financial liabilities measured at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs. A trade receivable without a significant financing component is initially measured at the transaction price.

Measurement of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value, the Group shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date (including the condition and location of the asset; and restrictions, if any, on the sale or use of the asset, etc.), and use valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. The adopted valuation techniques mainly include market approach, income approach and cost approach.

(ii) Classification and subsequent measurement of financial assets

(a) **Classification of financial assets**

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. The instrument meets the definition of equity from the perspective of the issuer.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Group's key management personnel.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The Group also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

(b) **Subsequent measurement of financial assets**

- *Financial assets measured at FVTPL*

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

- *Financial assets measured at amortised cost*

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

- *Debt investments measured at FVOCI*

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

– *Equity investments measured at FVOCI*

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

(iii) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as financial liabilities measured at FVTPL, financial guarantee liabilities and financial liabilities measured at amortised cost.

– *Financial liabilities measured at FVTPL*

A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

Financial liabilities measured at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

– *Financial guarantee liabilities*

Financial guarantees are contracts that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Subsequent to initial recognition, deferred income related to financial guarantee is recognised on average in profit or loss during the term of the contract. A financial guarantee liability is measured at the higher of the amount of the loss allowance determined in accordance with impairment policies of financial instruments (see Notes 2(5)(iv)) and the amount initially recognised less the cumulative amount of income.

– *Financial liabilities measured at amortised cost*

These liabilities are subsequently measured at amortised cost using the effective interest method.

(iv) Impairment

The Group recognises loss allowances for expected credit loss (ECL) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI;
- lease receivables; and
- financial guarantee contracts issued and loan commitments, which are not measured at FVTPL.

Financial assets measured at fair value, including debt investments or equity securities at FVTPL, equity securities designated at FVOCI and derivative financial assets, are not subject to the ECL assessment.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period (including extension options) over which the Group is exposed to credit risk.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the date of statement of financial position (or a shorter period if the expected life of the instrument is less than 12 months).

The Group applies a 'three-stage model' for measuring ECL. For the measurement and segmentation of ECL of financial instruments of the Group, see Note 44(1) Credit risk.

Presentation of allowance for ECL

ECLs are remeasured at each date of statement of financial position to reflect changes in the financial instruments' credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(v) Offsetting

Financial assets and financial liabilities are generally presented separately in the statement of financial position, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the statement of financial position when both of the following conditions are satisfied:

- The Group currently has a legally enforceable right to set off the recognised amounts; and
- The Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(vi) Derecognition of financial assets and financial liabilities

Financial asset is derecognised when one of the following conditions is met:

- The Group's contractual rights to the cash flows from the financial asset expire;
- The financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or
- The financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

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

- The carrying amount of the financial asset transferred measured at the date of derecognition; and
- The sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

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

Securitisation

As part of its operating activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. The Group continues to recognise the transferred assets to the extent of its continuing involvement and recognise related liabilities. When the securitisation of financial assets does not qualify for derecognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability.

Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(vii) Derivative financial instruments

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

An embedded derivative and the host contract together form the hybrid instrument. If the host contract included in the hybrid instrument belongs to a financial asset, the hybrid contract as a whole applies the relevant classification requirements of financial assets.

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

The fair values of derivative products are principally determined by valuation models which are commonly used by market participants. Inputs to valuation models are determined from observable market data wherever possible, including foreign exchange spot and forward rates and interest rate yield curves.

(viii) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognized in shareholders' equity. Consideration and transaction costs paid by the Bank for repurchasing self-issued equity instruments are deducted from shareholders' equity.

When the Bank repurchases its own shares, those shares are treated as treasury shares. All expenditure relating to the repurchase is recorded in the cost of the treasury shares, with the transaction recording in the share register. Treasury shares are excluded from profit distributions and are presented as a deduction under shareholders' equity in the balance sheet.

When treasury shares are cancelled, the share capital should be reduced to the extent of the total par value of the treasury shares cancelled. Where the cost of the treasury shares cancelled exceeds the total par value, the excess is deducted from capital reserve (share premium), surplus reserve and retained earnings sequentially. If the cost of treasury shares cancelled is less than the total par value, the difference is credited to the capital reserve (share premium).

When treasury shares are disposed of, any excess of proceeds above cost is recognized in capital reserve (share premium); otherwise, the shortfall is deducted against capital reserve (share premium), surplus reserve and retained earnings sequentially.

(ix) Preference share

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are recognised and measured in the statements of financial position in accordance with the accounting policy set out in Note 2(5).

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are recognised and measured in accordance with the accounting policy set out in Note 2(5).

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

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

(7) Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value and subsequent changes in fair value are recorded in the statement of profit or loss.

(8) Property and equipment

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

The cost of a purchased property and equipment asset comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Group in different patterns, each part is depreciated separately.

Any subsequent costs including the cost of replacing part of an item of property and equipment are recognised as assets when it is probable that the economic benefits associated with the costs will flow to the Group, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Property and equipment assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see Note 2(13)).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of a property and equipment, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life, unless the fixed asset is classified as held for sale. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

	Estimated useful lives	Estimated net residual value	Annual depreciation rate
Premises	20 – 50 years	3% – 5%	1.90% – 4.85%
Machinery equipment and others	5 – 10 years	3% – 5%	9.50% – 19.40%
Vehicles	5 years	3% – 5%	19.00% – 19.40%
Electronic equipment	3 – 7 years	3% – 5%	13.57% – 32.33%
Premises leased out under operating leases	20 – 50 years	3% – 5%	1.90% – 4.85%

Useful lives, residual values and depreciation methods of property and equipment are reviewed, and adjusted if appropriate, at least at each financial year end.

The carrying amount of a property and equipment is derecognised:

- When the property and equipment is holding for disposal; or
- When no future economic benefit is expected to be generated from its use or disposal.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item, and are recognised in profit or loss on the date of retirement or disposal.

(9) Assets held for sale

The Group classified a non-current asset or disposal group as held for sale when the carrying amount of a non-current asset or disposal group will be recovered through a sale transaction rather than through continuing use.

A disposal group refers to a group of assets to be disposed of, by sale or otherwise, together as a whole in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction.

A non-current asset or disposal group is classified as held for sale when all the following criteria are met:

- According to the customary practices of selling such asset or disposal group in similar transactions, the non-current asset or disposal group must be available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets or disposal groups; and
- Its sale is highly probable, that is, the Group has made a resolution on a sale plan and has obtained a firm purchase commitment. The sale is to be completed within one year.

Non-current assets or disposal groups held for sale are stated at the lower of carrying amount and fair value (see Note 2(27)(ii)) less costs to sell (except financial assets (see Note 2(5)), deferred tax assets (see note 2(15)) initially and subsequently. Any excess of the carrying amount over the fair value (see Note 2(27)(ii)) less costs to sell is recognised as an impairment loss in profit or loss.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(10) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated in the statements of financial position at cost less accumulated amortisation and impairment losses (see Note 2(13)). The cost of intangible assets less residual value and impairment losses is amortised on a straight-line basis over the estimated useful lives, unless the intangible asset is classified as held for sale.

The amortisation period for intangible assets is as follows:

Software	3 – 10 years
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(11) Long-term deferred expenses

Long-term deferred expenses are amortised using a straight-line method within the expected benefit period and stated in “other assets” at actual cost less accumulated amortisation and impairment losses (see Note 2(13)).

(12) Repossessed assets

Repossessed assets are initially accounted at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

(13) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the reporting period based on the internal and external sources of information to determine whether there is any indication of impairment:

- property and equipment
- right-of-use assets
- intangible assets
- investments in subsidiaries, associates and joint ventures
- long-term deferred expenses, etc.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A Cash-Generating Unit (the “CGU”) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group’s operations and how management makes decisions about continuing or disposing of the Group’s assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called “asset”) is the greater of its fair value less costs of disposal and value in use.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

An asset's fair value less costs of disposal is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The value in use of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using an appropriate pre-tax discount rate.

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups and then, to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs of disposal (if measurable), value in use (if measurable) and zero.

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment is recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

(14) Employee benefits

(i) Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(ii) Post-employment benefits – Defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participated in a defined contribution basic pension insurance and unemployment insurance in the social insurance system established and managed by government organizations, and annuity plan. The Group makes contributions to basic pension insurance plans and unemployment insurance based on the applicable benchmarks and rates stipulated by the government. The Group established supplementary defined contribution – annuity plan in accordance with the national enterprise annuity policies. The contributions are recognised as liability, charged to profit or loss or recognised as part of the cost of related assets during the accounting period in which employees provide services.

(iii) Post-employment benefits – Defined benefit plans

In accordance with the projected unit credit method, the Group measures the obligations under defined benefit plans using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, and discount obligations under the defined benefit plans to determine the present value of the defined benefit liability.

The Group attributes benefit obligations under a defined benefit plan to periods of service provided by respective employees. Service cost and interest expense on the defined benefit liability are charged to profit or loss or recognised as part of the cost of assets, and remeasurements of defined benefit liability are recognised in other comprehensive income.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Termination benefits

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognises termination benefits in profit or loss at the earlier of:

- When the Group can no longer withdraw an offer of those benefits;
- When the Group has a specific, formal restructure plan involving payment of termination benefits, and the plan has started or been informed each affected party about the influence of the plan, therefore each party formed reasonable expectations.

(15) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on the taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the end of the reporting period, current tax assets and liabilities are offset if the Group has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be used.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the end of the reporting period, the amount of deferred tax recognised is measured based on the expected manner of recovery or settlement of the carrying amount of the assets and liabilities using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

The carrying amount of a deferred tax asset is reviewed at the end of the reporting period. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the end of the reporting period, deferred tax assets and liabilities are offset if all the following conditions are met:

- The taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- They relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities which intend either to settle the current tax liabilities and current tax assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or deferred tax assets are expected to be settled or recovered.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(16) Provisions and contingency

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid-point of that range. In other cases, the best estimate is determined according to the following circumstances:

- Where the contingency involves a single item, the best estimate is the most likely outcome; and
- Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

The Group reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.

(17) Fiduciary activities

The Group acts in fiduciary activities as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (the “entrusted funds”) to the Group, and the Group grants loans to third parties (the “entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

(18) Income recognition

Revenue is the gross inflow of economic benefits arising in the course of the Group’s ordinary activities when the inflows result in increase in shareholders’ equity, other than increase relating to contributions from shareholders.

Revenue is recognised when the Group satisfies the performance obligation in the contract by transferring the control over relevant goods or services to the customers.

Where a contract has two or more performance obligations, the Group determines the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocates the transaction price in proportion to those stand-alone selling prices. The Group recognises as revenue the amount of the transaction price that is allocated to each performance obligation.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Interest income

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, where appropriate, to the book value of the financial asset, or the amortized cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but does not include expected credit losses.

The Group recognises interest income based on the effective interest method. Interest income is calculated by applying the effective interest rate to the book value of financial assets, except for:

- For purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortised cost; and
- Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated, in the subsequent period, by applying the effective interest rate to their amortised cost.

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services which provides to the customers. The fee and commission income recognised by the Group reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring promised services to customers, and income is recognised when its performance obligation in contracts is satisfied.

(a) The Group recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The customer controls the service provided by the Group in the course of performance; or
- The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

(b) In other cases, the Group recognises revenue at a point in time at which a customer obtains control of the promised services.

(iii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(19) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for any capital contribution from the government as an investor in the Group.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value.

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Grants related to income are government grants other than those related to assets. A government grant related to an asset is offset against the carrying amount of the related asset or recognised as deferred income and amortised to profit or loss over the useful life of the related asset on a reasonable and systematic manner. A grant that compensates the Group for cost, expenses or loss to be incurred in the future is recognised as deferred income and offset against the related expenses or recognised in profit or loss in the same periods in which the expenses are recognised. Or recognised in profit or loss or offset against the related expenses directly.

(20) Expenses recognition

(i) Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognised on an accrual basis.

(21) Leases

The following leases related accounting policy applied to the year 2018.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(i) Operating leases

Lease payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent lease payments are recognised as expenses in the accounting period in which they are incurred.

(ii) Finance leases

When the Group is a lessor under finance lease, at the leasing commencement date, the minimum lease payments receivables and initial direct costs are recognised as finance lease receivables and any unguaranteed residual value is recognised at the same time. The difference between the sum of minimum lease payments receivables, initial direct costs, the unguaranteed residual value and their present value is accounted for as unearned finance income. The unearned finance income is amortised using the effective interest method over the lease period.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

The following leases related accounting policy applied to the year 2019.

A contract is lease if the lessor conveys the right to control the use of an identified asset to lessee for a period of time in exchange for consideration.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified asset. An identified asset may be specified explicitly or implicitly specified in a contract and should be physically distinct, or capacity portion or other portion of an asset that is not physically distinct but it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from the use of the asset. If the supplier has a substantive substitution right throughout the period of use, then the asset is not identified;
- The lessee has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The lessee has the right to direct the use of the asset.

For a contract that contains more separate lease components, the lessee and the lessor separate lease components and account for each lease component as a lease separately. For a contract that contains lease and non-lease components, the lessee and the lessor separate lease components from non-lease components. For a contract that contains lease and non-lease components, the lessee allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The lessor allocates the consideration in the contract in accordance with the accounting policy in Note 2(18).

(i) As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, any lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is depreciated using the straight-line method. If the lessee is reasonably certain to exercise a purchase option by the end of the lease term, the right-of-use asset is depreciated over the remaining useful lives of the underlying asset. Otherwise, the right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Impairment losses of right-of-use assets are accounted for in accordance with the accounting policy described in Note 2(13).

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

A constant periodic rate is used to calculate the interest on the lease liability in each period during the lease term with a corresponding charge to profit or loss or included in the cost of assets where appropriate. Variable lease payments not included in the measurement of the lease liability is charged to profit or loss or included in the cost of assets where appropriate as incurred.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Under the following circumstances after the commencement date, the Group remeasures lease liabilities based on the present value of revised lease payments:

- There is a change in the amounts expected to be payable under a residual value guarantee;
- There is a change in future lease payments resulting from a change in an index or a rate used to determine those payments;
- There is a change in the assessment of whether the Group will exercise a purchase, extension or termination option, or there is a change in the exercise of the extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases in profit or loss or as the cost of the assets where appropriate using the straight-line method over the lease term.

(ii) As a lessor

The Group determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset irrespective of whether the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

When the Group is a sub-lessor, it assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies practical expedient described above, then it classifies the sub-lease as an operating lease.

Under a finance lease, at the commencement date, the Group recognises the finance lease receivable and derecognises the finance lease asset. The finance lease receivable is initially measured at an amount equal to the net investment in the lease. The net investment in the lease is measured at the aggregate of the unguaranteed residual value and the present value of the lease receivable that are not received at the commencement date, discounted using the interest rate implicit in the lease.

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return. The derecognition and impairment of the finance lease receivable are recognised in accordance with the accounting policy in Note 2(5). Variable lease payments not included in the measurement of net investment in the lease are recognised as income as they are earned.

Lease receipts from operating leases is recognised as income using the straight-line method over the lease term. The initial direct costs incurred in respect of the operating lease are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Variable lease payments not included in lease receipts are recognised as income as they are earned.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(22) Dividends

Dividends proposed in the profit appropriation plan which are authorised and declared after the end of the reporting period are not recognised as a liability at the end of the reporting period but disclosed separately in the notes.

(23) Related parties

The related parties of the Group include but are not limited to:

- (i) A person, or a close member of that person's family, if that person:
 - (a) has significant influence over the Group; or
 - (b) is a member of the key management personnel of the Group.
- (ii) An entity, if that entity:
 - (a) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (b) has significant influence over the Group;
 - (c) controls an entity identified in (ii)(b);
 - (d) is controlled or jointly controlled by an entity identified in (ii)(b) and (ii)(c);
 - (e) is controlled or jointly controlled by a person identified in (i).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(24) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system after taking the materiality principle into account. Two or more operating segments may be aggregated into a single operating segment if the segments have the similar economic characteristics and are same or similar in respect of the nature of each segment's products and services, the nature of production processes, the types or classes of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Transactions between segments mainly represent the provision of funding to and from individual segments. These transactions are conducted on terms determined with reference to the average cost of funding. Segment accounting policies are consistent with those for the consolidated financial statements.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(25) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity if it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an entity.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and any unrealised profits or loss arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

In the Bank's statements of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 2(13)).

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank.

Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

(26) Associates and joint ventures

An associate is an entity in which the Group or Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Bank and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements of the Group under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 2(13)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the period are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income of the Group. The Group's interest in associate or joint venture is included in the consolidated financial statements from the date that significant influence or joint control commences until the date that significant influence or joint control ends.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(5)).

(27) Significant accounting estimates and judgements

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(i) Measurement of ECLs

The measurement of the ECLs for debt investments measured at amortized cost and measured at FVOCI, and loan commitments and financial guarantee contracts not measured at FVTPL, is subject to complex models and a number of assumptions about future economic conditions and credit conditions (for example, the possibility of customers defaulting and the resulting losses). For the descriptions of the inputs, assumptions and estimation techniques used in measuring ECLs, please refer to Note 44(1).

(ii) Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, option pricing models, etc. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reviewed periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will be available against which deductible temporary differences can be utilized.

(iv) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the related operating income and expenses of the asset (the asset group) and discount rate to calculate the present value. All relevant materials which can be obtained are used for the estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumptions.

(v) Depreciation and amortisation

Property and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account their residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on the historical experiences of similar assets and estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

(vi) Determination of control over structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement.

When assessing whether to control and consolidate structured entities, the Group considers several factors including the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management and other services, and the Group's exposure to variability of returns.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 NET INTEREST INCOME

	2019	2018
Interest income arising from		
Deposits with central bank	352,657	372,106
Deposits with banks and other financial institutions	13,005	16,443
Placements with banks and other financial institutions	257,712	192,311
Loans and advances to customers		
– Corporate loans and advances	4,917,025	3,478,800
– Personal loans and advances	2,382,842	1,615,799
– Discounted bills	386,911	289,740
Financial assets held under resale agreements	306,078	250,380
Financial investments	5,400,084	5,336,522
Long-term receivables	498,690	334,800
Sub-total	14,515,004	11,886,901
Interest expense arising from		
Deposits from banks and other financial institutions	(465,372)	(752,819)
Placements from banks and other financial institutions	(392,306)	(388,629)
Deposits from customers	(3,434,379)	(2,985,319)
Financial assets sold under repurchase agreements	(528,569)	(561,802)
Debt securities issued	(2,588,388)	(2,446,785)
Others	(259,935)	(287,518)
Sub-total	(7,668,949)	(7,422,872)
Net interest income	6,846,055	4,464,029

Note:

- (i) The above interest income and expense are related to financial instruments which are not measured at FVTPL.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

	2019	2018
Fee and commission income		
Wealth management service fees	695,313	486,879
Agency service fees	339,855	239,702
Custody and bank card service fees	131,056	34,716
Financial leasing service fees	118,743	114,702
Settlement fees	41,057	30,921
Others	20,092	36,662
Sub-total	1,346,116	943,582
Fee and commission expense	(129,236)	(77,825)
Net fee and commission income	1,216,880	865,757

5 NET TRADING GAINS

	Note	2019	2018
Net gains of foreign exchange and foreign exchange derivative financial instruments	(i)	156,176	407,921
Net gains from debt securities	(ii)	2,579	4,382
Net losses of non-foreign exchange derivative financial instruments		(6,291)	(1,496)
Total		152,464	410,807

Notes:

- (i) Net gains of foreign exchange and foreign exchange derivative financial instruments include gains or losses from foreign exchange derivative financial instruments, the purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into RMB, etc.
- (ii) Net gains from debt securities mainly include gains or losses arising from the buying and selling of, and changes in the fair value of debt held for trading.

6 NET GAINS ARISING FROM INVESTMENTS

	2019	2018
Net gains on financial investments measured at FVTPL	966,856	1,503,953
Net gains on disposal of financial assets measured at FVOCI	412,081	112,301
Dividend income	1,500	1,100
Total	1,380,437	1,617,354

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

7 OTHER OPERATING INCOME

	2019	2018
Government grants	17,071	7,707
Rental income	1,598	1,835
Net losses on disposal of property and equipment, intangible assets and other assets	(777)	(502)
Others	8,381	(2,149)
Total	26,273	6,891

8 OPERATING EXPENSES

	2019	2018
Staff costs		
– Salaries, bonuses and allowances	1,139,210	907,718
– Social insurance and housing allowances	111,196	85,201
– Staff welfare expenses	197,197	123,240
– Staff education expenses	28,798	22,972
– Labor union expenses	28,238	18,378
– Post-employment benefits – defined contribution plans	170,312	138,262
– Supplementary retirement benefits	16,590	27,500
Sub-total	1,691,541	1,323,271
Property and equipment expenses		
– Depreciation and amortization	409,659	408,470
– Electronic equipment operating expenses	134,455	105,211
– Maintenance	102,838	90,995
Sub-total	646,952	604,676
Tax and surcharges	101,186	74,848
Other general and administrative expenses (Note (i))	727,083	502,855
Total	3,166,762	2,505,650

Note:

- (i) Other general and administrative expenses include audit remunerations for auditors which amounted to RMB5.83 million for the year ended 31 December 2019 (2018: RMB3.71 million).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments before individual income tax in respect of the directors and supervisors of the Bank during the reporting period are as follows:

Name	Year ended 31 December 2019					
	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	Total emoluments before tax
Executive directors						
GUO Shaoquan	–	1,144	1,183	194	298	2,819
WANG Lin	–	1,019	1,052	177	290	2,538
YANG Fengjiang	–	718	736	150	241	1,845
LU Lan	–	759	736	100	242	1,837
Non-executive directors						
ZHOU Yunjie	119	–	–	–	–	119
Rosario STRANO	–	–	–	–	–	–
TAN Lixia	119	–	–	–	–	119
Marco MUSSITA	–	–	–	–	–	–
DENG Youcheng	118	–	–	–	–	118
CHOI Chi Kin, Calvin	119	–	–	–	–	119
Independent non-executive directors						
WONG Tin Yau, Kelvin	182	–	–	–	–	182
CHEN Hua	188	–	–	–	–	188
DAI Shuping	182	–	–	–	–	182
Simon CHEUNG	181	–	–	–	–	181
FANG Qiaoling	206	–	–	–	–	206
Supervisors						
CHEN Qing	–	409	368	95	147	1,019
ZHANG Lanchang	39	–	–	–	–	39
WANG Dawei	–	488	983	137	236	1,844
MENG Xianzheng	–	417	710	130	212	1,469
WANG Jianhua	–	–	–	–	–	–
FU Changxiang	127	–	–	–	–	127
HU Yanjing	127	–	–	–	–	127
HE Liangjun	21	–	–	–	–	21
Total	1,728	4,954	5,768	983	1,666	15,099

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Name	Year ended 31 December 2018					
	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	Total emoluments before tax
Executive directors						
GUO Shaoquan	–	1,047	1,292	412	257	3,008
WANG Lin	–	951	1,148	333	254	2,686
YANG Fengjiang	–	687	779	229	201	1,896
LU Lan	–	687	766	185	201	1,839
Non-executive directors						
ZHOU Yunjie	124	–	–	–	–	124
Rosario STRANO	–	–	–	–	–	–
WANG Jianhui	56	–	–	–	–	56
TAN Lixia	118	–	–	–	–	118
Marco MUSSITA	–	–	–	–	–	–
DENG Youcheng	56	–	–	–	–	56
CHOI Chi Kin, Calvin	118	–	–	–	–	118
Independent non-executive directors						
WANG Zhuquan	97	–	–	–	–	97
WONG Tin Yau, Kelvin	182	–	–	–	–	182
CHEN Hua	188	–	–	–	–	188
DAI Shuping	188	–	–	–	–	188
Simon CHEUNG	188	–	–	–	–	188
FANG Qiaoling	85	–	–	–	–	85
Supervisors						
CHEN Qing	–	687	780	229	257	1,953
ZHANG Lanchang	38	–	–	–	–	38
SUN Guoliang	43	–	–	–	–	43
WANG Dawei	–	312	410	96	103	921
MENG Xianzheng	–	266	322	82	112	782
SUN Jigang	–	151	90	58	28	327
XU Wansheng	–	147	90	53	28	318
WANG Jianhua	–	–	–	–	–	–
FU Changxiang	123	–	–	–	–	123
HU Yanjing	123	–	–	–	–	123
Total	1,727	4,935	5,677	1,677	1,441	15,457

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Notes:

- (1) The emoluments of non-executive directors ("NED"), independent non-executive directors ("INED"), shareholder supervisors and external supervisors were affected by the time of service during the reporting period. Directors and supervisors received emoluments since their assumption of duty until their departure. The changes in directors and supervisors in the year of 2019 and 2018 are as follows:
 - (i) In May 2018, Mr. WANG Dawei and Mr. MENG Xianzheng, employee supervisors of the Bank, began to assume their duty. Mr. SUN Jigang and Mr. XU Wansheng no longer served as employee supervisors of the Bank.
 - (ii) In May 2018, Mr. ZHANG Lanchang, shareholder supervisor of the Bank, began to assume his duty. Mr. SUN Guoliang no longer served as shareholder supervisor of the Bank.
 - (iii) In June 2018, Ms. FANG Qiaoling, INED of the Bank, began to assume her duty. Mr. WANG Zhuquan no longer served as INED of the Bank.
 - (iv) In June 2018, Mr. DENG Youcheng, NED of the Bank, began to assume his duty. Mr. WANG Jianhui no longer served as NED of the Bank.
 - (v) In March 2019, Mr. WANG Jianhua no longer served as external supervisor of the Bank.
 - (vi) In May 2019, Mr. ZHANG Lanchang no longer served as shareholder supervisor of the Bank.
 - (vii) In July 2019, Ms. CHEN Qing retired.
 - (viii) In October 2019, Mr. HE Liangjun, shareholder supervisor of the Bank, began to assume his duty.
- (2) The emoluments of Mr. Rosario STRANO, Mr. Marco MUSSITA and Mr. WANG Jianhua were waived with their authorization. There was no other arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the reporting period.
- (3) There were no amounts paid during the reporting period to the directors and supervisors in connection with their retirement from employment or as compensation for loss of office with the Bank or as inducement to join.
- (4) The total compensation package for certain directors and supervisors for the year ended 31 December 2019 have not yet been finalized. The difference in emoluments is not expected to have any significant impact on the Group's financial statements for the year ended 31 December 2019.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2019, the five individuals with the highest emoluments included three directors and one supervisor of the Bank (2018: three directors and one supervisor), whose emoluments are disclosed in Note 9. The emoluments before individual income tax for the rest of the five highest paid individuals for the reporting period are as follows:

	2019	2018
Salaries and other emoluments	959	888
Discretionary bonuses	736	777
Contributions to pension schemes	149	221
Total	1,844	1,886

The individual whose emoluments before individual income tax are within the following bands is set out below:

	2019	2018
HKD nil-1,000,000	–	–
HKD 1,000,001-1,500,000	–	–
HKD 1,500,001-2,000,000	–	–
HKD 2,000,001-2,500,000	1	1

There were no amounts paid during the reporting period to any of these individuals in connection with their retirement from employment or as compensation for loss of office with the Group or as inducement to join.

11 CREDIT LOSSES

	2019	2018
Loans and advances to customers	3,026,604	2,213,707
Deposits with banks and other financial institutions	(98)	178
Placements with banks and other financial institutions	4,945	9,927
Financial assets held under resale agreements	820	(1,689)
Financial investments measured at amortised cost	401,784	87,746
Financial investments at FVOCI		
– debt instruments	61,177	26,963
Long-term receivables	130,299	64,512
Credit commitments	(5,249)	(36,086)
Others	6,510	17,914
Total	3,626,792	2,383,172

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

12 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

	Note	2019	2018
Current tax		957,172	716,442
Deferred tax	27(2)	(464,139)	(283,815)
Total		493,033	432,627

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

	2019	2018
Profit before taxation	2,828,555	2,476,016
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	707,139	619,004
Tax effect of non-deductible expenses for tax purpose		
– Entertainment expenses	3,663	3,560
– Annuity	1,494	3,764
– Others	6,175	7,284
Subtotal	11,332	14,608
Tax effect of non-taxable income for tax purpose (Note (i))	(225,438)	(200,985)
Income tax	493,033	432,627

Note:

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

13 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share was computed by dividing the profit for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue. Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the reporting period.

	Note	2019	2018
Weighted average number of ordinary shares (in thousands)	13(1)	4,472,109	4,058,713
Net profit attributable to equity shareholders of the Bank		2,284,815	2,023,352
Less : dividends on preference shares declared		519,999	504,096
Net profit attributable to ordinary shareholders of the Bank		1,764,816	1,519,256
Basic and diluted earnings per share (in RMB)		0.39	0.37

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

	2019	2018
Number of ordinary shares as at 1 January	4,058,713	4,058,713
Increase in weighted average number of ordinary shares	413,396	–
Weighted average number of ordinary shares	4,472,109	4,058,713

14 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	31 December 2019	31 December 2018
Cash on hand		520,460	451,273
Deposits with central bank			
– Statutory deposit reserves	14(1)	19,327,597	20,808,743
– Surplus deposit reserves	14(2)	19,723,270	8,256,128
– Fiscal deposits		122,862	26,992
Sub-total		39,173,729	29,091,863
Accrued interest		10,651	11,294
Total		39,704,840	29,554,430

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

14 CASH AND DEPOSITS WITH CENTRAL BANK (continued)

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

	31 December 2019	31 December 2018
Reserve ratio for RMB deposits	9.5%	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.

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
In Mainland China		
– Banks	946,722	1,239,298
– Other financial institutions	9,079	7,962
Outside Mainland China		
– Banks	355,234	285,941
Accrued interest	2,008	9,909
Sub-total	1,313,043	1,543,110
Less: Provision for impairment losses	(575)	(673)
Total	1,312,468	1,542,437

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
In Mainland China		
– Banks	–	233,486
– Other financial institutions	3,247,840	3,801,365
Accrued interest	82,331	87,236
Sub-total	3,330,171	4,122,087
Less: Provision for impairment losses	(16,568)	(11,623)
Total	3,313,603	4,110,464

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

17 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.

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2019	31 December 2018
In Mainland China		
– Banks	2,326,600	–
– Other financial institutions	–	300,000
Accrued interest	113	384
Sub-total	2,326,713	300,384
Less: Provision for impairment losses	(942)	(122)
Total	2,325,771	300,262

(2) Analysed by type of security held

	31 December 2019	31 December 2018
Debt securities	2,326,600	300,000
Accrued interest	113	384
Sub-total	2,326,713	300,384
Less: Provision for impairment losses	(942)	(122)
Total	2,325,771	300,262

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	31 December 2019	31 December 2018
Measured at amortised cost:		
Corporate loans and advances		
– Corporate loans	112,036,804	78,264,271
Sub-total	112,036,804	78,264,271
Personal loans and advances		
– Residential mortgage	36,762,232	30,229,094
– Personal consumption loans	9,470,211	3,827,588
– Personal business loans	6,869,644	5,836,058
– Others	1,406,730	1,457,234
Sub-total	54,508,817	41,349,974
Accrued interest	772,480	521,250
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost		
– 12-month ECL	(1,523,023)	(1,276,373)
– lifetime ECL		
– not credit-impaired loans	(1,177,375)	(1,277,670)
– credit-impaired loans	(1,709,234)	(987,186)
Total provision for impairment losses	(4,409,632)	(3,541,229)
Measured at FVOCI:		
Corporate loans and advances		
– Discounted bills	6,249,822	6,772,625
Net loans and advances to customers	169,158,291	123,366,891

(2) Analysed by type of collateral (excluding accrued interest)

	31 December 2019	31 December 2018
Unsecured loans	27,881,658	15,753,945
Guaranteed loans	46,794,567	36,502,920
Loans secured by mortgages	75,145,703	54,738,421
Pledged loans	22,973,515	19,391,584
Gross loans and advances to customers	172,795,443	126,386,870

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(3) Overdue loans analysed by overdue period (excluding accrued interest)

	31 December 2019				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	63,393	18,294	1,604	199	83,490
Guaranteed loans	505,564	861,815	505,595	13,305	1,886,279
Loans secured by mortgages	142,134	180,941	56,667	145,939	525,681
Total	711,091	1,061,050	563,866	159,443	2,495,450
As a percentage of gross loans and advances to customers	0.41%	0.61%	0.33%	0.09%	1.44%

	31 December 2018				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	15,582	119,133	3,775	17,129	155,619
Guaranteed loans	2,055,750	1,057,182	467,798	36,332	3,617,062
Loans secured by mortgages	197,952	48,211	166,521	161,237	573,921
Pledged loans	2,500	4,714	–	–	7,214
Total	2,271,784	1,229,240	638,094	214,698	4,353,816
As a percentage of gross loans and advances to customers	1.80%	0.97%	0.50%	0.17%	3.44%

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

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19 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

As at 31 December 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:

	31 December 2019			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit- impaired (Note (i))	
Gross loans and advances to customers measured at amortised cost (including accrued interest)	158,231,731	6,184,059	2,902,311	167,318,101
Less: Provision for impairment losses	(1,523,023)	(1,177,375)	(1,709,234)	(4,409,632)
Net loans and advances to customers measured at amortised cost	156,708,708	5,006,684	1,193,077	162,908,469

	31 December 2018			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit- impaired (Note (i))	
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

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(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	31 December 2019			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit- impaired (Note (i))	Total
Gross/net loans and advances to customers at FVOCI (including accrued interest)	6,249,822	–	–	6,249,822
Provision for impairment losses through other comprehensive income	(12,917)	–	–	(12,917)

	31 December 2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit- impaired (Note (i))	Total
Gross/net loans and advances to customers at FVOCI (including accrued interest)	6,772,625	–	–	6,772,625
Provision for impairment losses through other comprehensive income	(16,577)	–	–	(16,577)

Note:

(i) The definitions of the credit-impaired financial assets are set out in Note 44(1) Credit risk.

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(Expressed in thousands of Renminbi, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (continued)

(5) Movements of provision for impairment losses

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:

	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	18,848	(18,525)	(323)	–
– Lifetime ECL				
– not credit-impaired loans	(29,175)	29,175	–	–
– credit-impaired loans	(5,696)	(1,187,479)	1,193,175	–
Charge for the year	262,673	1,076,534	1,691,057	3,030,264
Write-offs and transfer out	–	–	(2,251,771)	(2,251,771)
Recoveries of loans and advances written off	–	–	146,481	146,481
Other changes	–	–	(56,571)	(56,571)
As at 31 December 2019	1,523,023	1,177,375	1,709,234	4,409,632

	2018			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit- impaired	
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 financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 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:

	2019			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit- impaired	Total
As at 1 January 2019	16,577	–	–	16,577
Release for the year	(3,660)	–	–	(3,660)
As at 31 December 2019	12,917	–	–	12,917

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

The Group enters into securitization transactions in the normal course of business. See note 48(2) for details.

In addition, in 2019 and 2018, the Group transferred loans and advances to customers to independent third parties with principal amount of RMB105 million and RMB15 million respectively, and with the transfer price (including overdue interest, penalty interest, etc.) of RMB96 million and RMB17 million respectively.

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20 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	31 December 2018
Financial investments held for trading	–	–
Financial investments designated as at FVTPL	–	–
Other financial investments measured at FVTPL		
Debt investments issued by the following institutions in Mainland China		
– Banks and other financial institutions	676,304	206,985
– Corporate entities	124,557	30,295
Sub-total	800,861	237,280
Asset management plans	9,240,047	9,354,611
Investment funds	9,008,256	7,467,620
Trust fund plans	2,829,424	3,221,359
Wealth management products	1,033,973	2,080,946
Total	22,912,561	22,361,816
Unlisted	22,912,561	22,361,816

21 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	31 December 2019	31 December 2018
Debt securities issued by the following institutions in Mainland China			
– Government		12,412,488	7,116,493
– Policy banks		4,776,962	11,799,812
– Banks and other financial institutions		8,027,292	10,117,686
– Corporate entities		20,848,475	17,828,393
Sub-total		46,065,217	46,862,384
Asset management plans		7,128,140	5,062,908
Other investments		705,543	–
Equity investments	21(1)	23,250	23,250
Accrued interest		1,051,631	1,054,209
Total		54,973,781	53,002,751
Listed	21(2)	11,739,536	306,226
Of which: listed outside Hong Kong		11,739,536	306,226
Unlisted		43,234,245	52,696,525
Total		54,973,781	53,002,751

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21 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 at FVOCI, and the details are as follows:

Investees	2019					
	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Percentage of shareholding in investees (%)	Cash dividend for the year
China UnionPay Co., Ltd.	13,000	–	–	13,000	0.34	1,500
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	10,000	–	–	10,000	2.15	–
Clearing Center for City Commercial Banks	250	–	–	250	0.81	–
Total	23,250	–	–	23,250		1,500

Investees	2018					
	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Percentage of shareholding in investees (%)	Cash dividend for the year
China UnionPay Co., Ltd.	13,000	–	–	13,000	0.34	1,100
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	10,000	–	–	10,000	2.15	–
Clearing Center for City Commercial Banks	250	–	–	250	0.81	–
Total	23,250	–	–	23,250		1,100

For the year ended 31 December 2019 and 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 earnings.

- (2) Only includes bonds traded on stock exchanges.

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

(3) Movements of the provision for impairment losses on debt instruments of financial investments at FVOCI are as follows:

	2019			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2019	32,672	19,122	–	51,794
Transfer to				
– Lifetime ECL				
– not credit-impaired	(1,601)	1,601	–	–
– credit-impaired	–	(1,246)	1,246	–
Charge for the year	3,798	36,595	20,784	61,177
As at 31 December 2019	34,869	56,072	22,030	112,971

	2018			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-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 financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

	Note	31 December 2019	31 December 2018
Debt securities issued by the following institutions in Mainland China			
– Government		11,196,072	9,431,022
– Policy banks		13,143,054	13,887,327
– Banks and other financial institutions		11,288,474	11,296,117
– Corporate entities		2,475,729	1,229,620
Sub-total		38,103,329	35,844,086
Asset management plans		16,285,720	23,529,175
Trust fund plans		5,052,516	4,850,229
Other investments		4,800,000	5,170,000
Accrued interest		1,118,779	1,106,068
Less: Provision for impairment losses	22(1)	(869,286)	(467,502)
Total		64,491,058	70,032,056
Listed	22(2)	11,566,752	1,114,690
Of which: listed outside Hong Kong		11,566,752	1,114,690
Unlisted		52,924,306	68,917,366
Total		64,491,058	70,032,056

(1) Movements of provision for impairment losses on financial investments measured at amortised cost are as follows:

	2019			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit- impaired	
As at 1 January 2019	398,696	68,806	–	467,502
Transfer to				
– Lifetime ECL				
– not credit-impaired	(15,581)	15,581	–	–
Charge for the year	98,184	303,600	–	401,784
As at 31 December 2019	481,299	387,987	–	869,286

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(Expressed in thousands of Renminbi, unless otherwise stated)

22 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST (continued)

	2018			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit- impaired	
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) Only includes bonds traded on stock exchanges.

23 INVESTMENT IN SUBSIDIARY

	31 December 2019	31 December 2018
BQD Financial Leasing Company Limited	510,000	510,000

As at 31 December 2019 and 31 December 2018, the subsidiary is as follows:

Name	Percentage of equity interest	Voting rights	Paid-in Capital (in thousands)	Amount invested by the Bank (in thousands)	Place of incorporation registration	Principal activities
BQD Financial Leasing Company Limited	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 RMB1.00 billion.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 LONG-TERM RECEIVABLES

	31 December 2019	31 December 2018
Minimum finance lease receivables	10,172,304	8,636,534
Less: Unearned finance lease income	(952,548)	(803,079)
Present value of finance lease receivables	9,219,756	7,833,455
Accrued interest	85,729	70,610
Sub-total	9,305,485	7,904,065
Less: Provision for impairment losses		
– 12-month ECL	(175,027)	(137,367)
– Lifetime ECL		
– not credit-impaired	(90,217)	–
– credit-impaired	(2,422)	–
Net balance	9,037,819	7,766,698

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

	2019			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2019	137,367	–	–	137,367
Transfer to				
– Lifetime ECL				
– not credit-impaired	(10,629)	10,629	–	–
– credit-impaired	(224)	–	224	–
Charge for the year	48,513	79,588	2,198	130,299
As at 31 December 2019	175,027	90,217	2,422	267,666

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(Expressed in thousands of Renminbi, unless otherwise stated)

24 LONG-TERM RECEIVABLES (continued)

	2018			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit- impaired	
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

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

	31 December 2019			31 December 2018		
	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Repayable on demand	51,938	(5,227)	46,711	–	–	–
Less than 1 year (inclusive)	3,950,432	(480,408)	3,470,024	3,787,333	(383,029)	3,404,304
1 year to 2 years (inclusive)	3,243,597	(300,965)	2,942,632	2,039,339	(224,104)	1,815,235
2 years to 3 years (inclusive)	2,048,164	(125,549)	1,922,615	1,577,474	(129,353)	1,448,121
3 years to 5 years (inclusive)	865,077	(39,074)	826,003	1,232,388	(66,593)	1,165,795
Indefinite	13,096	(1,325)	11,771	–	–	–
Total	10,172,304	(952,548)	9,219,756	8,636,534	(803,079)	7,833,455

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

25 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	Construction in progress	Total
Cost						
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	2,935,512	566,408	62,955	86,132	210,203	3,861,210
Increase	9,741	67,981	5,480	7,022	–	90,224
Decrease	(27,405)	(17,213)	(3,887)	(6,018)	–	(54,523)
As at 31 December 2019	2,917,848	617,176	64,548	87,136	210,203	3,896,911
Accumulated depreciation						
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	(297,371)	(336,089)	(46,032)	(57,363)	–	(736,855)
Increase	(60,336)	(62,421)	(5,455)	(8,614)	–	(136,826)
Decrease	–	16,186	3,692	5,705	–	25,583
As at 31 December 2019	(357,707)	(382,324)	(47,795)	(60,272)	–	(848,098)
Net book value						
As at 31 December 2019	2,560,141	234,852	16,753	26,864	210,203	3,048,813
As at 31 December 2018	2,638,141	230,319	16,923	28,769	210,203	3,124,355

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

As at 31 December 2019, the carrying amount of premises with incomplete title deeds of the Group was RMB12 million (31 December 2018: RMB1,714 million). Management is in the opinion that the incomplete title deeds would not affect the rights to these assets of the Group.

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

	31 December 2019	31 December 2018
Held in Mainland China		
– Long-term leases (over 50 years)	17,086	17,476
– Medium-term leases (10 – 50 years)	2,540,578	2,618,001
– Short-term leases (less than 10 years)	2,477	2,664
Total	2,560,141	2,638,141

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

26 RIGHT-OF-USE ASSETS

	Premises	Others	Total
Cost			
As at 1 January 2019	892,651	4,114	896,765
Additions	46,566	–	46,566
Decrease	(213)	–	(213)
As at 31 December 2019	939,004	4,114	943,118
Accumulated amortisation			
As at 1 January 2019	–	–	–
Additions	(123,609)	(651)	(124,260)
Decrease	70	–	70
As at 31 December 2019	(123,539)	(651)	(124,190)
Net value			
As at 31 December 2019	815,465	3,463	818,928
As at 1 January 2019	892,651	4,114	896,765

27 DEFERRED INCOME TAX ASSETS

(1) Analysed by nature

	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred Income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred Income tax assets/ (liabilities)
Provision for impairment losses	6,435,256	1,608,814	4,415,420	1,103,855
Deferred interest income from discounted bills	85,700	21,425	143,040	35,760
Change in fair value	(549,020)	(137,255)	(235,904)	(58,976)
Others	355,684	88,921	288,556	72,139
Total	6,327,620	1,581,905	4,611,112	1,152,778

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

27 DEFERRED INCOME TAX ASSETS (continued)

(2) Analysed by movement

	Provision for Impairment losses	Deferred interest income from discounted bills Note (i)	Change in fair value	Others Note (ii)	Total
As at 1 January 2018	828,560	16,584	285,689	76,918	1,207,751
Recognised in profit or loss	282,633	19,176	(12,383)	(5,611)	283,815
Recognised in other comprehensive income	(7,338)	–	(332,282)	832	(338,788)
As at 31 December 2018	1,103,855	35,760	(58,976)	72,139	1,152,778
Recognised in profit or loss	519,338	(14,335)	(57,096)	16,232	464,139
Recognised in other comprehensive income	(14,379)	–	(21,183)	550	(35,012)
As at 31 December 2019	1,608,814	21,425	(137,255)	88,921	1,581,905

Notes:

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

28 OTHER ASSETS

	Note	31 December 2019	31 December 2018
Intangible assets	28(1)	194,243	165,153
Long-term deferred expense		186,590	566,276
Prepayments		167,775	101,521
Precious metals		113,223	113,459
Interest receivable	28(2)	16,825	37,299
Repossessed assets (Note (i))		111,345	10,501
Deferred expense		9,563	53,718
Others		131,317	296,429
Sub-total		930,881	1,344,356
Less: Provision for impairment losses		(1,005)	(792)
Total		929,876	1,343,564

Note:

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

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(Expressed in thousands of Renminbi, unless otherwise stated)

28 OTHER ASSETS (continued)

(1) Intangible assets

	2019	2018
Cost		
As at 1 January	419,222	382,281
Additions	100,036	36,941
Decrease	(344)	–
As at 31 December	518,914	419,222
Accumulated amortisation		
As at 1 January	(254,069)	(184,827)
Additions	(70,651)	(69,242)
Decrease	49	–
As at 31 December	(324,671)	(254,069)
Net value		
As at 31 December	194,243	165,153
As at 1 January	165,153	197,454

Intangible assets of the Group mainly include software.

(2) Interests receivable

	31 December 2019	31 December 2018
Interest receivable arising from:		
– Loans and advances to customers	16,825	37,299
Total	16,825	37,299

29 BORROWINGS FROM CENTRAL BANK

	31 December 2019	31 December 2018
Borrowings	4,900,000	10,000,000
Re-discounted bills	607,454	779,010
Accrued interest	29,196	99,825
Total	5,536,650	10,878,835

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

30 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
In Mainland China		
– Banks	1,402,959	3,590,947
– Other financial institutions	14,933,833	7,961,748
Accrued interest	125,735	80,287
Total	16,462,527	11,632,982

31 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
In Mainland China		
– Banks	9,831,839	6,761,699
Outside Mainland China		
– Banks	–	343,160
Accrued interest	84,418	102,207
Total	9,916,257	7,207,066

32 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2019	31 December 2018
In Mainland China		
– Central Bank	–	5,350,000
– Banks	15,525,502	9,496,131
– Other financial institutions	500,000	–
Accrued interest	1,580	4,202
Total	16,027,082	14,850,333

(2) Analysed by types of collaterals

	31 December 2019	31 December 2018
Debt securities	14,918,780	13,632,100
Discounted bills	1,106,722	1,214,031
Accrued interest	1,580	4,202
Total	16,027,082	14,850,333

Notes to the financial statements

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33 DEPOSITS FROM CUSTOMERS

	31 December 2019	31 December 2018
Demand deposits		
– Corporate deposits	92,593,934	72,852,694
– Personal deposits	20,622,060	18,313,340
Sub-total	113,215,994	91,166,034
Time deposits		
– Corporate deposits	55,286,883	45,792,055
– Personal deposits	44,174,283	38,585,318
Sub-total	99,461,166	84,377,373
Outward remittance and remittance payables	100,697	131,519
Fiscal deposits to be transferred	13,052	923
Accrued interest	2,634,494	2,235,398
Total	215,425,403	177,911,247
Including:		
Pledged deposits	11,768,173	8,825,215

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 DEBT SECURITIES ISSUED

	31 December 2019	31 December 2018
Debt securities issued (Note (i))	24,681,106	15,188,606
Certificates of interbank deposit issued (Note (ii))	51,739,653	49,708,055
Accrued interest	438,140	343,846
Total	76,858,899	65,240,507

Notes:

- (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 RMB2.2 billion in March 2015. The debts will mature on 5 March 2025 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2019, the fair value of the debts was RMB2.310 billion (31 December 2018: RMB2.184 billion).
 - (b) Three-year Green Bonds were issued with an interest rate of 3.25% per annum and with a nominal amount of RMB3.5 billion in March 2016. The debts has matured and been repaid on 14 March 2019 with annual interest payments. As at 31 December 2018, the fair value of the debts was RMB3.499 billion.
 - (c) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB0.5 billion in March 2016. The debts will mature on 14 March 2021 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB0.502 billion (31 December 2018: RMB0.493 billion).
 - (d) Three-year Green Bonds were issued with an interest rate of 3.30% per annum and with a nominal amount of RMB3.0 billion in November 2016. The debts has matured and been repaid on 24 November 2019 with annual interest payments. As at 31 December 2018, the fair value of the debts was RMB2.990 billion.
 - (e) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB1.0 billion in November 2016. The debts will mature on 24 November 2021 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB1.003 billion (31 December 2018: RMB0.981 billion).
 - (f) Ten-year debts were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB3.0 billion in June 2017. The debts will mature on 29 June 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2019, the fair value of the debts was RMB3.027 billion (31 December 2018: RMB2.834 billion).
 - (g) Ten-year debts were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB2.0 billion in July 2017. The debts will mature on 14 July 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2019, the fair value of the debts was RMB2.018 billion (31 December 2018: RMB1.889 billion).
 - (h) Three-year Financial Bonds were issued with an interest rate of 3.65% per annum and with a nominal amount of RMB3.0 billion in May 2019. The debts will mature on 22 May 2022 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB3.023 billion.
 - (i) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB1.0 billion in May 2019. The debts will mature on 22 May 2024 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB1.007 billion.

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(Expressed in thousands of Renminbi, unless otherwise stated)

34 DEBT SECURITIES ISSUED (continued)

- (j) Three-year Financial Bonds were issued with an interest rate of 3.70% per annum and with a nominal amount of RMB3.0 billion in May 2019. The debts will mature on 31 May 2022 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB3.026 billion.
 - (k) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB1.0 billion in May 2019. The debts will mature on 31 May 2024 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB1.007 billion.
 - (l) Three-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.45% per annum and with a nominal amount of RMB3.0 billion in December 2019. The debts will mature on 5 December 2022 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB3.009 billion.
 - (m) Five-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.84% per annum and with a nominal amount of RMB1.0 billion in May 2019. The debts will mature on 5 December 2024 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB1.000 billion.
 - (n) Three-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.42% per annum and with a nominal amount of RMB3.0 billion in May 2019. The debts will mature on 16 December 2022 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB3.006 billion.
 - (o) Five-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.80% per annum and with a nominal amount of RMB1.0 billion in May 2019. The debts will mature on 16 December 2024 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB0.998 billion.
- (ii) The Group issued a number of certificates of interbank deposit with duration between 1 month and 1 year. As at 31 December 2019 and 2018, the outstanding fair value of certificates of interbank deposit was RMB51.789 billion and RMB49.727 billion respectively.

35 LEASE LIABILITIES

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

	31 December 2019
Less than 1 year (inclusive)	107,526
1 year to 2 years (inclusive)	93,941
2 years to 3 years (inclusive)	77,565
3 years to 5 years (inclusive)	149,731
More than 5 years	29,917
Total undiscounted cash flows of lease liabilities as at 31 December 2019	458,680
Lease liabilities on statement of financial position as at 31 December 2019	427,429

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36 OTHER LIABILITIES

	Note	31 December 2019	31 December 2018
Employee benefits payable	36(1)	827,256	755,237
Risk guarantee for leasing business		534,194	267,379
Taxes payable	36(2)	143,884	106,534
Settlement payable		117,378	143,327
ECL on credit commitments	36(3)	99,715	104,964
Payable raising from fiduciary activities		73,516	392,684
Dividend payable		16,548	15,353
Others		481,662	642,156
Total		2,294,153	2,427,634

(1) Employee benefits payable

	31 December 2019	31 December 2018
Salaries, bonuses and allowances payable	663,139	640,704
Social insurance and housing allowances payable	184	145
Staff welfare expenses	45,600	–
Staff education expenses	16,135	20,034
Labor union expenses	20,834	18,504
Post-employment benefits-defined contribution plans	164	150
Supplementary retirement benefits (note (i))	81,200	75,700
Total	827,256	755,237

Note:

- (i) Supplementary retirement benefits include early retirement plan and supplementary retirement plan.

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The Group accounts for the respective obligations in accordance with the accounting policies in Note 2(14).

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees. The Group accounted for the respective obligations in accordance with the accounting policies in Note 2(14).

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36 OTHER LIABILITIES (continued)

(2) Taxes payable

	31 December 2019	31 December 2018
Value added tax payable	124,039	94,462
Urban construction tax and surcharges payable	19,076	11,397
Others	769	675
Total	143,884	106,534

(3) Expected credit loss on credit commitments

Movements of expected credit loss on credit commitments are as follows:

	2019			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2019	103,845	1,101	18	104,964
Transfer to				
– Lifetime ECL				
– not credit-impaired	(252)	252	–	–
(Release)/Charge for the year	(8,855)	3,569	37	(5,249)
As at 31 December 2019	94,738	4,922	55	99,715

	2018			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2018	136,891	4,152	7	141,050
Transfer to				
– 12-month ECL	3,239	(3,239)	–	–
– Lifetime ECL				
– not credit-impaired	(1,872)	1,872	–	–
(Release)/Charge for the year	(34,413)	(1,684)	11	(36,086)
As at 31 December 2018	103,845	1,101	18	104,964

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37 SHARE CAPITAL

Authorised and issued share capital

	31 December 2019	31 December 2018
Number of shares authorised, issued and fully paid at nominal value (in thousands)	4,509,690	4,058,713

In January 2019, the Bank issued 451 million ordinary shares with a nominal value of RMB1 at RMB4.52 per share. After deducting the issuance costs, the premium arising from the issuance of new shares amounting to RMB1.512 billion was recorded in capital reserve. After the above issuance, the balance of the share capital was RMB4.510 billion, and the balance of the capital reserve was RMB8.338 billion.

38 PREFERENCE SHARES

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

Financial instrument outstanding	Issue date	Accounting classification	Dividend rate	Issue price	Amount (in thousands of shares)	In original currency (in thousands)	In RMB (in thousands)	Maturity	Conversion
Overseas Preference Shares	19 Sep 2017	Equity	5.5%	20USD/Share	60,150	1,203,000	7,883,259	None	None
Total							7,883,259		
Less: Issue fees							(29,295)		
Book value							7,853,964		

(2) Main Clauses

(a) Dividend

There is a fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. Dividends will be paid annually.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends. The Bank may elect to cancel any dividend, but such cancellation will require a shareholder's resolution to be passed.

(c) Dividend stopper

If the Bank cancels all or part of the dividends to the preference shareholders, the Bank shall not make any dividend distribution to ordinary shareholders before the Bank pays the dividends for the current dividend period to the preference shareholders in full.

(d) Order of distribution and liquidation method

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

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(Expressed in thousands of Renminbi, unless otherwise stated)

38 PREFERENCE SHARES (continued)

(e) Mandatory conversion trigger events

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

Upon the occurrence of a Tier 2 Capital Trigger Event (Earlier of the two situations: (1) regulatory authority has determined that the Bank would become non-viable if there is no conversion or write-down of capital; (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable), the Bank shall have the right to convert all preference shares into H shares, having notified and obtained the consent of regulatory authority but without the need for the consent of preference shareholders or ordinary shareholders. If preference shares were converted to H shares, it could not be converted to preference shares again.

(f) Redemption

Under the premise of obtaining the approval of the regulatory authority and condition of redemption, the Bank has right to redeem all or some of overseas preference stocks in first call date and subsequent any dividend payment date. The first call date after issuance and subsequent any dividend payment date (redemption price is equal to issue price plus accrued dividend in current period).

The first redemption date of USD preference shares is five years after issuance.

(g) Dividend setting mechanism

Non-cumulative dividend is a dividend on preference shares which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, preference shareholders of the Bank will not participate the distribution of residual profits with ordinary shareholders.

(3) Changes in preference shares outstanding

1 January 2019		Increase during the year		31 December 2019	
Amount (in thousands of shares)	Book value (in thousands of RMB)	Amount (in thousands of shares)	Book value (in thousands of RMB)	Amount (in thousands of shares)	Book value (in thousands of RMB)
60,150	7,853,964	–	–	60,150	7,853,964

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 PREFERENCE SHARES (continued)

(4) Interests attribute to equity instruments' holders

Item	31 December 2019	31 December 2018
Total equity attribute to equity holders of the Bank	29,915,460	26,984,973
– Equity attribute to ordinary shareholders of the Bank	22,061,496	19,131,009
– Equity attribute to preference shareholders of the Bank	7,853,964	7,853,964
Total equity attribute to non-controlling interests	562,458	511,751
– Equity attribute to non-controlling interests of ordinary shares	562,458	511,751

39 RESERVES

(1) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of nominal value.

(2) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund.

Pursuant to the Company Law of the PRC and the Article of Association, the Bank is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China (the "MOF") after offsetting prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(3) General reserve

From 1 July 2012, pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)" issued by the MOF in March 2012, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets within five years.

The Bank set aside a general reserve upon approval by the board of directors. The general reserve balance of the Bank as at 31 December 2019 amounted to RMB4.400 billion, which has reached 1.5% of the year ending balance of the Bank's gross risk-bearing assets.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RESERVES (continued)

(4) Other comprehensive income

Item	2019					Balance at the end of the year
	Balance at the beginning of the year	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 Including: Remeasurements of defined benefit plan	(5,941)	(2,200)	–	550	(1,650)	(7,591)
Items that may be reclassified to profit or loss Including: Changes in fair value from debt investments measured at FVOCI	507,856	496,813	(412,081)	(21,183)	63,549	571,405
Credit losses of debt investments measured at FVOCI	51,278	95,759	(38,242)	(14,379)	43,138	94,416
Total	553,193	590,372	(450,323)	(35,012)	105,037	658,230

Item	2018					Balance at the end of the year
	Balance at the beginning of the year	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 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
Total	(463,171)	1,497,205	(142,053)	(338,788)	1,016,364	553,193

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 RESERVES (continued)

(5) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
Balance at 31 January 2019		4,058,713	7,853,964	6,826,276	1,403,575	3,969,452	553,193	2,297,164	26,962,337
Profit for the year		-	-	-	-	-	-	2,230,867	2,230,867
Other comprehensive income		-	-	-	-	-	105,037	-	105,037
Total comprehensive income		-	-	-	-	-	105,037	2,230,867	2,335,904
Ordinary shares issuance		450,977	-	1,511,593	-	-	-	-	1,962,570
Appropriation of profit:									
– Appropriation to surplus reserve	40	-	-	-	223,087	-	-	(223,087)	-
– Appropriation to general reserve	40	-	-	-	-	430,806	-	(430,806)	-
– Cash dividends	40	-	-	-	-	-	-	(1,421,935)	(1,421,935)
Balance at 31 December 2019		4,509,690	7,853,964	8,337,869	1,626,662	4,400,258	658,230	2,452,203	29,838,876

	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
Balance at 31 December 2017		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(885,449)	2,600,081	25,626,362
Changes in accounting policies		-	-	-	-	-	422,278	(789,323)	(367,045)
Balance at 1 January 2018		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(463,171)	1,810,758	25,259,317
Profit for the year		-	-	-	-	-	-	2,002,500	2,002,500
Other comprehensive income		-	-	-	-	-	1,016,364	-	1,016,364
Total comprehensive income		-	-	-	-	-	1,016,364	2,002,500	3,018,864
Appropriation of profit:									
– Appropriation to surplus reserve	40	-	-	-	200,250	-	-	(200,250)	-
– Cash dividends	40	-	-	-	-	-	-	(1,315,844)	(1,315,844)
Balance at 31 December 2018		4,058,713	7,853,964	6,826,276	1,403,575	3,969,452	553,193	2,297,164	26,962,337

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 PROFIT APPROPRIATION

(1) At the Bank's board of directors meeting held on 20 March 2020, the directors approved the following profit appropriation for the year ended 31 December 2019:

- Appropriated RMB223 million to surplus reserve;
- Appropriated RMB431 million to general reserve;
- Declared cash dividends to all ordinary shareholders of approximately RMB902 million representing RMB2.00 per 10 shares (including tax).

The profit appropriation resolution mentioned above has yet to be approved by the annual general meeting.

(2) At the Bank's board of directors meeting held on 23 August 2019. According to the terms of issuance of the offshore preference shares and related authorization, the chairman, the president and the secretary to the board of directors of the Bank jointly signed the Decision on Full Distribution of Dividends on Offshore Preference Shares of Bank of Qingdao Co., Ltd. Dividend for overseas preference shares to be distributed amounts to USD73.5167 million (including tax), calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date is 19 September 2019, and the amount of dividend is equivalent to approximately RMB520 million (including tax).

(3) 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 RMB200 million to surplus reserve;
- Declared cash dividends to all ordinary shareholders of approximately RMB902 million representing RMB2.00 per 10 shares (including tax).

(4) At the Bank's board of directors meeting held on 24 August 2018, the directors approved the dividend distribution plan for overseas preference shares. Dividend for overseas preference shares to be distributed amounts to USD73.5167 million (including tax), calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date is 19 September 2018, and the amount of dividend is equivalent to approximately RMB504 million (including tax).

(5) At the 2017 annual general meeting held on 15 May 2018, the shareholders approved the following profit appropriation for the year ended 31 December 2017:

- Appropriated RMB190 million to statutory surplus reserve;
- Appropriated RMB273 million to general reserve;
- Declared cash dividends to all ordinary shareholders of approximately RMB812 million representing RMB2.00 per 10 shares (including tax).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(1) Cash and cash equivalents:

	31 December 2019	31 December 2018
Cash	520,460	451,273
Surplus deposit reserves with central bank	19,723,270	8,256,128
Original maturity within three months:		
– Deposits with banks and other financial institutions	1,311,035	1,333,201
– Placements with banks and other financial institutions	446,477	171,580
– Certificates of interbank deposit issued	499,507	–
Total	22,500,749	10,212,182

(2) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Debt securities issued	Interest payable arising from debt securities issued	Total
Balance at 1 January 2019	64,896,661	343,846	65,240,507
Changes from financing cash flows:			
– Net proceeds from debt securities issued	83,798,288	–	83,798,288
– Interest paid on debt securities issued	–	(638,284)	(638,284)
– Repayment of debt securities issued	(74,130,000)	–	(74,130,000)
Total changes from financing cash flows	9,668,288	(638,284)	9,030,004
Other changes:			
– Interest expense	1,855,810	732,578	2,588,388
Balance at 31 December 2019	76,420,759	438,140	76,858,899

	Debt securities issued	Interest payable arising from debt securities issued	Total
Balance at 1 January 2018	68,632,691	459,019	69,091,710
Changes from financing cash flows:			
– Net proceeds from debt securities issued	96,917,942	–	96,917,942
– Interest paid on debt securities issued	–	(775,930)	(775,930)
– Repayment of debt securities issued	(102,440,000)	–	(102,440,000)
Total changes from financing cash flows	(5,522,058)	(775,930)	(6,297,988)
Other changes:			
– Interest expense	1,786,028	660,757	2,446,785
Balance at 31 December 2018	64,896,661	343,846	65,240,507

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 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 (in thousands)	Proportion of ordinary shares of the Bank held by the Company		Registered location	Business	Legal form	Legal representative
		31 December 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	WONG Yui Keung Marcellus
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 financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Changes in ordinary shares of the Bank held by major shareholders

	ISP		Qingdao Conson		Haier Investment		AMTD		Haier Air-Conditioning	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
As at 1 January 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 31 December 2019	624,754	13.85%	503,556	11.17%	409,693	9.08%	301,800	6.69%	218,692	4.85%

Changes in registered capital of major shareholders

	Currency	31 December 2019	31 December 2018
ISP	EUR	9,086 Million	9,085 Million
Qingdao Conson	RMB	2,000 Million	2,000 Million
Haier Investment	RMB	111 Million	252 Million
AMTD	HKD	1 HKD	1 HKD

(b) **Subsidiary of the Bank**

The detailed information of the Bank's subsidiary is set out in Note 23.

(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 financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 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 its group	Qingdao Conson and its group	Haier Investment and its group	AMTD and its group	Companies and other organizations controlled by key management personnel (Note(i)) (Other than shareholders and its group above)	Others	Total	Proportion to gross amount/balance of similar transactions
As at 31 December 2019								
On-balance sheet items:								
Loans and advances to customers (Note(ii))	-	878,451	316,642	-	549,584	15,315	1,759,992	1.01%
Financial investments measured at amortised cost (Note(iii))	-	-	701,045	-	-	-	701,045	1.07%
Financial investments at FVOCI	-	-	-	-	213,184	-	213,184	0.39%
Financial investments at FVTPL	-	-	-	2,456,323	-	-	2,456,323	10.72%
Deposits with banks and other financial institutions	5,675	-	-	-	-	-	5,675	0.43%
Placements with banks and other financial institutions	-	-	825,856	-	-	-	825,856	24.80%
Deposits from customers	194,167	378,209	445,786	-	521,864	56,259	1,596,285	0.74%
Deposits from banks and other financial institutions	-	259	1,529	-	-	-	1,788	0.01%
Off-balance sheet items:								
Letters of guarantees (Note(iv))	-	-	18	-	-	-	18	0.00%
2019								
Interest income	-	94,557	73,332	-	60,130	611	228,630	1.58%
Interest expense	6,697	31,060	11,918	-	7,972	1,231	58,878	0.77%
Fee and commission income	-	-	16,948	-	-	54,772	71,720	5.33%
Net gains arising from investments	-	-	-	94,179	-	-	94,179	6.82%
Operating expenses	-	566	-	-	-	-	566	0.02%
Other operating losses	-	-	-	-	8,948	-	8,948	34.06%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

	ISP and its group	Qingdao Conson and its group	Haier Investment/ Haier Air- conditioning and its group	AMTD and its group	Companies and other organizations controlled by key management personnel (Note(i)) (Other than shareholders and its group above)	Others	Total	Proportion to gross amount/ balance of similar transactions
As at 31 December 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 (Note(iii))	–	–	1,712,538	–	–	–	1,712,538	2.43%
Financial investments at FVOCI	–	–	–	–	310,108	–	310,108	0.59%
Financial investments 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%
2018								
Interest income	2,475	64,453	114,433	–	37,104	559	219,024	1.84%
Interest expense	1,882	11,452	1,827	–	4,898	692	20,751	0.28%
Fee and commission income	–	–	23,851	–	5	–	23,856	2.53%
Operating expenses	–	566	–	–	–	–	566	0.02%
Other operating losses	–	–	–	–	545	–	545	7.43%

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

	31 December 2019	31 December 2018
Qingdao Conson Financial Holdings Co., Ltd.	875,380	1,500,000
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	498,500	450,000
Qingdao Haichen real estate development Co., Ltd.	315,800	–
Qingdao Baheal Medical INC.	28,748	–
Qingdao Huatong Military Industry Investment Co., Ltd.	10,000	5,000
Qingdao Yangfan Shipbuilding Co., Ltd.	10,000	–
Haier Financial Factoring (Chongqing) Co., Ltd.	–	300,000
Individuals	15,283	13,447
Total	1,753,711	2,268,447

(iii) Financial investments measured at amortised cost (excluding accrued interest)/receivables with related parties

	31 December 2019	31 December 2018
Qingdao Changyuan Land Co., Ltd.	700,000	960,000
Qingdao Haier Real Estate Group Co., Ltd.	–	750,000
Total	700,000	1,710,000

(iv) Letters of guarantees with related parties

	31 December 2019	31 December 2018
Qingdao Haier Home Integration Co., Ltd.	18	211,933
Haier Information Technology (Shenzhen) Co. Limited	–	1,000
Total	18	212,933

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(b) Transactions with subsidiary

	31 December 2019	31 December 2018
Balances at the end of the year:		
On-balance sheet items:		
Deposits from banks and other financial institutions	330,113	39,932
Placements with banks and other financial institutions	202,605	—
	2019	2018
Transactions during the year:		
Interest income	2,605	6,100
Interest expense	2,909	1,023
Fee and commission income	24	20
Other operating income	2,548	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.

	2019	2018
Remuneration of key management personnel	22,063	21,092

The total compensation package for certain key management personnel for the year ended 31 December 2019 have not yet been finalized. The difference in emoluments is not expected to have significant impact on the Group's financial statements for the year ended 31 December 2019.

As at 31 December 2019, outstanding loans to the key management personnel amounted to RMB0.22 million (31 December 2018: RMB0.09 million), which have been included in loans and advances to related parties stated in Note 42(2).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 SEGMENT REPORTING

Segment reporting is disclosed in accordance with the accounting policy set out in Note 2(24).

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

Segment income, expense, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets, and liabilities are determined before intra-group balances, and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total payment during the period to acquire property and equipment, intangible assets and other long-term assets.

The Group defines its reporting segments based on the following for management purpose:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, deposit taking activities, agency services, remittance and settlement services.

Retail banking

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

Financial market business

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

Un-allocated items and others

This segment contains related business of the subsidiary, head office assets, liabilities, income and expenses that are not directly attributable to a segment.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 SEGMENT REPORTING (continued)

	2019				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	3,889,936	1,057,916	1,691,044	207,159	6,846,055
Internal net interest income/(expense)	1,064,241	384,366	(1,448,607)	–	–
Net interest income	4,954,177	1,442,282	242,437	207,159	6,846,055
Net fee and commission income	248,387	608,523	247,158	112,812	1,216,880
Net trading gains	44,294	32,809	75,361	–	152,464
Net gains arising from investments	18,268	–	1,362,169	–	1,380,437
Other operating income	1,343	1,933	112	22,885	26,273
Operating income	5,266,469	2,085,547	1,927,237	342,856	9,622,109
Operating expenses	(1,531,216)	(1,090,201)	(480,864)	(64,481)	(3,166,762)
Credit losses	(2,876,532)	(355,890)	(264,071)	(130,299)	(3,626,792)
Profit before taxation	858,721	639,456	1,182,302	148,076	2,828,555
Other segment information					
– Depreciation and amortisation	(161,450)	(232,628)	(13,478)	(2,103)	(409,659)
– Capital expenditure	119,227	171,791	9,953	380	301,351

	31 December 2019				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	153,736,679	69,101,737	140,151,823	9,050,006	372,040,245
Deferred tax assets					1,581,905
Total assets					373,622,150
Segment liabilities/Total liabilities	155,586,703	67,322,911	112,133,742	8,100,876	343,144,232
Credit commitments	24,612,840	5,045,541	–	–	29,658,381

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 SEGMENT REPORTING (continued)

	2018				Total
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	
External net interest income	2,143,735	499,624	1,741,444	79,226	4,464,029
Internal net interest income/(expense)	1,485,911	601,546	(2,082,386)	(5,071)	–
Net interest income	3,629,646	1,101,170	(340,942)	74,155	4,464,029
Net fee and commission income	77,645	395,153	282,534	110,425	865,757
Net trading gains	138,686	83,858	188,263	–	410,807
Net gains arising from investments	15,379	–	1,601,975	–	1,617,354
Other operating income	1,224	1,644	102	3,921	6,891
Operating income	3,862,580	1,581,825	1,731,932	188,501	7,364,838
Operating expenses	(1,258,954)	(680,274)	(504,211)	(62,211)	(2,505,650)
Credit losses	(1,786,889)	(408,647)	(123,124)	(64,512)	(2,383,172)
Profit before taxation	816,737	492,904	1,104,597	61,778	2,476,016
Other segment information					
– Depreciation and amortisation	(168,120)	(225,609)	(13,945)	(796)	(408,470)
– Capital expenditure	113,866	152,801	9,445	625	276,737

	31 December 2018				Total
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	
Segment assets	103,982,904	53,224,994	151,498,294	7,799,532	316,505,724
Deferred tax assets					1,152,778
Total assets					317,658,502
Segment liabilities/Total liabilities	131,071,510	59,123,648	93,135,714	6,830,906	290,161,778
Credit commitments	17,013,157	1,698,681	–	–	18,711,838

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT

The main risks of the Group are described and analyzed as follows:

The board of directors has the ultimate responsibility for risk management and oversees the Group's risk management functions through the Risk Management and Consumer Right Protection Committee, the Audit Committee and the Related Party Transaction Control Committee, etc.

The President is responsible for overall risk management at the senior management level with the assistance of other key management personnel. In accordance with the risk management strategy determined by the board of directors, the senior management keeps abreast of the level of risk and the management status, enabling the Group to have sufficient resources to develop and implement risk management policies and systems, and to monitor, identify and control risks in various businesses.

Each department within the Group implements risk management policies and procedures in accordance with their respective management functions and is responsible for their own risk management in their respective business areas.

Each branch establishes a branch risk management committee, which is mainly in charge of the management and control of various risks such as credit, market, operation, information technology of the branch, evaluating the risk status of the branch regularly, determining and improving the risk management and internal control measures and methods, etc., under the guidance from the credit management department of the head office. Each branch should report major risk events to the relevant risk management department of the head office, and carry out risk treatments according to the plans or improvements proposed by the head office department.

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

The Group aims to seek an appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Group's financial performance. Based on such objectives, the Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of reliable and up-to-date management information systems.

(1) Credit risk

(a) Definition and scope

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group. Credit risk mainly arises from loan portfolio, investment portfolio, guarantees and various other on- and off-balance sheet credit risk exposures.

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

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 44(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 44(1).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 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 financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 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.

Credit 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.

During the year ended 31 December 2019, there has been no significant changes in the estimate techniques and key assumptions of the Group.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

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.

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(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) Collaterals 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 financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(e) Maximum credit risk exposure

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

	31 December 2019	31 December 2018
Deposits with central bank	39,184,380	29,103,157
Deposits with banks and other financial institutions	1,312,468	1,542,437
Placements with banks and other financial institutions	3,313,603	4,110,464
Derivative financial assets	12,436	—
Financial assets held under resale agreements	2,325,771	300,262
Loans and advances to customers	169,158,291	123,366,891
Financial investments		
– Financial investments measured at FVTPL	13,904,305	14,894,196
– Financial investments measured at FVOCI	54,950,531	52,979,501
– Financial investments measured at amortised cost	64,491,058	70,032,056
Long-term receivables	9,037,819	7,766,698
Others	147,137	332,936
Subtotal	357,837,799	304,428,598
Off-balance sheet credit commitments	29,658,381	18,711,838
Total maximum credit risk exposure	387,496,180	323,140,436

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(f) Risk concentrations

Credit risk is often greater when counterparties are concentrated in one single industry or have comparable economic features. In addition, different industrial sectors have their unique characteristics in terms of economic development, and could present a different credit risk.

The composition of the Group's gross loans and advances to customers (excluding accrued interest) by industry is analysed as follows:

	31 December 2019		31 December 2018	
	Amount	Percentage	Amount	Percentage
Manufacturing	23,033,775	13.32%	18,805,454	14.88%
Construction	19,902,351	11.52%	10,788,346	8.54%
Real estate	19,673,198	11.39%	8,849,735	7.00%
Water, environment and public utility management	12,287,741	7.11%	10,802,398	8.55%
Wholesale and retail trade	11,628,689	6.73%	9,654,850	7.64%
Renting and business activities	11,228,367	6.50%	8,169,559	6.46%
Financial service	6,677,300	3.86%	5,456,155	4.32%
Production and supply of electric and heating power, gas and water	4,443,352	2.57%	4,711,898	3.73%
Transportation, storage and postal services	3,247,547	1.88%	2,911,253	2.30%
Others	6,164,306	3.57%	4,887,248	3.86%
Subtotal for corporate loans and advances	118,286,626	68.45%	85,036,896	67.28%
Subtotal for personal loans and advances	54,508,817	31.55%	41,349,974	32.72%
Total for loans and advances to customers	172,795,443	100.00%	126,386,870	100.00%

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

Distribution of debt securities investments (excluding accrued interest) analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The ratings are obtained from Wind, Bloomberg Composite, or major rating agencies where the issuers of debt securities are located. The carrying amounts of debt securities investments analysed by rating as at the end of the reporting period are as follows:

	31 December 2019					
	Unrated	AAA	AA	A	Below A	Total
Debt securities (analysed by type of issuers):						
Government	–	23,606,665	–	–	–	23,606,665
Policy banks	–	17,918,702	–	–	–	17,918,702
Banks and other financial institutions	–	18,276,243	588,001	500,391	625,750	19,990,385
Corporate entities	250,025	6,777,490	9,385,573	501,151	6,531,987	23,446,226
Total	250,025	66,579,100	9,973,574	1,001,542	7,157,737	84,961,978

	31 December 2018					
	Unrated	AAA	AA	A	Below A	Total
Debt securities (analysed by type of issuers):						
Government	–	16,546,060	–	–	–	16,546,060
Policy banks	–	25,685,751	–	–	–	25,685,751
Banks and other financial institutions	299,528	19,356,535	638,180	339,470	984,037	21,617,750
Corporate entities	191,957	5,810,021	7,247,660	874,336	4,963,530	19,087,504
Total	491,485	67,398,367	7,885,840	1,213,806	5,947,567	82,937,065

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(g) Analysis on the credit quality of financial instruments

At the end of the reporting period, the Group's credit risk stages of financial instruments are as follows:

Financial assets measured at amortised cost	31 December 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	39,704,840	–	–	39,704,840	–	–	–	–
Deposits with banks and other financial institutions	1,313,043	–	–	1,313,043	(575)	–	–	(575)
Placements with banks and other financial institutions	3,330,171	–	–	3,330,171	(16,568)	–	–	(16,568)
Financial assets held under resale agreements	2,326,713	–	–	2,326,713	(942)	–	–	(942)
Loans and advances to customers								
– General corporate loans and advances	104,427,425	5,597,701	2,651,312	112,676,438	(1,281,247)	(1,135,766)	(1,569,797)	(3,986,810)
– Personal loans and advances	53,804,306	586,358	250,999	54,641,663	(241,776)	(41,609)	(139,437)	(422,822)
Financial investments	63,840,812	1,519,532	–	65,360,344	(481,299)	(387,987)	–	(869,286)
Long-term receivables	8,891,003	406,598	7,884	9,305,485	(175,027)	(90,217)	(2,422)	(267,666)
Total	277,638,313	8,110,189	2,910,195	288,658,697	(2,197,434)	(1,655,579)	(1,711,656)	(5,564,669)

Financial assets measured at FVOCI	31 December 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	6,249,822	–	–	6,249,822	(12,917)	–	–	(12,917)
Financial investments	52,243,475	2,675,825	31,231	54,950,531	(34,869)	(56,072)	(22,030)	(112,971)
Total	58,493,297	2,675,825	31,231	61,200,353	(47,786)	(56,072)	(22,030)	(125,888)
Off-balance sheet credit commitments	29,575,025	82,987	369	29,658,381	(94,738)	(4,922)	(55)	(99,715)

Notes to the financial statements

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44 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)
Total	224,274,186	7,667,765	2,117,178	234,059,129	(1,824,854)	(1,346,476)	(987,186)	(4,158,516)

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)
Total	58,427,300	1,324,826	–	59,752,126	(49,249)	(19,122)	–	(68,371)
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 financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 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.

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 financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

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

	31 December 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
Assets						
Cash and deposits with central bank	39,704,840	653,973	39,050,867	–	–	–
Deposits with banks and other financial institutions	1,312,468	2,008	1,310,460	–	–	–
Placements with banks and other financial institutions	3,313,603	82,331	944,727	2,286,545	–	–
Financial assets held under resale agreements	2,325,771	113	2,325,658	–	–	–
Loans and advances to customers (Note (i))	169,158,291	772,480	44,674,471	105,982,468	16,079,017	1,649,855
Financial investments (Note (ii))	142,377,400	2,193,661	13,402,331	27,738,081	58,535,322	40,508,005
Long-term receivables	9,037,819	85,729	6,756,565	2,195,525	–	–
Others	6,391,958	6,391,958	–	–	–	–
Total assets	373,622,150	10,182,253	108,465,079	138,202,619	74,614,339	42,157,860
Liabilities						
Borrowings from central bank	5,536,650	29,196	462,688	5,044,766	–	–
Deposits from banks and other financial institutions	16,462,527	125,735	10,186,792	6,150,000	–	–
Placements from banks and other financial institutions	9,916,257	84,418	4,288,217	5,465,633	77,989	–
Financial assets sold under repurchase agreements	16,027,082	1,580	16,025,502	–	–	–
Deposits from customers	215,425,403	2,735,191	142,197,240	37,524,419	32,572,152	396,401
Debt securities issued	76,858,899	438,140	13,477,677	38,261,976	17,489,383	7,191,723
Others	2,917,414	2,489,986	1,338	17,628	181,960	226,502
Total liabilities	343,144,232	5,904,246	186,639,454	92,464,422	50,321,484	7,814,626
Asset-liability gap	30,477,918	4,278,007	(78,174,375)	45,738,197	24,292,855	34,343,234

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 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
Assets						
Cash and deposits with central bank	29,554,430	489,559	29,064,871	–	–	–
Deposits with banks and other financial institutions	1,542,437	9,909	1,332,609	199,919	–	–
Placements with banks and other financial institutions	4,110,464	87,236	932,723	3,090,505	–	–
Financial assets held under resale agreements	300,262	384	299,878	–	–	–
Loans and advances to customers (Note (i))	123,366,891	521,250	46,007,345	69,134,140	6,010,630	1,693,526
Financial investments (Note (ii))	145,396,623	2,183,527	9,197,205	20,171,587	70,734,644	43,109,660
Long-term receivables	7,766,698	70,610	6,244,867	1,451,221	–	–
Others	5,620,697	5,620,697	–	–	–	–
Total assets	317,658,502	8,983,172	93,079,498	94,047,372	76,745,274	44,803,186
Liabilities						
Borrowings from central bank	10,878,835	99,825	252,891	10,526,119	–	–
Deposits from banks and other financial institutions	11,632,982	80,287	5,095,694	6,457,001	–	–
Placements from banks and other financial institutions	7,207,066	102,207	3,333,630	3,586,416	184,813	–
Financial assets sold under repurchase agreements	14,850,333	4,202	14,846,131	–	–	–
Deposits from customers	177,911,247	2,366,917	120,420,179	28,622,624	26,113,704	387,823
Debt securities issued	65,240,507	343,846	16,636,912	39,570,111	1,499,470	7,190,168
Others	2,440,808	2,440,808	–	–	–	–
Total liabilities	290,161,778	5,438,092	160,585,437	88,762,271	27,797,987	7,577,991
Asset-liability gap	27,496,724	3,545,080	(67,505,939)	5,285,101	48,947,287	37,225,195

Notes:

- (i) For the Group's loans and advances to customers, the category "Less than three months" as at 31 December 2019 includes overdue loans and advances (net of provision for impairment losses) of RMB1,269 million (31 December 2018: RMB3,077 million).
- (ii) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI, and financial investments measured at amortized cost.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

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

Changes in annualized net interest income	31 December 2019 (Decrease)/Increase	31 December 2018 (Decrease)/Increase
Interest rates increase by 100 bps	(438,707)	(635,421)
Interest rates decrease by 100 bps	438,707	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 financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(b) Currency risk

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

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

	31 December 2019			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	39,602,889	97,595	4,356	39,704,840
Deposits with banks and other financial institutions	809,420	452,943	50,105	1,312,468
Placements with banks and other financial institutions	2,865,118	448,485	–	3,313,603
Financial assets held under resale agreements	2,325,771	–	–	2,325,771
Loans and advances to customers	168,216,824	938,318	3,149	169,158,291
Financial investments (Note (i))	130,889,596	11,487,804	–	142,377,400
Long-term receivables	9,037,819	–	–	9,037,819
Others	6,389,347	573	2,038	6,391,958
Total assets	360,136,784	13,425,718	59,648	373,622,150
Liabilities				
Borrowings from central bank	5,536,650	–	–	5,536,650
Deposits from banks and other financial institutions	16,392,762	69,765	–	16,462,527
Placements from banks and other financial institutions	7,564,633	2,351,624	–	9,916,257
Financial assets sold under repurchase agreements	16,027,082	–	–	16,027,082
Deposits from customers	213,253,693	2,131,380	40,330	215,425,403
Debt securities issued	76,858,899	–	–	76,858,899
Others	2,872,014	36,589	8,811	2,917,414
Total liabilities	338,505,733	4,589,358	49,141	343,144,232
Net position	21,631,051	8,836,360	10,507	30,477,918
Off-balance sheet credit commitments	29,166,790	374,804	116,787	29,658,381

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

	31 December 2018			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	29,522,481	28,105	3,844	29,554,430
Deposits with banks and other financial institutions	1,187,598	332,317	22,522	1,542,437
Placements with banks and other financial institutions	3,874,944	235,520	–	4,110,464
Financial assets held under resale agreements	300,262	–	–	300,262
Loans and advances to customers	123,210,169	153,093	3,629	123,366,891
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
Total assets	307,411,331	10,216,425	30,746	317,658,502
Liabilities				
Borrowings from central bank	10,878,835	–	–	10,878,835
Deposits from banks and other financial institutions	11,632,982	–	–	11,632,982
Placements from banks and other financial institutions	6,240,715	966,351	–	7,207,066
Financial assets sold under repurchase agreements	14,850,333	–	–	14,850,333
Deposits from customers	177,223,409	631,187	56,651	177,911,247
Debt securities issued	65,240,507	–	–	65,240,507
Others	2,411,680	27,363	1,765	2,440,808
Total liabilities	288,478,461	1,624,901	58,416	290,161,778
Net position	18,932,870	8,591,524	(27,670)	27,496,724
Off-balance sheet credit commitments	18,038,135	482,852	190,851	18,711,838

Note:

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

Changes in annualized net profit	31 December 2019 Increase/(Decrease)	31 December 2018 Increase/(Decrease)
Foreign exchange rate increase by 100 bps	9,511	9,358
Foreign exchange rate decrease by 100 bps	(9,511)	(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 point fluctuation in the foreign currency exchange rates against RMB;
- (ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously;
- (iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net foreign exchange gain or loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

(3) Liquidity risk

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

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

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

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(a) Maturity analysis

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

	31 December 2019							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with central bank	19,450,458	20,254,382	-	-	-	-	-	39,704,840
Deposits with banks and other financial institutions	-	1,312,468	-	-	-	-	-	1,312,468
Placements with banks and other financial institutions	-	-	162,798	806,359	2,344,446	-	-	3,313,603
Financial assets held under resale agreements	-	-	2,325,771	-	-	-	-	2,325,771
Loans and advances to customers	1,201,992	349,749	10,501,076	9,329,210	49,927,301	48,045,398	49,803,565	169,158,291
Financial investments (Note (i))	23,250	-	3,749,714	5,619,933	28,885,764	60,970,135	43,128,604	142,377,400
Long-term receivables	8,877	41,196	305,697	758,246	2,402,866	5,520,937	-	9,037,819
Others	5,552,527	8,066	5,588	283	4,253	194,456	626,785	6,391,958
Total assets	26,237,104	21,965,861	17,050,644	16,514,031	83,564,630	114,730,926	93,558,954	373,622,150
Liabilities								
Borrowings from central bank	-	-	400,375	62,314	5,073,961	-	-	5,536,650
Deposits from banks and other financial institutions	-	4,937,212	3,091,712	2,221,296	6,212,307	-	-	16,462,527
Placements from banks and other financial institutions	-	-	2,954,285	1,364,186	5,519,684	78,102	-	9,916,257
Financial assets sold under repurchase agreements	-	-	16,027,082	-	-	-	-	16,027,082
Deposits from customers	-	113,653,274	15,175,036	14,145,017	38,337,207	33,718,468	396,401	215,425,403
Debt securities issued	-	-	2,171,262	11,329,858	38,676,673	17,489,383	7,191,723	76,858,899
Others	114,271	120,041	539,476	135,578	197,957	1,502,389	307,702	2,917,414
Total liabilities	114,271	118,710,527	40,359,228	29,258,249	94,017,789	52,788,342	7,895,826	343,144,232
Net position	26,122,833	(96,744,666)	(23,308,584)	(12,744,218)	(10,453,159)	61,942,584	85,663,128	30,477,918

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

	31 December 2018							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with central bank	20,835,735	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 (Note (i))	23,250	–	1,378,417	7,684,772	21,216,658	71,838,897	43,254,629	145,396,623
Long-term receivables	–	–	200,327	758,346	2,456,543	4,351,482	–	7,766,698
Others	5,601,299	19,398	–	–	–	–	–	5,620,697
Total assets	28,616,651	11,020,109	8,450,173	20,135,554	68,677,732	101,609,132	79,149,151	317,658,502
Liabilities								
Borrowings from central bank	–	–	176,217	76,674	10,625,944	–	–	10,878,835
Deposits from banks and other financial institutions	–	1,817,247	2,397,146	906,887	6,511,702	–	–	11,632,982
Placements from banks and other financial institutions	–	–	1,368,515	2,025,440	3,628,030	185,081	–	7,207,066
Financial assets sold under repurchase agreements	–	–	14,850,333	–	–	–	–	14,850,333
Deposits from customers	–	91,748,668	18,338,126	10,846,766	29,388,722	27,201,142	387,823	177,911,247
Debt securities issued	–	–	4,779,439	12,064,185	39,707,245	1,499,470	7,190,168	65,240,507
Others	119,499	143,478	639,057	56,053	710,163	696,858	75,700	2,440,808
Total liabilities	119,499	93,709,393	42,548,833	25,976,005	90,571,806	29,582,551	7,653,691	290,161,778
Net position	28,497,152	(82,689,284)	(34,098,660)	(5,840,451)	(21,894,074)	72,026,581	71,495,460	27,496,724

Notes:

- (i) Financial investments include financial assets measured at FVTPL, financial investment measured at FVOCI, and financial investment measured at amortized 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 reported under indefinite period. For loans and advances to customers and long-term receivables, the “indefinite” period amount represents the balance being credit-impaired or not credit-impaired but overdue for more than one month, and the balance not credit-impaired but overdue within one month is included in “repayable on demand”.

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 RISK MANAGEMENT (continued)

(b) Analysis on contractual undiscounted cash flows

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

	31 December 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	–	–	400,599	85,875	5,150,899	–	–	5,637,373	5,536,650
Deposits from banks and other financial institutions	–	4,937,212	3,096,417	2,232,040	6,321,381	–	–	16,587,050	16,462,527
Placements from banks and other financial institutions	–	–	2,956,700	1,387,920	5,659,189	78,102	–	10,081,911	9,916,257
Financial assets sold under repurchase agreements	–	–	16,029,968	–	–	–	–	16,029,968	16,027,082
Deposits from customers	–	113,653,274	15,187,568	14,211,282	39,058,190	36,454,046	478,312	219,042,672	215,425,403
Debt securities issued	–	–	2,150,000	11,529,980	39,896,600	20,520,120	7,200,000	81,296,700	76,858,899
Others	114,271	120,041	557,855	145,680	257,361	1,594,232	150,419	2,939,859	2,908,609
Total	114,271	118,710,527	40,379,107	29,592,777	96,343,620	58,646,500	7,828,731	351,615,533	343,135,427

	31 December 2018								
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central bank	–	–	176,370	76,950	10,845,905	–	–	11,099,225	10,878,835
Deposits from banks and other financial institutions	–	1,817,247	2,399,559	911,385	6,641,162	–	–	11,769,353	11,632,982
Placements from banks and other financial institutions	–	–	1,370,635	2,045,181	3,749,160	194,204	–	7,359,180	7,207,066
Financial assets sold under repurchase agreements	–	–	14,855,016	–	–	–	–	14,855,016	14,850,333
Deposits from customers	–	91,748,668	18,351,229	10,892,065	29,816,577	29,487,700	461,810	180,758,049	177,911,247
Debt securities issued	–	–	4,790,000	12,163,730	40,863,000	3,093,920	8,445,960	69,356,610	65,240,507
Others	119,499	143,478	639,057	56,053	710,163	696,858	75,700	2,440,808	2,440,808
Total	119,499	93,709,393	42,581,866	26,145,364	92,625,967	33,472,682	8,983,470	297,638,241	290,161,778

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

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 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 former CBRC. The capital of the Group is divided into three pieces: core tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the core of the capital management of the Group. Capital adequacy ratio reflects the Group's sound operations and risk management capability. The Group's capital management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testing and other measures to forecast, plan and manage capital adequacy ratio. The required information is filed with the regulatory authority by the Group periodically.

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44 RISK MANAGEMENT (continued)

As at 31 December 2019 and 2018, the Group calculated the capital adequacy ratios in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) issued by the former CBRC in 2012 and relevant requirements promulgated by the former CBRC as follows:

	31 December 2019	31 December 2018
Total core tier-one capital	22,418,940	19,433,753
– Share capital	4,509,690	4,058,713
– Qualifying portion of capital reserve	8,337,869	6,826,276
– Surplus reserve	1,626,662	1,403,575
– General reserve	4,400,258	3,969,452
– Retained earnings	2,528,787	2,319,800
– Other comprehensive income	658,230	553,193
– Qualifying portion of non-controlling interests	357,444	302,744
Core tier-one capital deductions	(194,243)	(165,153)
Net core tier-one capital	22,224,697	19,268,600
Other tier-one capital	7,901,623	7,894,330
– Additional tier 1 capital instruments and related premium	7,853,964	7,853,964
– Valid portion of minority interests	47,659	40,366
Net tier-one capital	30,126,320	27,162,930
Tier two capital	9,126,185	8,858,726
– Qualifying portions of tier-two capital instruments issued	7,200,000	7,200,000
– Surplus provision for loan impairment	1,830,867	1,577,994
– Qualifying portion of non-controlling interests	95,318	80,732
Net capital base	39,252,505	36,021,656
Total risk weighted assets	265,908,365	229,776,495
Core tier-one capital adequacy ratio	8.36%	8.39%
Tier-one capital adequacy ratio	11.33%	11.82%
Capital adequacy ratio	14.76%	15.68%

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(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE

(1) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group has established policies and internal controls with respect to the measurement of fair value, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

The Group adopts the following methods and assumptions when evaluating fair value:

(a) Debt securities investments

The fair value of debt securities that are traded in an active market is based on their quoted market prices in an active market at the end of the reporting period.

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

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

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

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

(d) Derivative financial instruments

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

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(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

(2) Financial instruments recorded at fair value

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

	31 December 2019			Total
	Level 1 Note (i)	Level 2 Note (i)	Level 3 Note (i) ~ (ii)	
Financial investments measured at FVTPL				
– Debt securities	–	800,861	–	800,861
– Asset management plans	–	–	9,240,047	9,240,047
– Wealth management products	–	–	1,033,973	1,033,973
– Trust fund plans	–	–	2,829,424	2,829,424
– Investment funds	–	8,957,998	50,258	9,008,256
Derivative financial assets	–	6,848	5,588	12,436
Financial investments measured at FVOCI				
– Debt securities	–	46,915,283	–	46,915,283
– Asset management plans	–	7,302,406	–	7,302,406
– Other investments	–	–	732,842	732,842
– Equity investments	–	–	23,250	23,250
Loans and advances to customers measured at FVOCI	–	–	6,249,822	6,249,822
Total financial assets	–	63,983,396	20,165,204	84,148,600
Derivative financial liabilities	–	6,790	2,015	8,805
Total financial liabilities	–	6,790	2,015	8,805

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(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

	31 December 2018			Total
	Level 1	Level 2	Level 3	
	Note (i)	Note (i)	Note (i) ~ (ii)	
Financial assets measured at FVTPL				
– Debt securities	–	237,280	–	237,280
– Asset management plans	–	–	9,354,611	9,354,611
– Wealth management products	–	–	2,080,946	2,080,946
– Trust fund plans	–	–	3,221,359	3,221,359
– Investment funds	–	7,417,936	49,684	7,467,620
Financial investments 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
Total financial assets	–	60,634,717	21,502,475	82,137,192

Note:

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

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45 FAIR VALUE (continued)

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

	As at 1 January	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year		Purchases, issues, disposals and settlements			As at 31 December
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
2019									
Financial investments measured at FVTPL									
– Asset management plans	9,354,611	–	–	280,983	–	5,221,089	–	(5,616,636)	9,240,047
– Wealth management products	2,080,946	–	–	33,973	–	1,000,000	–	(2,080,946)	1,033,973
– Trust fund plans	3,221,359	–	–	112,326	–	270,304	–	(774,565)	2,829,424
– Investment funds	49,684	–	–	574	–	–	–	–	50,258
Derivative financial assets	–	–	–	5,588	–	–	–	–	5,588
Financial investments measured at FVOCI									
– Other investments	–	–	–	27,299	5,543	700,000	–	–	732,842
– Equity investments	23,250	–	–	–	–	–	–	–	23,250
Loans and advances to customers measured at FVOCI	6,772,625	–	–	309,424	(9,022)	22,794,208	–	(23,617,413)	6,249,822
Total financial assets	21,502,475	–	–	770,167	(3,479)	29,985,601	–	(32,089,560)	20,165,204
Derivative financial liabilities	–	–	–	2,015	–	–	–	–	2,015
Total financial liabilities	–	–	–	2,015	–	–	–	–	2,015

	As at 1 January	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year		Purchases, issues, disposals and settlements			As at 31 December
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
2018									
Financial investments measured at FVTPL									
– Asset management plans	10,863,060	–	–	146,488	–	2,249,559	–	(3,904,496)	9,354,611
– Wealth management products	20,992,466	–	–	183,456	–	5,000,000	–	(24,094,976)	2,080,946
– Trust fund 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 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 customers measured at FVOCI	2,941,746	–	–	249,566	15,908	28,225,793	–	(24,660,388)	6,772,625
Total financial assets	46,540,146	–	–	725,913	9,970	35,870,352	–	(61,643,906)	21,502,475

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

(3) Level 2 of the fair value hierarchy

A majority of the financial instruments classified as level 2 of the Group are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

(4) 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

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

- (iii) Debt securities financial investments measured at amortised cost

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.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 FAIR VALUE (continued)

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:

	31 December 2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial investments measured at amortised cost (including accrued interest)					
– Debt securities	38,866,579	38,978,313	–	38,895,979	82,334
Total	38,866,579	38,978,313	–	38,895,979	82,334
Financial liabilities					
Securities issued (including accrued interest)					
– Debt securities	25,119,246	25,374,003	–	25,374,003	–
– Certificates of interbank deposit	51,739,653	51,788,903	–	51,788,903	–
Total	76,858,899	77,162,906	–	77,162,906	–

	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
Total	36,665,810	36,674,559	–	36,583,883	90,676
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	–
Total	65,240,507	64,939,413	–	64,939,413	–

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 COMMITMENTS AND CONTINGENCIES

(1) Credit commitments

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

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

	31 December 2019	31 December 2018
Bank acceptances	20,884,567	13,700,722
Letters of credit	1,562,969	657,499
Letters of guarantees	1,891,134	2,410,966
Unused credit card commitments	5,045,541	1,698,681
Irrevocable loan commitments	274,170	243,970
Total	29,658,381	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 36 (3).

(2) Credit risk-weighted amount

	31 December 2019	31 December 2018
Credit risk-weighted amount of contingent liabilities and commitments	10,077,887	9,694,305

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

(3) Operating lease commitments

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

	31 December 2018
Within one year (inclusive)	108,802
After one year but within five years (inclusive)	320,161
After five years	90,464
Total	519,427

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 COMMITMENTS AND CONTINGENCIES (continued)

The Group is the lessee in respect of a number of properties which were previously classified as operating leases under IAS 17. The group has initially applied IFRS 16 as at 1 January 2019, and recognised the present value of outstanding lease payments as lease liabilities (see note 2(2)). From 1 January 2019 onwards, the present value of outstanding lease payments are recognised as lease liabilities in accordance with the requirement of IFRS 16 (see note 2(2) and note 35).

(4) Capital commitments

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

	31 December 2019	31 December 2018
Contracted but not paid for	82,790	213,625
Total	82,790	213,625

(5) Outstanding litigations and disputes

A number of outstanding litigation matters against the Group had arisen in the normal course of its operation as at 31 December 2019. With consideration of the professional advice, the Group's management believes such litigation will not have a significant impact on the Group.

(6) Bonds redemption obligations

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

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

	31 December 2019	31 December 2018
Bonds redemption obligations	5,026,883	4,153,146

(7) Pledged assets

	31 December 2019	31 December 2018
Investment securities	21,792,317	28,618,903
Discounted bills	1,106,722	1,214,031
Total	22,899,039	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 14). These deposits are not available for the Group's daily operations.

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

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

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 31 December 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 recognised:

	31 December 2019				
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Asset management plans	9,240,047	7,302,406	15,884,877	32,427,330	32,427,330
Trust fund plans	2,829,424	–	4,781,679	7,611,103	7,611,103
Wealth management products	1,033,973	–	–	1,033,973	1,033,973
Asset-backed securities	100,000	1,008,633	–	1,108,633	1,108,633
Investment funds	9,008,256	–	–	9,008,256	9,008,256
Total	22,211,700	8,311,039	20,666,556	51,189,295	51,189,295

	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 fund plans	3,221,359	–	4,749,685	7,971,044	7,971,044
Wealth management products	2,080,946	–	–	2,080,946	2,080,946
Asset-backed securities	–	1,952,607	–	1,952,607	1,952,607
Investment funds	7,467,620	–	–	7,467,620	7,467,620
Total	22,124,536	7,136,061	28,095,529	57,356,126	57,356,126

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

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

47 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (continued)

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

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

As at 31 December 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB100.969 billion (31 December 2018: RMB71.534 billion).

(3) Structured entities sponsored and issued by the Group after 1 January but matured before 31 December at the end of the reporting period in which the Group no longer holds an interest

During the year ended 31 December 2019, the amount of fee and commission income recognised from the above mentioned structured entities by the Group was RMB0.213 billion (2018: RMB0.172 billion).

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2019 but matured before 31 December 2019 was RMB95.903 billion (2018: RMB113.520 billion).

48 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

(1) Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may require or be required to pay additional cash collateral in certain circumstances. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

48 TRANSFERRED FINANCIAL ASSETS (continued)

(2) 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 Group transferred a portfolio of customer loans with a book value of RMB2.543 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 RMB2.000 billion to an independent trust company for setting up an unconsolidated securitization vehicle. The Group obtained the trust beneficiary rights, and subsequently transferred all the initial holding trust beneficiary rights via Yindeng Center. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognised.

Under the servicing arrangements with the independent trust company, the Group collects the cash flows of the transferred assets on behalf of the unconsolidated securitization vehicle. In return, the Group receives a fee that is expected to compensate the Group for servicing the related assets.

49 FIDUCIARY ACTIVITIES

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

As at 31 December 2019, the entrusted loans balance of the Group was RMB3.145 billion (31 December 2018: RMB4.163 billion).

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2019	31 December 2018
Assets		
Cash and deposits with central bank	39,704,840	29,554,430
Deposits with banks and other financial institutions	1,307,010	1,540,521
Placements with banks and other financial institutions	3,515,038	4,110,464
Derivative financial assets	12,436	–
Financial assets held under resale agreements	2,325,771	300,262
Loans and advances to customers	169,158,291	123,366,891
– Financial investments measured at fair value through profit or loss	22,912,561	22,361,816
– Financial investments measured at fair value through other comprehensive income	54,973,781	53,002,751
– Financial investments measured at amortised cost	64,491,058	70,032,056
Investment in subsidiary	510,000	510,000
Property and equipment	3,047,926	3,123,069
Right of use assets	817,857	Not applicable
Deferred tax assets	1,512,501	1,116,928
Other assets	925,104	1,313,932
Total assets	365,214,174	310,333,120

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

50 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (continued)

	31 December 2019	31 December 2018
Liabilities		
Borrowings from central bank	5,536,650	10,878,835
Deposits from banks and other financial institutions	16,792,558	11,672,892
Placements from banks and other financial institutions	2,552,359	966,351
Derivative financial liabilities	8,805	–
Financial assets sold under repurchase agreements	16,027,082	14,850,333
Deposits from customers	215,425,403	177,911,247
Income tax payable	147,155	–
Debt securities issued	76,858,899	65,240,507
Lease liabilities	427,296	Not applicable
Other liabilities	1,599,091	1,850,618
Total liabilities	335,375,298	283,370,783
Equity		
Share capital	4,509,690	4,058,713
Other equity instrument		
Including: preference shares	7,853,964	7,853,964
Capital reserve	8,337,869	6,826,276
Surplus reserve	1,626,662	1,403,575
General reserve	4,400,258	3,969,452
Other comprehensive income	658,230	553,193
Retained earnings	2,452,203	2,297,164
Total equity	29,838,876	26,962,337
Total liabilities and equity	365,214,174	310,333,120

Approved and authorised for issue by the board of directors on 20 March 2020.

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)

Notes to the financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

51 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the issuance date of the financial statements, the IASB has issued a number of new and revised IFRSs. For the purpose of preparing the financial statements, the Group has adopted all the new and revised IFRSs in issue which are relevant to the Group for the reporting period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2019. The revised and new accounting standards and interpretations probably related to the Group, which are issued but not yet effective for the accounting period ended 31 December 2019, are set out below:

	Effective for accounting periods beginning on or after
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3, Definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8, Definition of material	1 January 2020
IFRS 17, Insurance contracts	1 January 2021

These standards are expected to have no material impact on financial position and financial performance of the Group.

52 SUBSEQUENT EVENTS

(1) The profit distribution plan

The profit appropriation of the Bank was proposed in accordance with the resolution of the Bank's board of directors meeting as disclosed in Note 40.

(2) Establishment of Wealth Management Subsidiary

On 10 February 2020, the Bank was approved to prepare for the establishment of Qingyin Wealth Management Co., Ltd by China Banking and Insurance Regulatory Commission (the "CBIRC"). Qingyin Wealth Management Co., Ltd. will be wholly-owned by the Bank with a registered capital of RMB1 billion.

(3) Impact of Corona Virus Disease 2019 ("COVID-19")

Since the outbreak of COVID-19 in January 2020, the prevention and control work has continued, and the domestic situation of prevention and control has gradually improved. The Bank will earnestly implement the requirements of the "Notice on Further Enhancing Financial Support for Controlling the Corona Virus Disease 2019 Outbreak (《關於進一步強化金融支持防控新型冠狀病毒肺炎疫情的通告》)" and other relevant policies and regulations jointly published by the PBOC, the MOF, the CBIRC, China Securities Regulatory Commission and the State Administration of Foreign Exchange, to strengthen financial support for epidemic prevention and control.

The COVID-19 will have certain impact on domestic and overseas economic operation, which may affect the asset quality or return on assets of the Bank's credit assets and investment assets to a certain extent. The degree of impact will depend on the situation, duration of the epidemic prevention and control, and the implementation of various control policies.

The Bank will continue to closely monitor the development of the COVID-19, assess and actively respond to its impact on the financial condition, operating results and other aspects of the Bank. Up to the approval date of the financial statements, the assessment is still in progress.

Up to the approval date of the financial statements, except for the above, the Group has no other significant subsequent events for disclosure.

53 COMPARATIVE FIGURES

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

Section XVI Unaudited supplementary financial information

(Expressed in thousands of Renminbi, unless otherwise stated)

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

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

1 LIQUIDITY COVERAGE RATIO, 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 CBRC and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises issued by the MOF.

(1) Liquidity coverage ratio

	As at 31 December 2019	As at 31 December 2018
Qualified and high-quality current assets	78,152,065	52,974,850
Net cash outflows in next 30 days	54,930,790	42,058,582
Liquidity coverage ratio (RMB and foreign currency)	142.27%	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 31 December 2019	As at 31 December 2018
Leverage ratio	7.46%	7.92%

Pursuant to the Leverage Ratio Management of Commercial Banks (Amended) issued by the former CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

(3) Net stable funding ratio

	As at 31 December 2019	As at 30 September 2019
Available stable funding	213,709,716	199,138,367
Required stable funding	204,848,614	196,427,154
Net stable funding ratio	104.33%	101.38%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio of commercial banks 100% is required.

Section XVI Unaudited supplementary financial information (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 CURRENCY CONCENTRATIONS

	31 December 2019			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	13,425,717	30,125	29,524	13,485,366
Spot liabilities	(4,589,358)	(23,144)	(25,997)	(4,638,499)
Net long position	8,836,359	6,981	3,527	8,846,867

	31 December 2018			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
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.

Section XVI Unaudited supplementary financial information (continued)

(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.

	31 December 2019			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	96,805	6,099,621	6,930,484	13,126,910
– of which attributed to Hong Kong	–	3,882,939	–	3,882,939
– North and South America	–	314,471	–	314,471
– Europe	–	19,205	–	19,205
	96,805	6,433,297	6,930,484	13,460,586

	31 December 2018			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	26,023	4,834,807	5,100,075	9,960,905
– of which attributed to Hong Kong	–	3,133,618	–	3,133,618
– North and South America	–	271,312	–	271,312
– Europe	–	1,257	–	1,257
	26,023	5,107,376	5,100,075	10,233,474

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	31 December 2019	31 December 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)	561,698	422,827
– between 6 months and 1 year (inclusive)	502,752	806,413
– over 1 year	723,309	852,792
Total	1,787,759	2,082,032
As a percentage of total gross loans and advances (excluding accrued interest)		
– between 3 and 6 months (inclusive)	0.32%	0.33%
– between 6 months and 1 year (inclusive)	0.29%	0.64%
– over 1 year	0.42%	0.67%
Total	1.03%	1.64%

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